CANADIAN FEDERALISM:
A MAJOR CONSTRAINT ON THE DEVELOPMENT
OF
NATIONAL TRANSPORTATION POLICY
LESSONS FROM CHANGES TO THE CROW RATE
By
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Department of Interdisciplinary Studies

We accept this thesis as conforming
to the required standard

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ABSTRACT

Canada is a confederation comprised of eleven governments, one federal and ten provincial. This Canadian style of federalism is relatively unique in important aspects. The provinces have considerable power compared to the federal government and increasingly exercise that power to influence federal policies. For example, each provincial government has control over the resource base of its economy. Situations such as this pose special handicaps to effective national government.

This thesis examines those features of Canadian federalism and analyzes how the structure of federalism and changes taking place in the structure militates against the development of national policies, such as transportation which are necessary to sustain the economic union of Canada.

The thesis analyzes the development of national transportation policy within the framework of the changing structure of federalism. The focus is a comprehensive analysis of the federal government's policy to change the
ABSTRACT

Crow Rate. The analysis undertaken is a longitudinal study of the Crow Rate over a ten-year period with emphasis on the period between 1980-1983.

To substantiate the arguments, particular attention was paid to the mechanisms by which federal-provincial conflicts are managed. Included as part of the analysis was a time-series review of the personal working papers of Jean-Luc Pepin, Minister of Transport, 1980-1983.

An impact matrix was compiled to show how different sectors and interest groups were affected by Crow Rate change and how these differences influenced public opinion. An "Inside-Outside Access Model" was introduced to describe a somewhat unique approach for Canada that was taken to reach a conclusion on Crow Rate reform, given the existing constraints.

The major contribution of the thesis is that it demonstrates the ways in which the combination of federalism and interest group action constrain changes in national policy.
The intensity of opposition may well be primarily rooted in the economic interests and the traditions of important groups in society, but the existence of a Canadian type of federal system gives those groups an additional level of government that can be mobilized to defend their interests. Moreover, provincial governments often reinforce the fears of the population and interest groups, provide strategic leadership for their protests and bestow legitimacy on the resistance to change. A coalition of powerful interest groups and their provincial governments is a potent force affecting national policy-making, even in areas of exclusive federal jurisdiction such as the Crow Rate.
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Fourth, I acknowledge Fred Anderson whose high standard of integrity became my objective in attempting to identify the lessons learned from changes to the Crow Rate.

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CHAPTER ONE

INTRODUCTION

1.0 Thesis Approach

The argument of this thesis is that the changing national structure of federalism militates against the development of national policies such as transportation. To substantiate the argument, a ten-year longitudinal study is undertaken of the federal government's effort to change the rail freight rate on grain (the Crow Rate). The research into the strategies and policies used to bring about changes in the Crow Rate enables the formulation of a transportation policy development model.

The diverse interest needs of provincial governments and pressure groups are accounted for in the model. The thesis demonstrates that this model is consistent with the process that successfully brought changes to the Crow Rate.

Interestingly there have been no systematic studies
undertaken of national transportation policy development in Canada with an emphasis on federal-provincial conflict. Nor have there been any studies undertaken which outline the process of policy development showing how the changes in the process itself affected transportation policy development.

The thesis provides a systematic study of a national transportation policy issue in Canada showing the constraints of Canada's style of federalism and examines the interactive effects between interest groups and federalism through the development of a policy formulation model.

The thesis outlines the relatively unique features of Canadian federalism and demonstrates how these characteristics pose special handicaps to effective national government.

In support of the thesis, a case study of a major policy initiative is undertaken to demonstrate the problems which confront Canadian federalism in formulating
national policies in the face of conflicting provincial interests.

In broader terms, the fragmentation of authority implicit in a federal system makes change in general more difficult, increasing the level of consensus required before major new policies can be introduced, and inclining the political system in Canada more firmly towards an incrementalist pattern of policy adjustment.

1.1 Scope of Thesis

The thesis provides a ten-year longitudinal case study of the Crow Rate. Particular emphasis is devoted to examining the role of interest group activity in inter-governmental negotiations. The thesis examines the degree to which the changing structure of Canadian federalism militates against the development of national transportation policies.

Canada is a confederation comprised of eleven governments, one federal and ten provincial. Each level of government has its own unique powers and responsibilities. The Constitution Act, 1867 gives the provinces unique jurisdictional authority in functional areas of expanding
significance such as health, education and, most important, gives them control over the natural resource base of their economy. However, responsibility for navigation and shipping as transportation was explicitly defined in 1867 was granted to the federal government. The course of transport policy since Confederation has centered on railway development as a key component of national policy. Roads evolved under provincial jurisdiction. Now, arguably the most important mode is not under exclusive federal control.

The provinces vary significantly in geographical size, population and economic structure, devotion to social programs and, as in Quebec, even a different legal system. Concomitantly, transportation characteristics such as level of competition, availability of infrastructure and commercial viability also vary significantly from province to province.

According to the Macdonald Royal Commission on Economic Union and Development Prospects for Canada, the economic and social union of Canada depends on the development of national policies based on factors such as equity, efficiency, cost effectiveness and rationality. However the conflict between federal and provincial
governments, which has been an enduring ingredient of national policy cooperation and competition since Confederation, has made the attainment of public goals difficult. Today Canadian provinces have constitutional and economic authority equal to that usually associated with sovereign states. Government in Canada has become decentralized to a greater extent than in all other industrialized nations, except perhaps Switzerland. The provinces continue to compete with the federal government for broader jurisdictional powers, a confrontation that was not resolved with the Constitution Act, 1982. As well, the provinces tend to compete with each other for economic development and, as a result, resist federal government initiatives whenever the latter is attempting to rationalize or reduce its expenditures in a particular province - even when there is sound economic argument for such change. In turn Canadians have been conditioned by their respective Premiers to resist national policy-making, unless their own province can be identified as a winner.

The sharing of powers between governments is not the only distinct feature of Canadian Federalism. On a concurrent basis the public policy-making process has changed. The institutionalization of governments in
Canada, supported by political and bureaucratic entities of growing significance, has reduced or made more difficult the role of governmental groups and individuals in policy formulation. In addition the concept of Cabinet solidarity at the federal level has changed the role of "regional" ministers with the result that this once traditional role has been filled today by provincial governments or, more specifically, provincial Premiers.

The result has been the creation of a federal state that is decentralized not in terms of greater input at the local and regional levels into national decision-making, but more in terms of the development of strong provincial systems with their own jurisdiction. This "balkanization" raises the question of the ability of the federal government to develop national policies and programs that can sustain the economic union of Canada. This situation has never been fully understood by Canadians yet it represents realpolitik in this country.

The constant problem of Canada's diversity of regions, interwoven with the ever increasing ambition of provincial governments, the changes in the structure of labour and the current debates on free trade, energy and national transportation policy deserve close examination. Resolution
of each of these areas requires renewed federal-provincial cooperation and agreement. The debate over each of these issues has begun to focus on the conflicting goals among the ten provinces as compared to the traditional federal-provincial conflict. The debates have also demonstrated that regionalism is in decline and regional positions are more likely to be represented as provincial goals and objectives. The issues of free trade and energy are irregular issues on the public agenda but transportation is a question that has been discussed on an on-going basis, with emotion, for over a hundred years.

Richard Simeon's classic model of federalism is predicated on a division of labour in which the federal government is responsible for national issues and the unit governments for local/provincial issues. In Canada there is a fundamental imbalance in the process. Provinces are free to criticize federal policies but the central government is reluctant to have a similar voice in provincial transportation policies which, as will be argued in this thesis, are equally relevant to national economic development.

To examine the thesis it was necessary to focus on a complex regional problem, within the area of federal
jurisdiction, which required a major change in policy through which the provinces affected would actually benefit economically yet find themselves opposing the federal initiative because of the political pressures generated in Canada's style of federalism. The federal government's decision to change the level of freight rates to move grain by rail (The Crow Rate) was such a complex and inter-provincial issue. Although this thesis provides a historical perspective, emphasis is placed on the period between 1980 and 1983, the period over which the Crow Rate was debated and new legislation finally enacted.

The Crow Rate (a fixed rail freight rate on export grain introduced in 1898 and 1899 and confirmed by Parliament in 1925) provided stable transportation costs for prairie grain producers. However the longevity of the Crow Rate was unique in the world of transportation and its continuation represented: (1) an ever-increasing burden on the railways; (2) an inhibiting factor for the diversification of the western agricultural sector and an impediment to further processing activities in the prairies; and finally (3) an investment vacuum into which the public purse was being drawn deeper and deeper through ad hoc federal government subsidies and capital investment programs.
Despite the overwhelming economic arguments for resolution of the Crow Rate, change was resisted in varying degrees by all three prairie provincial governments including a province hardly affected by it all - Quebec. The conundrum of the federal government was to find a way to deal with this serious, complex, political, "regional" and economic problem in a national context given the existing constraints of the federal state. As indicated, the problem of the Crow Rate is but one of many similar problems the federal government will be facing in the years to come. Therefore it is important to focus attention on the constraint of federalism and, through the resolution of the Crow Rate, document how these constraints were addressed and to assess the impact of the reform policy on the grain transport sector. The lessons to be learned from the Crow Rate debate will be of interest to decision-makers and those affected by national policy.

To understand the issue of the Crow Rate requires knowledge of the geographical reality of Canada. The ways in which territorially-derived issues are resolved is crucial to the economic union of Canada. This is true today and will be so in the future.
1.2 **Context of Thesis**

Canada is an immense country and its territory represents the second largest in the world. It is comprised of many different physical divisions and, as such, only the most southern areas of the country are suitable for agriculture. These include the regions around the conurbation of Toronto, which is Canada's prime agricultural region - half the Class 1 land is in southern Ontario - and the prairie region which produces nearly all of Canada's grain and oil seed crops. The prairie region is undergoing transformation from a region where agriculture dominated to one where the service sector now provides over two-thirds of all employment. Contrary to popular perception, prairie Canada is not the "bread-basket of the world". Canada grows only between 4 and 5 per cent of the world's wheat production and only 3 per cent of its coarse grains. During the past three decades western Canadian agriculture has been characterized by declining numbers of full-time farmers and farms, increasing farm size, more specialization, considerable productive growth and much capital-for-labour substitution. "Today primary agriculture's share of Gross Provincial Product is 7.1 per cent in Manitoba, 16.6 per cent in Saskatchewan and only 4.5 per cent in Alberta". This is not to state that
grain production is not important to Canada — it is — $5 billion in annual sales is significant and represents one of Canada's major sources of contribution to a balanced export trade situation. Based on the above trends, the agriculture sector of the prairies will steadily constitute a declining proportion of the prairie region's output.

The population of the prairies (approximately four million) represents about 16 per cent of the nation, whereas approximately 50 per cent of the people in Canada reside in the Quebec-Windsor corridor. This core of the population in one area has given that region considerable weight in national decision-making. As such "...the eastern and western provinces stand as peripheral political dependencies of Central Canada* and must struggle to obtain greater shares of national wealth and increased political autonomy".4

During the 1980s "...much of current Canadian politics, including the Constitution issue, turned on the attempts of the provincial level political communities to

*The term Central Canada is consistently misused. The economic heartland of Canada is really the Toronto umland which is a small proportion of Central Canada (Ontario and Quebec). Even the Quebec City - Windsor axis no longer is a contemporary description of the industrial base of Canada.
gain more power over their economies, to gain more if not all, the benefits from their natural resources". Concomitantly, the traditional economic links between the Canadian provinces have been eroding with the result, in some cases, that it is easier to trade with another country than with another province. For example "...seven provincial governments have adopted narrow province-first procurement policies. Two governments have actually imposed tendering restrictions that inhibit access to provincial contracts for Canadian suppliers outside their provinces". Richard Simeon states that "the crisis of Canadian federalism is above all a crisis in the relations between governments".

There are many contrasting features to Canada's national transportation system. There is no national bus company. The term "transcontinental" as it applies to railway and airlines means Vancouver to Toronto/Montreal. There are no direct air links between the capital cities of western Canada with the capital cities of the four Atlantic provinces. Thus the degree of competition and availability of infrastructure services varies considerably throughout Canada. This has caused significant departures from the policy contained in the National Transportation Act (1967) which emphasized efficiency
and economic competition.

The Crow Rate debate reached its greatest intensity in the 1980s. During that period Canada had four different Prime Ministers and in the Prairies, the region most affected by Crow Rate changes, two governments (Manitoba and Saskatchewan) changed hands. The country also faced an economic crisis, an energy crisis and a constitutional crisis. *

It is against this background that this thesis will analyze the federal government's policy to change the Crow Rate. According to Frederick J. Fletcher and Donald Wallace "...case studies provide some guidelines in identifying conditions and suggesting reforms that might make the process more decisive, and more responsive, as well as more able to manage conflict". 8

*In the early 1980s, the deficit was high, growth was sluggish, productivity was poor, there existed excess capacity and inflation and unemployment were high. In terms of energy, the spot-price of oil at Amsterdam was $50.00/barrel. A National Energy Policy was established. The multi-national oil companies opposed an annual increased tax on net revenue and the provision which could result in more Canadian ownership. It was also during this period of time that Canada was addressing constitutional issues such as the non-existence of a written constitution or an agreement on an amending formula or the sharing of powers between the federal government and the provinces.
1.3 Synopsis of Thesis

To demonstrate this thesis, particular attention will be paid to the mechanisms by which federal-provincial conflicts are managed. There are many major institutions or mechanisms of Canadian politics which affect public policy development. These include the Cabinet system, the federal and provincial caucuses, national parties, the first ministers' conference, interest groups and the media. The research part of the thesis will, over a longitudinal basis, provide analysis of how each of these institutions affected the Crow Rate debate beginning in the early 1970s. Each of these institutional factors were examined as each of them had a major influence on the outcome of the Crow Rate debate.

Chapter Two will discuss the development of province-building, with particular reference to the three prairie provincial governments, and document how the different positions of each of these governments demonstrates the decline of the concept of a more general "prairie region" as a focus for economic policy planning.

The other major institutional factor discussed was the role of a federal Cabinet Minister. Since the
Transport Minister, The Honourable Jean-Luc Pepin, played such a predominant role in resolving the Crow Rate debate, his role requires critical analysis.

Chapter Two also outlines the evolution of public policy development with emphasis on the changing models of federalism such as cooperative, executive and the current collaborative model. Also included is an analysis of the central planning processes and structures which affected the Crow Rate debate.

Chapter Three presents an historical review of national transportation policy. The chapter emphasizes the constraints that Canadian federalism imposes on the federal government to pursue effective transportation policy.

Chapter Four introduces the Crow Rate as an issue. It provides an historiography of the Crow Rate problem and it outlines the diverse conflicts between the federal government and the provinces, between and among the provinces and between the various socio-economic sectors.

The most important chapter is Chapter Five. It analyzes the federal government's approach to overcome the
constraints of the federal state to resolve the Crow Rate issue. There is an examination of the conflicts within the federal government to establish its strategy. The federal government had to implement change in a region where it had virtually no electoral support. Throughout this chapter special emphasis is placed on the role of a federal Cabinet Minister (Transport Minister Jean-Luc Pepin) in this debate. The advocacy role of a Cabinet Minister to bring about a change in a federal area of jurisdiction, affecting primarily one region, deserves special attention.

The evolution of Cabinet solidarity has tended to de-emphasize the concept of "regional ministers". This traditional advocacy role has, in recent times, been filled by provincial Premiers. This important section analyzes the increasing role of Premiers in national policy development. Chapter Five also includes a section on negotiation in a federal state showing the role of Parliament and analyzes the alternative approaches utilized in the Crow Rate debate. The approach to policy formation which emerged, may serve as a guide to resolving future federal-provincial conflicts.

The documents to be employed to support the analysis
in Chapters Two to Five will include a time-series review of the personal working papers of the former Minister of Transport, Jean-Luc Pepin. Included in this review are various Memoranda to Cabinet working notes and inter-departmental briefing notes. The chapter on "Negotiation in a Federal State" is supported by a review of the technical position papers of all the major participants involved in the discussions, with Dr. Clay Gilson, the federally appointed negotiator.

The complexity and the opinion-oriented nature of the research material lends itself to a case study approach. Public opinion was assessed through an analysis of the various surveys undertaken by different groups, including a survey undertaken by the author.

An impact matrix is compiled to show how different sectors and groups were affected by Crow Rate changes and how these differences influenced public opinion. An Inside-Outside Access Model is developed to explain a unique negotiation approach taken to reach a conclusion on the Crow Rate given the existing constraints.

The Inside-Outside Access Model is a helpful framework for the Crow Rate Case Study and might be used
to examine other national transportation policies such as development of railway safety legislation.


CHAPTER TWO
THE ROLE OF PUBLIC POLICY FORMULATION IN THE
CANADIAN POLITICAL SYSTEM

2.0 Introduction

This chapter outlines the structure of the Canadian political system and analyzes its influence on public policy formulation. The chapter shows how Canada's political institutions, in conjunction with established interest groups, can severely constrain national decision-making in particular ways. In later chapters, the thesis demonstrates specifically the ways in which the combination of federalism and interest groups' inter-action constrain change in federal policies.

It can be argued that the intensity of opposition to a particular policy, may well be primarily rooted in the economic interests and the traditions of independent groups in society. But this thesis will show that the existence of Canada's federal system provides those groups an additional level of government that can be mobilized to defend their interests. Moreover, provincial governments often reinforce the fears of the population and interest groups, provide strategic leadership for their protest, and bestow legitimacy on the resistance to change. A coalition of powerful interest groups and their provincial
governments is a potent force in national policy-making even, as will be demonstrated in this thesis, in areas of exclusive federal government jurisdiction such as the Crow Rate.

In specific terms this chapter examines the main institutions of Canadian Politics and assesses their role in policy development. The concept of federalism is explored with a strong reference to the theme of "province-building". The applicability of three working models are discussed, particularly the model of executive federalism in terms of the concept being an impediment towards the development of efficient and effective national transportation policy. The Cabinet system with its bureaucratic arms, the central agencies, is examined to determine how these groups interplay with each other, with other similar governmental groups and with other groups such as special interest organizations and the media.

The role of special interest groups and the media are also examined since both these groups played important roles in the Crow Rate debate.
2.1 The Main Institutions of Canadian Politics

This section discusses the main institutions of Canadian politics. The first institution discussed is "federalism" with province-building appearing as an important theme. The historical evolution of federalism is reviewed with reference to three analytical models: cooperative, executive and the current collaborative form of federalism.

2.1.1. Federalism

Canada is a federal state. Federalism implies, in the classical definition, the territorial division of powers to govern.\(^1\) This simple definition does not reflect the complex and confusing form of federalism in Canada. Canada is a Confederation comprised of eleven governments, one federal and ten provincial.

The power to make laws in Canada are given to both a national government and to the ten provincial governments. The initial division of powers is contained in the Constitution Act (1867). In that Act the federal and provincial powers are contained in Sections 91 to 93. It is clear from a review of the federal powers that it was
intended that the central government should have the
greater power.\textsuperscript{2} Section 91 allows the federal government
to "...make laws for the Peace, Order and good Government
of Canada", and this wording is often cited to support the
1867 intention to establish a strong central government.
In addition the central government also was given the
power to disallow or overturn any provincial law that it
decided was not in the interest of the country as a whole.
This power has not been used since 1943. Under Section
92:10 the federal government was given immense authority
in transportation including the takeover of provincial
roads, canals and railways if it were in the national
interest to do so.\textsuperscript{3} In 1867 Canada was a largely rural
primary-producing economy. By the turn of the century it
was changing into an urban industrial society and demands
for government services increased. The pattern of inter-
governmental conflict was established as early as 1905.
Christopher Armstrong in his book \textit{The Politics of Federalism}
outlines in detail the early conflicts between "Empire
Ontario" and the federal government, and he documents the
"...role of private interests in provoking inter-
governmental conflict as rival parties sought support
either in Ottawa or Queen's Park".\textsuperscript{4}

By the 1930s the provincial governments were faced
with enlarged responsibilities arising out of the Depression but limited financial capacity to discharge these responsibilities. The federal government responded by using its spending power to help out but, as Hugh Thorburn states, "...the ground was laid for the somewhat unsatisfactory situation of today: overlapping jurisdictions and competing policy initiatives by the two levels of government."  

Although during the 1939-45 World War, and for a period after the war, the country was governed almost as a unitary state, the move towards province-building was deeply entrenched. Probably the most quoted article on province-building has been written by Alan Cairns. He determined that the provinces had numerous factors working in their favour". These were:

1. Impressive constitutional responsibilities in areas of expanding government concern, notably, welfare, education, highway and natural resources.

2. Administrative competence improved in the postwar years.

3. Jurisdictional control of the growth areas of government.

It was this growth in provincial powers that transformed federalism in Canada. Garth Stevenson believes this
growth of the state at the sub-national level is unique in the modern world. As a result:

...provincial governments themselves now possess impressive means of complicating, frustrating and interfering with policy making at the federal level, means which they are far less hesitant to use than the federal government is to employ its virtually abandoned power of disallowance.7

The growth of provincialism has had a major impact on the concept of political regionalism in western Canada, as documented by Roger Gibbins.8 Gibbins believes that it is no longer possible to impel the population towards a regionally distinct style of political behavior. He paraphrases Emile Durkheim that territorial divisions lose their significance as they become "...less grounded in the nature of things".9 Significant differences between the nature of things on the prairies and the nature of things elsewhere in English-speaking Canada are becoming harder and harder to detect, according to Gibbins.10 Gibbins also asserts that it is the political system that molds the surrounding social and economic environments. He refers to the 1966 "keynote article" on the evolution of Canadian federalism by Black and Cairns to support his
argument that "...political integration is not an inevitable consequence of urbanization, industrialization and rising standards of living". According to Gibbins, Black and Cairns argue "...political institutions and leaders have played a key role in shaping, giving expressions to and perpetuating the distinctive regional outlooks". Gibbins makes the argument that the near absence of regional political institutions in western Canada, coupled with the growth of strong governments, has fragmented the prairie regions along the lines of provincial boundaries and that the effect of this fragmentation has been to reduce the regionalization of politics in the Canadian west. An important finding of this thesis documents the manner in which the Crow Rate debate evolved and thus provides support to the argument of Gibbins.

Another reason for the decline in regionalism in Canada at the expense of provincialism is "...provincial governments have been allowed to get away with actions that would have been considered outrageous in other countries". A former Secretary to the Federal Cabinet, Gordon Robertson, notes that such action tends "...to undermine Ottawa's legitimacy and effectiveness in defining and implementing a national interest". Richard Simeon
supports this position because he suggests:

"...that there is a fundamental imbalance in the process. Provinces are free to criticize federal policies but Ottawa is prevented from a similar voice in provincial education policies which, it could be argued, are equally relevant to national economic and cultural development".15

Cairns raises concern over what can be done to arrest the imbalance. He states:

"...the provinces in Canadian federalism, especially those which combine wealth and resources with impressive jurisdictional capacity, are more powerful than the states or provinces of any existing federal system. They are more powerful than most of the member states of the United Nations".16

The significance of the above statements is that national policy development must take into consideration the views of eleven governments. This is contrary to Canada's historical concept of policy development which devoted time and effort to resolving issues between two levels: federal and provincial, assuming that all provincial programs and policies were consistent with each other and supportive of national objectives. Indeed, as
Richard Simeon points out, the strategy of the provinces has always been to attack "Ottawa" rather than each other. This has tended to focus intergovernmental discussions as a contest between the provinces and the federal government. In turn the provincial governments, or other spokesmen representing interest groups, tend to invoke the concept of "regionalism" when making representation to the federal government on a specific or alleged grievance. In reviewing approximately 1,000 Briefs submitted to the Macdonald Commission on Economic Union and Development Prospects for Canada (1985), Hugh Thorburn observed that it was common for organizations, such as the Halifax and Dartmouth Board of Trade and the Moncton Chamber of Commerce, to express alienation of the "Maritime region" instead of their respective city from the economic benefits of Confederation. Pressure groups or special interest groups adopt the same strategy. In 1969 the Saskatchewan Wheat Pool approved a resolution calling for the "consideration of secession if the federal government does not give due consideration to the problems of Western Canada".

Thorburn concluded that as a result of his examination of the Briefs to the Macdonald Commission no part of Canada perceives itself as a net winner. This conclusion is supported by Richard Simeon who pointed out "...listening to all the grievances, one sometimes gets
the impression that all regions are 'losers' in the Confederation balance sheet".20 This is so because the benefits of Confederation are measured on a provincial basis not on a regional or national scale. J.E. Hodgetts attacks the concept of regionalism. He has argued that regions in Canada are essentially "bureaucratic constructs".21 He states that:

"...regionalism, at any level one wishes to take it, does not generate spontaneous demands that thrust themselves on the political system and are instrumental in influencing the policy outputs of the system. The region is not so much the creator of policy as the creature of policy".22

This raises the question as to whether the concept of regionalism is valid today or has the concept of provincialism or province-building, defined by Black and Cairns23, as "...strengthening the capacity of provincial political systems to govern the interests of regional communities...", become the new focus of a more decentralized federation?

Today national policies must bind together several loosely integrated sectorial economies over a network of ten distinct provinces, each with their own economic and
social development plans. The temptation exists to use the term "regional" in place of "sectorial" but the term region is limited in the Canadian context. If one refers to the Maritime region one must omit Newfoundland. It prefers to be known as one of the four Atlantic provinces. Other regions are Quebec, Ontario, the Prairies and British Columbia. This nomenclature as Hodgetts points out is quite typical and reveals how quickly we exhaust the regional concept when applied across the nation. In terms of northern Canada, all the provinces would prefer to extend their boundaries north to include the Yukon and the North West Territories.

The Macdonald Commission recognized the conflict between federal and provincial governments and, as Garth Stevenson writes:

"...this has been an enduring feature of Canadian political life for more than a century. Indeed it has been so ubiquitous that it tends to be taken for granted or treated as synonymous with federalism rather than as a distinct phenomenon to be analyzed in its own right". 

Consequently, according to Stevenson:

"...there has been no systematic study of federal-provincial conflict and not much attention has been paid by students of the political system to the mechanisms by which federal-provincial conflicts are managed and resolved".
This thesis attempts to address this void by analyzing the mechanism and processes used to resolve the Crow Rate, with emphasis on the interaction effects between interest group action and the conflict between federal and provincial governments.

The next section discusses how the two levels of government in Canada interact to develop and implement policies.

2.1.2 Models of Federalism

From the discussion so far it is possible to describe federalism as a kind of territorial division of power between the levels of government, each having separate and over-lapping jurisdiction. The evolution of the modern Canadian administrative state has increased the need for federal-provincial cooperation in the development of public policy.

The period between 1920s to the 1960s did result in considerable federal-provincial cooperation and the establishment of many shared-cost programs (at great expense to both the federal and provincial public purse) and, as a result, the term \textit{cooperative federalism} is used
to describe intergovernmental relations during that time period. Basically it reflects the view, "...that Ottawa can not dictate to the provinces; rather it must rely on techniques of diplomacy, persuasion and consultation." However, it must be pointed out that the initiatives were undertaken with federal leadership. The techniques used were federal use of taxation, expenditure, monetary policy and spending power.

One of the strongest practitioners of cooperative federalism was Jean-Luc Pepin. In 1964 he wrote:

"...there should be no question of opposing cultures, languages and nations within Canada. We should rather seek to link them, achieving a synthesis mindful of the rights and obligations of each of them."28

Mr. Pepin also outlined support for priority of provincial authority in certain fields. This strong provincial stance, reflected in a subsequent Task Force Report on Unity, brought Mr. Pepin into conflict with Mr. Trudeau. Mr. Pepin agrees that his, "...differing point of view on the Constitution with Mr. Trudeau" probably led (1980) to his appointment as Transport Minister.29 Chapter Four will provide insight into the significance of this incident.
During a period of growth and prosperity (and with the possible exception of Quebec) few provinces objected to the massive federal intervention in provincial areas. But by the late 1960s this changed. First, inflation made all shared cost programs more expensive and affected the establishment of new programs and second, provinces began to compete more directly with each other and with the federal government.

Increased inter-provincial and federal-provincial consultation led to increased meetings between and among officials of the eleven governments. Dupre\textsuperscript{30} applies the term \textit{executive federalism}, "...as embodying the relations between the elected and appointed officials of the energizing executives of our federal and provincial levels of government." The prime mode used to practice executive federalism was the intergovernmental forum or federal-provincial conference. Between 1957 and 1977 it is estimated there were 158 ministerial meetings and an additional 335 meetings of federal-provincial officials.\textsuperscript{31}

Given this scale of meetings it is not difficult to agree with Fletcher and Wallace that the processes of executive federalism can be identified as a major impediment to effective conflict management in the system
and as a generator of conflicts themselves. Executive federalism involves central agents and senior Cabinet Ministers negotiating more fundamental issues. The focus has switched from function to power and prestige and on protecting jurisdictional turf. According to Smiley:

"In the Canadian system of government the executive has a very wide discretion - freedom from effective control of the elected legislature, of party organizations and, in most circumstances, of private interest groups." 

This is compounded by a maze of divided jurisdictions between and among governments which adds complexity, confusion and secrecy to negotiations. Cabinet Papers are kept secret unless there are strategic reasons to make them available to the media or interest groups as was the case in the Crow Rate debate.

This essentially political nature of executive federalism is summarized by Smiley:

"...the institutions and processes of executive federalism are disposed towards conflict rather than harmony. Federal-provincial summitry along with the related phenomenon of administrative rationalization has weakened the capacity of the system to make piece-meal and incremental adjustments according to the norms of scientific
and professional groupings. Even more crucially, the pursuit of jurisdictional autonomy increasingly takes place outside a shared acceptance of constitutional and legal norms about the respective powers of the two orders of government.³⁵

The natural extension of executive federalism has been the development of programs such as the revised Liberal Government's National Energy Program of 1983 and the current PC Energy Policy, both of which are agreements reached on a collaborative basis between or among governments. There was little or no role for public interest groups or even for Parliament to discuss these policies. Audrey Doerr asserts that:

...the rate and scope of change in federal government activities have contributed to the development of a highly complex system of structures and processes by which government responsibilities are discharged and activities undertaken, and the expansion of federal and provincial activities has threatened to make the constitutional division of powers obsolete.³⁶

A good example of collaborative federalism was the position of Prime Minister Trudeau in 1981 when he refused to address the Crow Rate issue unless the western Premiers were in agreement. This decision was taken despite the
call for change by some western agricultural organizations representing the majority of producers. The Prime Minister's position was made in Parliament on February 12, 1981. Interestingly this position came after almost one year to the day, the Liberals regained power. Despite support for change to the Crow Rate from the major agricultural groups such as the Western Agriculture Conference and the Prairie Farm Commodity Coalition, which represented all prairie producers, the Prime Minister would not agree to take action until a consensus existed as to how the rate should be changed and that the three prairie governments were part of that consensus.

Given the contradictory government priorities and the magnitude of intergovernmental relations, it is not surprising that the governments have established complex, central policy structures to deal with these matters. The next section examines the role and function of the Cabinet system and its bureaucratic arms the "central agencies".

2.1.3 The Cabinet System

This section discusses the traditional role of the Canadian Cabinet system and shows by example how the role of regional ministers has changed over time. In addition
the section analyzes the decline of Liberal Party support in western Canada as apart of a larger phenomenon i.e., the erosion of the national party system.

The basic purpose of any Cabinet system is to reach timely decisions in a way that will satisfy the government's priorities and needs, while maintaining the collective responsibility of the Cabinet Ministers.\(^{37}\) This definition has significant meaning as it applies to the Canadian Cabinet. Under the Canadian parliamentary system the Cabinet, chaired by the Prime Minister, is the supreme decision-making institution in Canada. It is the Prime Minister who chooses which member from the governing party will be appointed to the Cabinet. It has become a Canadian political tradition to appoint at least one member not necessarily just from every region but from every province. In addition any Prime Minister must take account of specific parliamentary, economic and personal factors in designing a Cabinet system in which ministers can make policy and expenditure decisions.

The size of the Cabinet has increased from the 16-19 members of the 1935 Mackenzie King Cabinet to the present 40-member Mulroney Cabinet.\(^{38}\) The decision-making process has changed as well and this will be discussed in
the following section on - Central Agencies.

A unique and somewhat under-appreciated characteristic of the Canadian Cabinet system is that, as the supreme decision-making institution in Canada, there are virtually no checks and balances on this power. Unlike the United States where power is shared among the Senate, House of Representatives and the Cabinet and, unlike many European countries which have elected Upper Houses with various forms of veto power, the Canadian Cabinet has no such checks. However, the ruling parties' caucus can affect government policy. This was dramatically demonstrated in the Crow Rate debate when strong opposition from Quebec Liberals had a significant affect on the final approach taken by the government. As already discussed the non-elected Senate has seldom used its power and the Prime Minister, through the concept of Party discipline, does not have to worry about his own members voting against his wishes in the House of Commons. In addition, Cabinet solidarity (British traditions) ensures that any minister who disagrees with the Prime Minister cannot voice his dissension publicly without resigning. Resignations of ministers from the federal Cabinet over policy differences are rare and, up to 1984, only a handful have done so.39
The demands placed on individual Cabinet members are onerous. They have to manage large line departments e.g. the transport minister must manage a department with approximately 20,000 employees. In addition such large and diverse organizations as Air Canada, CN Rail, the St. Lawrence Seaway Authority, the Canada Ports Corporation and the Canadian Transport Commission all report to Parliament through the Minister of Transport. As such, the transport minister is a favourite target of special interest groups and fellow Members of Parliament who want to discuss problems and policies affecting their sector or constituency. Given this heavy workload, one can appreciate how much time such a minister, has to review documents prepared by other federal departments before attending a Cabinet meeting. In turn, one wonders how many Cabinet Ministers fully understood or even had the time to read the 110 page Memorandum to Cabinet submitted by Mr. Pepin on July 9, 1982 which contained a proposal to resolve the Crow Rate issue. Mr. Pepin's proposal would commit the public purse to an expenditure of $3.7 billion in the first four years following its implementation.

To address onerous demands on ministers' time, the Pearson Cabinet introduced a number of ad hoc committees,
including the powerful Priorities and Planning Committee, to develop government priorities in the overall fiscal situation. Under the Trudeau Cabinet, the Planning and Priorities Committee evolved into an Inner Cabinet and, since many of the key ministers were represented on this committee and because the Prime Minister chaired this committee, its decisions were accepted by the full Cabinet.

He also introduced a full range of other Cabinet Committees. The Clark Cabinet, in 1979, officially recognized an Inner Cabinet and appointed 12 members to this key decision-making body. The Trudeau Cabinet of 1980 abolished the Inner Cabinet and in its place both the full Cabinet of 37 members and the Priorities and Planning Committee had authority to take final decisions. As will be discussed in the next section, Mr. Trudeau also retained the Program and Expenditure Management System (PEMS) and established at the public service level a Ministry of State for Economic and Regional Development (MSERD) and within that ministry established Federal Economic Development Coordinators (FEDC) in each province. It is interesting to note that FEDC's were established on a provincial, not on a regional basis. Both MSERD and FEDC would play significant roles in the Crow Rate debate.
Brokerage theory, which has dominated the Canadian political science field argues that national political parties must encompass all the essential interests in the country if both a majority is to be secured and minority rights guaranteed. It is beyond the scope of this thesis to analyze how Cabinets have played out this role over the years but to the degree that various regional, sectorial and provincial concerns are raised at the Cabinet level does suggest that in absence of an elected Senate the "...Cabinet has become the truly federal body in Canada performing the same function as the Senate in the United States".

Role of the Regional Minister

The main problem facing any Cabinet is the regional dimension of national policy in Canada, which has always been both a controversial and a complex subject. The principles of equality and equity have meant that national policy has had to accommodate on the one hand demands that Canadians be treated equally wherever they reside and, on the other hand, demands that national policy recognize the need to treat "regions differently".

However the logic of Cabinet government and the
concomitant strict party discipline sharply reduce the ability of the federal government to reflect within itself Canada's regional diversity. The concept of ministers as regional power brokers has changed over the last thirty years. Alan Cairns has described this transformation:

...early Cabinets were collections of regional notables with independent political bases of their own who powerfully asserted the needs of their provinces at the highest political level in the land. The developing ascendancy at the Prime Minister's office (PMO), which has culminated in its alleged presidentialization under Trudeau, was made less visible to his predecessors. Regional spokesmen of the calibre and authority of Jimmy Gardiner...continued into the middle decades of the 20th century. Now however regional spokesmen of such power and authenticity are only memories. Although the regional basis of Cabinet appointment continues, the regional power brokers are gone.

Since this thesis focuses on the role of a Cabinet Minister in policy development it is necessary to compare the role of Jimmy Gardiner to that of his latterday counterparts Otto Lang and Jean-Luc Pepin.

James G. Gardiner was the federal Minister of Agriculture from 1935 to 1957 (a record) and was a former Premier of Saskatchewan. Otto Lang was Minister of Transport between 1974 and 1979. Jean-Luc Pepin was
Minister of Transport between 1980 and 1983.*

It is interesting to compare features of each of these three ministers as they relate to the prairies. Each minister was at one time considered to be the "Regional Minister of the Prairies". David E. Smith and Norman Ward are jointly writing a biography on James G. Gardiner. Through access to the Gardiner Papers they have described the 22 year career of Gardiner as a period when, "...regionally powerful federal ministers injected provincial interests into central government institutions". Today the concept of regional ministers does not exist. They have been replaced as Smith and Ward suggest by:

...strong provincial politicians challenging governments in Ottawa and first ministers' conferences competing with Cabinet as the forum in which regional interests are expressed.48

This assessment is supported by Matheson who states the federal-provincial conference has led to Cabinet's decline as an instrument of regional accommodation and by Simeon who believes the failure of the National Party

*Both Mr. Lang and Mr. Pepin held other Cabinet positions at other times but it is their tenure as Transport Minister which is of importance here.
System led to the formation of the First Ministers' Conference. Smith and Ward determined that there were three unique features to Gardiner's style of regional minister. These distinctions were:

1. His belief that when the people have voted a majority government, minority interests should not be allowed to interfere.

2. In Cabinet, the prize went to the minister who could convince Cabinet to support him.

3. His fervent desire to make regional issues important on a national basis.

Certainly there is nothing unique to Gardiner's model since both Lang and Pepin functioned in Cabinets comprised of members who would agree with the Gardiner approach. Where Gardiner departs from Lang and Pepin is in the manner in which he applied the above characteristics. Gardiner had little faith in senior bureaucracy and an obsession that among his colleagues there was a pre-disposition to see the country from a central Canadian perspective. No issue probably demonstrates this position better than the issue of the south Saskatchewan River Dam. No issue on the prairies, since the drought of the 1930s, could compare to Saskatchewan's belief that a dam was urgently needed. Gardiner supported this belief
and spent most of his career in Ottawa attempting to convince the federal government to construct a project which he believed would be "the greatest achievement in Saskatchewan toward the development in Canada".53

It is interesting to note that the dam lent itself to be an issue that should have been supported as a regional issue with backing by all federal members and all three prairie Premiers. This was not the case as the Manitoba federal Liberals were opposed as were the Premiers of Saskatchewan and Manitoba.54

The main problem with the dam was that it was debated on a political basis. There appears to be no benefit-cost studies undertaken which would show that there was a real need for a dam but Gardiner believed that in Saskatchewan there was a perceived need for such an undertaking. As former Saskatchewan Premier Alan Blakeney has stated "westerners believe that federal policy constrains their region and in politics, beliefs and perceptions matter".55

The failure of the Liberals to build the dam signalled the end to the career of Jimmy Gardiner and probably to the end of the powerful regional minister phenomenon. It also coincided with the decline of the Liberal Party in western Canada.
Decline of the Liberal Party in Western Canada

An examination of federal election results between 1953 and 1980 show a steady decline in support for the federal Liberals in western Canada. The 1968 election is the exception and this can be attributed to the phenomenon of "Trudeaumania". The decline in electoral support for the Liberals began in 1957 following the election of the "Progressive Conservative" minority government led by Saskatchewan's John Diefenbaker. Mr. Diefenbaker immediately announced his intention to build the South Saskatchewan Dam. In addition he established the Prairie Grain Advance Payment Act. This Act encouraged the Canadian Wheat Board to set prices for wheat and make payments to prairie grain producers before the Board actually knew what price it would eventually receive for the grain. The federal government is committed to pay for any shortfall in funds. Mr. Diefenbaker also appointed former Manitoba Premier John Bracken to head a Royal Commission on the allocation of boxcars for grain.

In the following election of 1958,* the PC's went from

*(1) Jimmy Gardiner lost his Melville seat in the 1958 general election ending 41 years of service as either an MP or MLA.

(2) The dam originally begun by Mr. Diefenbaker was completed in 1968 under Liberal Prime Minister Lester Pearson. The dam was named after Jimmy Gardiner and the dam-made lake was named after John Diefenbaker.
3 seats and 23 per cent of the vote in Saskatchewan to 16 out of 17 seats and 51 per cent of the vote. In the nine subsequent elections, the PC Party received more votes in Saskatchewan than any other Party. The dam, completed in the late 1960s at a cost of $200 million hence has never come close to playing the role envisaged over the years by its supporters. Primary grain producers have preferred to grow crops which require minimal effort such as wheat and barley in place of crops like sugar beets which require expensive irrigation from the dam and constant effort to grow and harvest.

Both David Smith\textsuperscript{56} and Barry Wilson\textsuperscript{57} have concluded that the Liberals failure to build the dam, whether actually needed or not, was a major factor in the subsequent decline of the Liberal Party (federally and provincially) in Saskatchewan. The question of "perceived need" requires further analysis since this was a question which played a central role in the Crow debate.

It was Transport Minister Otto Lang who was to learn the real lesson of public policy development in the prairies in the 1970s. Unlike Jimmy Gardiner, Otto Lang was a highly educated technocrat who believed that basic and structural changes were required to modernize the grain handling and transport system on the prairies.
Table 1: The Liberals in Saskatchewan 1968-1980 lists the reasons (left-handed column) provided by Smith and Wilson which they allege led to the decline of the Liberal Party.

Table 1: The Liberals in Saskatchewan 1968-1980

<table>
<thead>
<tr>
<th>Reasons for Decline according to Smith/Wilson</th>
<th>Liberal Record &amp; Events</th>
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<tbody>
<tr>
<td>- Party organization and policy favoured Central Canada</td>
<td>- Popularity of Diefenbaker</td>
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<tr>
<td>- Ministerialism</td>
<td>- Participatory democracy</td>
</tr>
<tr>
<td>- Resource policy - enforced dependence</td>
<td>- Western Economic Opportunities Conference (WEOC)</td>
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<tr>
<td>- South Saskatchewan Dam ($200 million) built by Diefenbaker rather than Pearson</td>
<td>- Report on Bilingualism/Biculturalism</td>
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<td>- Official Languages Act</td>
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<td>- Metric Commission</td>
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Agricultural Policy

- Resistance to advance grain payments
- Operation LIFT
- Branchline abandonment
- Change in Crow Rate

Agricultural Policy

- Grain stabilization plan
- Retention of most branch lines
- Modernization of grain system ($1.7 billion)
- Change in Crow Rate

The items on the right-hand column are compiled by the author to show the Liberal achievements and the policies which probably affected their standing on the prairies.
The two general reasons for the downfall of the Liberals, suggested by Smith and Wilson, were the structure of the Liberal Party which was centred in Ontario and Quebec and the concept of "ministerialism" which they allege resulted in Cabinet Ministers taking a paternal attitude towards the west by ignoring its concerns. However the Liberals in the west encountered sustaining popularity for Diefenbaker which they tried to counter with the mention of a "participatory democracy" policy in establishing Party priorities. In addition the Liberals held the Western Economic Opportunities Conference in 1973 to address alleged western grievances.

In terms of agricultural policies the Liberals were blamed for establishing Operation LIFT (Lower Inventory For Tomorrow) which encouraged grain producers to take land out of production in 1972. In 1973, grain prices soared and many prairie producers could not take full advantage of the higher prices and therefore the Liberals were blamed.

Smith also argues that the Federal Cabinet either established programs such as its resource policy, which he believes favoured the consumer provinces of Ontario and Quebec over the resource provinces of Alberta and
Saskatchewan, or failed to respond in the case of agriculture to the needs of the prairies. Mr. Lang faced an environment to establish policy on the prairies much more hostile than that which faced Gardiner. Mr. Lang was opposed by the federal Progressive Conservatives who were the predominant party on the prairies during the 1970s and the three prairie Premiers. Moreover, Mr. Lang was faced with a situation of having to modernize a grain handling and transport system which had become archaic.*

The result was that every effort by Mr. Lang to implement structural changes to the system was met by stiff resistance. Rhetoric and adversarial politics ruled the day as every branchline abandoned was considered a death knell on the prairies. Approximately 85 per cent of the rail line network, which was established in the late 1930s when horse haulage was a factor, is still in place today. The fact that nearly one-half of all branchline mileage abandoned to date (1984) had already been abandoned by grain producers has never received public recognition. Perception and mythology were the factors which greatly influenced grain handling and transport policy in the 1970s.

*The problems associated with the grain handling and transport system are discussed in detail in Chapter Four.*
To what degree the construction of a $200 million dam, that was never really required for irrigation purposes, has enabled the PC's to dominate ten elections in Saskatchewan cannot be fully answered. In turn, Otto Lang was far more successful in winning the support of his Cabinet colleagues than was Jimmy Gardiner. In the 1970s Mr. Lang was responsible for over $1.7 billion of transport related projects on the prairies yet his party ended up in 1980 with only two seats in all of western Canada. Mr. Lang lost his Saskatchewan seat in the 1979 election. The two Liberal seats in 1980 were both located in Winnipeg.

Smith argues that the decline of the Liberal party was caused by its insensitivity towards the west particularly the Liberals' failure to recognize that the prairies, under Laurier, had become for the world "synonomous with Canada". An opposite argument is that as the national party in power, between 1963 and 1984, the Liberals had become synonomous with unrealized expectations. In terms of policy, the Official Languages Act and the Metric Commission probably had a greater effect than did Otto Lang's perceived transport and agricultural policies, on the decline of the Liberal party.

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It is appropriate to point out that this was the context of the circumstances that faced Jean-Luc Pepin on March 3, 1980 when he was appointed Transport Minister. He faced a situation where the structural changes required to modernize the transport system were still not in place and many agricultural groups lobbied for such changes. However Pepin, elected in an Ottawa riding, knew that he would be confronted with the same "misconception theory" that led to the demise of Otto Lang. Chapter Five documents the Pepin strategy to deal with this conundrum.

Summary

This section discusses the traditional role of the Canadian Cabinet system. It shows how the regional dimension in Cabinet has diminished in recent times. Provincial Premiers provide the basic "provincial" viewpoint as opposed to federal Cabinet Ministers which represent a "region" in Cabinet.

Special emphasis is given to James Gardiner to illustrate the traditional regional minister's role. A comparison is made to a typical contemporary Cabinet Minister on the prairies (Otto Lang) to document the
changed environment faced by current Cabinet Ministers.

The role played by Mr. Pepin is not specifically discussed (this is done in Chapter Five) because he eventually was to be seen as a "prairie regional minister" even though he represented a high income urban riding in Ottawa.

2.1.4 *Role of the Central Agencies*

The preceding section discusses the role of the Cabinet and the Cabinet Minister in policy development. This section deals with another complex, central policy structure, the Central Agencies.

The role of the Central Agencies such as the Prime Minister's Office (PMO), Privy Council (PCO), Treasury Board (TB) and Department of Finance (FIN) will be analyzed, particularly since these agencies were directly involved in the Crow Rate debate. Similar agencies are part of the provincial governmental structure.

The function of Central Agencies (federal and provincial) is to provide coordination of government
programs and priorities. Notwithstanding the functional role of governments, Alan Cairns believes the size of government work force (1.2 million Canadians) affects the capacity of government to make society responsive to its demands. Thus central agencies are expected not only to establish processes whereby public policy can evolve through the maze of government departments but also to address the complex, economic issues currently facing Canada.

Each government in Canada and governments in other countries has unique central agencies. In Canada, at the federal level, there is no one agency that is totally responsible for coordination although all four agencies involved believe they are the prime agency. The agencies involved are the Prime Minister's Office (PMO), the Privy Council Office (PCO), Treasury Board (TB) and Finance (FIN.). Since each of the organizations were involved in the Crow Rate debate a short description of each is provided.

Prime Minister's Office

PMO is staffed by personal appointments of the Prime Minister. It is the most partisan and ad hoc body. It
provides political advice and is concerned on a day-to-day basis with survival of the government. In recent years (1985) this office has grown in size to over 100 officials.

Privy Council Office

The PCO is staffed by career public servants and it provides prime technical advice to the Cabinet and services the various Cabinet Committees. The head of PCO is the Secretary to the Cabinet and is the most senior of all public servants. The PCO controls Cabinet Committee agenda and coordinates all briefings to the Prime Minister.

These two organizations are somewhat unique to Canada compared to the White House in Washington and No. 10 Downing Street in London. Over the years both the PMO and PCO saw their roles strengthened and Thorburn concludes, "...that the Prime Minister has been able to give himself alternative sources of policy advice and thus make himself less dependent upon the senior public servants." In addition the Prime Minister, as the Crow Rate debate will demonstrate, has become less dependent on Parliament and even his ministers. The PMO/PCO have become the equivalent of "regional ministers" in direct conflict with the Premiers who portray themselves as providing regional
input in policy development. For example it is the PMO/PCO which conduct most of the polling to determine how each region is reacting to government initiatives.

The PMO and PCO also maintain liaison with central agencies from the provinces. In addition, PCO will maintain liaison with key provincial departments such as economic development and energy. PCO has established working relationships with key sectors such as energy and natural resources. Large companies such as Canadian Pacific Limited and Nova have direct access to the PCO.

The PMO maintains links with officials in the offices of the various provincial Premiers and other key provincial departments. In addition, PMO has direct access to the officials in the local constituencies of the party in power.

As a result, both PMO and PCO provide the government with a sensitivity as to how policies are being accepted or as to the existence of support for change. As will be elaborated on later, both the PMO and PCO consistently advised the Prime Minister that between 1980 and 1982 there was not a consensus in western Canada to "tamper" with the Crow Rate.
The other two groups included as central agencies in Ottawa are Finance and Treasury Board. The Department of Finance is responsible for macro-economic planning and taxation and Treasury Board is responsible for monitoring the expenditure, by departments, of Cabinet approved programs. Colin Campbell in his book *Governments Under Stress*\(^6^1\) states that the central agencies in Canada tend to be larger than those in Britain and the United States and put more emphasis on priority-setting. The senior public servants in Canada have greater access and collegiality with Cabinet ministers than do their counterparts in Britain and the United States. As such the, "...senior officials who work in (central agencies in Canada) are among the most powerful public servants in government."\(^6^2\) Similar agencies may be found in the ten provincial governments although in some cases, notably Alberta, many of the PCO functions are carried out by the department of Intergovernmental Relations. In Saskatchewan the PCO/PMO functions are carried out by the Executive Council which was established in 1944 by Premier Tommy Douglas to develop many of the major social programs eventually adopted by the rest of the country such as Medicare.

The central agencies play a strategic role in the
process of Cabinet approval. Figure 1: Process of Cabinet Approval provides an overview of how decisions are reached in Ottawa.

The process is based on two primary principles:

1) All ministers have the right to bring to their colleagues proposals for government action in areas of policy responsibility, and

2) All ministers should have the opportunity to express an informed view within the Cabinet process on a proposal for which they will share collective responsibility.\textsuperscript{63}
Figure 1: Process of Cabinet Approval

As indicated in Figure 1, the departments of Finance and Treasury Board liaise with the supporting department on a program or policy proposal. It is the essential role of the central agencies to ensure Cabinet committees have access to all the appropriate information required to make a decision. PCO usually sets the Cabinet committee agendas and can, through process, control the timing of proposals to be considered by various Cabinet committees. This is a power PCO attempts to exploit to resolve any disputes it may have with the supporting minister or department. In previous years there were additional coordinating committees operating, such as MSERD and MSSD, through which all proposals had to pass before reaching Cabinet. Moreover, in 1980 and as one of several initiatives undertaken by the Liberals to overcome lack of electoral representation in the west, they established yet another coordinating committee called the Western Affairs Committee chaired by Lloyd Axworthy, one of its two elected members from western Canada. This committee is discussed in Chapter Five.

2.1.5 Role of Interest Groups

The purpose of this section is to discuss the role of special interest groups in public policy development.
Special interest groups played an integral part in the Crow Rate reform process. A purpose of this thesis is to demonstrate the ways in which the combination of federalism and interest groups constrain change. As a demonstration of this interaction, Jean-Luc Pepin and his opponents both exploited interest groups and were in turn exploited by these groups themselves. Chapter Five attempts to answer the question as to how successful Mr. Pepin's strategy was but it is also necessary to gain some insight from a theoretical perspective as to the role of interest groups in a federal state such as Canada.

According to Doern and Phidd "...interest groups compete with political parties and the media for the privilege of interpreting the public will to key decision makers."64 Pross defines interest groups as organizations whose members act together to influence public policy in order to promote common interest.65

Back in 1974, Donald Smiley, a long-term critic of executive federalism as practised in Canada argued that "...it contributes to secret, non-participatory and non-accountable process of government."66

Until recent times, therefore, the Canadian public
policy process tended to be relatively closed. The dominant view regarding access of interest groups to federal-provincial decision-making processes was that of Richard Simeon, who in the early 1970s argued that:

The machinery (of federal-provincial interaction)...limits the participation of interest groups in the bargaining process. Affected groups are not invited to participate or make their views known. The relative secrecy of debate means interest group leaders may often be unaware of developments in federal-provincial negotiations which might involve them.  

In other words, he found that interest groups are often forgotten because governments tend to regard other governments as the crucial actors. Simeon further argued that "even when governments act as representatives of particular interests, those interests are likely to be sacrificed when the broader concerns are involved." A good example of Simeon's Limited Access theory was in 1981 when the Prime Minister indicated that any consensus on Crow Rate reform had to include consensus among the three prairie Premiers.

Richard Schultz, on the basis of his study on the trucking industry in Ontario in the early 1970s, discovered
that there are occasions when interest groups are involved in the entire process and can "play" one government off against the other. His findings that interest groups are often involved in an exchange relationship with governments lends further support to Grodzin's multiple crack theory.69

After a literature search Fletcher and Wallace concluded, "that the institutional framework of federal-provincial interaction influences the opportunities available to particular interests to share policy decisions."70 Banting argued in 1982 that:

"Because the institutional framework expands or contracts the circle of critical decision-makers, structures the nature of political competition, and specifies the form of representation of the wider public, it necessarily conditions the access of different political interests to policy-makers, smoothing the pathway of some and raising obstacles for others."71

Fletcher and Wallace believed that was a plausible assumption but they were quick to add that one should be cautious on making conclusions in this area. According to Smiley:

"In the state of our present knowledge we should be extremely cautious about making general statements about the relation between
interest group activity and the processes of executive federalism. Some patterns of federal-provincial interaction, such as those related to the equalization of provincial revenues, appear to involve governments almost exclusively. In other circumstances, for example... (regulatory issues), interest groups are much more influential. And in yet other situations, such as (energy pricing), the relative influence of interest groups in inter-governmental negotiations may change quickly and dramatically.  

Fletcher and Wallace identified three factors which can allow interest groups to access policy decisions. These factors are:

1. Politicians must be concerned with interest group involvement when major policy issues are being discussed.

2. Interest groups will be invited into the process when one or more of the governments involved require their support.

3. In highly technical areas, interest groups representatives will serve as a member of a federal/provincial delegation.

As is demonstrated in this thesis, governments themselves often seek to mobilize interest group activity in support of their positions. External pressure can help to get an issue on the federal-provincial agenda and the
role of interest groups to trigger Crow Rate reform was significant.

2.1.6 Role of the Media

In keeping with the theme of this chapter, which is to identify the key institutions which must be understood to be able to determine their role in policy development, this section discusses the role of the media. The media played a major part in the Crow Rate reform and it is necessary to establish what role the media plays in policy development.

According to J. D. Forbes, the role of the media is "...to define the problems and agendas under consideration, to communicate information about these matters and to amplify the issues." Whether or not this is true, it is difficult to measure how effective the mass media is in meeting these tasks. It is also difficult to establish how interested Canadians are in gaining knowledge through the media. Doern and Phidd believe the media are "interested first in 'news', feed on the partisanship of the House of Commons and on the personalities within it. Issues and ideas are not totally ignored but the attention span of the media ... produces an often ludicrous short run time frame."
Not only does the media report the news but it also helps to shape it by the amount of time it devotes to an issue.

An understanding of the media is essential because we depend almost completely on the mass media for our information about the political world and the development of public policy. As is demonstrated in Chapter Five, we do not always believe what we read or hear but the mass media has a great influence on the way we look at the world. According to Eugene Hallman, who has worked for many years in the Canadian media:

"Publishers are dealing in power, the power to disclose information or deny disclosure, to provide a free range of opinion, or to provide some of it; to cool public opinion or to heat it up...The front page and the editorial page announce what and who are important and why they are."76

This raises the question about press ownership. Since 1914 there has been significant concentration of newspapers in Canada. Today only four companies produce 80 per cent of all the newspapers in English-speaking Canada. Concentration also raises the question of editorial freedom. As will be documented in Chapter Five — press ownership (many of the major agricultural organizations in
the west produced their own newspaper) and editorials played a significant role in the Crow Rate debate.

After a detailed study of the media, Fletcher (1981) observed:

"Researchers are agreed...that the news media, through their selection and presentation of news, can reinforce voting decisions, help to form images of leaders and parties, and influence the selection of issues and the tone of the campaign, all in ways that may work to the advantage of one party or the other."77

Another unique situation in western Canada was the fact that few cities in the west have more than one newspaper or radio and T.V. station. Many of the communities in the prairies produce only a weekly newspaper which is dependent on governments for advertising. These newspapers have a small staff which does not allow the analysis of news stories to be presented. Government press releases, if they are printed, usually will not be edited. The policy in larger cities is to conclude that a government press release is slanted to favour the government's position and it is usually ignored.
Chapter Five examines the impact of the media on the Crow Rate debate. Special emphasis is made on whether the "western" media were biased in favour of provincial Premiers and to the manner in which the "farmer" owned newspapers covered the Crow issue. The more important question addressed in Chapter Five is to what degree the availability of more information will produce efficient competition, as advocated by the Macdonald Royal Commission. The Commission believed that a restriction of executive federalism, which includes federal-provincial communications to be accorded a status equal to national security, should be removed. As is shown in Chapter Five, there was no shortage of information related to the Crow Rate but even those most affected had difficulty in understanding the basic reasons as to why the freight rate had to be changed. In addition not all studies, even in one instance federal-provincial funded studies, were not made available to the public. (See Pages 152-158).

2.1.7 Framework for Public Policy Formulation

The previous sections introduce the structures and institutions of government which affect policy development. Also identified are the emerging roles of
interest groups and the media in being used to influence that policy development.

This section is devoted to examining the role of interest group activity in intergovernmental negotiations. In reviewing the literature related to this area, it is obvious that there is a paucity of available documentation. This thesis attempts to fill some of these gaps.

Two earlier theses have been developed which tested the relationship between interest groups and federal structures and processes.

The first thesis examined is the work undertaken by Morton Grodzin. His Multiple-Crack thesis contends that the federal systems are particularly valued by interest groups since the existence of two levels of government, even with shared powers, provide multiple access points to pursue policy development. A consequence of the Multiple-Crack theory is that interest groups can play one level of government against the other. Grodzin developed this thesis based on the American political systems.

The second hypothesis is based on the work of
Richard Simeon. Simeon\(^80\) concludes that whatever the value of federal systems accruing to groups in terms of general access to policy-makers, the nature of Canadian federalism is such that, when an issue enters the arena of inter-governmental negotiations, group access becomes severely restricted. His argument in support of the Limited Access Model is that the machinery of inter-governmental negotiations:

"...limits the participation of interest groups in the bargaining process. Affected groups are not invited to participate or make their views known. The relative secrecy of debate means group leaders may be unaware of development in federal-provincial negotiations which involve them."\(^81\)

Richard Schultz tested the general Multiple-Crack hypothesis and the more specific Simeon hypothesis on the restricted access and limited effectiveness of interest groups, by undertaking a case study of interest group activities during the development of the National Transportation Act 1967.\(^82\)

Schultz examined the role of the Canadian Trucking Association (CTA) in the intergovernmental negotiations on Part III of the Transport Act. The National Transportation Act 1967 was being promoted as a major break with
earlier transportation regulations in Canada which, as will be discussed in Chapter Three, was primarily directed to the railways. The MacPherson Commission in Transportation (1960) had recommended that Canada should adopt a more inter-modal framework for transportation development. This meant placing all modes of transport under a single regulatory authority, the Canadian Transport Commission. The responsibility for regulating the extra-provincial motor carrier industry had been delegated by the federal government to the provinces in 1954. The provinces, particularly Ontario, did not relish the concept of giving up its authority. Schultz outlined the efforts of the federal government to win the CTA to its side and likewise examined the attempts by Ontario to convince the trucking association to stay under provincial jurisdiction. After five years of conflict, the provinces won and Part III was not implemented. However, the CTA's support for the provinces probably led the Association to believe that it got the result it wanted.

Based on his research, Schultz concluded that:

1. The *Multiple-Crack* hypothesis needs to be qualified because it fails to give sufficient weight to the costs of a federal system for an interest group.

2. Simeon's *Limited Access Model* neglects the important support function in intergovernmental negotiations.
Group support may be an important resource in the bargaining powers and consequently groups may play a much more extended and influential role in the process.83

Schultz identified the need for more research on the role of interest groups in the intergovernmental bargaining process. According to him, interest groups can exploit the multiple access points of intergovernmental negotiations but the price of this may be to become intertwined in "the vise of federalism".84

Since the early 1970s, there has been renewed interest in examining the role and scope of interest groups in the Canadian federal system. However, analysis of the interrelations of the two dynamics remains, according to Hugh Thorburn, "largely unexplored".85 In his work for the Macdonald Royal Commission on the Economy, 1985, Thorburn did identify further evidence for the multiple-crack theory in Case Studies by Kravnick and Bucovetsky. Kravnick's Study uses the conflict between the Canadian Labor Congress and the Confederation of National Trade Unions, to demonstrate that rival groups, representing the same interests but having access to different levels of government in a federal system, will attempt to shift power to the level of government to which they enjoy access. Bucovetsky shows how the mining industry was successful in mobilizing provincial governments against
The proposal of the Carter Commission on Taxation.\textsuperscript{86}

The third case study discussed by Thorburn, is the work already discussed by Schultz. This clearly demonstrates how little work has been completed on a substantive case study basis to examine the role of interest groups in the Canadian federal system.

This thesis builds on the earlier studies of public policy formulations. It examines the role and scope of western agricultural and transportation groups to influence the federal government's attempt to change the Crow Rate, as a test to further examine the applicability of the \textit{Mutiple-Crack} and \textit{Limited Access} hypotheses. The key feature for Crow Rate reform, was the agreement between the federal government and the major interest groups involved to create both an inside and outside category for interest groups and governments in the negotiation of a Crow Rate settlement. These negotiations are developed in the form of a model in Chapter Five.

\textbf{Summary}

This section outlines the structure of the Canadian political system and provides some insight as to how public policy is formulated in Canada.
The traditional concept of federalism is reviewed with province-building appearing as an important theme in that review. The ongoing conflict between federal and provincial governments is identified as a distinct phenomenon to be analyzed in its own right.

The Canadian Cabinet system is analyzed as is the historical role of the regional minister. It is argued that this "regional" role has been overtaken and to a large extent performed by provincial Premiers.

The decline of the Liberal Party in western Canada is documented between the years 1953 and 1980. This decline can be viewed as part of a larger phenomenon i.e., absence of all federal parties to be represented in every province.

The roles of the central agencies such as the Privy Council Office are reviewed since these agencies provide coordination of government programs and priorities. It is concluded that the PMO/PCO have become the equivalent of regional ministers in direct conflict with federal Cabinet Ministers and with provincial Premiers in national decision making.

The chapter also introduces the role of special
interest groups and the media in public policy development. The interactive effects between interest groups and federalism is a central theme of this thesis. Until recently the Canadian public policy process was relatively closed and restricted to federal-provincial interaction. This is no longer the case and interest groups, thanks to a large degree by the exposure supplied by the media, have been able to exploit the conflict between the federal and provincial governments. As well, each level of government is prepared to mobilize interest groups actively in support of their positions.

The next chapter discusses how the two levels of government in Canada interact to develop and implement national transportation policies.
NOTES


3 Ibid, p. 119.


5 Hugh G. Thorburn, *Interest Groups*, p. 17.


9 Emile Durkheim, *The Divisions of Labour in Society*, quoted in Roger Gibbins' *Prairie Politics*, p. 3.

10 Roger Gibbins, *Prairie Politics*, p. 3.


12 Roger Gibbins, *Prairie Politics*, p. 3.


16 Alan Cairns, "The Other Crisis of Canadian Federalism", p. 194.
NOTES


22 Ibid. p. 285.


33 Ibid. p. 154.

34 Ibid. p. 154.


36 Audrey Doerr op. cit. p. 181


38 Ibid. p. 188.


40 Ian D. Clark, op. cit., p. 187.

41 Ibid. p. 190.

42 David E. Smith, op. cit., p. 355.


45 Richard Simeon, "Regionalism and Canadian Political Institutions", p. 299.
NOTES

46 Alan Cairns, From Interstate to Intrastate Federalism in Canada, Institute of Intergovernmental Relations, Queen's University, Kingston, 1979, p. 6.


48 Ibid. p. (xiii).

49 W. A. Matheson, The Prime Minister and the Cabinet, pp. 238–39.

50 Richard Simeon, "Intergovernmental Relations and the Challenges to Canadian Federalism", Canadian Public Administration, Vol. 23, 1980, p. 15.


52 Ibid. p. 76.

53 Ibid. p. 79.

54 Ibid. pp. 79–80.


58 Macdonald Report, Vol. 11, Table 7–27.


60 Thorburn, H. G., Planning and the Economy, p. 63.


63 Ian D. Clark, "Recent Changes in Cabinet Decision-Making", p. 198.
64 Doern and Phidd, op. cit., p. 75.


68 Ibid., p. 178.

69 Ibid., p. 178.

70 Ibid., p. 178.

71 Ibid., p. 178.


73 Ibid., p. 181.


75 Doern and Phidd, op. cit., p. 547.

76 Ricker, Saywell and Skeach, op. cit., p. 98.

77 Ibid., p. 100.

NOTES


81 Ibid, p. 144..


83 Ibid, p. 394.

84 Ibid, p. 394.


3.0 Introduction

It is necessary to trace the evolution of transportation policy in Canada because it provides an ideal opportunity to assess the problems of policy-making in a federal state. The chapter outlines the shared responsibilities between the two levels of government and discusses some of the problems this has created.

The chapter presents an argument that since Confederation the Canadian transport system has had a dual purpose. On the one hand, it is expected to provide an efficient and high level service at "reasonable" cost and on the other hand, it is expected to be an "instrument of national purpose."

Included in the chapter is a historiography of railway development and the concomitant emergence of grain
The evolution of national transportation policy, with reference to many of the contrasting roles imposed upon it, will also be outlined in this chapter. Emphasis is placed on the role of governments and governments' prime instruments - regulation and legislation - to document how the transport policy has evolved since 1867.

The chapter begins with a context section to identify the unique features of transportation in Canada.

3.1 The Canadian Transportation System

It is common to begin any reference to transportation in Canada by invoking a hyperbole to describe how significant transportation is to the well-being of Canadians. Canada's immense territory (second only to the Soviet Union) with a population of only 25 million, is really an "empty country", which poses an awesome role on the transport system to move goods and people over 4,000 miles between Victoria, British Columbia and St. Johns, Newfoundland and through six time zones. It can be said that as the world's seventh largest trading nation Canada depends heavily on its transportation system. As a result,
"...on a per capita basis, Canada has many more miles of railway mainline (1971) as does the United States and has 40 per cent more miles of surfaced road."\(^3\) According to the Science Council of Canada, "...this country is the second most active aviation country in the world."\(^4\) It is also possible to state that, from a derived demand perspective, approximately 607 million tonnes of freight were moved and approximately 325 million intercity passenger trips were taken in 1983.\(^5\)

However, it should also be pointed out that it was not until May, 1971 that a single national highway, yet alone highway system, was established. It was less than twenty years ago that the national bus route eastward across Canada included a diversion south of Winnipeg, through Minneapolis, Chicago and Detroit. Even today there is no national bus company and although it is possible to travel by bus between Victoria, B.C., and St. John's, Newfoundland, such a trip will require several bus transfers owned by different companies. In 1940 about 150,000 persons used commercial planes in Canada. In 1984 about 28.5 million (almost double the 1970 figure) passengers were carried by commercial airlines, yet it is still impossible to fly direct between any of the four western provincial capitals and any of the four Atlantic
provincial capitals. In other words, the Canadian transportation system is a collection of contrasts.

The transportation system in Canada as indicated above is both a large, efficient and a limited, immature system. The system has as well undergone major structural changes with the result that the rail mode, which at one time provided the bulk of freight and passenger services in Canada, is now primarily a carrier of low value, bulk commodities. In turn, the passenger car was responsible for 85 per cent of all intercity passenger traffic in 1983. This is not surprising when one considers that in 1940, Canadians owned 1.2 million cars, and today they own approximately 11.0 million cars. As a result, passenger travel on railways has decreased from 22 million passengers in 1940 to 7 million today.

3.1.1 Railway Ideology

It is not difficult to understand why the Canadian transportation system is full of conflicting dualisms when one attempts to provide an historical perspective on the evolution of national transportation policy. A plan for railway development is often cited as one of the key
elements of John A. MacDonald's National Policy. However, it is becoming increasingly evident that there has been considerable mythology surrounding both the formation and purpose of this policy.

Gerald Friesen, who has recently produced the first regional history of the prairies, argues from a contemporary position that the National Policy was not just the creation of John A. MacDonald but rather was established in the generation before and the first two generations after Confederation. According to Friesen, it was the business interests who worked together to ensure that the outlying regions benefited central Canada. There is no actual date when the National Policy was established. Friesen states that National Policy is synonymous with Confederation (1867) since he argues that Confederation, "...itself was a plank in the entrepreneurs' efforts to make the nation "strong" but their efforts may also have penalized the outlying regions to the benefit of central Canada. According to Friesen businessmen needed economic growth and the Canadian northwest was the field of investment.10

Harold Innis11 (author of the staple-hinterland

*The National Policy encompassed railways and settlements, tariffs, freight rate agreements, Native treaties and the Northwest Mounted Police (law and order in the west).
theory) and prairie economist Vernon Fowke argued in 1957 that National Policy was the result of the establishment of the Tariff in 1879. The tariff added a 15 per cent ad volorem on each imported item. According to Friesen the immediate result was to benefit the manufacturing regions of Canada at that time (Toronto and Montreal umland). These regions benefitted from the increased number of jobs and from the decrease in population shift to the United States. Over time the inhabitants of the four western and three maritime provinces as well as northern Ontario and northern Quebec paid higher prices for "Canadian goods". Innis believed that the tariff was the lynchpin of the National Policy but, according to Friesen it was the work of Donald Creighton in the 1940s and 1950s who described the 1879 tariff as a crucial element in National Policy because it was so closely fixed to the construction of a transcontinental railway. Today, there is no agreement among historians that MacDonald had a grand design to integrate the economy of Canada through his National Policy. John Dales has argued that the 1879 tariff produced economic growth that was too fast, too large and unacceptably inefficient. Fowke has suggested that the tariff discriminated against the prairie region and the wage labourer. In recent times Alberta economist Dr. Ken Norrie has argued that the tariffs did not inhibit the industrialization of the prairies.
The tariff itself did not discriminate against the regions outside of Toronto and Montreal intentionally but it is true that these two cities benefitted more from the tariff structure than did cities in western Canada. The areas outside the major population centres could not support industry at the same scale as that in existence in Toronto. It is also true that some of the Toronto and Montreal industrialization was artificial but this was at the expense of the United States. There is no federal tariff at the Ontario-Manitoba border! In other words, industry in western Canada receives the same "benefit" from the tariff as does industry in Ontario. Ironically today the provinces themselves have constructed non-tariff barriers between each other which affect the mobility of capital and labour in Canada.

Not all students of Canadian history support the position of the tariff as the centrepiece of National Policy. Robert Chodos believes the date of completion of the Canadian Pacific Railway (1885):

...is a more appropriate point from which to date our existence as a country than 1867. All that happened at Confederation was that three British colonies got together and set up a new level of government. The idea of Canada as a nation made little sense without the great north west and Canada's hold over the north west was extremely tenuous without a railway.
There would be a country and what kind of country it would be was really only decided on November 7, 1885.\textsuperscript{16}

In support of Chodos, E. J. Pratt wrote, "...like a gavel - the driving of the last spike - closed off debate."\textsuperscript{17} Chodos makes an compelling argument when he writes that if an artificial east-west connection had not been built, the natural north-south connections would have prevailed. He further argues that without the CPR the prairies would have been drawn into the orbit of the American mid-western states (Map on Page 189). Chodos admits that a delay of ten years of the building of the CPR may have been possible without damage to Canadian nationhood.

The myth of the CPR was born and, as outlined on Page 101 the expectations of railway development would play havoc with national transportation policy for the next hundred years. It would also signal the start of an acrimonious period of conflict between the federal government and initially the seven and subsequently the ten provincial governments over national transportation policy.

3.1.2 \textbf{The Constitution and Transportation}

Federal and provincial powers contained in the
Constitution have already been discussed as has the purpose of the original Constitution, (1867) which gave broad powers to the federal government with the intention, it appears, of granting extensive control of the economy to the central government. However, as already pointed out, there has been a transformation of this sharing of power towards the provinces. This section analyzes how transportation responsibilities have been allocated by the Constitution and will assess how these powers have evolved to the present. Figure 2: Federal and Provincial Powers lists the kinds of powers provided to both the federal government (Section 91) and the provincial governments (Sections 92, 93).

It is both interesting and significant to point out that the Constitution Act, (1867) does not, "...expressly confer jurisdiction over the general headings of transportation or communications on either Parliament or the provincial Legislatures". Federal jurisdiction in the areas of transportation is primarily based on subsections 92(10) and 91(29) of the Constitution Act, 1867 which assign jurisdiction to Parliament over what have become known as "interprovincial undertakings". As well:
FEDERAL AND PROVINCIAL POWERS

FEDERAL

91. It shall be lawful for the Queen, by and with the Advice and Consent of the Senate and House of Commons, to make Laws for the Peace, Order, and good Government of Canada, in relation to all Matters not coming within the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces;...

PROVINCIAL

92. . . .

1. The Amendment...of the Constitution...except as regards the Office of Lieutenant-Governor
2. Direct Taxation within the Province...
3. The Management and Sale of the Public Lands...
4. Municipal Institutions in the Province
5. Shop, Saloon, Tavern, Auctioneer, and other licences
6. Local Works and Undertaking other than such as are of the following Classes:
   a) Transportation facilities linking two provinces
   b) Transportation facilities linking Canada and other countries
   c) Facilities which the Parliament of Canada declares to be for the welfare of Canada or more than the single province.
7. The Solemnization of Marriage...
8. Property and Civil rights...
9. The Administration of Justice...
10. Generally all Matters of a merely local or private Nature...

93. In and for each Province the legislature may exclusively make laws in relation to Education....

Source: Saywell, John et al
How We Are Governed in the 1980's, 1982
...the power contained in the preamble to section 91 of that Act to make laws for the 'peace, order and good government of Canada' has also provided a source of federal jurisdiction. In addition, certain specific modes of transportation are identified in subsections 91(9), (10) and (13) of the Act as being subject to exclusive federal jurisdiction.19

Provincial jurisdiction over transportation:

...has generally been based on subsections 92(10), (13) and (16) of the Constitution Act, 1867, conferring power to legislate with respect to 'local works and undertakings', 'property and civil rights within the province' and 'matters of merely local or private nature within the province.'20

There have been many judicial tests of the wording in the above quotation. Dalfen and Dunbar21 in their judicial review for the Macdonald Commission, defined federal jurisdiction over undertakings connecting one province with another, or extending beyond the limits of a single province, as follows:

- If an undertaking engages in a significant degree of continuous and regular inter-provincial activity, it will fall within federal jurisdiction.

- If the activities of an otherwise local undertaking form an integral and necessary part of an interprovincial undertaking, the local undertaking will also fall subject to federal jurisdiction.
At this stage it is necessary to consider jurisdiction over the various modes of transport such as shipping, aeronautics, railways and motor vehicle transportation.

**Shipping**

Marine transportation regulation is exercised pursuant to a number of specific pieces of legislation that includes the *Navigable Waters Protection Act*, the *National Harbours Board Act*, the *Canadian Shipping Act*, the *National Transportation Act*, the *Pilotage Act*, the *Shipping Conferences Exemption Act*, the *St. Lawrence Seaway Authority Act* and the *Department of Transport Act*. This legislation enables the federal government to regulate navigable waterways, the shipping rates, registration of vessels, pilotage and the use of harbours. Provincial jurisdiction covers intra-provincial or local shipping.

**Aeronautics**

The federal jurisdiction over aeronautics is based on Parliament's power to make laws for the 'peace, order and good government' of Canada. Aeronautics is regulated pursuant to the *Aeronautics Act* and the *National Transportation Act*. The federal government has established exclusive
jurisdiction in air transportation. Its regulations affect all carriers, local and intraprovincial undertakings and all other activities considered integral and consistent to aeronautics in Canada. This extensive regulatory authority is exerted by a single regulatory body, the Air Transport Committee of the Canadian Transport Commission (CTC) and a single federal Department of Transport.

Air passenger transport has been the subject since its early days of existence to tight government regulation over the market forces of the industry. Despite this restrictive practice and despite the phenomenal growth of the air industry since 1940, there has not been an enduring trend to federal-provincial conflict. There have been differences and the provincial ownership of regional airlines was one example but the magnitude of conflict pales in comparison to that associated with the railways and rail freight rates.

Railways

Canada's two major railways, CN Rail and CP Rail which handle 90 per cent of rail freight, have both been declared, "...works or undertakings for the general
advantage of Canada", and hence fall subject to federal jurisdiction.\textsuperscript{22} Prior to 1988 they were regulated by the Rail Transport Committee of the Canadian Transport Commission pursuant to the provisions of the \textit{National Transportation Act}, the \textit{Railway Act}, the \textit{Maritimes Freight Rates Act} and the \textit{Western Grain Transportation Act}. Local or intraprovincial railways such as BC Rail are provincially regulated.

Prior to 1967, transportation law and regulation in Canada had become ossified\textsuperscript{23} as freight rate policies were left-overs from the 1920s when railroads enjoyed a near-monopoly of overland freight shipments. However in 1959 the MacPherson Commission recognized that the railways faced severe competition from other modes and as a result, following passage of the \textit{National Transportation Act}, (1967) the railways were able to change their rates and practices as rapidly as market conditions demanded. Two exceptions were made. One affected grain rates which remained frozen at levels fixed in 1898 and 1899 and rates affecting commodities moving under the \textit{Maritime Freight Rates Act}.

\subsection*{3.1.3 Railway Development}

To appreciate why railway freight rates were such a
high profile issue vis a vis air transport related issues and to provide an historical perspective on the Crow Rate issue, this section provides an overview of railway development in Canada with particular reference to the prairie provinces.

There have been many books written on the history of railway building in Canada. The themes are always the same. Railroad building and railroad travel have developed in Canadians a "romance with the railways". It is not surprising that one of the more recent books was entitled _The National Dream_. In 1985, the Minister of Transport talked about returning to that romance by restoring un-economic rail passenger services. In 1896 construction of the Canadian Northern Railways began and the romance of its construction was fittingly described by O. S. Skelton:

"In 1896 a railway, a hundred miles long, beginning and ending nowhere, operated by thirteen men and a boy! In 1914, a great transcontinental system practically completed over ten thousand miles (sic) in length and covering seven of Canada's nine provinces! The impossible had been achieved."

This romance is even carried out in song as performed by popular Canadian folk singer Gordon Lightfoot who,
"...sings of the railway being constructed so that others could build the mines, mills and factories for the good use of all."26

Like so many features of Canadian transportation - myth triumphs over reality. This is certainly the case of railroad building in Canada. The history of railroad construction in Canada is consistently divided into three periods: the first before 1900; the second from 1900 to 1917; and the third from 1923 to 1931.

Table 2: Railway Construction (Miles of Track)

<table>
<thead>
<tr>
<th>Year</th>
<th>Manitoba</th>
<th>Saskatchewan</th>
<th>Alberta</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1906</td>
<td>2,774</td>
<td>1,957</td>
<td>1,235</td>
<td>5,966</td>
</tr>
<tr>
<td>1910</td>
<td>3,221</td>
<td>2,932</td>
<td>1,488</td>
<td>7,641</td>
</tr>
<tr>
<td>1915</td>
<td>4,498</td>
<td>5,327</td>
<td>3,174</td>
<td>12,999</td>
</tr>
<tr>
<td>1920</td>
<td>4,404</td>
<td>6,220</td>
<td>4,474</td>
<td>15,098</td>
</tr>
<tr>
<td>1925</td>
<td>4,539</td>
<td>7,056</td>
<td>4,965</td>
<td>16,560</td>
</tr>
<tr>
<td>1930</td>
<td>4,410</td>
<td>8,175</td>
<td>5,607</td>
<td>18,192</td>
</tr>
<tr>
<td>1935</td>
<td>4,970</td>
<td>8,555</td>
<td>5,760</td>
<td>19,285</td>
</tr>
<tr>
<td>1970</td>
<td>4,745</td>
<td>8,565</td>
<td>6,244</td>
<td>19,555</td>
</tr>
<tr>
<td>1980</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>18,250</td>
</tr>
<tr>
<td>1985</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17,000</td>
</tr>
</tbody>
</table>

Source: State of The Industry Report  
Canada Grains Council, 1974
Prior to 1900 the construction and extension of railways into western Canada was encouraged by federal land grants. For example, Canadian Pacific Railway was granted 25 million acres of land in return for building and maintaining a 3,000 mile "trans-continental" railway between Montreal and Vancouver. Railways and free land were no use to anybody without a purpose. Therefore, another component of the so-called National Policy was introduced. A combination of a rapid survey system (which alienated the Metis) and the introduction of a free homestead policy facilitated the rapid settlement of the prairies. The participating railways (primarily the CPR) were permitted to choose from odd-numbered sections in railway "belts" or "blocks" designated as, "fairly fit for settlement." In Saskatchewan railway land grants totalled approximately 15 million acres almost 50 per cent of the Canadian total, since railway companies preferred to choose fertile land in this province for mileage constructed in rugged areas elsewhere. There were no immediate benefits to this expansionary policy as the world was under the influence of a great depression.

The period between 1900 and the 1914-18 World War was a period of unusual prosperity. It was the period of the first wheat boom in Canada and a period of intense railway
building and rivalry. In the fifteen year period from 1900 to 1915, Canadian Railway mileage doubled, increasing from 17,657 to 34,882 miles of line.\textsuperscript{29} As indicated in Table 2: Railway Construction approximately 40 per cent of the total was located in the prairies. It was also during this time period that two more "trans-continental" railways were completed.

The federal government promoted expansion of the main east-west railway network to provide competition with the CPR. There was strong pressure from the newly formed provinces of Alberta and Saskatchewan for new railroads to offer lower rates to move grain. There is no evidence that there was sufficient traffic to warrant a second yet alone a third east-west system. By 1915, with 35,000 miles of operational railway track, Canada had more trackage per capita than any other country in the world.\textsuperscript{30}

The Grand Trunk Pacific, which consisted of a system of 2,902 miles between Montreal and Prince Rupert, was also $200 million dollars in debt. The Canadian Northern, which consisted of a system of 9,300 miles and, notwithstanding the praise of Skelton, was $427 million dollars in debt in 1916.\textsuperscript{31}
The combination of wheat boom, railway construction and homestead policy resulted in the number of farms increasing in Saskatchewan alone from 13,500 in 1901 to 100,000 in 1916. The population increased during this same time period from 100,000 to 650,000.\textsuperscript{32} It was also during this period that the first major conflict developed between the federal and prairie provincial governments. A clause in the Agreement of 1881, between the federal government and the CPR, was that following completion of the CPR mainline through the prairies (1884-85) there would be no construction of any branchlines by any other railway between the CPR mainline and the United States border for a twenty-year period. The government of Manitoba took the position that the CPR had a monopoly on the prairies and established freight rates at too high a level. Manitoba made several attempts to issue Charters to American railroads to establish competition to the CPR but MacDonald utilized his dis-allowance power in the Constitution to overturn the Charters. Manitoba eventually was successful in obtaining a lease on a small railway (Northern Pacific) and it entered into an agreement with Canadian Northern. Manitoba guaranteed the bonds of Canadian Northern to construct a line from Port Arthur to Winnipeg and, in return, Canadian Northern established grain rates approximately \textdolar{}0.04 less a bushel below the Crow
Rates. Canadian Pacific immediately lowered its grain rates to meet the competition in Manitoba and lowered its rates by .02¢ in Saskatchewan and Alberta where it faced less competition. The railway policy of Manitoba was successful.33

The third period between 1923 and 1931 was marked once again by keen rivalry. This was aided somewhat in the formation of a more formidable opponent to the CPR through the nationalization of the Grand Trunk Pacific and the Canadian Northern into the Canadian National Railway (CNR). Grain was considered a lucrative traffic, yields were high and over a billion bushels were produced in 1928. This large crop was not surpassed again until the 1970s. As indicated in Table 2, over 2,000 miles of branchline (2/3 of the nation's total) were built in Saskatchewan. Producers delivered grain to the country elevator during this time period by horse and wagon. The railways believed that hauls in excess of ten miles were beyond the reach of grain producers thus railway policy was to build up to the ten-mile limit. Figure 3: Branchline Rivalry provides a classic example of how aggressive this rivalry became.
CP Rail constructed the Wishart Subdivision because it believed this would head off an attempt by CNR to construct a subdivision between the two existing lines. Railway rivalry was becoming irrational and costly.

Report of the Royal Commission on Railways 1931-1932

In 1931 the time was ripe for an overall examination of railway policy in Canada. The mythology of MacDonald's "National Policy" has already been discussed. It was argued that in actual fact the programs and policies which
have historically been attributed to National Policy were actually *ad hoc*, parochial and costly. This was particularly true for railway policy. According to Michael Bliss, "Ottawa's several national development policies.....were not part of a coherent plan or recipe for nation-building."34 Admittedly, the overall Canadian economy was in decline in the thirties and although grain volumes remained constant, prices declined significantly and other railway traffic had fallen rapidly. Railway building took its toll and both the CPR and CNR were significantly in debt. As such, both Railway Presidents advocated the establishment of a Royal Commission on "Transportation". Such a Commission was in fact established under the Right Honourable Lyman Duff, Justice of the Ontario Supreme Court to make recommendations to restore the financial health of the railways who were affected by over-expansion of lines, and truck competition and the depression. The Duff Commission spent nine months holding public hearings across Canada and delivered a final report to the new Conservative Government headed by Right Honourable R. B. Bennett. Virtually all of the Duff Commission recommendations were accepted by the government and embodied in the *Canadian National – Canadian Pacific Railway Act (1933)*, which resulted in more railway regulation and tighter fiscal controls. The Duff Commission was
particularly harsh on the intense rivalry in branchline construction policy and levied strong criticism against not only the railways but also federal and provincial governments. In response to the claim of each railway that part of its branchline program might have been deferred but for the fear that its rival would invade territory strategic to its lines (see Figure 3: Branchline Rivalry), the Commission criticized the railways for their unrestrained policy in branchline construction. It concluded:

"...it is clear that there was intense rivalry between the two systems in new territory, particularly in the provinces of Saskatchewan and Alberta. The construction program of one company was responded to by an equal or greater program of construction by the other. The development of this territory did not meet expectations and the railways now find themselves with additional traffic mileage and an increased burden of capital charge."

The Duff Commission, while critical of the aggressive and uncontrolled competition between the two railways, did not provide any recommendations to deal with the overly large branchline network nor the impending competition the railways would soon face from highway transportation. A review of Table 2: Railway Construction shows that there has been a slight increase in the size of the rail network
in the prairies since the Duff Commission submitted its report. It was not only the railway system that was over-built in the 1930s but also the entire grain gathering system.

Table 3: Grain Handling and Transportation Trends
(Prairies) (1930 to 1985)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rail System Mileage</th>
<th>No. of Elevators</th>
<th>No. of Delivery Pts.</th>
<th>Miles of Road</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>18,192</td>
<td>5,700</td>
<td>2,500</td>
<td>20,000</td>
</tr>
<tr>
<td>1960</td>
<td>19,238</td>
<td>5,300</td>
<td>N/A</td>
<td>160,000</td>
</tr>
<tr>
<td>1970</td>
<td>19,238</td>
<td>4,970</td>
<td>1,835</td>
<td>200,000</td>
</tr>
<tr>
<td>1980</td>
<td>18,200</td>
<td>3,133</td>
<td>1,394</td>
<td>200,000</td>
</tr>
<tr>
<td>1985</td>
<td>17,000</td>
<td>1,952</td>
<td>1,148</td>
<td>200,000</td>
</tr>
</tbody>
</table>


The major conclusion that can be drawn from Table 3: Grain Handling and Transportation Trends is that between 1930 and 1970 the system of railways and grain elevators remained virtually untouched by events taking place around it. In Saskatchewan, as in Alberta and Manitoba, the rural component (farm and non-farm residents in centres of less than 1,000 persons) of the population shifted from 85 per cent in 1901 to less than 20 per cent in 1970. Prior to
1949, less than one per cent of Saskatchewan producers were supplied with electricity. Today virtually every farm in the province has access to electricity. *Table 3: Changes in Agricultural Society* list the various trends that evolved in the prairies since the 1930s.

**Table 4: Changes in Agricultural Society**

1. Despite the presence of rail service, most grain delivery points experienced significant decreases in population.

2. During two decades (1960 to 1980) consolidation of all public services (particularly school and hospital) continued as part of prairie provincial government's social policies.

3. In the late fifties there were over 1,000 implement dealers on the prairies. Today that number is less than 400.

4. In 1930 there were approximately 300,000 producers on the prairies. Today the number has decreased to 140,000.

5. Consolidation of grain on mainline and secondary lines has resulted in 1/5 of the grain delivery points handling 1/2 of all the grain. Moreover, 30 per cent of the producers account for 80 per cent of total production. They own 60 per cent of the farm machinery.

*Source: Prairie Rail Action Committee Report (1979)*
The significance of Tables 3 and 4 is that both federal and prairie provincial politicians either failed to appreciate these trends or chose to ignore them in the various transportation debates which took place since 1930. How can one explain the fact that the prairie branchline network remained frozen between 1930 when horse haulage to elevators was still in use and when the Duff Commission stated the network was too large, and 1970 when vastly improved roads and larger trucks significantly increased the ability of producers to move grain. There are several explanations for this and all of them are relevant to this thesis.

First, there was no national transportation policy in existence prior to the passing of the National Transportation Act in 1967. Prior to that year, national transportation policy was railway policy and the emphasis was on retention of rail service (regardless of need) at the lowest possible rates. At the forefront of this debate were governments of the prairie provinces. The target was the railways and the federal government which was held responsible for railway policy.

Second, the perception existed that railways were the lifelines to the many small communities on the prairies,
which would "die" if the railways were removed. In 1976, the Commission on Grain Handling and Transportation\textsuperscript{37}, headed by former Supreme Court Justice Emmett Hall from Saskatchewan, tabled a report in Parliament which, although considerably weak in technical details, did include a sensitive section on the prairie grain producer. That Commission recognized the difference between the sincerity of those who appeared in support of retaining branchlines and the reality of today. Amongst a number of things it said:

- "It appears that there may be a tendency to equate 'the significance of the railway of 30 to 50 years with its significance today.'" (Vol. I, p. 76).

- "It is the people and the spirit of the people which gives the community viability, not the railways, not the elevators." (Vol. I, p. 79).

- The Commission was unable to locate any study which indicated that the viability of a community which was already declining would be saved by retention of the railway." (Vol. I, p. 83).

The third explanation is "...the traditional prairie distrust of the railways."\textsuperscript{38} This tradition of antipathy between producers and the railways (particularly the CPR) has its roots embedded deeply in history. In the early
development period the railways frequently antagonized the farm sector by their unbridled use of their monopolistic power as sole providers of transportation service for outbound product and inbound supplies of all descriptions. Consequently conflicts over freight rates and quality of service drew unfavourable attention to the railways' performance as landlords to thousands of grain producers. Land grants* came to be seen as preferential arrangements between eastern based politicians and eastern based entrepreneurs. Rarely was consideration given to the initial high risk element in western railways' construction or to the obligations fulfilled by the railways under the early agreements. The fortuitous but unforeseen universal wealth derived from land grants by the railways came to be regarded as legalized robbery.39

Fourth, the prairie branchline system became entangled with statutory grain rates. The Railways' reaction was to reduce investments in the prairie branchline system while lobbying Ottawa for an end to legislated freight rates.40

*Western lands did pay for the building of the CPR and the federal government did retain control of these lands until 1930 but the federal transfer payments to the provinces were sufficient to cover the original "cost" of the land. As well, the CPR sold off over 90 per cent of its lands by 1920 to grain producers at about $1.00/acre. Today that land is worth between $300–$500.00/acre.
The MacPherson Commission in 1961 (which is discussed in detail in the section on the *National Transportation Act* (1967) recommended *inter alia* a subsidy for uneconomic branchlines and the abandonment of unnecessary lines.

The government responded with its first of many *ad hoc* decisions related to prairie branchlines. In 1965 the federal government issued an Order-in-Council* protecting all but 1839 miles of branchline from abandonment for ten years.

During this period of time the branchline network continued to remain virtually unchanged. The federal government appointed Justice Emmett Hall to head up a Commission on Grain Handling and Transportation to come to grips with the fundamental problems confronting the industry, including a strategy to deal with the branchline network. However prior to assigning the network to Justice Hall, the federal government on the recommendation of Transport Minister Otto Lang, protected 12,413 miles of the network from abandonment until at the least the year 2000. In addition, 525 miles were assigned to the Canadian

*Officially known as Governor-General in Council Order but it is actually a Cabinet Order which can commit the public purse to financial obligations. It is not discussed or approved by Parliament.*
Transport Commission (CTC) for abandonment hearings. The Hall Commission was asked to make recommendations on the remaining 6,283 miles, about 30 per cent of the network.

Table 5: Status of Railway Mileage (1975-1979)

<table>
<thead>
<tr>
<th>Year</th>
<th>Status</th>
<th>Cabinet Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975 - Basic Network</td>
<td>- 12,414.0</td>
<td>no public hearings</td>
</tr>
<tr>
<td>1977 - Hall Commission</td>
<td>- 1,812.6</td>
<td>Royal Commission - public hearings</td>
</tr>
<tr>
<td>1978 - Prairie Rail Action Committee</td>
<td>- 1,000.6</td>
<td>Technical Committee headed by Professor Fred Anderson, University of Regina - no public hearings</td>
</tr>
</tbody>
</table>

The Hall Commission recommended that 1,812.6 miles be added to the basic network for protection from abandonment (the government accepted this recommendation as it did the one to assign 2,165 miles to the CTC for abandonment hearings).
The Hall Commission was undecided on 2,344 miles and it recommended that these be protected for 12 years. Mr. Lang rejected this particular recommendation on the advice of the elevator companies who said they could not invest in their facilities on lines left in a stage of limbo.

In 1977 the 2,334 miles were assigned to the Prairie Rail Action Committee (PRAC)*, headed by the University of Regina Economics Professor Fred Anderson. PRAC recommended a further 1,000.6 miles to be added to the basic network and abandonment of the remaining mileage. Once again the federal government accepted these recommendations and the 1,000 miles were protected from abandonment and the other mileage was assigned to the CTC for abandonment hearings. The 1979 election which brought the Progressive Conservatives into power had a direct impact on the branch-line network. The PC's, in response to producers on lines under CTC review, appointed Moose Jaw M.P. Doug Neil to once again review the mileage (about 1500 miles) that PRAC had recommended for abandonment. Neil recommended about 659 miles be added to the basic network and the remaining mileage be assigned to the CTC for further review.

*The Committee consisted of Professor Fred Anderson and three grain producers: Jack Gorr (Alberta), Bill Cooper (Sask), and Jack Parker (Man). All were appointed by Lang.
There are a number of interesting conclusions that can be drawn from the lengthy process discussed above.

The total number of miles of rail line abandoned to date (1984-85) are approximately 2,400 miles or 12 per cent of the mileage in existence in 1930. Of the first 2,000 miles of branchline approved by the CTC for abandonment, about 1/2 of the mileage was actually abandoned previously by grain producers.

Of the remaining mileage of 16,700 miles, approximately 83 per cent are protected until at least the year 2000. No branchline was abandoned without the benefit of a CTC Hearing allowing anyone to come forward who may have felt he or she would be unduly affected by branchline abandonment. In some cases branchlines were the subject of review by the Hall Commission, PRAC, Doug Neil (M.P.) and the CTC before an abandonment order was issued. The issue of branchline abandonment is one of those issues which was exploited by provincial governments to create the impression that "regional" and community interests were not being met. The provincial positions were reported to the nation by both the national and provincial/local media and this "cloud of doom" had an adverse affect on the Crow Rate debate.
If the federal government is to be criticized, it should be for developing a policy which guaranteed an extensive basic network to the year 2000. The branchline network fulfils only one basic role: it collects the grain and funnels it on to the mainlines for delivery to port. As already indicated, approximately 1/5 of all the grain delivery points are responsible for 50 per cent of the grain volume. Many of these delivery points are located on mainlines. To further compound this problem, the federal government began a major branchline repair program in 1977 which is expected to cost over $1 billion when completed. As of 1985-86, $730 million had already been spent.\textsuperscript{41}

With over 16,000 miles of rail line still included in the basic network and almost 1/3 of it eligible for expensive repair, some observers believe that the reduction in the system was not drastic enough to allow for improved efficiency. One of these observers is Fred Anderson who:

\textit{...claims political pressures made the entire rationalization process less than adequate. The basic network is itself an irrational collection of lines derived from a series of politically expedient decisions. Events show there is still too much mileage in the basic network.}\textsuperscript{42}
If one examines Table 5: *Status of Railway Mileage* (1975–1979) it is quite evident that the largest segment of mileage protected from abandonment is the initial block of 12,444 miles. What was the basis for the support of these lines? There is no public report to refer to and one federal department of transport official conceded that, "...there was no sophisticated study done." He goes on to suggest that the decision was an institutional one made on the basis of a meeting between railway and federal transport officials.43

The branchline debacle is far from over. The Executive Director of PRAC was quoted, back in 1978, that a possibility existed that grain producers/handling companies would abandon a fully rehabilitated branchline by 1985.44 In 1932, the Duff Commission warned about the imminent competition from highway transportation, which was apparently ignored. Thus one of the real costs of Canada's style of federalism was beginning to take shape and this will be examined in the following section on highway transportation.

3.1.4 Highway Transportation

The jurisdiction over road transportation undertakings
is split depending on whether the undertaking is of a local, inter-provincial or international nature. It is necessary to distinguish between jurisdiction over roads and jurisdiction over the motor carrier industry.

Rocks are not mentioned in either Sections 91 or 92 of the *Constitution Act 1867*, the judges referred to the terms "connecting" and "undertaking" to justify their decisions. In the words of Lord Porter*: "The province has indeed authority over its own roads, but only that authority is a limited one and does not entitle it to interfere with connecting undertakings. It must be remembered that it is the undertaking (the actual movement of goods and passengers) - not the roads, which comes within the Dominion..."  

The federal response to this ruling and a number of court cases was to delegate the regulation of extra (international and inter-) provincial undertakings to provincial boards established pursuant to provincial motor vehicle transportation legislation by enacting the *Motor Vehicle Transport Act* in 1954*. The matter of federal jurisdiction arose again in 1967 with the passage of the *National Transportation Act*. Part III of that Act would

*Lord Porter was a member of the British Privy Council, which acted as Canada's Supreme Court until 1949!
restore federal jurisdiction over extra-provincial trucking but that section was not invoked. Partially this can be explained by the federal government not being interested and partially because the provinces have resisted such a notion.

The result has been to allocate to the federal government complete jurisdiction over railways with the support of a single regulatory agency. In trucking and buses, jurisdiction is shared by ten provincial governments with no overall national standards. A former Deputy Minister of Transport, John Baldwin, argues that:

"...under ten separate jurisdictions, growth of national coverage has been slow and fragmented and that the motor coach service has a less complete and less equitable arrangement than can be found in air and rail passenger fields. Because the country lacks national regulations and a federal regulatory agency, not only does Canada as a whole lose the advantage of a national motor carrier industry but various regions, such as Atlantic Canada, suffer in particular."\(^{47}\)

As Baldwin further points out:

"...regional transportation companies tend to charge higher rates in response to higher regional costs. The resulting inequity may be offset partly by the additional provisions of national service and federal regulations. However, while these equalizing features exist with respect to air transportation, they are lacking in regards to the motor carrier industry."\(^{48}\)
As in the case of education and health services, provincial jurisdiction in transportation is centred on the major growth sectors. In the case of transportation this means roads and concomitantly the motor carrier industry. The growth of the trucking industry correlates with the decline in the railway industry beginning in the late 1930s. Truck registration doubled from 220,000 in 1938 to 488,000 in 1948 and doubled again to over one million vehicles in 1958.\(^49\) In 1982, some 60,000 firms operated 500,000 commercial trucks, tractors and trailers, employed over 350,000 people and paid $15 billion in operating expenses.\(^50\) On the basis of revenue, the railways' share of freight movements has fallen from 55 per cent in 1966 to 37 per cent in 1983; for-hire truckings' share of freight movement (commercial but not private) has risen to 44 per cent from 30 per cent. In terms of domestic inter-city passenger traffic, 93.3 per cent of all such trips are made by auto or bus over the provincially regulated road system.

The significance of this trend is that the ten provincial governments play a significant role in the transportation system which was not recognized in the National Transportation Act (1967).
Road Building

As already indicated, the extent and magnitude of the road building policy of the ten provincial governments has not received as high a profile as have the debates over railway freight rates in Canada. However, as Howard Darling identified, by 1950:

...the onward surge of competition from highway carriers was not only continuing to destroy the railway rate structure, over which so much past disputation had occurred, but was selectively penetrating railway traffic, stripping the general traffic from branchlines and short hauls of all kinds.51

In 1959, the Diefenbaker Government established the MacPherson Commission on Transportation, primarily to resolve the continuing pressure of the railways' for additional "horizontal" rate increases.* The former Secretary/Research Director of that Commission, Professor Fred Anderson of the University of Regina, subsequently criticized the narrowness of the Commission's terms of

*The railways' use of horizontal increases, the application of a uniform percentage increase to all commodities to meet their cost increases was perceived by some provinces to be inequitable. The railways' argued that they seldom applied such increases.
reference, "...as being specific in their attention to railways, reaffirming as late as 1959 the persistent myth that transportation is railway transportation in Canada."  

Notwithstanding that perception in 1959, a highway system was initiated in Saskatchewan as early as 1922; the proposed network being planned to comply with the Canada Highway Act, (1919). This Act provided a per capita grant to each province. At the start of the program there were only ten miles of gravel roads; the remaining roads were dirt.  

By 1940 there were over 4,000 miles of gravel road but only 100 miles of paved highways. For this reason trucking was not considered a competitor to rail for distances beyond 50 to 100 miles. Following the 1939-1945 World War the road system in Saskatchewan grew significantly. Between 1946 and 1966 the length of surfaced roads increased from under 10,000 to 57,000 miles and all the provincial centres in Saskatchewan were linked by high quality roads.  

In Canada total spending on streets and highways from 1960 nearly doubled to $1.8 billion a year in 1970. In 1950 there were 25,000 miles of paved road which by 1970 had increased to 75,000 miles.  

Paved roads mean fast trucking services and, as such, trucking was now considered competitive to
rail for distances in the 400 mile range.

To service the grain growing area of Saskatchewan, settlements and farms were established in a widely dispersed manner. As a result Saskatchewan historically has had more villages than the province of Quebec. In addition, Saskatchewan is served by more railway and highway mileage, on a per capita basis, than any other province. Moreover, the three prairie provinces contain over 50 per cent of the total road (highway and rural) mileage in Canada. Saskatchewan alone consists of approximately 125,000 miles of road, over 25 per cent of the nation's total. As a result 90 per cent of the population of Saskatchewan is within one hour's driving distance of at least one of the ten major commercial centres in the province.

Thus the second transportation system on the prairies, the road system completely owned and operated by the provincial governments, eventually succeeded in relegating the rail system to long-haul freight shipments. As the Hall Commission documented in its 1977 report, following nearly two years of public hearings on the prairies:
i) "Increased cost of labour forced farmers to improve production technology through capital. This resulted in social repercussions in rural western Canada, i.e. the decline in farm population and in the number of community centres of service." (Page 76).

ii) "Tendency to equate the significance of the railway of thirty to forty years ago with its significance today." (Page 76).

iii) "Even bulk farm imports such as fertilizer, fuel, chemicals and equipment are increasingly hauled from regional distribution points by truck." (Page 77).

iv) "The railways have ceased to have any great effect on the social aspects of life in the smaller communities in western Canada." (Page 78).

v) "Rural electrification has no doubt had the most significant positive social impact on rural life ...due to the inability (sic) to keep bread fresh and vegetables and fruits for longer periods, these commodities were purchased in greater quantity, further from home leading to the closing of local bakeries and stores...". (Page 79).

vi) "The Commission was unable to find any study which indicated that the viability of a community which was already declining would be served by the retention of the railway." (Page 83).

vii) "Vastly improved roads since the early 1950s ...have enabled people to travel further for goods and services." (Page 79).

viii) Towns being bypassed by modern highways, the development of regional health centres and hosts of other items have contributed to the phasing-out of many smaller centres with their own identities and social patterns. These changes have occurred and will continue to occur, with or without the railway." (Pages 79-80).

ix) "The evolvement of a few centres rendering a large number of services has taken place only because several smaller centres have decreased in size or disappeared altogether. This took place, not as a part of a planned development but as a result of many people making individual decisions on where they wished to shop, do business and socialize." (Page 80).
The significance of these findings is relevant to the Crow Rate debate since opponents to changes in the Crow Rate will argue that the existence of a fixed rail rate for grain keeps producer costs down and, as a result, system change would be gradual. However, all of these developments within the three prairie provinces occurred with the Crow Rate in place between 1899 and 1983 (84 years) and fixed at levels established in 1898 and 1899.

3.1.5 Transport Policy Development

The framework for national transportation policy historically has centred on the theme of concern with efficiency and cost effectiveness versus equity and emphasis on the rail mode. Railway development became the traditional lever of the federal government to achieve its "nation-building" objectives. Prior to the 1914-18 World War the major activities in transportation were rail not marine related. These events were:

1. Overbuilding and economic chaos in railway operations.

2. The establishment of the first regulatory agency – Board of Railway Commissioners.

3. The first major rate problems leading to equalization of rates within the west.

4. To the first price ceiling – the Crow's Nest Pass Rates on Grain.57
As already presented in this thesis, the development of the road system and the commercial air transport system tended to be ignored as the rail mode, or more specifically, rail freight rates, continued its dominant role up to and beyond the passage of the National Transportation Act in 1967.

This dominance of the rail mode is remarkable. If one lists the major milestones which affected national transportation policies after the 1939-45 World War, rail concerns are paramount. Some of these major transport policy issues are discussed on the following pages.

1951 – Turgeon Royal Commission on Transportation

At the time of the Turgeon Commission's appointment, in December 1948, the view still prevailed that the railways were the major transport mode of economic importance in Canada. While its report dealt mainly with the railways, the Commission did recognize the growing significance of road-rail competition and recommended that all transport modes subject to federal jurisdiction be brought under the control of a single regulatory board in the interests of better intermodal coordination. The themes of multimodality, federal-provincial jurisdictional
problems and the notion of a need for uniform regulation of all modes began emerging over thirty years ago.

1954 - Motor Vehicle Transport Act

The first official indication by the federal government that it had a constitutional right to regulate extra-provincial trucking occurred in 1937 with the introduction of a new Transportation Bill in the Senate. Part IV of the Bill related to highway transport. The Bill was defeated largely because of strong opposition from the provinces and the truckers. This same combination also opposed the unsuccessful Bill C-14 introduced in the Commons during 1940 which, through an amendment to the 1938 Transport Act, was intended, among other things, to empower the then Board of Transport Commissioners to license international movements by commercial road carriers.

In 1954, a protracted legal action Attorney-General of Ontario vs Winner* ended with the decision that the federal

*In this case, the Privy Council of Britain was called upon to rule on whether a passenger bus line which ran between points located in the provinces of Nova Scotia and New Brunswick and in the United States was subject to sole jurisdiction of the federal government or whether New Brunswick could validly legislate with respect to that part of its operation located within the province.
government not only had jurisdiction over extra-provincial motor transport under Section 92(10) (a) of the British North America Act but also over the intra-provincial operations of any company engaged in extra-provincial transport on a continuous and regular basis since transport undertakings were "indivisible".

The federal government was surprised by the outcome of the Winner case and had no staff or regulations in place to assume responsibility for extra-provincial for-hire trucking. Rather than set up a regulatory regime, the regulation of extra-provincial motor vehicle undertakings was left with the provincial regulatory agencies by a delegation of the federal power through the 1954 Motor Vehicle Transport Act. This Act provides for the issuance by a provincial board, at their discretion, of a licence to a person on like terms and conditions as if the extra-provincial undertaking involved was a local undertaking.

The Motor Vehicle Transport Act was intended as a stop-gap measure. However, it remains in force today despite periodic attempts to change the modus operandi set up 30 years ago.
The 1956 transportation report for the Royal Commission on Canada's Economic Prospects noted the increasing importance of the motor carrier and airline modes and the growth in competition within the freight transport field. In the passenger domain, the report pointed out that the railways had given ground to the private car and bus and that air travel was penetrating the long-haul market. These observations signalled the recognition of two continuing policy problems – trucking/rail competition and the appropriate place of rail passenger services in the national transportation system.

The most noteworthy of all the inquiries into transportation or to be more exact, as this thesis has argued, into rail transport problems was the MacPherson Commission Report. There are a number of reasons for this. First, the MacPherson Commission Report provided the basis for the subsequent passage of the National Transportation Act in 1967. Second, the Commission pushed through its narrow rail oriented terms of reference to
present to Parliament for the first time a truly multi-modal perspective; and third, it recommended removal of the regulatory restraints imposed upon the rail mode in order that it could compete with other modes. In the process the MacPherson Commission is credited with, "...bringing the railways into the twentieth century." While the Commission itself was headed up by a Regina lawyer, M.A. MacPherson, the person who receives the credit for the philosophy of the report is its Secretary and Research Director, Fred Anderson, currently Professor Emeritus of Economics at Riel University. Professor Anderson provides the following explanation of the relationship of transportation policy to regionalization written from the perspective of his tenure with the Commission:

"This much was new in the report. Up to that time the complaints of regional transport inequities seems a minor but noisy nuisance. Historically they have been ameliorated by special statutory provisions for regional transport-pricing through the Maritime Freight Rates Act, the Crow's Nest Pass Agreement and "At and East" rates on grain and the principle of "equalization" adopted after 1951. The transport disequilibria evident through the decade of the fifties seemed, in 1959, amenable to another prescription of adjustment, similar to that attempted by the Turgeon Commission recommendations of 1951. At least the terms of reference of the MacPherson Commission appear to bear this out. The failure of the statutory and regulatory events of that decade to satisfy the clamour from the Atlantic and prairie regions seemed, in the perspective from Ottawa, to be
caused by regulatory inadequacies alone. There was no presentment that it was more than that; that the clamour was, in fact, growing evidence of much more fundamental failures of national policy to come to grips with the basic structure of Canada. Nothing in the terms of reference led, on the surface, to a conviction that transport policy was just one part of broader national policies which were taking this nation in directions away from vigorous economic and social integration".  

The major conclusions reached by the MacPherson Commission were as follows:

1. The regulation of transportation in Canada should be minimized as much as possible consistent with the protection of the public interest; such regulation as is retained should bear in a reasonably equitable manner on all carriers.

2. The rationalization of railway plant and operations should be actively encouraged by public policy; where, for national policy reasons, it is considered necessary to retain rail operations such as unprofitable passenger or branchline services, the Railways' should be entitled to payment from public funds to cover their deficits on such services.

3. No particular form of transport should be singled out as an instrument of national policy if any burden is involved in the performance of the function unless sufficient compensation is provided to that mode of transport to prevent distortions in the competitive transportation market.

4. Assistance to transportation, which is designed to provide assistance to shippers in specific regions, should be recognized for what it is and not to be disguised as a subsidy to the transportation industry; when assistance of this kind is distributed through the transportation medium, it should be available on a nondiscriminatory basis to all.

This idea that the principal concern of national transportation policy should be with ways of achieving an efficient transportation system to serve the economy, was a sharp departure from the historical view that the transportation system was primarily an instrument for the pursuit of broad national policy objectives. By 1961 a great deal of Canada's major transportation infrastructure was already in place. Thus MacPherson and his fellow commissioners suggested, at the advice of Fred Anderson, that the concept of "competition" henceforth ought to guide the organization, financing and development of transportation services. The role of government was seen as being largely a passive one of selective provider and operator of infrastructure and services and the source of compensation for resources, facilities and services imposed as a public duty. This role was considered to require a minimum of regulation.

**National Transportation Act (1967)**

Six years later Parliament, after a fundamental reappraisal of national transportation policy and prolonged debate, passed the national Transport Act based, in large part, on recommendations by the MacPherson Commission of 1961.
The goals of the Act are set out clearly in Section 3 thereof as follows:

It is hereby declared that an economic, efficient and adequate transportation system making the best lowest total cost is essential to protect the interests of the users of transportation and to maintain the economic well-being and growth of Canada, and that these objectives are most likely to be achieved when all modes of transport are able to compete under conditions ensuring that having due regard to national policy and to legal and constitutional requirements:

1) regulation of all modes of transport will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;

2) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense;

3) each mode of transport, so far as practicable, receive compensation for the resources, facilities and services that it is required to provide as an imposed public duty; and

4) each mode of transport, so far as practicable, carried traffic to or from any point in Canada under tolls and conditions that do not constitute:

a) an unfair advantage in respect to any such traffic beyond that disadvantage inherent in the location or volume of the traffic, the scale of operation connected therewith or the type of traffic or service involved, or

b) an undue obstacle to the interchange of commodities between points in Canada or unreasonable discouragement to that
development of primary or secondary industries or to export trade in or from any region of Canada, or to the movement of commodities through Canadian ports.

The Act made provision for minimal and consistent regulation of all modes to allow freedom of competition. It introduced the "user pay" concept through the provision that each mode bear a fair proportion of the costs of resources, facilities and services provided as an imposed public duty. Nearly 20 years later, it might be noted, a considerable gap remains between the provisions of the Act and reality.

While generally following the recommendations and spirit of the MacPherson Commission, the National Transportation Act (1967) made a significant departure in its provision for the establishment of the Canadian Transport Commission (CTC), which combined all existing regulatory agencies and, in addition and contrary to the MacPherson Report, was given wide policy advisory powers unrelated to its regulatory function.

Evolution of the Federal Department of Transport

At the time of Confederation, railway related projects
came under the Department of Public Works. On completion of the Inter-Colonial Railway in 1879, the Department of Railways and Canals took over these duties. In 1935 a Department of Transport was created which included the former Department of Railways and Canals which, by this time, had established a Highways Branch and it subsumed the Department of Marine's transport related responsibilities. The Civil Aviation Branch of the Department of National Defense was also added in 1935. The result was one of the largest bureaucratic units in the government.  

While rail freight rates continued to dominate the public's perception of national transportation policy, the department had virtually no control over railway operations. However, the department did have significant operational authority in both the air and marine modes. By 1968, the department had 11,300 officials involved in air services and 5,900 in marine services. In comparison, there were less than a handful of officials responsible for rail and highway matters. As such, the Department of Transport was actually an operational department and national transportation policy was nonexistent or ad hoc up to the passage of the National Transportation Act in 1967. This was significant since the Glassco Commission on Government Organization in 1963
recommended that a separate Air Department be created. The Transport Department resisted this recommendation on the basis that the MacPherson Commission had emphasized, "...the need for developing transportation policy that embraces all modes of transport and related transportation needs to the other elements of economic growth." The problem was however that the Department had no policy branch and, therefore, to a large extent had no national transportation policy. There was no one in the Department to advise the Minister on non-operational matters. The main problem was that without a policy branch, the Department did not have an overall approach to transportation policy. This accounts for the "railway-oriented" terms of reference which were provided (primarily by PCO) to the MacPherson Commission in 1959. In addition, the creation of the *National Transportation Act* in 1967 also allocated responsibility for research and policy recommendations to a newly created regulatory agency, the Canadian Transportation Commission.

Following the passage of the NTA, senior Department of Transport (DOT) management continued to eschew a policy research role or even a strong role, concentrating instead on operating matters. The claim was that senior management interpreted the role of the Department within the national
transportation framework too narrowly. The Department soon found itself out of step with priorities of the Trudeau Government. 62

In January 1969 a new deputy minister, Mr. Gerald Stoner, was appointed to DOT and quickly introduced organization changes such as a Transportation Council as an instrument of policy coordination and a Bureau of Coordination as a secretariat for the departmental management process. He subsequently appointed a Task Force to examine DOT's objectives.

The Task Force resulted in the introduction in 1970 of the ministry concept* and new department objectives. A ministry executive was created with centralized support for policy and planning; extensive autonomy was given to the operating administrations, including a newly created Canadian Surface Transport Administration and a planning unit was set up to deal with transportation policy generally, including the roles of the CTC and relevant Crown Corporations.

*In 1970 the department referred to itself as the Ministry of Transport. It calls itself today, Transport Canada. However, the legally correct term is Department of Transport.
The results were disastrous for the following reasons:

1) The Ministry concept was supposed to emphasize policy-making but the massive air and marine administrations resisted attempts to coordinate and integrate multi-modal policies.

2) Confusion developed between the department and the Commission regarding the paramount role for advice to the minister on policy matters.

3) The Minister of Transport, Mr. Marchand (1973-74) was under constant pressure to address the chaos in the transportation system which arose because the MacPherson Commission's recommendations (embodied in the NTA) in the area of subsidy and rate interventions were not addressed.

4) Western Canada was particularly concerned with what it saw as a lack of understanding on the part of the department in alleged discriminatory freight rates.

**Transportation Task Force**

In 1974 the Minister of Transport, Mr. Marchand, described Canada's transportation policy as a "mess". In the Speech from the Throne on September 30 that year, the Government announced its intention to carry out a comprehensive review of transportation policy by a Department of Transport Task Force, under the direction of Jim Davey.**

*The following conclusions are based on the author's 12-year tenure as a Senior Policy Advisor with the Department of Transport.

**Jim Davey was a confidant of the Prime Minister and was one of the PMO technocrats who transformed government operations.
Among the chief aims of the Task Force were the inclusion of regional objectives in transportation policy and dealing with freight rate concerns. The Task Force was instrumental in the freight rate accord of the federal and four western transport ministers, emanating out of the Western Economic Opportunities Conference (see Page 155).

The seven years between the passage of the NTA and the formation of the Task Force had seen a number of dramatic changes in the social and economic environment, both in Canada and elsewhere. Demand for scarce resources was increasing, resulting in greater attention to northern Canada as a supply source with consequent demands for new transport infrastructure. The world had experienced the first major manifestations of the changed energy scene in late 1973 leading to energy becoming a much bigger factor in subsequent transportation planning and policy decisions. In this environment, the Task Force believed that the very rapid increase in demand for bulk commodities would lead to a number of major transport capacity problems, necessitating large-scale expansion of the national transport system. In turn, these needs were cause for new planning and programming initiatives to put in place the required infrastructure and also to influence the distribution of population and economic activity in a
significant way and thereby cope with regional disparities.

The Task Force was also asked to focus on several major problem areas such as a more effective cost recovery policy, a rationalized but viable rail passenger system and strengthening of federal-provincial and government-industry relations.

Finally, the Task Force was instructed to address organizational issues, particularly the policy and planning function within the department, the respective roles of the CTC and DOT and the relationship between the Minister and Crown Corporations.

Based on the work of the Task Force, the Minister of Transport tabled, in June 1975 in Parliament, his proposals for new transportation policy objectives and an outline of several program organization changes.63 There were important differences between the transport policy principles in Section 3 of the NTA and the substitute principles proposed in 1975. These proposals, among other things, called for: (1) a total transportation system for Canada providing accessibility and equity of treatment for users, could be an essential instrument of support for the achievement of national economic and social objectives;
(2) the assumption of responsibility by government to attend to the provision of an efficient total system for this purpose; and (3) utilization of the most appropriate mode for specific services.

The NTA goals of an, "...economic, efficient and adequate transportation system" were de-emphasized in favour of a system providing for the support of national objectives and, "...accessibility and equity of treatment for users", a phrase which was considered more specific than "adequate". It was proposed that the term "efficient" be retained but, at least relatively, reduced in prominence.

The Minister also announced his intention to proceed with new legislation to deal with alleged freight rate discrimination raised at WEOC and to change the role of the CTC. As well, proposals were outlined to deal with major capacity concerns (especially in western and northern Canada) and to revitalize rail passenger wherever this was viable.

In August 1975, Jim Davey died accidentally and the Task Force, although functioning under retired Deputy Minister of Transport John Baldwin, eventually ceased to
exist. Jean Marchand was eventually replaced by Otto Lang.

Without Jean Marchand and Jim Davey the thrust to fundamentally change transportation policy to allow greater involvement of the provinces withered away. Nevertheless, the Department of Transport did prepare legislation to give effect to some aspects of the Task Force Report.

It is interesting to note that reasons for a new transportation policy did not go away with the departure of Jim Davey and Jean Marchand. But it appears that a major factor in policy change depends on the capability and determination of individuals. The same fundamental question arises in this thesis, that despite the strong evidence and interest group support for changes to the Crow Rate, the initial thrust at least depended on the commitment of one individual - Jean-Luc Pepin.

Legislative Proposals (Bill C-33 and C-20)

Bill C-33 was introduced in the House of Commons in 1977 to amend the National Transportation Act (1968) and the Department of Transport Act for the purposes of re-defining the objective of national transport policy, authorizing
the consequent rearrangement of relevant powers and duties of the CTC and the department and to amend the Railway Act in respect of freight rates and other matters.

Bill C-33 can be considered in three parts: (1) the objectives and principles section; (2) the Department/Commission relations section, and (3) the freight rates section.

The provincial governments, particularly those in Atlantic Canada and the prairies, placed considerable importance on the objectives and principles section especially on the notion that transportation should be responsive to regional economic development goals. In contrast, carriers and shippers were concerned that the role of efficiency and competition, as currently embodied in the NTA, was being made secondary to social and economic development objectives.

Both industry and the provinces welcomed the proposed clarification of the Minister's role in policy development and the CTC's role in regulating transportation. Only the new power of policy directives for the Governor-in-Council to the CTC were challenged. Both groups were in favour of a streamlined appeals procedure under Section 23 of the NTA.
NTA and urged further broadening of the basis for appeals and an acceleration up of the appeals process.

There was a good deal of opposition to the package of freight rate legislative changes that was proposed. Shippers and carriers generally opposed the provisions to change the minimum and maximum rate regulations. Ontario, Quebec and the Atlantic provinces were generally dissatisfied with the freight rate section because, from their viewpoint, it proposed too much intervention. The prairie provincial governments viewed it as a step in the right direction.

A key element of Bill C-33 was that while transport was to become "efficient", it was also to become an instrument of support for the achievement of national and regional, social and economic objectives and to provide equity of treatment for users. There were eleven principles in all contained in the legislation. Professors Heaver and Nelson argued that the new legislation was misguided ...and that changes would run the risk of leading to decisions contrary to the efficient provision of transport services while exacerbating regional dissatisfaction as a result of the failure of reality to match the expectations which the revised
Bill C-33 died on the Order Paper in 1977. Because of interest on the part of both the Atlantic and prairie provinces, it was reintroduced in a somewhat revised form as Bill C-20 in November 1978, immediately prior to the First Ministers' Conference. In essence, it was similar to Bill C-33 although there were some changes in transport objectives and principles, and the power of policy directives from the Governor-in-Council to the CTC was deleted.

The work of the Davey Task Force was also a good example of executive federalism at work. Federal and provincial ministers and officials had established formal and informal links which led to the thrust continued in Bill C-33. Carriers and some shippers generally were opposed to the legislation, particularly to the role envisioned for the Minister of Transport.

In summary, the work of the Davey Task Force and Bills C-33 and C-20 reflected a desire by government to use transportation policy both as a means for achieving a greater degree of competition and efficiency, and to assist in the realization of national and regional
objectives. The initiative failed, probably because users/shippers feared the consequences of federal-provincial conflicts as they would affect transportation policy. The remaining characteristic of transportation policy to be discussed is that overriding puzzle of transportation policy advisors, concerning the role of transportation as either a service industry responding to derived demand, or as means of addressing national and regional goals and objectives. Since the Crow Rate was caught up within this conundrum an attempt will be made to discuss a specific issue: western freight rate grievances as a means of identifying the context of "provincial politics" during the resolution of the Crow Rate. The issue of freight rate grievances will be analyzed from both a public policy and a federal-provincial relations perspective.

The four western provinces have historically argued that railway freight rates discriminate against the opportunities to establish more value-added processing of raw products in their region. This raises three concerns. First, is there substance to the argument that railway freight rates are established by CN and CP to discriminate against the west? Second, how significant are freight rates in determining industry location?, and
third, should the transport system be manipulated to support regional economic goals?

Section 3 of the NTA which is the basic policy statement of that Act states that there shall be, "an economic, efficient and adequate transportation system." This statement represents the first attempt to create a policy framework for transportation as a whole, not just as a railway problem. Moreover, according to Baldwin it was one of the first statutes to lay down a framework of policy, a commendable course of action. However commendable this initiative was, Baldwin (Deputy Minister of Transport when the 1967 legislation was passed), does admit that the principles and processes of the statute were not followed and that neither government nor the public fully understood whether Section 3 relied solely on commercial forces of inter-modal competition and a regulatory system to meet its objectives or did Section 3 imply that government had a direct role in the overall responsibility for the transportation system. This raises a serious question as to the purpose of placing in legislation sections upon which there is no acceptable definition nor is there an understanding of how the section is to be applied to specific situations. It also raises questions as to the manner in which the words in the section were drafted.
Legislation is often drafted in vague terms to avoid rigid interpretations from undermining the legislation's intention.

Transportation, as this thesis has already advanced, is continually expected to forward a wide range of social and political goals. Langford notes the basic conflict* in Section 3 between an 'adequate' and 'efficient' transportation system.67

Westmacott68 examined the role of the three prairie governments during passage of the 1967 legislation and he discovered that there was no consistent regional position. Manitoba and Saskatchewan were appeased by the federal government's decision to exempt the Crow Rate from the NTA provisions and to remain passive on the issue of branchline abandonment. The government of Alberta advocated fundamental changes to the freight rate structure. Westmacott observes that:

"...consultations between the two levels of government during enactment of the legislation revealed that, for the most part, the direct consultations between federal and provincial politicians and officials were unstructured and

*The transportation system historically is expected to provide an "adequate" system to support a wide range of social and political goals. At the same time it is expected to keep its prices low, based on efficiency.
so general in nature that the provincial
governments were uncertain as to the precise
nature of the federal proposals until the
legislation was tabled in the House of
Commons."69

The federal Minister of Transport, Mr. Pickersgill,
took the position that he did not have to consult the
provinces before introducing legislation that is
exclusively within the jurisdiction of the federal
parliament.70

The election of Mr. Trudeau in 1968 ushered in a new
era of consultation with the provinces. The new Prime
Minister established 'regional desks'* to keep him informed
of the issues outside Ottawa. Concurrently there was
growing recognition in western Canada that it must develop
a more common, unified, regional position on matters
concerning three prairie provinces and, at times, the four
western provinces. A Prairie Economic Council was
established in 1965 and one of its first priorities was to
develop a transportation policy. The newly elected (1971)
Premier of Alberta acknowledged that:

*Jim Davey operated the "western desk" prior to being transferred to the
Department of Transport to assist Mr. Marchand to sort out the "transportation
mess."
"...provincial governments within a particular region with differing political affiliations and the existence of problems peculiar to only one province inhibit the development of a regional policy position."\textsuperscript{71}

The 1983 Crow Rate debate supports the supposition made by Premier Lougheed twelve years earlier.

Another federal election in 1972 was to have a far-reaching impact on the matter of freight rates in western Canada. The Liberal Government dropped 46 seats overall and found itself in a minority position. It lost 12 seats in British Columbia and its prairie total dropped to 3 seats from 7 in 1968. As a result, the 'regional desks' were dropped and a Western Economic Opportunities Conference was established to explore potentials for economic and social development in western Canada.

**Western Economic Opportunities Conference (WEOC)**

On July 24-26, 1973 a rare event took place in Calgary. The federal government, represented by the Prime Minister and several senior Cabinet Ministers, met with the four western Premiers to discuss the economy of western Canada. It was an opportunity for the west
logically and definitively to lay out its deeply rooted claim of grievances. In their opening comments to the Prime Minister, the western Premiers said:

"The pattern of settlement and development has been influenced by economic, financial and tax policies of the federal government, which early assisted the concentration of the nation's business and industrial activity in central Canada. These policies, which have led to this concentration of financial and industrial resources and population, have worked against the allocation of financial and production resources to bring balance to economies of all regions of Canada." 72

For his part Mr. Trudeau, in his major address at WEOC, argued, "...that it was time to re-think the traditional division of labour between the western hinterland and the central metropole." 73 After firing this broadside at the staple production theory Mr. Trudeau stated, "Regional and economic specialization must be reduced and Ottawa must pursue, as a basic policy goal, the development of balanced and diversified regional economies across the land." 74

The litany of western grievances outlined at WEOC were classic and deeply rooted, ranging from attacks on the banking system to federal purchasing practices but two of
the major areas of concern raised were that the Canadian tariff structure and discriminatory pricing by the Railways' inhibit location of industry on the prairies and, in turn, favour central Canada.  

Table 6 outlines the list of proposals put forward by the four western Premiers at WEOC. The list is dominated by rail oriented items and, in every case, federal expenditure was required. The cost in 1975 to take over the road-beds alone was estimated to be in excess of $3 billion dollars.

Table 6: List of Transportation Proposals Made by Western Premiers at WEOC (1973)

1. Section 3 (NTA) to reflect regional economic objectives.
2. Federal contribution to the fixed costs for all modes.
3. Establishment of a federal-provincial institution to set freight rates.
4. Federal government to purchase roadbed of CN and CP Rail.
5. Provincial input into rationalization of branchlines and federal government to pay compensation to affected parties.
6. Improved port facilities at Prince Rupert and Churchill.
7. Construct a rail line between Ashcroft and Clinton, British Columbia, to connect BCR with CN/CP Rail.

Source: Premiers' Transportation Position Paper (WEOC) 1973
Table 7 outlines the programs and policies of the federal Department of Transport arising out of the WEON Conference. It should be pointed out that many of the programs listed were committed expenditures without any relationship to WEON. The main exceptions were the highway programs, which totalled $278 million, and which represented less than half of the total committed expenditures.

Table 7: Federal Government Transport Programs and Policies Emanating out of WEON (1973) ($ Millions)

<table>
<thead>
<tr>
<th>I. Infrastructure</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Northwest B.C. Rail Program</td>
<td>$167</td>
</tr>
<tr>
<td>ii) Highway Strengthening Program</td>
<td>$78</td>
</tr>
<tr>
<td>iii) Western Northland Highways</td>
<td>$200</td>
</tr>
<tr>
<td>iv) Port Development at Churchill</td>
<td>$18</td>
</tr>
<tr>
<td>v) Port Development at Prince Rupert</td>
<td>$12</td>
</tr>
<tr>
<td>vi) Port Development at Vancouver</td>
<td>$36</td>
</tr>
<tr>
<td>vii) Airport Development at Saskatoon</td>
<td>$4.2</td>
</tr>
<tr>
<td>Vancouver</td>
<td>$74</td>
</tr>
<tr>
<td>Calgary</td>
<td>$24</td>
</tr>
<tr>
<td>$613.2</td>
<td></td>
</tr>
</tbody>
</table>

II Consulting Mechanisms

i) Federal-Provincial Committee of Ministers
ii) Federal-Provincial Committee of Officials
iii) Provincial access to confidential rail cost data
iv) Provincial input into air bilateral negotiations with foreign countries

III Joint Study Program

i) Rail Pricing Impact Study
ii) Rail Roadbed Cost Study
iii) Joint CN/CP Rail Track Usage Study

Source: Annual Report of Federal-Provincial Committee on Western Transportation, 1974
The most significant federal response was the establishment of consultative mechanisms which resulted in a number of "firsts". For the first time, provincial governments were being consulted directly on national transportation policy - a stark contrast to the days of Mr. Pickersgill. For the first time provincial governments received confidential rail cost data. The western provinces historically believed that the railways' pricing policy resulted in higher (discriminatory) freight rates in their region relative to the cost of providing the service. Now it was possible for the provisions to "cost" out some of these movements. Also for the first time, provincial governments were directly consulted on bilateral discussions with the United States over air routes.

The third area was on the establishment of jointly funded ($500,000) federal-provincial studies dealing with the specific freight rate grievances discussed at WEOC. The importance of these studies was that when dealing with a high public profile issue, such as discriminatory freight rates, it is necessary to specify exactly what freight rate is discriminatory, what commodity is involved and what is the origin and destination of that commodity.
The joint studies were intended to answer these questions and, where required, recommend steps to end the discrimination.

The immediate reaction by the western provinces to the federal government's response to the transportation issues raised at WEOC was positive. On March 13, 1974 in the Alberta Legislature the Industry Minister, Fred Peacock, in regard to a recent meeting of the Federal-Provincial Committee on Western Transportation, said:

"Mr. Speaker, I would have to say that the first meeting was very productive in that for the first time the federal Minister of Transport, the Honourable Jean Marchand, agreed that major revisions are required in national transportation policy. If you excuse the pun, Mr. Speaker, I believe we are on the right track."76

In a subsequent speech in the Alberta Legislature, Mr. Peacock talked about, "...a breakthrough from a policy point of view..."77 in response to the transfer of confidential rail cost data to the prairie transport ministers.

Mr. Marchand's approach, to address the transportation
related grievances from western Canada, was to accept the position that there was freight rate discrimination and, as such, it was up to federal-provincial officials to document the discrimination. It was a brilliant strategy because Mr. Marchand received unprecedented support from western politicians. For example, it was reported on CBC-TV *The National*, that, "Western Premiers have kind words for Transport Minister." It is unlikely that any of Mr. Marchand's predecessors ever received such support from western Canada. Did the Liberal Government benefit from this rare provincial support?

In the 1974 General Election the Liberals received 141 seats, an increase of 32 seats, and formed a majority government. The Liberals gained 4 seats in British Columbia, 2 seats in Saskatchewan and remained unchanged in Manitoba and Alberta. There is no way of determining if the role of Marchand's transport policy affected the outcome of the election but the Liberal share of total votes in Saskatchewan increased to 31 per cent from 25 per cent in the 1972 election.

As already indicated, the 1974 election eventually resulted in Saskatchewan's Otto Lang becoming the new Transport Minister and he turned his attention to grain
handling and transport matters in lieu of national transportation policy and western freight rate grievances.

Mr. Lang effectively closed down the Federal-Provincial Committee on Western Transportation and in so doing, the intense and cooperative consultative mechanism called the "Marchand Formula" by western transport ministers.79 As indicated previously, Mr. Lang wanted to turn his attention to addressing problems associated with grain handling and transportation in the west. The five western transport ministers insisted that issues such as the Crow Rate should not be addressed at this time. Mr. Lang was dissatisfied about discussing changes to Section 3 of the National Transportation Act to "accommodate" industrial development, because he did not believe that there was sufficient evidence to support such a move. The two major freight studies 80,81 mentioned on Page 152 were completed in late 1974 and the results did not support the historical grievances of the western provinces. Mr. Lang never officially shut-down the committee but he never agreed to any further meetings.

Freight Rates

The position put forward at WEOC, by the four
Premiers, was that the western provinces suffered because discriminatory freight rates affected the location of industry in the west. The Premiers' case centred on the question as to whether the railways' should be allowed to set freight rates on, "...a value of service rather than a cost of service basis." The difficulty with the Premiers' positions is that while a move to the latter approach could result in lower rates on manufactured goods leaving the prairies, it could also result in higher rates on low value bulk products which often move at rates close to cost since these products (coal, sulphur and grain) compete on world markets and the shipper must pay the freight bill to the export port. As discussed below, there is no evidence to support the notion that freight rates are the major factor in determining location of industry.

To the contrary, between 1960 and 1984 it is estimated (based on DOT figures) that the federal government spent about five billion dollars in direct railways' subsidies in lieu of freight rate increases with little in the way of new industry being developed.

In 1984 Waters concluded his analysis on the freight rates and regional development by stating:

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"...the ability of shippers to pay high freight rates reflects the underlying profitability of the products being transported. High costs and/or lack of market are what inhibit development. The discriminatory elements in commercial freight rates reflect rather than determine these underlying economic conditions. Industrial development and diversification are often sought in response to political-social concern, i.e., apart from the economic merit of the proposals. But efficient markets including those in transportation will not foster un-economic developments."

As previously indicated, Mr. Marchand's philosophy in 1973 was to ignore such rationale and to allow the west an opportunity to document its freight rate grievances. The results of the two major freight rate studies (see Page 162) failed to provide the west with a documented case. To the contrary, both studies questioned the economic soundness of traditional western arguments. As a result, the two studies (although publicly funded) were never officially released to the public. Over time, the studies were made available to professional consultants or academics on request to one of the five governments involved. As part of Mr. Marchand's sincere desire to come to grips with this issue, freight rates increases on the so-called "across the board items" (affecting 22 percent of rail revenue) were frozen at WEOC for eighteen months pending the completion of the joint freight rate
studies. The freeze would eventually cost the public purse $157 million dollars and nothing of substance was achieved. The freight rate issues raises an important question as to whether facts and analysis play any role in the development of transport policy in a federal state like Canada.

Did these two major federal-provincial studies on freight rates end the debate on western alienation? No, they did not! As Allan Tupper observed, "...at separatist rallies (during the mid 1970s) and in more polite forums, the hideous effects of freight rates and tariffs are routinely advanced as universal truths."84 As former Saskatchewan Premier Allan Blakeney noted, "Westerners believe that federal policy constrains their region and in politics, beliefs and perceptions matter."85 The major failure of WEOC was not lack of response on the part of the federal government but more so that few of the western claims of discrimination stood up to analysis and, in many cases, the west had no common policy. The fact that the federal government did not publicize the results of the studies relates to the point made in Chapter One that the provinces are "free" to attack Ottawa but the federal government refrains from such tactics.
The perception that regional disparities exist on the prairies can be traced partly to the rhetoric of provincial Premiers or their lack of common policy positions on major areas affecting the economic development of the prairies.

Westmacott and Dore acknowledge the difficulties the west, or even the prairies as a region, face when attempting to establish intergovernmental cooperation.

They cite factors such as differing political affiliations, the existence of problems peculiar to one province and inequities in the distribution of resources could impede the development of regional policies. Westmacott and Dore further argue that, "...each provincial Premier will continue to act in the best interests of his own province when the occasion demands."86 In citing traditional transportation grievances with little substance to support them and by avoiding the real issues of the 1970s, the prairie provinces had little impact on changing national transportation policy. Indeed, while the prairie governments devoted their time and ever-increasing expertise on historical grievances, major transportation problems were developing. A railway strike in the Fall of 1973 created a bottleneck in grain shipments and by the
Spring of 1974 - despite record grain prices - western producers were unable to get all their grain to ports. In addition to lost or deferred grain sales, producers were paying vessel demurrage at the ports. These were reasons that Mr. Lang wanted to turn his attention to the grain sector despite the objections from the western Premiers.

It was also at this time that the grain handling and transportation system reached a point where it was becoming increasingly difficult to move traffic efficiently. Due to depressed revenue as a result of the Crow's Nest Pass Rates (set at 1899 levels), the railways ceased branchline maintenance and purchase of rolling stock in the 1950s and the effect of this policy became obvious in 1974. Table 8 shows the agenda of an FP-COWT meeting held subsequent to WEOC. At the insistence of the prairie governments, neither the issue of branchline rationalization nor the Crow Rate can be found on the agenda. The agenda items are all provincial grievances and it is obvious that such a lengthy list of items could never properly be addressed in a one-day meeting. Is such an agenda the price we pay for federalism? In the early 1970s, countries with central planned economies such as West Germany were transforming their economies towards high technology. It is difficult to determine how the
Table 8: Federal-Provincial Committee on Western Transportation Committee of Minister's Meeting

AGENDA

1. Committee of Officials' Progress Report

2. Priority Items

1) The Rapeseed Decision
2) Rail Freight Rate Freeze
3) Rail Cost Disclosure - 6 Specific Requests
4) CTC Rate Review - 22 Anomalies
5) CTC Procedures (Section 23) Rate Cases
6) Rate Grouping
7) Federal-Provincial Highway Programs
   (a) Highway Strengthening
   (b) Western Northlands
   (c) Western Highway Minister's Resolution
8) British Columbia Ferries
9) Ports - Churchill and Prince Rupert
10) Western Region Harbours Board
11) Air Matters
   (a) Regional and Third Level Air Carriers
   (b) Air Bilaterals

3. Discussion on Committee Studies

1. Railway Pricing Proposals
   (a) Equitable Pricing Technique
   (b) Destination Rate Level Principle
2. Railway Roadbed Costs
3. Discussion on Disclosure of Rail Traffic and Cost Data to Consultants
4. Equal Cost Contributions by Government to All Modes of Transport
5. Selective Developmental Assistance

4. Committee of Official's Tasks

1. Projected Committee Tasks
2. Chairmanship of the Committee of Officials
3. Role of Core Group
4. Budget

5. Other Matters

Source: Federal-Provincial Committee on Western Transportation Annual Report - 1974

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resolutions of the so called priority item as the FP-COWT agenda would accommodate efficient policies to make Canada competitive in world markets.

This partially explains the strategy of Mr. Lang when he became the Minister of Transport in 1975. As a western minister his priority was to address the immediate transport problem facing western Canada: the adequacy of the grain handling and transport system. At the core of this issue lay the long standing Crow Rates.

Summary

The purpose of this chapter was to trace the evolution of national transportation policy to establish a context for the discussion of the Crow Rate as an issue in the following chapter.

Bearing in mind that the Crow Rate was established in 1899 it was necessary to examine the transportation environment of that period. At the turn of the century throughout Canada, but particularly in western Canada, there was a perception that railway building was paramount and could by its very existence lead to progress and
economic development. Related to this theme many historians wrote that MacDonald's National Policy and Laurier's Railway Building Policy were examples of governments having the capacity to establish coherent nation-building programs. However, it is argued in this chapter that both MacDonald's National Policy and Laurier's Railway Policy were actually ad hoc, parochial and costly.

The policies were unable to match the expectations of an emerging western region. In the early part of the 20th Century, following the formation of Alberta and Saskatchewan in 1905, these unrealised expectations laid the foundation for western alienation and railway bashing.

By the 1930s both the railway and grain handling systems were vastly over-built. However, the emerging federal-provincial conflict over transport issues prevented any system rationalization from developing. Part of the problem was the shared jurisdiction between the two levels of government with the provinces having jurisdiction over the road system and the federal government over the railway system. The provinces embarked, in the 1930s, on a major road-building program which enabled trucks to attract traffic from the railways,
leaving both national railways with an expensive overbuilt system.

The evolution of the federal department of transport (DOT) was described to demonstrate that as recently as 1970, this department had only a narrow national transportation policy role. As a result, the development of transportation policy in Canada remained rooted in railway ideology of which the Crow Rate was a major component. What national policy that existed was *ad hoc* and hardly any coordination existed between the federal government and the provinces in transportation.

The chapter identifies the need for national transportation policy but it also identifies that the need for such a policy by itself was insufficient to produce change. No major over-haul of transport policy was attempted following passage of the 1967 *National Transportation Act*, until individuals such as Jean Marchand and James Davey arrived on the scene. As will be identified in the next chapter, individuals played a major role which led to a change in the Crow Rate policy. In the determination of national transportation policy a strong case can be made for the "great-man" theory.
Also discussed was the Western Economic Opportunities Conference of 1973 and attention was devoted to the freight rate issues emanating out of that conference. The chapter examines the perception of both federal and provincial politicians that a valid case could be made to support the notion of freight rate discrimination. The fact that a case could not be substantiated through joint federal-provincial studies leads to a number of interesting conclusions relevant to the Crow Rate issue. First, there is a gap between the perceptions held by politicians, both at the provincial and federal levels, in contrast with the facts. Second, that the issue of freight rate discrimination breaks down when examined on a specific rate/movement basis and third, the federal government is reluctant to disprove positions taken by the provinces. The provinces remain free to criticize the federal government when they choose but the opposite rarely occurs. As a result, whenever the federal government chooses to change national policy, provincial support can be a crucial factor.

Up until the 1960s, the most important factors shaping transport policy were the conflicts between the federal and provincial governments and the unwillingness of the federal government to develop a national
transportation plan. Interest-group action as a barrier or facilitator to change only became more apparent in recent years. The role of interest-groups in policy development, as is documented in the next chapter, did take on more importance in the Crow Rate debate of the 1970s and 1980s.


3 John Schreiner, *op. cit.*., p. 1.


7 John Schreiner, *op. cit.*., p. 27.

8 John Schreiner, *op. cit.*., p. 27.


14 Friesen, *op. cit.*., p. 294.

15 Friesen, *op. cit.*., pp. 189.


19 Ibid., pp. 140.

20 Ibid., p. 140–141.

21 Ibid., p. 143.

22 Ibid., p. 152.


26 Robert Chodos, op. cit., p. 3.

27 Atlas of Saskatchewan, p. 17.

28 Ibid., p. 174.

29 Canada Year Book, 1927, p. 528.


31 Leslie T. Fournier, op. cit., pp. 20 and 42.

32 Atlas of Saskatchewan, p. 17.

33 Leslie T. Fournier, op. cit., p. 32.

34 Michael Bliss, op. cit., p. 285.
35 Royal Commission on Transportation, Queen's Printer, Ottawa, 1932, p. 21.

36 Ibid. p. 21.

37 Canada, Commission on Grain Handling and Rail, Supply and Services, Ottawa, 1976, p. 76, 79, 83.

38 Barry Wilson, Beyond the Harvest, Western Producer Prairie Books, Saskatoon, 1981, p. 130.


40 Barry Wilson, op. cit., p. 131.

41 Henry Ropertz, "You can Choose the Next Grain Handling and Transport System", Remarks to a Seminar on Grain Transportation Innovation, Western Canada Wheat Growers Association, November 15, 1985, Brandon Manitoba, p. 3.

42 Barry Wilson, Beyond the Harvest, p. 134.

43 Barry Wilson, Beyond the Harvest, p. 134.

44 Barry Wilson, Beyond the Harvest, p. 135.


46 Ibid., p. 153.


48 Ibid., p. 634.

49 John Schreiner, op. cit., p. 59.


53 Atlas of Saskatchewan, p. 175.

54 John Schreiner, op. cit., p. 70.

55 Atlas of Saskatchewan, p. 175.


62 Ibid, pp. 409-413.


NOTES


70Ibid, p. 456.


73Alan Tupper, "Mr. Trudeau and the West" in Western Separatism, edited by Larry Pratt and Garth Stevenson, Hurtig, Edmonton, 1981, p. 91.

74Ibid, pp. 91-92


76Albert Hansard, March 14, 1974, p. 183.

77Albert Hansard, October 23, 1974, p. 3135.


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NOTES


84Alan Tupper, "Mr. Trudeau and the West", p. 91.


CHAPTER FOUR
CROW RATE AS AN ISSUE

4.0 Introduction

The previous chapter discussed the development of national transportation policy in Canada within the framework of the changing structure of federalism. This chapter begins the examination of the Crow Rate within the framework of national transportation policy and within the context of emerging provincial government forces and special interest group pressures.

The analysis undertaken in this chapter is a longitudinal study of the federal government's Crow Rate reform policy over a ten-year period with emphasis on the period between 1980 and 1983. The Crow Rate lends itself to this analysis because grain freight rates are a federal responsibility and there were strong economic reasons for change. Whether the rates were changed or not, the results would impact directly on the three prairie provinces.

The chapter provides a historiography* of the Crow Rate issue between the 1880s and the 1980s with specific emphasis placed on the Crow's Nest Pass Agreement of 1897.

*The term historiography is chosen rather than history because the chapter provides both a history and an analysis of the Crow Rate issue.
An analysis is undertaken of the changes over time to that agreement. This is a critical issue since opponents to Crow Rate reform argued that, "a deal is a deal".

No attempt is made to provide a definitive history of the Crow Rate since this thesis demonstrates the debate over the Crow Rate consistently confused ideology with fact. Therefore, considerable attention is focused on two time periods: the period between 1970 and 1980 (period of uncertainty); and, the period between 1980 and 1983 (the period of change). The latter period is the major focus of the thesis.

The second part of the chapter examines both the inter and intra-governmental debates and the inter-action between government and the various interest groups such as the railways and the agricultural organizations both in western Canada and Quebec.

4.1 Crow's Rate Historiography

On June 29, 1897 the Parliament of Canada passed an Act* to authorize a subsidy for a railway through the Crow's Nest Pass from Lethbridge, Alberta to Nelson,

*The Crow's Nest Pass Agreement and the Act of Parliament to Authorize a Subsidy for a Railway through the Crow's Nest Pass are contained in Appendices I and II respectively.
British Columbia (330 miles). The Act also enabled the Government of Canada to enter into an Agreement with the Canadian Pacific Railway Company which was to construct the railway. In return, the Railway would receive a subsidy of approximately $3.6 million. As part of the agreement, Canadian Pacific would operate the 330 mile railway forever and also would reduce the general rates on a list of settlers' effects from eastern to western Canada and transported over all Canadian Pacific lines. In addition, the Company agreed to establish a set of rates to move grain at levels determined in 1898 and 1899 and never to charge higher rates. The rates were to be in effect to all listed grain products moving over Canadian Pacific lines east to Fort William and Port Arthur. As will become apparent, later in this chapter, the decision of the Canadian Pacific Railway to agree to rate reductions to be in effect for perpetuity will rank as one of the more costly mistakes of any Canadian business in Canada's history. According to the MacPherson Commission, CP Rail began losing money moving grain in 1958 and lost money every year thereafter to 1983.

Pre-1897

To attempt a review of the historiography of the Crow Rate issue is a difficult assignment.
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 to 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.

Einstein had an epitaph that comes to mind when dealing with issues that have been distorted over time. "The right to search for the truth also implies a duty. One must not conceal any part of what one has found to be true." 2

As indicated in Chapter three, railway construction and rail freight rate issues dominated relations between the federal government and provinces such as Ontario, Manitoba and British Columbia in the late 19th Century. These issues would continue to predominate the political scene in western Canada for 100 years! Ironically, less than a year after the Canadian Pacific Railway had reached the Pacific in 1885, a gasoline driven velocipede built at the Benz factory in Germany led to the birth of the automobile.

Canada's pre-occupation with railways still exists today, witness the emphasis on railway issues during the debate over national transportation policy.
In 1871, the concern for British Columbians was rail access to the rest of Canada. A railway to the Pacific was a condition of Confederation for British Columbia* and as a result the federal government entered into an agreement with the Canadian Pacific Railway Company (CPR) to construct a railway line between Sudbury, Ontario (the western terminus of existing rail lines) and Vancouver. The agreement granted the CPR 25 million acres of land (eventually to be selected from available land in the prairies), $25 million dollars in cash and some 713 miles of publicly owned line valued at $38 million dollars. Some additional monopoly privileges were also granted until profits topped 10 per cent of the investment. 3

The 1881 Agreement is important since the benefits bestowed upon the CPR have been identified by organizations such as the National Farmers Union and the Government of Saskatchewan 4 as being overly generous to the degree that the CPR would not require relief from the Crow Rate in the 1980s. However, even a popularized version of the building of the CPR, such as Pierre Berton's *The National Dream 5, outlines the situation where all competing railways demanded more concessions than were eventually granted to the CPR in

*The Crown Colony of British Columbia joined Canada on July 20, 1871 on condition that a railway linking eastern Canada with the Pacific Coast would be constructed by 1881.
1881. According to Vernon Fowke in a Presentation on behalf of the Government of Saskatchewan to the Macpherson Royal Commission on Transportation in 1960:

"...the purpose which rendered its organization necessary were national purposes, of extraordinary import and exceptionally difficult of attainment. The price to the Canadian people for assurance of success was little enough in comparison with the certain cost of failure."\(^6\)

A brochure published by the Alberta Wheat Pool in 1978 identifies the grants of 25 million acres and 25 million dollars as a myth in the context they were not designed to support the railways continued operation.\(^7\)

In 1961, the Macpherson Commission examined the question that the benefits should be used to operate the railway. It reported: "We find no evidence that either the donor or the receiver contemplated such action. Grants were made to get the railway built."\(^8\)

The link between Sudbury and Vancouver was in fact completed in 1885. It was completed at an enormous cost both in dollars and humans (at least 62 Chinese were killed accidentally during the construction of the line.
through the Rocky and Coast mountain ranges). While those who lost their lives have never received the recognition that was bestowed on the Van Hornes and Stephens*, one has to accept that the line was successfully completed due to the:

...engineering expertise, drive, foresight and business acumen so ably demonstrated by the management of the company. The company was therefore in a position to benefit from any further initiatives of the federal government toward using transportation to accomplish national objectives.\(^9\)

That situation was soon to develop but, in the interim, in 1888 the federal government repeated the monopoly clause in the Canadian Pacific Charter but sweetened the pill by providing the CPR with a loan interest guarantee on a forthcoming issue of $15 million of bonds. Also, in response to allegations of charging unreasonable freight rates, the CPR began to lower its rates on grain (see Figure 4: Grain and Flour Export Rates).

*William Van Horne, an American, was in charge of construction. George Stephen was a Scottish financier who negotiated the 1881 Agreement with Canada to construct the railway.
The Crow's Nest Pass Agreement and the Act of Parliament authorizing the payment of subsidies to the Canadian Pacific Railway arose out of events taking place in the 1890s in the Kootenay region of southern British Columbia.

This area was known to be rich in minerals and attracted considerable interest. The most notable was the Great Northern Railway owned by Jim Hill, who was a member of one of the syndicates that entered a bid to build the Pacific Railway to Vancouver. Hill succeeded in building a branchline into Nelson, British Columbia from Spokane in 1893. "The penetration of this branch line into an area of Canada, particularly one with such potential, was viewed with alarm as an infringement on Canadian sovereignty."10

The Canadian Pacific Railway had leased a line from Dunsmore Junction to Lethbridge in 1882 (see Map No. 1 Crow's Nest Pass Rail Lines) and began negotiating with the Conservative Government in Ottawa for a subsidy to cover the cost of construction of a line between Lethbridge, Alberta and Nelson, British Columbia, a distance of 330 miles.
The Government of British Columbia had entered the picture when it issued a Charter to the British Columbia Southern Railway to construct a line between Penticton and Nelson. The British Columbia government also began to encourage the construction of a rail link between Lethbridge and Nelson to prevent the mineral ores of the region flowing down to Spokane.

The question arises as to why the CPR required a subsidy to build a relatively short rail link which would give them a monopoly position? According to Michael Bliss, the CPR was facing mounting competition from Hill's Great Northern Railway which forced CPR to run steamship service on the Columbia and the Okanagan Lakes, buy mines and refineries in the Kootenays, and finally offer to build a railway through the Crow's Nest Pass. At the same time, the CPR was in financial difficulty and required a hefty subsidy to build the line.\textsuperscript{11}

Freight rate concessions were all that CPR could offer the Laurier government in 1897 in return for the subsidy. It is interesting to note that Jim Hill soon lost interest in the Kootenay region but the CPR's concessions in grain freight rates remained in effect.
Source: Extracted from An Historical Analysis of Railway Export Grain Rates and to the Crow's Nest Pass Agreement of September 6, 1897 by Joseph C. R. Hanley, 1980.
*The Crow's Nest Pass Railway was completed in the autumn of 1898 to the south end of Kootenay Lake and from that point steamers and barges carried carloads of the freight unbroken to Nelson. The Great Northern Railway reached Nelson in 1895.*
It is also interesting to note that in a comprehensive analysis of the Crow Rate Agreement, undertaken by the former Executive Director of the Railway Transport Committee of the Canadian Transport Commission, Joe Hanley,\textsuperscript{12} quotes a passage attributed to Sifton by John Dafoe in \textit{Clifford Sifton in Relation to his Times}:

"...I remember as a young Minister in Laurier's cabinet, Van Horne and Shaughnessy said a line into the Kootenay mining district would not be considered for fifteen years. Also I remember that within six weeks the same two gentlemen came into my office and said they had to build this line and wanted a large bonus for doing it...we gave them this bonus...They built the line".\textsuperscript{13}

A review of the full passage attributed to Sifton by Dafoe is as follows:

"...we gave them the bonus (against the public sentiment of two-thirds of the people in Canada). They built the line (and Kootenay mining development saved the CPR and saved a good many other things in Canada.")\textsuperscript{14}

Certainly there is no single answer as to why the CPR allowed itself to be part of an agreement which contained a fixed level of freight rates. But historian
Michael Bliss states that it was common practice in those days for the Railways to accept rate ceilings, because they ultimately believed costs would fall.\textsuperscript{15}

As reflected in the Crow Rate Agreement there were a number of reasons and objectives as to why the agreement was negotiated. These included:

1. the rapid economic exploitation of the mineral ores of the Kootenay region;
2. the effective integration of this region into the economic mainstream of Canada rather than the United States;
3. the stimulation of agricultural settlement on the prairies by means of fixed freight rates on grain and lower rates on westbound settlers' effects;
4. the granting to the CPR of a monopoly position in the Kootenay region which increased in importance when the CPR took over the smelter at Trail.

There is considerable literature available which provide varied support for the above listed reasons behind the Crow Rate Agreement. However little historical analysis exists which provides a point of view as to whether the above reasons were either eventually met or to what degree the Crow Rate Agreement was a factor in these objectives. The analysis that is available is of the
contemporary nature. This is probably the case because until the late 1950s, the Crow Rate was never really a problem to either the grain shipper or the CPR.

The first area that needs to be examined is the rate level itself. The actual rate decrease of three cents per 100 pounds, to come into effect in 1898 and 1899, was small in comparison with the approximate 30 per cent decrease in the rates made by the CPR voluntarily (in response to public demand) in the years prior to 1897 (Figure 4). The Crow Rate Agreement was signed at the end of a 23 year depression during which the Canadian wholesale price level had fallen by some 35 per cent. It was also signed - although the parties were unaware of this at the time - on the eve of the greatest boom in Canada's history, during which the terms of trade shifted radically in Canada's favour.16

During the Crow Rate debate in the 1980s proponents of "no change to the rates" often cited the economic boom which followed the signing of the Crow Rate Agreement as a national benefit to Canada, and therefore the prairie grain producer should never have to pay an increased burden to move his product to market.
In 1940, the Royal Commission on Dominion-Provincial Relations examined the period between 1896 and 1913 which featured a million new settlers on the prairies and a growth in wheat exports from 20 million bushels to over 200 million bushels. The Commission concluded that low interest rates, British investor interest and the phenomenal decline in ocean freight rates, rather than the existence of fixed rail freight rates on grain, were the major reasons for the growth of western Canada.\footnote{17}

### 4.1.1 Period the Crow's Nest Pass Rates Were in Effect

As already discussed in Chapter Three, the Crow's Nest Pass Rates for grain were not the applicable rates during much of the period before they were superceded by statutory rates in 1925. As illustrated in Figure 4 (Page 188), the rates were actually lower. However, the Crow Rate structure on the thirteen westbound commodities lasted from 1897 to 1918, some 21 years, and made a brief restricted reappearance for three months in 1924 and for about seven months in 1925.

The effect of the rates however, loomed large in the eyes of prairie producers. The situation has been described by McDougall as follows:
The rate reductions of 1898-99 (Crow's Nest Rates) happened to coincide with a major advance in the fortunes of the prairie West. They came when yields per acre, and prices per bushel, were both rising for other reasons and they reinforced these trends. Under all these stimuli, acreage expanded rapidly. The resulting capital investment in new farms, and in the additional railroad mileage and new towns to serve them, brought the country out of the doldrums of the 1890s first into prosperity and ultimately into the biggest boom between the 1850s and the 1950s.

The result of this remarkable development was to create a mystique in which the Crow's Nest Rates became the fount of all good things and the foundation of agricultural prosperity. This post hoc, ergo propter hoc argument* attributes to the Crow's Nest Rates all the consequences of rising grain prices in western Europe, of better tillage and of ample rainfall at home.

Up to 1914 the Crow's Nest Rates on grain were good development rates, good for the railways and good for shippers; thereafter they were an anachronism. The primary development had been accomplished and it was time to incorporate them into the general rate structure and to bring them within the jurisdiction of the Board of Transport Commissioners.18

It is almost academic to engage the question of the impact of the Crow Rates on the economic development of Canada since the rates allowed for under the Crow Rate Agreement were hardly ever in effect (see Figure 4).

*post hoc, ergo propter hoc means after this, therefore on account of this. (Fallacy Argument)
More important than the actual published rates, which were almost always below the Crow Rate scale, were the alterations to the Agreement itself.

In 1918, as a result of greatly increased operating expenses resulting from the conditions of the 1914-1918 World War and the adoption of the McAdoo Award and scale of wages to Canadian Railway employees - pursuant to Order-in-Council P.C. 1768 - the Canadian freight rates were increased under Order-in-Council 1863, effective August 12, 1918. This Order-in-Council was passed under the authority of the *War Measures Act, 1914*. This had the result of establishing, for the first time, rates on a higher basis than the Crow Rate scale.

Subsequently in July, 1919 a *Special Act* under provisions of the *Railway Act (Section 325:5)* was established which allowed the Crow's Nest Agreement to be disregarded for a period of three years.

The three year period was due to end in July, 1922 and as such the issue became part of the overall discussions on freight rates which dominated the Parliament of the early 1920s under Prime Minister Mackenzie King. One of King's problems was placating the Progressive Party
which had scored a major victory in the 1921 general election on the prairies, when it won 65 seats. In 1922 the economy had slowed and the grain market and prices were depressed. During the debate the CPR sought to have the Crow Rate Agreement permanently shelved.

In June, 1922 the *Railway Act (1919)* was amended to restore the Crow Rate Rates on export grain and flour as of July 6, 1922. The suspensions were continued on westbound traffic from Eastern Canada until July 7, 1924.\(^{21}\)

### 4.1.2 Replacement of Crow's Nest Pass Rates by Statutory Rates

On July 27, 1924 the railways restored the Crow Rates on the 13 westbound commodities but restricted their application to those CPR points and lines in existence in 1897 (see *Table 9: Changes to the Crow Rate Agreement*). The Canadian National Railway (CNR) restricted its applications to those points on its lines that were competitive with the CPR. The result was chaos and the Board of Railway Commissioners was flooded with complaints. The Board not only rejected the complaints but also in turn attempted to reinstate the higher rates previously in
effect. On appeal, the Supreme Court ruled the Board had no power to change rates fixed by statute. The issue was returned to the government. The Supreme Court held that the Crow Rates could only be applied to those CPR lines in existence in 1897.

Table 9: Changes to the Crow Rate Agreement

<table>
<thead>
<tr>
<th></th>
<th>1897</th>
<th>1925</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railroads</td>
<td>1</td>
<td>2</td>
<td>3*</td>
</tr>
<tr>
<td>Miles of Rail line</td>
<td>3,000</td>
<td>6,000</td>
<td>17,000</td>
</tr>
<tr>
<td>Delivery Points</td>
<td>289</td>
<td>1,600</td>
<td>1,100</td>
</tr>
<tr>
<td>Volume of Grain (M of Bushels)</td>
<td>24</td>
<td>340</td>
<td>1,250</td>
</tr>
<tr>
<td>Number of Products Eligible</td>
<td>11</td>
<td>45</td>
<td>60</td>
</tr>
</tbody>
</table>

1Crow Rate Agreement
2Crow Rate Structure under the Railway Act
3Western Grain Transportation Act
*Grain moved by the British Columbia Railway for export became eligible for assistance in 1983.
The prairie provinces, in a petition to the Governor-General in Council sought to have the entire Crow Rate Agreement reinstated. Given that the thirteen westbound commodities i.e., the settlers' effects were now being produced in Winnipeg, it made no sense for the prairies to urge a subsidy to make Toronto goods competitive with goods available in Winnipeg. The prairie provinces must have been aware of this situation but were probably unwilling to support any change to the original agreement for fear of what such a precedent would have on future grain rates.

Despite the pressure being brought to bear by the prairie provincial governments, one Premier, James Gardiner, who was eventually to become one of the most powerful regional ministers in Canada under Liberal Prime Minister Mackenzie King (as discussed in Chapter two) was not convinced that a return to Crow Rates, in their original form, would be beneficial either to the prairies or to Canada. In a letter to the Prime Minister in 1925 he wrote:

"I am inclined to agree that the rates provided for in the Crow's Nest Agreement are so far out of date as to warrant the drawing up of a new schedule... so great a change has taken place in the comparative volume of east and west traffic on certain commodities, such as apples and cattle; and there has developed
the new element in the great volume of wheat which is being shipped to Vancouver; that it would be idle to think that the Crow's Nest Agreement could be re-established and retained in its present form for any considerable length of time".23

In its decision on February 16, 1925 the Supreme Court held that the Crow's Nest Pass Rates could be applied only to those CPR lines in existence in 1897. Rather than allow freight rate discrepancies to be perpetuated, Parliament subsequently approved legislation to amend the Railway Act of 1919. This legislation indefinitely suspended the Crow's Nest Pass Agreement but continued the Crow Rate structure on grain and flour shipped through Fort William. Under the amendment all eastbound grain shipments on all railroads were covered. The Crow Rates were no longer to be applied to westbound "settlers' effects". As a result the CNR was now obliged to offer the Crow Rate in perpetuity even though it never received any of the benefits related to the Crow Rate Agreement nor did it ever commit itself to move grain at a fixed level forever.

At the time of the Crow Rate Agreement all export grain was shipped out through Fort William, Ontario. By 1923-24 the Pacific port of Vancouver began to become a major export terminal. By 1930-31 one-third of all bulk
grain exports went out of Vancouver. As a result the statutory rate structure was applied to Pacific ports in 1927* and subsequently to the Manitoba port of Churchill in 1931. There were no further changes to the rate structure itself till 1983 although the definition of grain was consistently broadened over time to become grain and grain products. There was one exception. In 1954 the Board of Railway Commissioners authorized the railways to set their rates on domestic grain without regard to the level of the Crow Rate Structure. Thus, since 1954, domestic rates applied for movements of grain within western Canada and those eastward beyond Thunder Bay. However subsidies for grain used as feed in western Canada have been available and still are in the form of Feed Grain Assistance.

4.1.3 Implications of the 1897 Agreement

Before proceeding to an analysis of the period between 1970 and 1980 - a decade of uncertainty in the grain handling and transportation sector - it is essential to recognize the context of the 1897 agreement with the many alterations to that agreement which eventually rendered it obsolete.

*The decision to extend the Crow Rate to Pacific Ports and Churchill was taken by the Board of Railway Commissioners under the Railway Act of 1919 which provided the Board with unlimited powers to set rates.*
During the Crow Rate debate in the 1980s, the argument was made that the CPR agreed in 1897 to move grain at levels set in 1898 and 1899 in perpetuity.

The Supreme Court ruled that the CPR had only to provide such service on rail lines in existence in 1897. As shown in Tables 9 and 10, conditions changed greatly between 1897 and 1925 when the rates were made statutory and between 1925 and 1983 when the new Western Grain Transportation Act was passed.

It is difficult to determine how the CPR could be expected to adhere to an agreement which had been altered as extensively as had the Crow Rate Agreement. All the changes were made in the interest of the wheat economy of western Canada. However, to writers such as Robert Chodos, the Crow Rate Agreement was just one part of the overall CPR strategy to develop a large corporation at the expense of the Canadian taxpayer, and as such the CPR should be expected to sustain any losses it incurred in the movement of grain. "If the wheat economy is to be maintained", Chodos wrote in 1973, "some people have always considered it reasonable that the chief corporate beneficiary of that economy, the Canadian Pacific Railway, would at least share in the cost of maintaining it".24
Table 10: Grain Export Volume and Price

SELECTED YEARS 1883–1985

<table>
<thead>
<tr>
<th>Crop Year</th>
<th>Exports (M)</th>
<th>Price Per Bushel ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1882-1883</td>
<td>6.0</td>
<td>1.08</td>
</tr>
<tr>
<td>1898-1899</td>
<td>24.6</td>
<td>.93</td>
</tr>
<tr>
<td>1924-1925</td>
<td>346.5</td>
<td>1.51</td>
</tr>
<tr>
<td>1932-1933</td>
<td>207.0</td>
<td>.54</td>
</tr>
<tr>
<td>1945-1946</td>
<td>342.9</td>
<td>1.25</td>
</tr>
<tr>
<td>1960-1961</td>
<td>277.3</td>
<td>1.67</td>
</tr>
<tr>
<td>1970-1971</td>
<td>504.0</td>
<td>1.67</td>
</tr>
<tr>
<td>1980-1981</td>
<td>700.0</td>
<td>6.16</td>
</tr>
<tr>
<td>1981-1982</td>
<td>775.0</td>
<td>5.52</td>
</tr>
<tr>
<td>1982-1983</td>
<td>875.0</td>
<td>5.33</td>
</tr>
<tr>
<td>1983-1984</td>
<td>807.2</td>
<td>5.36</td>
</tr>
<tr>
<td>1984-1985</td>
<td>756.0</td>
<td>5.16</td>
</tr>
</tbody>
</table>

Source: (1) Historical Statistics of Canada 1965
(2) Canadian Wheat Board Annual Reports (1984–85)
(3) Canadian Grain Commission Annual Reports.
(1945–46 to 1984–85)
Chodos in effect was advocating a Marxist position that is beyond the scope of this thesis. As will become evident in Chapter Five, the Crow Rates were changed not so much to provide additional revenue to CP Rail as it was to effect changes that would lead to a sounder economic base, which was in fact hindered by the Crow Rate structure itself. This is a classic example of stressing ideology over the long-term interests of prairie grain producers. The CPR, as a large corporation, is to be punished (sustain economic loss moving grain) through the maintenance of fixed freight rates which result in suppressing the development of livestock production and secondary processing of agricultural products.

The history of the Crow Rate chronicles the development of Canada. Policy is established on an expedient, *ad hoc* basis without apparent regard for long-term implications. Through the wisdom of hindsight it is easy to question the strategy of the CPR to commit itself to fixed freight rates in perpetuity. However, it is fair to speculate that back in 1897 no one could foresee the dramatic growth of the Prairies that took place in the early twentieth century. It would have been impossible to predict the increase in grain production from 24 million bushels to over a billion bushels. The world of 1897 was

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one of relatively long periods of growth and decline in prices. No one could foresee the huge bouts of inflation which Canadians had become accustomed to since the end of the 1939-45 World War.

As will become evident in the following sections, the call for a change in the Crow Rate was not so much an attempt to relieve the burden of the fixed rate from either CPR or even the CNR which was forced by Parliament to honour the Crow Rate, as much as it was to effect changes to assist the economic development of western Canada. Chapter six discusses how successful were the changes that eventually were made.

4.2 Period of Uncertainty (1960-1980)

As indicated in the previous section, the CPR came to regret its decision to agree to set grain freight rates at a fixed level back in 1897. Given that example it is strange to note that Parliament, in 1925, chose a similar path and did so with emphasis i.e., fixed rates were to be applied on all existing lines and all lines constructed in the future. The future was slow in coming but by the late 1960s the implications of this decision was becoming serious.
The railways refused to invest in branchline maintenance or to purchase new rolling stock for grain. In turn they advocated the abandonment of thousands of miles of prairie branchline. This caused great concern on the part of the grain handling companies which believed that without some firm decisions on the status of the rail line network they could not progress with their own modernization (consolidation) program. During the late 1960s there was also concern for the capability of the prairie region to sustain crop yields due to soil erosions. This valid concern soon became lost in the predictions that exports could exceed a billion bushels a year with improved transportation.

This section analyzes the crisis which hit the grain sector during the late 1960s and provides insight on those events in the following decade which directly impacted on the 1980s, a period in which the Crow Rate was finally changed.

In comparison to the period between the Crow Rate Agreement of 1897 and the transformation of that agreement with the statutes of Canada (Railway Act) in 1925, the subsequent period up to 1970 was significantly less hectic. As indicated in Chapter 2, the topic of freight
rates had not dissipated but the focus was on the broader question of the freight rate structure and its impact on western Canada.

However, the matter of grain rates were examined as part of a larger review in 1949 by the Turgeon Royal Commission on Transportation. It addressed the question, should the Crow Rates remain under control of Parliament? The Commission reported that:

...the real intention of amending the Railway Act in 1925...was to put an end to the agreement of 1897 as between the two parties to it and to prescribe instead a statutory stabilization of certain freight rates binding on all railways. What was important was whether Parliament still looked upon western Canada's production of grain for export as an industry requiring special consideration in the national interest.

The Commission concluded that the Crow Rates should remain under control of Parliament and any change should be a decision for Parliament. Parliament took no decision on the Crow Rates but the issue did not go away.

During the 1950s the railways, already operating under the burden of regulations which dictated freight
rate levels on many commodities, were faced with a situation where they experienced ever-increasing operating costs to move grain but received a rate set at 1898 and 1899 levels.

Therefore, another Royal Commission on Transportation was launched in 1959-60 and the railways made a major presentation to demonstrate losses moving grain. The merits of this Commission were discussed in Chapter three. The MacPherson Commission undertook the first serious study in the cost of moving grain by rail and concluded that up to 1958 the railways probably did not lose money moving grain at the Crow Rate level but the Commission did determine that, in 1958, the railways lost $22.3 million that year transporting grain at the Crow Rate level. In concert with its overall attempt to relieve the railways from excess regulation and burden, the MacPherson Commission recommended that the railways should be entitled to a subsidy to compensate them for losses incurred. It was also the MacPherson Commission that undertook a detailed examination of the branchline system and reported that, in 1958, 8,600 miles of branchlines were unprofitable and cost the railways about $13 million per annum. Part of the problem was that the railways were losing traffic to the trucking industry on
the ever-increasing road network being constructed by provincial governments. The viability of branchlines became dependent on grain moving at freight rate levels set in the 19th Century. The MacPherson Commission recommended branchline abandonment and further subsidies to the railways for losses incurred on these lines.

The MacPherson Commission presented the Diefenbaker Government with a report which called for significant changes to transportation policy, the kind never before presented to a Parliament in Canada. Was Parliament able to discuss this significant report in an atmosphere that could result in fundamental changes to national transportation policy including the highly contentious issue of grain freight rates? The MacPherson Commission Report, delivered in 1961, came on the eve of one of the most turbulent periods in Canada's history. There were general elections held in 1962, 1963 and 1965 which resulted in minority governments. The Conservatives remained in office in 1962 and the Pearson Liberals formed the government in 1963 and 1965. During this period of time a freeze was placed on branchline abandonment and when the MacPherson Report was finally discussed in Parliament, as part of a new Transportation Act (Bill C-231), it was a Parliament in a minority situation. Moreover, 52 of the
97 Conservative seats were from the three prairie provinces.

Included in Bill C-231\textsuperscript{26}, submitted by then Transport Minister Jack Pickersgill, was the MacPherson Report recommendation calling for a direct grain subsidy. The inclusion of this section caused Saskatchewan's NDP Premier (Woodrow Lloyd) to express his "deep concern" that, "...the grain rates were even an issue requiring a solution", while Manitoba Premier Duff Roblin (PC) was "disappointed" and Alberta's Premier Manning (SC) went further, stating that "...it must occasion grave public concern that a subsidy of such magnitude be taken from public funds".\textsuperscript{27}

According to Howard Darling however, this reaction to the MacPherson Commission's finding on uneconomic grain services tended to divert attention away from its more sweeping proposals to scrap the existing structure of rate regulation. Notwithstanding Darling's point, this reaction did help to defeat the direct subsidy approach for grain as the Standing Committee on Transport defeated the proposal by one vote. A revised proposal was re-submitted and approved by the House of Commons and was incorporated in the \textit{National Transportation Act}. The revised proposal was a
disaster! It created two categories of branchline: those which were to be protected from abandonment and those which were unprotected or eligible for abandonment. The protected category (17,500 miles) was automatically eligible for subsidy if they were in fact uneconomic, and the unprotected category had first to be the subject of a railway abandonment application to the Canadian Transport Commission before a subsidy could be granted. In these cases the CTC had to determine that the branchline was uneconomic but required in the public interest. The railways were faced with a situation whereby they had to apply to abandon a line (even if they thought the line was required) before a subsidy could be granted.

Don Jamieson from Newfoundland was the Transport Minister between 1968 and 1972, the immediate period following passage of the NTA. During that three year period attention of the department focused on regional development matters of the Atlantic region and the Prairie region was, to a large degree, ignored and the federal Department of Transport remained relatively uninformed of the impending crisis in the western grain handling and transportation sector. This is partially explained by a review of the organization of the Department between 1968 and 1972. Less than one per cent of the Department's
manpower was assigned to surface transportation issues and all of the regulatory responsibilities for grain transport were assigned to the Canadian Transport Commission. Whatever expertise that was available to the government came out of the Office of the Minister Responsible for the Canadian Wheat Board.

The prairie grain handling and transportation system (GHTS) as shown in *Table 11: The Canadian Grain Production, Handling and Transportation System, (1980)* is huge, complex and dynamic.

In the early 1970s, that huge system began to cause major problems and the legacy of the Crow Rate was emerging as the major issue in the prairies. The Crow Rate affected both the movement and marketing of grain.

The three Prairie Wheat Pools were not formed until 1924 and the main theme of their formation was their advocacy of "orderly marketing". The founding leaders of the Pools reasoned that if prairie farmers "pooled" their grain deliveries, world grain prices could be influenced. Thus began the establishment of the key ingredient of Pool policy: market share. The Pools reasoned that if they could control the Canadian grain marketplace they could
dictate price. This was the dream that was sold throughout the prairies in the 1920s (at a time when wheat prices fell to $1.00 a bushel). One result of this campaign caused the Saskatchewan Government to pass legislation in 1931 which dictated that all farmers were required to deliver to Saskatchewan Wheat Pool. Shortly thereafter this piece of legislation was disqualified by the Courts.

Between 1924 and 1935 the Pools marketed their own grains under a joint agency (Canadian Wheat Pool). When grain prices fell to .55¢ a bushel at Thunder Bay in 1930 the banks attempted to close down the Pools. The federal government intervened and guaranteed loans to keep the Pools alive. In 1935 the Canadian Wheat Board (CWB) replaced the Canadian Wheat Pool but the CWB adopted the Pools policy of adding up each year's receipts and dividing them equally, according to quantity and quality, among all participating producers. Thus there are strong and deep historical links between the CWB and the Pools.

The CWB is the sole marketing agency for about 80 per cent of Canada's grain exports but it has not been successful in dictating the price of grain and even today it sells grain competitive to "Chicago" prices.
This set-back did not deter the Prairie Wheat Pools from placing emphasis on politics and a considerable amount of effort was made to ensure that the dream of "orderly marketing" would continue. Through its marketing powers in the *Canadian Wheat Board Act* the Board exercises persuasive control of both the grain handling and transport system.

It is not unfair to characterize the grain handling system as one using mainly administrative quantity mechanisms (under the Board's control) as opposed to price mechanisms, as the predominant methods to regulate and control the flow of grain through the system. Through the quota system the Board controls entry into the elevator system, and through control of railway car allocation, the Board controls the transport system. It is the Board that issues the actual shipping order to the railway as to where the railways should place an empty or pick-up a loaded car. However, the eight grain handling companies advise the Board as to which of their respective elevators should receive available railway cars.

The eight grain handling companies operate an oligopolistic elevator system with the three Prairie Wheat Pools owning about 65 per cent of the system.
As a result the three Prairie Wheat Pools, the Canadian Wheat Board and Senator Hazen Argue opposed change to the Crow Rate on the basis that change could move the system away from "orderly marketing" towards a more market oriented system and less regulation and control. The Commissioners of the Board are appointed by the federal government and as such the Commissioners did not openly oppose change but one Commissioner, Charles Gibbings did speak out particularly against changes to the Crow Rate.29 Prior to his appointment as Commissioner of the Wheat Board, Charles Gibbings was president of Saskatchewan Wheat Pool.
Table 11: **The Canadian Grain Production, Handling and Transportation System, Circa 1980**

| 148,000 | producers in the three Prairie provinces had |
| 47 | million acres planted and |
| 25 | million acres summer fallow to deliver about |
| 28 | million tonnes of grain and oilseeds per year to |
| 3,700 | country elevators located at |
| 1,500 | railway shipping points served by |
| 17,000 | miles of rail line. It is moved by |
| 13,000 | boxcars and |
| 10,000 | hopper cars with |
| 379 | locomotives to |
| 20 | terminal elevators (3.9 million metric tonne storage capacity) located at Vancouver, Prince Rupert, Thunder Bay and Churchill, Manitoba, from which |
| 21.9 | million tonnes worth |
| 3.4 | billion were exported from reserves for the 1977-78 crop year. |

The grain handling and transport system requires consistent and responsive policies. As a result Otto Lang from Saskatoon, Minister Responsible for the Canadian Wheat Board, began to play a larger role in the transport sector in lieu of Mr. Jamieson. First of all Mr. Lang formed the Grains Group, an organization comprised of officials with grain marketing, transportation and production expertise. This organization began a comprehensive series of studies on the Grain Handling and Transportation System (GHTS). The purpose of this was to provide Mr. Lang with the qualitative data he would require in subsequent policy initiatives. The federal Department of Transport had virtually no role in this process until Mr. Lang became Transport Minister.

Secondly, Mr. Lang was instrumental in establishing the Canada Grains Council also in 1969. The Council, comprised of representatives from all facets of the grain industry, was to act as a forum for discussion, provide a liaison with government and to reach a consensus for change. The Council was to provide a platform for Mr. Lang to launch many of his grain transport related initiatives. As such, the three prairie wheat pools withdrew their membership in 1973. The Secretariat of the Council devoted a lot of its time assessing the GHTS and
the three pools became concerned over the consequences of this attention. The third step in this overall strategy of Mr. Lang was to find an opportunity to launch his initiative that he could call the "Bold Approach" to address the problems of GHTS.

4.2.1 The Bold Approach

The general election of 1972, which resulted in the Liberals under Mr. Trudeau losing 46 seats of which 20 were in western Canada, was the prime reason that the Economic Opportunities Conference was held in Calgary in July 1973. The Conference (previously discussed) and its follow-up provided a new focus on the economic development of the west. Western resources and the transportation system, combined with the formation of OPEC, put western problems at the forefront of the Canadian agenda. It was also during this period that inflation became one of the central problems in Canada and both the western grain producer and the railway faced significantly rising input costs. The eighth general election in 17 years took place in July, 1974 and the Trudeau Liberals regained a majority government. The new Transport Minister was Otto Lang.

Mr. Lang had his Grains Group* officials prepare a

*By this time the Department of Transport officials began to play a significant role in the Grains Group
Memorandum to Cabinet as a high priority. The Memorandum, which included major grain handling and transportation initiatives, became known as the "The Bold Approach", no doubt because the initiatives were the most comprehensive and significant measures ever considered for the grain sector. Ironically over time the "Bold Approach" resulted in a series of ad hoc responses to the problems of the GHTS but in 1974 the key components of the "Bold Approach" were:

1. Establishment of a Benefit Guarantee Subsidy – an indefinite compensation to farmers for higher freight rates.


3. Appointment of a Commission on Branchline Rationalization.

4. Appointment of a Commission on the Financial Obligations of CP Rail as a Result of the Crow Rate Agreement.

5. Establishment of an Incentive System for Trucking and Elevator Rationalization.

On October 29, 1974 Otto Lang signalled that the time was approaching when the root problem of the GHTS had to be resolved. He addressed a semi-annual meeting of the Canadian Grain Council.
"Lang approached the podium that evening with the intention of being tough enough to convey the message he felt the Crow Rate should be changed, but vague enough that such an intention could not be pinned on him... while he said he believed in preserving the full benefit of the Crow Rate for prairie grain farmers, he wondered if the benefits should not be conferred in better ways than through an inflexible rate below real costs."32

At the same meeting he also argued;

"It is likely that the Crow Rate on domestic grain is harmful to western development in livestock and that the Crow Rates on export grain are discouraging the export of more wheat and grain products.33

The immediate reaction was devastating. There was no public support for this "courageous speech". Even the provincial leader of the Saskatchewan Liberals, Dave Stewart, attempted to put distance between his Party and Mr. Lang. A resolution was passed unanimously by the Saskatchewan Legislature and it was directed to Mr. Trudeau:

"...the resolution protested suggestions by the Minister in Charge of the Canadian Wheat Board that the Crow's Nest Rates be discontinued and requests your assurance that this historic right of western Canada will continue to be guaranteed by the federal government."34

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The Prime Minister responded with a telex prepared by the Department of Transport, which was in the process of undertaking a major review of national transportation policy and was anxious that the federal government not commit itself in any one area of transportation until the review was complete. The telex confirmed the "benefit" of the Crow Rate but did not give an absolute assurance that the rate would not be changed.

Without any provincial government and little public support, Mr. Lang was unable to implement his "Bold Approach". However, there is no doubt that his speech launched the Crow Rate debate and was a factor in the resolution of the rate some eight years later. After Mr. Lang's speech the Crow Rate issue moved to the front burners and public awareness of Crow Rate began in earnest. A contribution of this thesis is to reveal ways to address Canadian economic problems in spite of the problems inherent in Canadian-style of federalism. In this regard one cannot lose sight of the fact that the issue was debated in the west for a lengthy period prior to any initiatives being taken to change the Crow Rate.

In any event Mr. Lang, rebuffed over his overall strategy, immediately was confronted with several problems.
The first problem was that the freeze on branchline abandonment, established in 1967 during discussion of the National Transportation Act, was due to expire at the end of 1974. The decision of the government to avoid addressing the Crow Rate problem in 1974, was to have serious financial implications for the public purse.

Despite the warning of the Duff Commission back in 1933 that the prairie branchline network was too large, the network remained virtually unchanged for the next thirty years! The perception of prairie politicians, led or perhaps exploited by prairie Premiers, that branchline abandonment could mean the death knell of many small villages on the prairies was so intense that the only abandonments authorized between 1967 and 1974 were to make way for a highway in Alberta and to remove a spur built to service the Gardiner Dam site. Not only was the network too large but most of the track and related roadbed was in virtually inoperable condition. The railways simply were not prepared to re-invest sparse capital into the grain collection network as long as the Crow Rate was in effect.

The federal government was faced with two problems. First how to deal with the overall rail "rationalization" (the word the government and the railways preferred to use
instead of "abandonment") and secondly who should pay for "rail rehabilitation" (the word the government preferred to use in place of "rail repair").

To deal with the branchline abandonment issue the government resorted to its traditional response - establishment of a Royal Commission.

In April 1975 the government announced the formation of the Grain Handling and Transportation Commission under the direction of former Justice of the Supreme Court, Emmett Hall. The government apparently chose to ignore the "populist" track record of Mr. Hall who, in earlier assignments for the federal government, laid the groundwork for the Medicare Program now entrenched in Canada and recommended generous pay settlements to avoid a railway strike. However, given the contentious matters to be studied, Mr. Lang no doubt wanted to appoint someone who would be well-received by western politicians.

The Hall Commission spent two years in holding extensive public hearings in western Canada. Many of these hearings were held in small towns where Mr. Hall became a celebrity. The traditional quasi-judicial nature of this type of hearing was dismissed by Mr. Hall. He
wanted to get the sentiment of the grassroots on grain issues.

One can easily speculate that Mr. Lang soon learned to regret his appointment of Mr. Hall. (See quote of Fred Anderson on Page 225 and reaction of western Premiers on Page 226). In May 1977 the Hall Report was made public and the government was faced with dealing with a report which contained massive subsidy-related recommendations with little or no technical support. Indeed, the technical related Volumes II and III were contradictory to many of the key recommendations contained in Volume I. Two examples are discussed here.

First, in terms of branchlines, the Commission was instructed to evaluate approximately 6,300 miles or about one-third of the existing system. It recommended that about 2,165 miles be abandoned in stages beginning in 1978 up to 1988. It recommended that 1,813 miles be added to the basic network and that the remaining mileage of 2,344 be placed under the authority of a new body to be called the Prairie Rail Authority (PRA). This organization, to be funded by the federal government, was to operate these lines up to a period of 12 years, during which time a decision as to their status would be determined. The
establishment of PRA implied that costly repair work would have to be undertaken to ensure that traffic could be moved safely.

There was virtually no support for this key recommendation from any organization in the grain sector. The grain companies particularly complained that they could not invest in their facilities located on PRA lines unless a firm decision as to their long-term status could be determined. The federal government was concerned that a substantial amount of money was required to maintain these lines, some of which would not be required if the lines were ultimately abandoned. It was for this reason that Transport Minister Lang assigned the PRA mileage to yet another organization known as the Prairie Rail Action Committee (PRAC) under the direction of Professor Fred Anderson. On November 30, 1978, eighteen months after its creation, PRAC submitted its final report which recommended:

a) the addition of 1,044 miles to the basic network;

b) the abandonment of 1,407 miles over a six-year period.

The second issue which needs to be discussed is the
Hall Commission's recommendations concerning the Crow Rate. The Commission recommended that the railways be reimbursed for losses of moving grain. At first glance this may appear to be a precedent setting recommendation, it was not. The MacPherson Commission identified the railway loss on grain movement back in 1959. The Hall Commission Report lacked the substance of the MacPherson Commission Report, completed fifteen years earlier.

According to Fred Anderson, Research Director and Secretary to the MacPherson Commission, the Hall Commission Report:

...confirmed all the unconfirmable myths. The report is couched in terms which hang on to the status quo. The recommendations sound like radical changes but under examination only perpetuate the present. This approach is what the west expected from the MacPherson Commission but did not get it.36

Professor Anderson's concerns are easily identified when reviewing the Hall Commission report.

Another example drawn from the Hall Commission, and relevant to this thesis, is his recommendation on the Crow Rate. The Hall Commission recommended a subsidy be paid to the railway for moving grain. That subsidy, if
implemented by the government, would be costing the taxpayer in excess of $600 million a year. Even more significant, the subsidy would increase every year to a point where the grain producer would receive "free" transportation. Such a scheme could not lead to any system efficiencies or cost reductions. Only two pages (533 and 534) are devoted to the Crow Rate issue to support a subsidy of this magnitude.

Moreover, much of the work contained in Volume II Research Reports, under direction of Dr. Ed Tyrchniewicz, University of Manitoba, describes in detail how the Crow Rate adversely affects the processing of grain and meat products in western Canada. Notwithstanding this technical data, the Hall Commission simply recommended that the "...flour milling industry in Canada be permitted to enjoy the natural geographic advantage of locating in western Canada", and more subsidy be paid to assist the rapeseed crushing industry. The linkage between the Crow Rate and these recommendations is not made in the Hall Report.

Notwithstanding the grain industry concerns for the Hall Commission recommendations on branchlines, prairie politicians embraced the report. According to Premier Lougheed of Alberta, the report would have a profound and
positive impact on Alberta and vowed he could not let Ottawa ignore its recommendations. Premier Schreyer of Manitoba said he was in agreement with the recommendations in the report.  

In Parliament in Ottawa, Don Mazankowski, PC (Vegreville, Alberta) in a special debate on the Hall Report said that Judge Hall had addressed all the issues ignored by the federal government at WEOC in 1973.

As previously indicated, the Western Economic Opportunities Conference (WEOC) failed because many of the issues raised by the west could not be supported. The Hall Commission report rather than being a "new economic charter" for the west, as interpreted by Mr. Mazankowski, was yet another example of the failure of Canada's style of federalism. The negative aspects of Canada's adversarial system was at work once again. Rather than addressing the root causes of the problem the Hall Commission, in a classic populist vein, described the cause of lack of economic development in the west on the attitude of the railways and the federal government. (See Volume I, pg. 273).

The Hall Commission was a federal appointed body
reporting to a federal minister who was responsible for railway policy and regulation in Canada. The Premiers responded positively to the report because it offered popular and expensive (to the federal government) solutions to long standing issues. Implementation of the Hall Report recommendations would have resulted in a major mis-allocation of public funds. It is difficult to identify any constructive criticism provided by the Premiers. There is no doubt that the Premiers believed their reaction to the report would be well-received in their respective province but the Premiers must take some responsibility for the way in which voters in their own province react to issues.

It is not surprising that none of the over one hundred recommendations contained in the Hall Report were ever implemented. This is even more significant when one considers that the Conservatives, who so strongly supported the report, failed to implement any of the Hall Commission recommendations either during their short-term in office in 1979 or since being re-elected in 1984! Even the Hall Commission recommendations on rail line abandonment were required by law to be reviewed by the Canadian Transport Commission. This review required yet another public hearing before a branchline could be abandoned.
The most important initiative undertaken by Mr. Lang was the establishment of the Commission on the Cost of Moving Grain by Rail. Despite the 1961 findings of the MacPherson Commission that the railways lost money (based on 1958 costs) moving grain, the matter was only partially addressed by Parliament in 1967 when it established the unusual branchline subsidy program described on page 200. The matter was not fully addressed because many western politicians were not prepared to either (a) accept the findings that the railway actually lost money moving grain at 1899 freight rate levels or (b) accept another MacPherson Commission finding that there was no connection between the Crow Rate commitment and assets provided to the CPR for constructing a rail line from near Sudbury, Ontario to Vancouver, British Columbia.

Therefore, to proceed with his plan to bring the grain handling and transportation sector into the 20th Century, Mr. Lang had to address these two areas in addition to his attempt to rationalize the branchline issue.

Mr. Lang was unable to convince his Cabinet colleagues to establish a Royal Commission on the CPR obligations for assets received to build the CPR mainline
linking the industrial heartland of Ontario to the west Coast. He was successful however in establishing the Commission on the Cost of Moving Grain by Rail. Mr. Lang believed that the Crow Rate issue could never be addressed until the prairie grain producer was at least willing to concede that the railways were losing money moving grain at the Crow Rate.

As will be discussed in the second half of this chapter finding someone to take on this job, who did not have some association with at least one of the multi-special interest groups concerned with this issue, was virtually impossible. In addition it was recognized, outside of the railways and the Canadian Transport Commission, there was nobody with sufficient rail costing expertise. As a result Mr. Lang appointed an American consultant by the name of Carl Snavely, who was to become a name known on virtually every prairie grain farm.

To appreciate the magnitude of freight rate issues on the prairies, when he arrived in Canada to begin his work Snavely "...was bewildered that this was front page news". He was amazed that "...a question of the effects of an 1899 freight rate would be of interest to anyone but farmers and the railways".40
Given the political repercussions of this issue, Mr. Snavely astutely established a technical working committee to assist him in his work. The Committee represented a broad range of participants including the extreme left-wing organization known as the National Farmers Union (NFU). Mr. Snavely made certain that this group understood every aspect of his work. In one instance he took his Committee to Windsor Station in Montreal, the head office of CP Rail, and had the railways:

......open their books on rail costing procedures. Snavely would not let anyone leave the room, including NFU President Roy Atkinson, until they were satisfied that they understood the basis of the railway estimates.41

Snavely claims that this work on the Crow debate was conducted largely outside the realm of the political arguments.42 When calculating his benchmark decision, based in 1974 railway costs, Snavely derived a figure which fell between railway estimate and provincial government conclusions.

In his first report to Mr. Lang, delivered in 197643, Snavely concluded the railways were losing money on grain movement and set the figure for 1974 at $103 million. In
1979 an update produced figures for 1977 losses of $160.5 million. A further update was produced in 1980. See Table 12: Cost of Moving Grain by Rail. It is significant to note that between 1974 and 1980 the producer's share of the cost (the Crow Rate) decreased from 36.3 per cent to 24.3 per cent while the federal government share, through the branchline subsidy, increased from 22.0 per cent to 31.1 per cent and the railway share (in this case railway loss) reached 44.6 per cent.

Given the manner in which he undertook his work, Mr. Snavely is generally credited with directing the Crow debate from whether or not the railways lost money moving grain to who should pay for railway losses.

Mr. Lang did not get the results he desired from the Hall Commission Report. But Carl Snavely was successful and, while discussion on the magnitude of railway losses has never been totally agreed upon, after the first Snavely Report no organization including the National Farmers Union claimed that railways were not losing money moving grain.

The Snavely Report is without a doubt a significant report and Mr. Snavely's work was a major factor in Crow
Table 12: Cost of Moving Grain By Rail, 1974, 1977, 1980

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Producer (Crow)</td>
<td>$89.717</td>
<td>$114.764</td>
<td>$132.873</td>
</tr>
<tr>
<td>Federal Government</td>
<td>54.364</td>
<td>78.638</td>
<td>170.166</td>
</tr>
<tr>
<td>Payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railway Losses</td>
<td>103.109</td>
<td>160.535</td>
<td>244.441</td>
</tr>
<tr>
<td>Total</td>
<td>$247.109</td>
<td>$353.938</td>
<td>$547.480</td>
</tr>
</tbody>
</table>

Distribution of Cost Coverage

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer (Crow)</td>
<td>36.3%</td>
<td>32.4%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>22.0</td>
<td>22.2</td>
<td>31.1</td>
</tr>
<tr>
<td>Payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railway Losses</td>
<td>41.7</td>
<td>45.4</td>
<td>44.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Snavely Reports, 1976, 1979, 1980

NOTE: The above table provides a comparison of the coverage of costs incurred by the Railways' in the transportation of grain. The number assigned to the railways represent losses.
change but as the 1970's came to a close another event, lost grain sales due to inadequate transportation, finally brought the impact of the Crow Rate to the pocket-book of the prairie grain producer.

4.3 Period of Change (1980-1984)

Tables 10, 11 and 12 illustrate how dynamic the grain handling and transportation system is and how it has changed over time. By the late 1970s the western grain producer had become one of the most productive units in the world. The prairies were producing record crops and prices were relatively high. Change was paramount everywhere except (as has just been discussed) in the area of grain transportation. When some elements change, such as grain elevator rationalization and road construction, then all related adjustments must relate to that change but if some items remain constant (branchline retention and Crow Rates) then tensions build all around until the system breaks down. In 1960-61 the MacPherson Commission warned that unless the Crow Rate was resolved the GHTS would suffer in years to come. Unfortunately for western Canada this warning became reality during the 1977-78 and 1978-79 crop years. The failure of the western provinces to address the Crow Rate at WEOC or through FP-COWT was to
prove costly. In 1978-79, following three successive record harvests, the GHTS was unable to handle the demands placed upon it and western grain producers, according to the Canadian Wheat Board, lost or had to forego grain sales in excess of $1.1 billion. Despite an expensive rail repair program and purchase of thousands of hopper cars, years of neglect could not be overcome and the system could not handle the volume of grain required to meet sales. Up to this point in time the grain producer had been shielded from the financial aspects of the Crow Rate but this no longer was the case.

The classic argument in favour of retention of the Crow Rate, that the Rate guaranteed the producer a delivery system and guaranteed the social fabric of the west, was waning. Despite the existence of a virtually unchanged railway system between 1925 (the date the Crow Rate became statutory) and, despite the existence of the Crow Rate, the GHTS system underwent major change. There had been a:

- **Reduction** in the number of **grain** companies from **40 to 8**.
- **Reduction** in the number of **elevators** from **5,700 to 3,090**.
- **Reduction** in the number of delivery points from 2,500 to 1,245.

- **Reduction** in the number of grain farms from 250,000 to 140,000.

More important was the consolidation of grain on mainline and secondary lines up to 1980 which resulted in one-fifth of the delivery points (about 250) handling one-half of all the grain.

At the same time railway losses on grain transportation reached in excess of $300 million in 1980 with projected losses expected to reach one billion dollars by 1990. Grain was utilizing 20 per cent of the railway system and only contributing 3.5 per cent to railway revenues. In addition the railways were refusing to make major investments in western Canada to expand capacity to more increasing volumes of sulphur, coal and potash in addition to grain. Given that grain was the second major user of the system after coal, the railways' could not generate enough profit from the remaining traffic to pay for the significant improvements required. In addition, CP Rail was finding it difficult to borrow money for rail line improvements when its second highest traffic, grain, was not even generating enough revenue to pay for
the cost of fuel. As a result, in early 1980 the Western Transportation Advisory Council issued a report predicting that if railway losses were not corrected western Canada could lose up to one billion dollars a year by 1990 because of failure to get its products to market.

In addition to lost grain sales, inefficiencies and inadequate capacity in the grain transportation system meant higher costs to grain producers due to extra storage costs and demurrage on waiting ships.

Since the Crow Rate only applied to certain crops this discouraged crop diversification. It also discouraged agricultural processing and livestock production. Western Canada, by insisting on retention of the Crow Rate, was in effect not retaining its geographical advantage in terms of value added. For example, the price of all grain is determined by the Chicago market and as such the price of grain is set at the export port minus the cost of transporting the grain to the port. Since the Crow Rate is about one-fifth of what a normal competitive freight rate would be, the livestock feeder on the prairies pays a higher price (difference between the Crow Rate $5.00 and the competitive rate of $25.00). See Table 22 on Page 334.
This in effect penalizes the livestock feeder but provides additional revenue for the primary grain producer. As such the grain producer and the producers of speciality crops, not under the Crow Rate, and livestock producers became opponents in the upcoming Crow debate. As a result, in 1980 two broadly based agricultural groups — the Western Agricultural Conference (WAC) and the Prairie Farm Commodity Coalition (PFCC) — developed grain transportation policy statements which acknowledged the need to change Crow, although from sharply different perspectives.

The four western provincial governments could no longer speak in unison. The government of British Columbia strongly urged for the resolution of the Crow Rate issue to enable the railways' to begin the massive and multi-billion dollar investment in upgraded rail capacity, of which most would be in British Columbia, and because non-grain bulk traffic such as potash, sulphur and coal is important to the British Columbia economy.

The government of Alberta underwent a significant transformation from supporting the Hall Commission Report, with its payment of subsidy to the railways, to a position which supported direct payments to the grain producer to
alleviate the distortion against the livestock producers, which were primarily located in Alberta.

Within the same vein, the government of Saskatchewan advocated no change since 50 per cent of all primary grain producers were located in that province.

The Manitoba government had the most difficult choice to make since it was the most diversified of the three prairie provinces and could see strong arguments in favour of change and no change.

The situation was ripe for conflict and this situation was increased with the election of the Liberals in February 19, 1980. The Liberals won only two seats in western Canada, both in Winnipeg.

In a surprise choice Jean-Luc Pepin was appointed Minister of Transport on March 3, 1980. His appointment arguably makes this date the most significant historical milestone in the resolution of the Crow Rate debate. Also appointed to Cabinet was Senator Hazen Argue from Saskatchewan. This former member of the NDP Party would oppose Pepin's attempts to solve the Crow Rate conundrum.
4.4 The Conflicts

This section discusses the three basic conflicts that arose during the Crow Rate debate. The first conflict involved the traditional differences between the federal government and the provinces. Aspects of this conflict were discussed in Chapter three. The second conflict was the differences between two federal Cabinet Ministers: Jean-Luc Pepin, the Transport Minister who supported an increase in grain freight rates; and Senator Argue who supported a policy (The Hall Commission recommendation) in which the railways were to receive a subsidy to offset losses moving grain by rail. Under Senator Argue's plan, the grain producer would be spared any future rate increases.

The third conflict evolved throughout the debate on the Crow Rate and it tended to centre between the primary grain producer and the livestock producer, the former to a large extent located in Saskatchewan and the latter extensively located in Alberta. In turn this tended to place the Premiers of those two provinces on a conflicting path. The Crow Rate debate also brought out differences between rural and urban areas of the three prairie provinces and, more importantly, the differences between small and large farm operators.

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4.4.1 Sectorial Differences

Before discussing the differences between the federal government and the provincial governments, and the differences within each level of government, it is necessary to introduce the major split between the two largest agricultural organizations which participated in the Crow Rate debate.

In 1980 there were literally hundreds of farm organizations in Canada. However, in prairie Canada during the Crow Rate debate, the organizations affected by change coalesced around two umbrella organizations: the Western Agricultural Conference (WAC) and the Prairie Farm Commodity Coalition (PFCC).

The Western Agricultural Conference (WAC) was initially formed in 1935 to coordinate efforts of various farm organizations to influence government policy. WAC was comprised of 45 different farm groups including the three prairie wheat pools and the three prairie federations: the Saskatchewan Federation of Agriculture, Manitoba Farm Bureau and Unifarm in Alberta. Through these six organizations WAC could, and did, claim that it represented every farmer on the prairies.
In January, 1980 WAC agreed on a new Crow Rate policy which called on the federal government to pay the difference between what the producer paid, under the Crow Rate, and what the railways lost moving it at the Crow Rate. This was a significant policy change in that it recognized not only railway losses but also that the railways should be reimbursed for these losses. There can be no doubt the impact of lost or deferred grain sales, of the previous two crop years, had influenced this revised position.

The Prairie Farm Commodity Coalition (PFCC) began in the mid-70s when the Palliser Wheat Growers Association and a number of commodity groups began to meet to discuss transportation problems. By 1978 the group formally adopted the name Prairie Farm Commodity Coalition, expanded its membership and established as a principal goal the development of a proposal to reform the existing Crow rates. In terms of membership the PFCC was dominated by the cattle associations, mostly located in Alberta. PFCC membership was considerably less than WAC as indicated in Table 13: Farm Organizations in the Crow Rate Debate but PFCC met with the Coal Association in early 1981 to strengthen its efforts to persuade the federal government to deal with rail mainline capacity and reform
of the Crow Rate. This led to the formation of the Task Force on Canada's Crisis in Rail Transportation. PFCC was thus successful in not only increasing its support base but also was successful in making the Crow Rate debate a national issue. This countered the strong base claimed by WAC in prairie Canada.

Two smaller organizations need to be identified because each played significant roles in the Crow Rate debate.

As already indicated, the prairies had undergone a major transformation which changed the political map of agriculture by 1980. The formation of WAC and PFCC demonstrated that the farm community could no longer be accurately characterized as a single group. In addition, the trend towards ever larger farms was resulting in the dramatic decrease in overall number of farms. In the grain sector, at present, 30 per cent of the farms produce 80 per cent of the product. As a result farmers have become divided between two extremes. At one end is:

...the capital intensive farmer. His self-conception of farmer-businessman operating in the grains industry or the cattle industry for profit moves him to identify more closely with non-farm components of his commodity area. He becomes a partner of the agribusiness sector of the food industry.48
Those farmers which resisted this move towards capital intensive agriculture and which maintained the traditional anti-monopoly populism, were diminishing in numbers by the mid-1960s. As a result the National Farmers Union (NFU) reorganized in 1969, under Roy Atkinson, to fight for... "state interventions, marketing boards, price stabilization and collective bargaining rights for farmers." Don Mitchell points out that the "NFU used the grain policy challenge of Otto Lang in the mid 1970s as their main theme, and they staged many large rallies and tractor demonstrations wherever Otto Lang spoke on the prairies".

The Palliser Wheat Growers Association was formed in 1969 and opposed the NFU on virtually all issues. Largely based in the Palliser Triangle region of southern Saskatchewan, the group was initially comprised of dissatisfied members of Saskatchewan Wheat Pool who believed the Pool was slow in adopting change.

Despite its small size (4,000 members), Palliser became one of the most effective organizations on the prairies in terms of influencing federal agricultural and transport policy. This is also borne out by an analysis undertaken by Paul Pross. Pross identifies those groups
which possess "...organizational continuity and cohesion, commensurate human and financial resources, extensive knowledge of those sectors of government that affect them and their clients as institutions that rank the highest in terms of effectiveness." It is in this category that Jim Forbes (who undertook an analysis of institutions and influence groups in Canadian farm and food policy) places organizations such as Palliser Wheat Growers and, as already discussed, another Lang endorsed organization, the Canada Grains Council.

Table 14: Farm Organizations and the Crow Rate, 1980

Western Agricultural Conference (WAC):

<table>
<thead>
<tr>
<th>Organization</th>
<th>Membership</th>
<th>Crow Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Grain Growers</td>
<td>90,000</td>
<td>Direct Government subsidy to Railways. Producers to pay negotiated share of inflation.</td>
</tr>
<tr>
<td>UNIFARM</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Saskatchewan Federation of Agriculture</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Three Prairie Wheat Pools</td>
<td>150,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>300,000</td>
<td></td>
</tr>
</tbody>
</table>

Prairie Farm Commodity Coalition (PFCC):

<table>
<thead>
<tr>
<th>Organization</th>
<th>Membership</th>
<th>Crow Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta Cattle Commission</td>
<td>42,000</td>
<td>Producers to pay railway full costs. Government to pay subsidy directly to producers.</td>
</tr>
<tr>
<td>Barley Growers</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Flax Growers</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Palliser</td>
<td>2,200</td>
<td></td>
</tr>
<tr>
<td>Rapeseed Associations</td>
<td>1,650</td>
<td></td>
</tr>
<tr>
<td>Sask. Stock Growers</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Manitoba Cattle Associations</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Alberta Hog Producers</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>68,350</td>
<td></td>
</tr>
</tbody>
</table>
National Farmers Union:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Membership</th>
<th>Crow Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Wing</td>
<td>4,000</td>
<td>Retain 1899 rate and no subsidy to Railways</td>
</tr>
</tbody>
</table>

On the national front PFCC received support from the 90,000 member Canadian Cattlemen's Association in addition to its support from the various commodity associations such as coal, potash and sulphur embraced under the title Task Force on Canada's Crisis in Rail Transportation. WAC received support from the largest agricultural organization in Canada - the Canadian Federation of Agriculture (CFA) but, as time will show, this organization became the least influential of all the organizations. This demonstrates the weakness of national organizations which represent broad and multi-regional perspectives. When forced to take a stand on an issue which affects different regions and different agriculture sectors, the CFA was rendered helpless.

The National Farmers Union received support from the Canadian Labor Congress which provided financial support in what it saw as a class struggle.
However, the key player in the battle was Saskatchewan Wheat Pool (SWP) with "70,000 members". A solid position as the prairies' largest grain-handling company and access to the provincial government and federal politicians gives the Pool tremendous clout in farm policy debate.\textsuperscript{54}

Otto Lang was one of those who agreed that Saskatchewan Wheat Pool has clout. Lang believes that it was Wheat Pool President Ted Turner who opposed him in 1975 to start the debate on Crow Rate reform.\textsuperscript{55} As a result, Mr. Lang found it difficult to control the agenda on the issues. Mr. Turner's opposition automatically brought WAC over to his side in opposition to any changes to the Crow Rate.

While WAC could certainly point to its total membership to win the numbers game, it became a hollow victory. It was virtually impossible to actually state how many producers supported either WAC or PFCC since there were so many overlapping organizations. For example it was possible to belong to as many as three or more organizations in both WAC and PFCC. Who really represents western farmers? That was a difficult question for policy makers in Ottawa to answer.
The next section examines the membership history of the four major grain cooperatives in western Canada (1982) to show the extent of duplication of membership.

In western Canada grain farmers have the option of selling their grain to eight major grain companies. Saskatchewan Wheat Pool, United Grain Growers, Alberta Wheat Pool and Manitoba Pool Elevators are producer-owned cooperatives which control about 75 per cent of the primary elevator operating units. The remaining 25 per cent of the operating units are controlled by privately-owned grain companies.

A producer member is defined as a farmer who makes a conscious decision to purchase a minimum number of shares in a cooperative. In the case of Saskatchewan Wheat Pool (SWP) the minimum number of shares is five shares valued at $5 per share, up from one $1 share in 1975. To become a member in United Grain Growers (UGG) a farmer must purchase one Class B $5 share which is referred to as a voting share. UGG Class A shares are investment shares which do not carry voting rights.

Active patrons are defined as farmers who have conducted business with a cooperative within the past year.
or two. Commercial activity includes selling grain to a company and/or purchasing farm supplies.

The difference between total members and active members is mainly due to retired farmers who are not commercially active but continue to hold a membership. In the case of SWP, retired farmers can withdraw all equity down to a minimum of $25 which is retained by the company to cover the cost of publications received by retired farmers. Upon the death of a SWP member the member's estate receives the balance of the equity and the member's name is removed from the membership list. A similar membership termination procedure is followed by United Grain Growers. Normally there is only one membership representing both a farmer and spouse.

A non-member farmer can sell grain to a cooperative without holding a membership but, in the case of SWP, a farmer must be a member in order to receive patronage dividends. In the case of UGG patronage dividends are paid to both members and non-members on an equal basis.

The simplistic way to look at producer membership numbers is to assume that the sum of the four co-operatives would approach the total number of CWB permit holders in
western Canada. Unfortunately it is not that simple.

As shown in Table 14 the total producer memberships of the four co-operatives in 1980-81 was about 259,348 as compared to 142,862 CWB permit holders, which produces a ratio of 1.82. This ratio means that on the average each farmer relationship is the ratio of total active patrons to permit holders (i.e. 200,881/142,862) or 1.4. Therefore, on average, each active farmer holds 1.4 memberships. If "implied memberships" were included in the above ratios, to take into account farmers who deal with privately owned grain companies, the number of memberships per farmer would be even higher.

Based on this evidence it is reasonable to conclude that there are at least 40 per cent more grain cooperative memberships than actual farmers in western Canada.

As will be examined in the next chapter there were few producers who really understood the significance of the policy differences between WAC and PFCC. However, there was no doubt that in 1980 the Crow Rate had become a public policy issue and not even the executive of the Saskatchewan Wheat Pool could turn off the debate on the Crow Rate. Table 15 outlines the initial negotiating
positions on Crow of WAC and PFCC.

On November 21, 1980 at an historic meeting in Regina, SWP delegates in a move, no doubt designed largely to save the company from being further isolated and perhaps ignored in the growing debate, voted 122-22 to support a compromise proposal on the Crow Rate. Within the context of his own strategy, Transport Minister Pepin would say "I knew from that point in time a Crow Rate solution was negotiable".

It was against the background of these sectorial differences that the provincial Premiers and the Prime Minister of Canada found themselves, in 1980, discussing the nuances of an 1899 rail freight rate while their counterparts in other countries were involved in examining the world of the micro-chip.
Table 14: Membership of Grain Handling Co-operatives

<table>
<thead>
<tr>
<th>Crop Year</th>
<th>UGG Membership</th>
<th>Total CWB Permit Holders</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959/60</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>1960/61</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>1961/62</td>
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*Estimated bases on weight average ratio of active to total membership of SWP & AWP
Table 14: Membership of Grain Handling Co-operatives

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*Estimated bases on weight average ratio of active to total membership of SWP & AWP*
### Table 14: Membership of Grain Handling Co-operatives

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*Estimated bases on weight average ratio of active to total membership of SWP & AWP
Table 14: Membership of Grain Handling Co-operatives (Western Canada) 1959/60 to 1980/81

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4.4.2 Intergovernmental Conflicts

One of the unique features of the Crow Rate debate was that it was virtually impossible for politicians to establish a "fence-sitting" position. Lines were being demarcated between keeping the Crow Rate or changing it - there was no middle ground. Even a position that would result in a subsidy to the railways for losses moving grain would not address the problem of the processing and meat industries.

This situation led to conflicts among the four western provinces and to a basic policy difference between two federal Ministers. It had become traditional for the three prairie Premiers adamantly to oppose any tampering with the Crow Rate. For example, the issue could not even be raised at the Western Economic Opportunities Conference in 1973 but events already discussed would change that. The most notable departure from the historical position was Alberta. Since the existence of the Crow Rate discriminated against the meat industry and since the meat industry was centred in Alberta, the government of Alberta found itself in a position where it had to depart from a position of opposing any change to the Crow Rate to one of not only supporting payments to offset railway losses but
also that these payments be made directly to producers rather than railways. The largest grain handling company in the province, the Alberta Wheat Pool, was adopting a much more liberal policy in grain matters and was putting distance between itself and its more orthodox counterpart the Saskatchewan Wheat Pool.

In turn, the government of British Columbia supported change to the Crow Rate because it recognized that the railways would not commit themselves to the massive upgrading of their mainlines through the mountains unless their revenue situation was addressed. Any mention of rationing rail service was unacceptable to the government of British Columbia since this could affect B.C. lumber, copper and coal shipments.

Just as necessity had dictated the Crow Rate policies of Alberta and British Columbia so did it dictate the policy of Saskatchewan. This province, as the prime grain producing region in Canada, took the position that under no circumstances should the producers of grain pay a higher freight rate. This position did not change even after the Progressive Conservatives won the election on April 26, 1982.
It is significant to note that in 1982 the NDP confirmed their re-election strategy with a major campaign to oppose the federal government's intention to change the Crow Rate. The NDP blitzed farmers with mail, letters, pamphlets and colour brochures costing hundreds of thousands of dollars - designed to defeat federal Transport Minister Jean-Luc Pepin's plan to end the statutory rates. 58

Contained in that material were several references to how both the federal Conservative Members of Parliament from western Canada and the Alberta Provincial Conservatives supported changes to the Crow Rate. For example, the NDP included a Canadian press reference which reported that "...Alberta Agriculture Minister Dallas Schmidt and Hugh Planche, Minister of Economic Development, agreed in a statement that the federal government is assuming its responsibility to change the rates". 59

Opposing Alan Blakeney in the election was Grant Devine an agricultural economist from the University of Saskatchewan. The NDP had a field day in identifying references made by Dr. Devine as an academic to demonstrate his support for Crow Rate change.
For example, in July 1978 Mr. Devine wrote "...the Crow Rate may not be in the public interest". His article60 blamed the Crow Rate for retarding the growth of western Canada.

In its own campaign literature the PC's referred to the Blakeney quotes on the Crow Rate discussed in Chapter three. In turn the PC position was that the Crow Rate must remain. In other words Mr. Devine, the politician, reversed himself completely on the Crow Rate from Professor Devine.

On April 26, 1982 the PC's won a landslide victory, winning 56 of the 64 seats. Once again the Canadian electoral system had failed. The Devine government won only 55 per cent of the vote but this percentage produced over 90 per cent of the seats.

Given that in 1982 the NDP depended on the restoration of the Crow Rate as its platform to get re-elected, is it possible to interpret the results of the election as a vote in favour of changing the Crow Rate?

It would be wrong to make such an interpretation given that a vote for the PCs could also be interpreted to
be a vote against Crow Rate changes. In fact less than 48 hours after the election Premier-elect Grant Devine issued a statement declaring "...that farmers in Saskatchewan can not afford to pay more for transportation because indeed they are paying a great deal".61

The election of a new government did not result in a change in the position of the Government of Saskatchewan in the Crow debate. However, it is significant to observe that the NDP failed in its re-election bid despite making its opposition to Crow Rate change as its main strategy. This can be partially explained by the fact of the official PC position on Crow and by the realization that, while there still is a rural bias in terms of seats in the Saskatchewan legislature, the population is predominantly urban. Even more interesting was the fact that the NDP stronghold was in the urban areas where knowledge of the Crow Rate was minimal. However, one can argue that in 1982 it was no longer possible to get re-elected in the province of Saskatchewan solely by over-emphasizing the importance of freight rate discrimination, alleged or otherwise.

The Alberta PC position on the Crow Rate also came under attack from the NDP government in Manitoba. In an
advertising supplement in various newspapers, Manitoba raised a number of concerns over the impact on that province if the Crow Rate was changed. In reference to the potential for increased livestock production and processing, if the Crow Rate was changed, Manitoba took the position that "...even if it was possible to expand the western livestock base Alberta stands to gain the most". In other words the government of Manitoba took the position that provincial gain was more important than gain for the prairie region. This is another example of declining prairie regionalism and an unfortunate result of the federal structure.

As long as the prairie governments could find an issue to "attack" Ottawa, the concept of prairie or western alienation could be cited. However the Crow Rate issue, as a specific issue and not as an aspect of prairie rhetoric, forced all four western governments to take a stand. Alberta (PC) and British Columbia (SC) supported an actual change in the Crow Rate. Manitoba (NDP) and Saskatchewan (PC) were opposed to any increase in the Crow Rate.

4.4.3 Intragovernmental Conflict

As discussed in Chapter two, Cabinet solidarity has
evolved in Canada over the last thirty years, to a point where it is an exception to witness two or more federal Cabinet Ministers adopting opposing positions on an issue in public. Again just as the Crow Rate issue forced the western provincial governments to take different positions, a similar conflict developed between two federal Cabinet Ministers.

The 1980 federal election which resulted in only two Liberals being elected in western Canada (both located in Winnipeg) forced the Prime Minister to appoint a number of non-elected Senators to Cabinet positions. Without such an approach the province of Saskatchewan would not be represented in the Cabinet. This is another example of declining prairie regionalism. Today it is expected that every province, rather than a region, be represented at the federal Cabinet table, even if there are no elected members from a specific province.

It is not clear on what basis Senator Hazen Argue was chosen over Senator Dave Stuart (former leader of the provincial Liberal Party) or Senator Sid Buckwald (a former Mayor of Saskatoon), both lifetime liberals. Senator Argue ran for the NDP leadership against Tommy Douglas, lost and switched to the Liberals. He ultimately
lost his seat in Saskatchewan and was appointed to the Senate. On March 3, 1980 he was appointed Minister Responsible for the Canadian Wheat Board, a position coveted by Agriculture Minister Whelan. As will become significant, prior to 1980 both Otto Lang and Don Mazankowski held the Wheat Board portfolio while serving as Transport Minister because of the emphasis that a transport Minister had to devote to grain handling and transportation matters. The decision by Prime Minister Trudeau to break this pattern and to appoint a former member of the NDP party to the Wheat Board position would cause Mr. Pepin serious problems in the future.

Senator Argue initially opposed any change to the Crow Rate and even adopted the traditional anti-CPR theme of the NDP and its resistance to increased subsidy payments to the railways'. He believed the railways' had other ways of raising money such as increasing rates on non-grain commodities. Senator Argue never made that statement before representatives of the coal, sulphur and potash sector which believed that the freight rates on bulk commodities were already higher than required because of the necessity to offset the railways' losses moving grain.
Senator Argue and Transport Minister Jean-Luc Pepin were on a collision course. Senator Argue's staff countered every draft Memorandum to Cabinet prepared by the Department of Transport with one of their own. Senator Argue made several public speeches voicing his concern about tampering with the Crow Rates. In support of Saskatchewan, and in defiance of the government of Alberta, he issued a press release dismissing the impact of changing the Crow Rate to assist the livestock and processing industries in western Canada.64

Both Ministers addressed the fall (1981) Annual Meeting of Saskatchewan Wheat Pool in Regina. Senator Argue told the delegates that "...he doubted the railways must raise grain rates to get the capital they need to build capacity to move the expected increase in bulk commodities".65 The following day Mr. Pepin told the delegates "...that railways had to be provided compensatory rates which would mean increasing the cost to farmers, so that the railways can get the capital required to complete expansion projects".66

During Mr. Pepin's speech, members of the National Farmers Union paraded through the hallway of the Hotel Saskatchewan shouting "Keep the Crow - Let Pepin Go".
Despite this demonstration and despite the remarks of Senator Argue, the delegates approved (albeit by a slim margin) a motion to negotiate future inflationary rail cost increases as part of an overall solution to the Crow Rate.67

Ironically, Senator Argue did more to assist the change in the Crow Rate than he did to oppose it since he was unable to develop a position which could withstand scrutiny. For example, his press release on livestock was dismissed as inaccurate and irresponsible. An editorial in the Winnipeg Free Press described his argument against changing the Crow Rate "...as the worst of a long line of bad arguments presented by the west's non-elected spokesmen in Ottawa".68

Senator Argue did believe his opposition to any changes to the crow Rate had support from both the Canadian Wheat Board and the Saskatchewan Wheat Pool. However, Saskatchewan Wheat Pool President, Ted Turner, while opposing any increased rates to prairie producers; did believe that the Pool should be at the bargaining table.69 Since Pool policy requires a vote of two-thirds to carry a motion, Mr. Turner's support to at least hear Mr. Pepin's offer was crucial in carrying the vote and in turn defeating Senator Argue.
Summary

The purpose of this chapter is to provide a historiography of the Crow Rate showing how its longevity came to be seen by many of the provinces as a major concession of Confederation. Notwithstanding these historical roots, the chapter outlines the changes that were made to the Crow Rate Agreement over time and also documents the changes to prairie agriculture that took place while the Crow Rate freight tariff was in place.

The chapter provides insight into the period between 1970-1980 when the grain transport system reached a crisis point. The Crow Rate is identified as one of the root causes of that crisis. An examination was made of the policy responses from the federal and provincial governments which resulted in many costly and ad hoc programs to meet the crisis.

Special attention is given to the period of change (early 1980s), during which period the Crow Rate became a national issue. Railway losses were identified in the 1970s and significantly, they were generally accepted by grain producers and governments as the major problem for both grain producers and shippers of bulk commodities.
The railways' indicated that significant added capacity was required to move anticipated increased volumes of all commodities to export position. However, the railways' took the position that without resolution of the Crow Rate, this work could not be undertaken. The railways' were expected to be losing up to one billion dollars a year by 1990 if no changes were made. In addition, WESTAC predicted that if added capacity was not available to the western rail network, the region could lose a billion dollars a year because of failure to move non-grain commodities to export position.

The chapter discusses how socio-economic changes had changed the political map of agriculture in the prairies which resulted, for the first time in 1974, in the formation of agricultural organizations to develop consensus for change. The Saskatchewan Wheat Pool meeting of November 21, 1980 at which the delegates voted to support a compromise proposal on the Crow Rate, is identified as one of the most significant events of the Crow Rate reform process.

The complexity of and the need for changing the Crow Rate is demonstrated in the various intergovernmental conflicts and differences among interest groups. What was
lacking, was a process which could bring about the necessary changes required to remove the distortions caused by a grain handling and transport policy rooted in the early part of the century.

Canadian federalism failed to respond to issues such as Crow Rate reform. In lieu of such a response, the political system produced costly, *ad hoc* "solutions" such as, purchase of hopper cars, branchline subsidies and expensive rail repair.

It was not until the 1980s that a process for changing the Crow Rate was developed. The next chapter outlines that process and why it took three years, after the federal government announced its intentions, to produce a legislative change to the Crow Rate.


9 C. D. Nachtigall et al, *op cit*, p. 270


14 Cited in *Royal Commission on Transportation*, Queen's Printer, Ottawa, 1961, Volume I, p. 80.

15 Michael Bliss, *Northern Enterprise: Five Centuries of Canadian Business*, McClelland and Stewart, Toronto, 1987, p. 188.


27. Howard Darling, op. cit, p. 225.


31. Transcript of an Address by the Honourable Otto Lang, Minister of Transport to the Canada Grains Council Annual Meeting. October 29, 1974, Edmonton.

32. Barry Wilson, Beyond the Harvest, p.s 188–189.

33. Ibid, p. 189


36 Fred Anderson of Regina, interview by the author, May 24, 1977, Regina.


38 Western Producer, May 19, 1977.


40 The Western Producer, October 23, 1981.


42 Carl Snavely, interview by the author, October 23, 1981, Ottawa.

43 Commission on the Cost of Moving Grain by Rail, Department of Supply and Services, Ottawa, 1976.

44 Eleanor Boyle and George Froehlich, "Grain Delivery System $1 Billion Mess", Vancouver Sun, July 7, 1978.

45 Western Transportation Advisory Council, "Bulk Exports Fact Sheet", April, 1980.


47 CN Rail, "Canadian Grain – the Drama of Moving Canadian Grain–Farm and Support Organizations", Reprint, August 1981.


49 Ibid, p. 16.

50 Ibid, p. 16.

51 Ibid, p. 17.

52 Barry Wilson, Beyond the Harvest, p. 178.

53 Paul Pross, "Canadian Pressure Groups in the 1970s: Their Role and Their Relations with the Public Service", Canadian Public Administration, Vol. 18 (Spring), 1975, p. 124.
54 Barry Wilson, Beyond the Harvest, pp. 178–179.


56 Ibid, p. 179.

57 Pepin Papers, "Box Number Eight – "Working Notes", 1983


59 NDP Caucus, Associated Campaign Literature, undated.


69 Tom Nunn, "Wheat Pool Stands Behind Crow Rate", Regina Leader-Post, November 24, 1981.
5.0 Introduction

This chapter provides an analysis of the strategy that was developed to lay the groundwork for legislative change of the Crow Rate and critically assesses the negotiation process which produced the final plan that was eventually debated in Parliament.

The competition, interaction and debate took place among four major groups involved during the strategy development phase. Politicians, bureaucrats, interest groups and the media all attempted to influence each other and the Crow Rate reform package. This interplay is analyzed to show the barriers to national planning within Canada's federal structure.

The second part of the chapter investigates how the Crow Rate reform package was negotiated. Included is a review of the Parliamentary process of the Crow Rate legislation.
5.1 Context

To fully appreciate the dynamics that took place during the negotiations over the Crow Rate between 1980 and 1983, it is necessary to appreciate the "negotiating environment".

Earlier in the thesis it was pointed out that during the period between 1980 and 1983, Canada faced severe economic problems such as high unemployment and high inflation but in terms of the prairie agricultural region, the economic indicators established a positive negotiation environment. As indicated in Figure 5: Grain Volume and Price of Wheat, throughout the entire negotiation process, grain volumes and prices were not only on the increase, but they were establishing record levels.

Part of the argument to convince producers that it was in their interests to pay higher freight rates was that improved transportation would facilitate continued record grain movements. There is no doubt that this set of circumstances created a positive environment for change. It was these conditions which tempered Saskatchewan Wheat Pool President Ted Turner's overall position and led him to participate in negotiations for changes to the Crow Rate.
Figure 5: Grain Volumes and Price of Wheat, 1974-1985

PRICE OF WHEAT

GRAIN VOLUMES
5.2 Negotiation in a Federal State

This section outlines the strategy and approach adopted by Jean Luc Pepin to resolve the Crow Rate problem. The major sources for this section include a set of Working Papers compiled by Mr. Pepin during his tenure as Minister of Transport. The section will also draw on interviews with various federal officials who were involved in the preparation of briefing material.

5.2.1 Policy Formulation (The 'Pepin' Approach)

On February 10, 1981 Prime Minister Trudeau told the Ottawa correspondent of the Western Producer in a response to a question as whether a consensus existed to "move" on the Crow Rate. He replied:

"It is true that the people I met thought that the Crow Rate could be changed and it would be a benefit to the West but until that position has...very substantial support in the west and until it is stated unequivocally by nice people who are prepared to put their leadership on the line, I would not have the folly, or courage is the word you might use, to say I am going to tamper with the Crow. On some things, I am prepared to give leadership but not in changing the Crow."
Given that position, we can only speculate if the Prime Minister regretted his appointment of Mr. Pepin the year previous.

The appointment of Mr. Pepin as Transport Minister on March 3, 1980 was not necessarily because the Prime Minister preferred Mr. Pepin for this position. Mr. Trudeau had his own agenda after he was re-elected and this included another attempt to "repatriate" the constitution. As indicated in Chapter Three, the Transport Ministry has awesome responsibilities and Mr. Pepin believed that, as a strong practitioner of co-operative federalism and provincial authority, Mr. Trudeau wanted him "occupied" during the upcoming debate on the constitution. Given his background with the Pepin-Robarts Task Force on Canadian Unity, Mr. Pepin preferred the federal-provincial portfolio but when Mr. Trudeau offered him the transport ministry, Mr. Pepin admitted that "it was one of the jobs that flashed through my mind".3

It was during his term as co-chairman of the National Unity Task Force that he reaffirmed his view that unresolved issues such as the Crow Rate caused structural problems and inhibited the economic union of the country.
"On that task force, I heard people on the prairies saying it was time the west stops being used as hewers of wood and drawers of water."\textsuperscript{4}

In response to his question as to whether the Crow Rate was seen as part of this problem he heard a response, "yes, but the Crow Rate is the only thing we ever extracted from the east and we're not going to give it up."\textsuperscript{5}

Mr. Pepin, as is customary with new ministers, received several in-depth briefings on various transport issues from senior officials of the Federal Department of Transport. Mr. Pepin was intrigued by the briefing on grain transportation and saw in the Crow Rate an immediate challenge! Grain was not a new issue to Mr. Pepin as he served as both Minister of Industry and Minister Responsible for the Wheat Board in 1968. It was in 1969 that Mr. Pepin first recognized the need to change the Crow Rate to remove its adverse affect on western agricultural diversification. He was briefed on these matters by Mac Runciman, President of United Grain Growers and Lorne Parker Sr., President of Manitoba Pool Elevators. Mr. Runciman and Lorne Parker Jr., as President of Manitoba Farm Bureau, were spokesmen in the early 1970s.
for changes in the Crow Rate.

A Memorandum to Cabinet was prepared to seek support to nurture the emerging consensus for Crow Rate change through a process of intensive consultation and negotiation. It was within this document that Mr. Pepin accepted the basic negotiating stance of the Prairie Farm Commodity Coalition. Table 15 outlines the various positions including those of PFCC, WAC and the federal government on Crow Rate Reform. It was also at this time that Mr. Pepin began consultations with eastern ministers such as Eugene Whelan (Agriculture) and Andre Ouellette (Consumer and Corporate Affairs). Mr. Pepin was concerned that any changes to infrastructure and railway rates in Western Canada would have an impact (real or perceived) in Quebec. In this he was ahead of his technical advisors who believed that Quebec would not be impacted by the changes and thus would not become a major critic.

Mr. Pepin received a commitment from his Cabinet colleagues that if he could demonstrate that a consensus for change existed they would support a plan for change.
Table 15: Summary of Basic Positions on Crow Rate

<table>
<thead>
<tr>
<th>MANITOBA POOL ELEVATORS</th>
<th>PRIVATE SECTOR GRAIN TRADE</th>
<th>MANITOBA FARM BUREAU</th>
<th>SASKATCHEWAN WHEAT POOL</th>
<th>COMMODITY COALITION</th>
<th>SASKATCHEWAN FEDERATION OF AGRICULTURE</th>
<th>ALBERTA WHEAT POOL</th>
<th>UNIFARM</th>
<th>RAILWAYS</th>
<th>N.D.P. PARTY (WESTERN CAUCUS)</th>
<th>PROVINCE OF MANITOBA</th>
<th>PROVINCE OF SASKATCHEWAN</th>
<th>PROVINCE OF ALBERTA</th>
<th>PROVINCE OF BRITISH COLUMBIA</th>
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<tbody>
<tr>
<td>1. Railways to be Compensated</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>2. Payment to Railways</td>
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<td>X</td>
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<td>X</td>
<td>X</td>
<td>X</td>
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<td>3. Payment to Producers</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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</tr>
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<td>4. Inflationary costs to be shared by Producers</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>Ø</td>
<td>X</td>
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<tr>
<td>5. Extend Crow to Products</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>6. Performance Guarantees by Railways</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>X</td>
<td>X</td>
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</tr>
<tr>
<td>7. Variable Rates Supported</td>
<td>X</td>
<td>Ø</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>8. Variable Rates Opposed</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>X</td>
<td>X</td>
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<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Legend: Fully Supportive X
Qualified Support Ø

Source: Briefs Submitted to Pepin (1980–1983)
Media Content–Analysis (1980–1983)
The first problem facing Mr. Pepin was that he held a seat in Ottawa, representing a party with only two seats in western Canada, the region most affected by Crow Rate change.

Second, he faced opposition within Cabinet, as already discussed, in Senator Argue who was the Saskatchewan "representative".

Third, he faced opposition from the Quebec Caucus which was concerned that any benefits to western agriculture would come at the expense of Quebec.

Fourth, he faced opposition both within the PMO and PCO. Officials in these two central agencies believed the Crow Rate issue was too political.\(^7\)

On the other side of the issue, Mr. Pepin received strong support from the departments of Finance, Treasury Board, Agriculture and his own Department. The Deputy Minister of Transport, Arthur Kroeger, pledged the full support of the department. According to Mr. Kroeger "there was Crow and then there was all other issues".\(^8\)
5.2.2 Interest Groups

As indicated in Chapter Two interest group relations in Canada are complex because of the divided and, in the case of transportation shared powers which require dynamic interaction with two levels of government. This interaction can take place with Cabinet Ministers as already discussed, but any successful lobby organization requires support from the bureaucracy. The relationship between interest groups and government in policy formulation has developed more on collaborative rather than on adversarial lines. However, as will be demonstrated, such a neat division could not describe the Crow Rate process.

Chapter Two noted that no central agency in Ottawa was recognized as the coordinating agency for policy development. This was confirmed by the Crow Rate reform process. One of the reasons for this is that the policy and expenditure management system requires considerable inter-departmental and integrated policy decisions. Coordination is not an easy assignment in today's planning process. One would expect the Privy Council Office to be able to perform this function but a former advisor to Prime Minister Clark, James Gillies, argues that:
"The PCO simply does not see itself as dealing with specific legislative thrusts but prefers to coordinate various inputs into the policy-making process."\(^9\)

Given its responsibility for expenditure and tax policy, the Ministry of Finance often sees itself as the "important" ministry in government. It was the Ministry of Finance, in the early 1970's, which first began to conclude that spending on such items as branchline subsidies on the prairies were producing disincentives in the prairie economy and, as such, drastic reform was required to cap what was developing into a long-term costly commitment toward supporting \textit{ad hoc} programs required to offset problems caused by the Crow Rate. The fact that the federal ministries and agencies were split over this issue did not make the job of interest groups to influence the process an easy one. Supporting change were the departments of Finance, Treasury Board, Agriculture and Transport. Opposing change was the PMO and PCO.

Concurrently, many provincial governments were organized along lines similar to Ottawa i.e., existence of central agencies with policy coordination responsibilities, and this also caused problems for interest groups who were short of funds.
Throughout the Crow Rate reform process, bureaucracies communicated extensively on all facets of the Crow Rate debate and although it would be difficult to identify executive federalism at play at the ministerial level, it was evident at the bureaucratic level.

Given the opposition Mr. Pepin faced at PMO/PCO, he realized that he had to demonstrate that support for change existed among agricultural groups in western Canada.

The message that Mr. Pepin received from Western farm groups was "if he (Pepin) 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."\textsuperscript{10}

The next immediate need for Mr. Pepin was to find a way to finance a negotiated settlement. Fortuitously, by the fall of 1980, the federal government as part of an energy agreement with Alberta established a "Western Development Fund".\textsuperscript{*} Announced initially as a $4.6 billion dollar fund, the fund shrank over time. For example, only $145 million was spent in 1981-82.\textsuperscript{11} Nevertheless, there

\textsuperscript{*}The fund was a political move by the Liberals to support economic development in the West. The fund would channel dollars taxed away from the oil companies back into the west.
was money available which could be used to launch negotiations on the Crow Rate. According to Mr. Pepin when the Minister of Finance realized that the federal government had spent about $1 billion on *ad hoc* grain transport programs such as branchline subsidies and rail car purchases over the previous ten years, he quickly agreed. Pepin realized that without the support of the Ministry of Finance he could not have proceeded.12

The Western Development Fund was assigned to the Western Affairs Committee. This consultative committee was established to address the concerns of the Liberal electoral defeat in western Canada. The Committee was chaired by Lloyd Axworthy, Minister of Immigration and Manpower and included Senators Argue (Saskatchewan), Olson (Alberta) and Perrault (British Columbia). It also included, at times, John Reid from Kenora (Northern Ontario), John Roberts and John Munro (Ontario). It is interesting to note that the Prime Minister's Principal Secretary, Tom Axworthy, and his assistant Denise Chong, attended and participated at those meetings.

According to Hugh Thorburn:

"policy-making in Canadian government is dominated by two separate processes of consultation
Thorburn goes on to conclude that this approach tends to favour elite groups. Mr. Pepin was aware that he had to have support of key agricultural groups if his plan to proceed with his Crow Rate reform was to get off the ground. He also understood that many agricultural organizations were hampered by the overall lack of understanding of the issue. As a result Mr. Pepin developed another feature of his strategy by taking his case directly to those most affected by Crow Rate change: the 140,000 primary grain producers in the three prairie provinces. In 1980, Mr. Pepin addressed the annual meetings of the three prairie wheat pools and the umbrella agricultural organization, in Alberta, Unifarm. At each meeting he outlined the changing circumstances such as railway losses, possible rail rationing and disincentives for more value-added processing. To address these concerns he promoted a "system" versus "ad hoc" approach and the need to appoint a Task Force of Westerners to define not the issues, but to work out the best solutions.
5.2.3 Role of the Media

The Crow Rate issue was both a blessing and major problem for the media. It was a blessing because it provided the media with an issue it could exploit and even dramatize, e.g., when the National Farmers Union "hung Mr. Pepin in effigy" outside a Regina hotel where he was addressing the annual meeting of Saskatchewan Wheat Pool, the Regina Leader-Post provided major coverage with photographs. However, the Crow Rate issue was also a major problem because it was a difficult issue to understand first of all for grain producers affected by the Crow Rate and second, by the predominant urban population of the prairies which understood virtually nothing about the Crow Rate. No surveys were undertaken to substantiate this statement but as will be discussed later in the chapter, surveys undertaken with grain producers demonstrated their lack of knowledge of the factors related to the Crow Rate; therefore, it would not take much extrapolation to interpret that the population as a whole was even less informed.

As concluded in Chapter Two the role of the media is to communicate information and to act as an intermediary between interest groups and the political system.
On face value this is a definition which offers no major problems except in the Crow Rate debate, the major Wheat Pools owned their own newspapers. The Saskatchewan Wheat Pool owns the *Western Producer*, the largest circulation newspaper on agriculture in Canada. The *Western Producer*, is the only farm newspaper which employs a full-time correspondent in Ottawa. In addition, the Manitoba Pool Elevators owns the *Manitoba Cooperator* and the United Grain Growers owns the *Grainews*. It is not surprising that the *Western Producer*, particularly on its editorial page, lobbied extensively against changes to the Crow Rate. On the other hand the Editor of the *Grainews* wrote extensively on why the Crow Rate should be changed.

The federal Department of Transport established an elaborate media monitoring process to follow the debate on the Crow Rate. This process was in addition to regular monitoring that is undertaken on all transport issues. The special Crow Rate monitor was in place between 1981-1984 and produced a substantial collection of transcripts, radio and TV-clips and news reports on almost a daily basis. The fact that so much material was available attests to the attention the media devoted to the Crow Rate debate.
Only a limited content-analysis of the news media was undertaken but an examination of the Department of Transport documents produced the following conclusions.

First, the media located in the prairies tended to adopt anti-Ottawa perspectives. The reason for this stems partly from the manner in which federalism is practiced in Canada. Since it is invariably provincial Premiers defending their "turf" against Ottawa initiatives, the western media tend to adopt a pro-provincial position. For example, media questions on the Crow Rate were usually posed in the vein of concern for the "family farm" and the rural way of life as if by definition the initiative to change the Crow Rate correlated directly to these concerns.

Second, while the Editorials in the major urban papers such as the Winnipeg Free Press and the Edmonton Journal consistently advocated and supported change to the Crow Rate, the coverage of the Crow Rate in the rest of the newspaper gave more coverage to Crow Rate retentionists.

Third, although the newspapers owned by the farm organizations provided reasonable opportunities for federal spokesmen to put forth their views, a substantial
coverage was provided to those opposed to change.

Fourth, the media, particularly the radio-TV journalists attempted to create adversarial opportunities between spokesmen (debate) from both sides of the issue and avoided presenting the "statistical" in-depth report.

Fifth, the western media both from a transportation and agricultural perspective was knowledgeable of the Crow Rate issue and invested a considerable amount of time and space to the issue, yet most of the reporting was in the populist tradition and avoided technical details.

Sixth, the media not only reported the issues but by the manner in which the issues were presented they participated fully in the debate.

Given the voluminous amount of space devoted to the Crow Rate debate and given the wide range of opinions expressed, it was not difficult for Mr. Pepin to reference a number of examples from the major urban papers to show that a consensus existed to change the Crow Rate. (See Appendix 3). The key word is "change". It would have been more difficult to demonstrate that support existed for a specific change but since the federal government had
not yet outlined its position; the objective was to show that a consensus for change existed.

5.2.4 **Consensus For Change**

In addition to speaking directly to grain producers, Mr. Pepin also launched a major communication strategy to inform westerners about the implications of not changing the Crow Rate. Mr. Pepin was primarily interested in making producers more knowledgeable and he trusted his key advisor (Deputy Minister, Arthur Kroeger) and his prime technical advisors on the Crow Rate, such as Nick Mulder and Henry Ropertz, to meet with producer groups and respond to questions over radio hot-line programs. The lack of MPs was addressed by utilizing the professional services of bureaucrats who could discuss the issue in technical detail rather than depend on political rhetoric. In this regard, the use of elected MPs may have steered the debate entirely into the political and rhetorical arena rather than helping producers understand the issues.

The response from the agricultural sector was encouraging. The general message to Mr. Pepin was:
1. The federal government has to make the first move. It has to make a major financial commitment, up front, to compensate the railways for their present losses from moving grain.

2. If the federal government will take this step, the western agricultural organizations will be prepared to "negotiate" the sharing of future cost increases.

On November 20, 1980 the Saskatchewan Wheat Pool debated the issue following an appearance by Mr. Pepin. During debate the President of the Wheat Pool, the largest grain company and one of top 40 companies in Canada, said:

"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."16

Delegates voted 122 - 22 to support a compromise proposal on the Crow Rate. It was a major victory for Mr. Pepin and a defeat for Senator Argue. Senator Argue told the delegates that the government would ensure that the railways would move grain at the Crow Rate level. Mr. Pepin rejected the approach and told the delegates that the rate had to be changed and they should be part of that
negotiation. Within the context of his own strategy Mr. Pepin would say: "I knew from that point in time a Crow Rate solution was negotiable." 17

Mr. Pepin concluded that a consensus for change did exist. He believed that there was only a minority support for the status quo (National Farmers Union, Government of Saskatchewan and Senator Argue). 18 He decided to approach the Prime Minister in advance of submitting a proposal to the Cabinet Committee on Planning and Priorities. In a letter 19 he made the following points:

1. Status quo is not a tenable option.
2. Railway losses moving grain reached $600 million over the last five years and are increasing.
3. Forecast demands for western commodities has sharply increased.
4. CP and CN need to invest $14 billion in western Canada to handle future demands.
5. Three of four western governments support some form of change.
6. Both major agricultural groups (WAC) and (PFCC) reject the status quo.

Based on the above points, Mr. Pepin requested support for the establishment of a three to five person task force to "engage in intensive consultations with
producer organizations for the purpose of extending and strengthening the consensus that has developed in the west to date."^{20}

Given the disappointing experience with the Royal Commission on Rail and Grain Transport (The Hall Commission), Mr. Pepin was reluctant to turn the Crow Rate issue over to another Royal Commission.\textsuperscript{21}

Mr. Pepin's open and frank approach to problem-solving was causing him difficulties in the Prime Minister's Office. The Prime Minister's staff believed that the issue was still too "political" to proceed with at that time.\textsuperscript{*} On February 12, 1981 the Prime Minister announced in Parliament\textsuperscript{22} that no action will take place on the Crow Rate until a clear consensus exists and prairie governments must be part of that consensus. This represented a major set-back for Mr. Pepin and reflects the influence of PMO/PCO. Mr. Pepin determined that he must not only convince the west of the merit of change, but he must also convince the Prime Minister's political (PMO) and technical (PCO) arms.\textsuperscript{23} The momentum for change nearly came to a near stop.

\textsuperscript{*}The PMO has strong communication links with political advisors to all the Premiers and to key Party (of the Government) contacts in all the provinces. The PMO was being advised to keep the Crow Rate off the government's agenda.
It is necessary at this point in time to note that, despite the support Mr. Pepin outlined in his letter, he could not indicate the full support and participation of the four western provinces. This indicates a major constraint on policy development in Canada whereby agreement of governments remains the cardinal rule for policy development. This lack of provincial government support was emphasized in June of 1981, when both the Saskatchewan (NDP) and Manitoba (PC) Legislatures adopted resolutions condemning changes to the Crow Rate. One of the negative outcomes of Canadian federalism is the tendency for provincial governments to resort to adversarial rather than collaborative approaches to solving public policy issues. In other words, provincial governments find it more political to criticize Ottawa than to either respond to Ottawa, initiate or invite the federal government to participate in solving a provincial or joint public policy issue.

Mr. Pepin was not to be defeated. When he was appointed Transport Minister he said he had a "passionate desire to change the Crow Rate" and he spent the next six months lobbying cabinet colleagues and counteracting
Senator Argue's "pro-Crow" retention campaign and his desire to use Western Development Fund expenditures on *ad hoc* rail expansion programs.

Heading into the fall of 1981, nearly one year had passed since Mr. Pepin openly proposed changes to the Crow Rate. Unfortunately for Mr. Pepin, the Crow Rate was not the only issue on his agenda. Throughout 1981 he was also the subject of severe criticism for his attempts to reduce VIA Rail services in western Canada. As a result he could not devote all his time to the Crow Rate issue. Mr. Pepin demonstrated what he believed were two key characteristics of a politician who supports change. He must remain committed and consistent.25 These two characteristics were the cornerstone of Mr. Pepin's approach to change the Crow Rate. He believed that if he remained committed that over time others would join him. It was also during this period of time that he was receiving criticism for ignoring other transport issues.

Mr. Pepin's determination was to be rewarded.

A number of western shippers of bulk commodities became concerned that the two national railways would not be able to provide future capacity (*see Figure 6*) if they
continued to lose money moving grain. As a result, an "action" meeting was held in Vancouver on August 6, 1981. Shippers were informed that they could face a rationing of rail service by 1985 unless the railway revenue situation was addressed immediately. Represented were the major bulk commodity shippers including both WAC and PFCC. A Task Force on Canada's Crisis in Rail Capacity was established. Letters were sent to the Prime Minister and the four western Premiers demanding that the five governments:

"... work together to create an investment climate that will ensure the development of sufficient rail capacity for the efficient and ration-free transportation of goods to the Pacific tide-water. This process must begin this year, with an immediate political dialogue, involving the establishment - related to railway performance - of commercially justifiable compensation to the railways for the shipment of farm commodities currently moving at statutory rate levels."26
Figure 6: Bulk Exports to the West Coast, 1960-1990

BULK EXPORTS THROUGH THE MOUNTAINS
TO THE WEST COAST 1960 - 1990

MILLIONS OF TONNES PER YEAR


GRAIN  +  COAL  SULPHUR  POTASH

NOTE: Volumes beyond 1981 are projections

Source: The Crisis in Rail Capacity and Financing
Western Transportation Advisory Council
October, 1981
This meeting became a significant historical turning point in the Crow Rate debate. First, it established the Crow Rate as a national issue affecting more than just prairie grain and meat producers and second, it dictated that any solution had to be comprehensive i.e. the solution had to address the Crow Rate itself and not just include rail expansion programs as advocated by Senator Argue.

A flood-gate was opened and support for change surged forth. Premier Lougheed, in an attempt to convince the Prime Minister that consensus for change did exist, took a high profile role in advocating change. On October 14, 1981 he told the Alberta Legislature:

"In our judgement the whole Crow Rate issue should now be right at the forefront of decision-making in Canada and no longer left at the back burner."27

The liberal Winnipeg Free Press became a strong supporter of Mr. Pepin as did the conservative Alberta Report. The Free Press in editorials28 criticized both Premiers Blakeney (Saskatchewan) and Pawley (Manitoba) for not supporting the federal Transport Minister. Not since the Honourable Jean Marchand, in 1973-74, had a Transport
Minister (ironically another francophone) received such western praise.

The center of attention once again turned to the annual fall meetings of the grain companies. Mr. Pepin prepared to speak at all the major meetings to stress his comprehensive approach. Senator Argue realized that momentum was moving away from him and, as such, he needed to convince delegates that no change in the rate structure was required.

On November 25, 1981 Senator Argue issued a press release in which he questioned the railways need for increased compensation. Mr. Pepin and Senator Argue were debating the Crow Rate over the airwaves of the west, a most unusual performance for two Cabinet Ministers. In many ways Senator Argue contributed to Mr. Pepin's plan since the Senator's positions were often weak and easily refutable thus drawing attention to weakness in the overall status quo approach.

It was the Winnipeg Free Press that sank the Senator by stating in an editorial on December 2, 1981 that the Senator's latest argument against changing the Crow Rate is the worst of a long line of bad arguments presented by
the west's non-elected spokesman in Ottawa. It was shortly thereafter that Carl Snavely set railway losses, from moving grain in 1980, at $245 million. See Table 12: Cost of Moving Grain by Rail. He also calculated that these losses could reach one billion dollars by 1990.

Chapter Four noted the importance of the November 23, 1981 Annual Meeting of Saskatchewan Wheat Pool. At the meeting delegates voted 99 to 45 in favour of negotiation on future inflationary rate increases as part of a comprehensive settlement. Pool regulations require two-thirds majority, which means the resolution passed by a margin of three votes.

Mr. Pepin and his key staff members worked over the Christmas season to prepare what would eventually be a historic document. Mr. Pepin was preparing a Memorandum in response to Cabinet's request that he bring forward specific proposals for the implementation of a comprehensive solution, related to the western railway transportation issue, as the basis for developing a new statutory framework to govern the transportation of grain.

The approach adopted by Mr. Pepin in January of 1981
is outlined in *Table 16: The Pepin Plan for Crow Rate Reform.*

**Table 16: Pepin Plan for Crow Rate Reform**

- Railway revenue problem to be resolved.
- Grain producers to share in increased costs.
- Close consultation with agricultural organizations.
- Solution should be seen as "Made in Western Canada".
- Federal government to adopt flexible approach.

*Source: Pepin Papers Box 9 – Working Notes for Cabinet Submissions, January, 1981*

In strategic terms, Mr. Pepin's primary objective was to break the rigidities of the present system by starting a process of change and to ensure that whatever new regime is created is sufficiently flexible to evolve in response to changed conditions in future years. Mr. Pepin admitted that the upcoming process "is not going to be easy". 32 Once again time proved Mr. Pepin correct as 1982 became a turbulent year for Crow Rate debate.

Mr. Pepin gained support for his proposal in Cabinet but eastern ministers were attracted to the project because the railways' commitment of $13 billion in rail
expansion program would create a significant number of jobs in eastern Canada including the Sydney Steel plant and the Hawker-Siddeley steel works in Trenton, Nova Scotia, thus ensuring the full support of Deputy Prime Minister Alan McEachern. One wonders if such support would have been forthcoming had the Crow Rate remained a western regional issue. See *Table 17: Regional Distribution of Economic Impacts of Railway Investment Plans*.

The identification of regional economic impacts was a deliberate part of Mr. Pepin's overall policy. As is evident from the table, both western Canada and Ontario would be major beneficiaries of the economic impacts of railway investment plans in western Canada. Mr. Pepin emphasized that, of course, CN and CP Rail could not commit such funds unless the Crow Rate was changed. The table also explains why Ontario never resisted the federal government's initiatives and the Province remained low-key throughout the negotiations.

Saskatchewan Wheat Pool was aware of the 42 Liberal seats in the House of Commons from Ontario and undertook its own ad campaign into that province. See *Appendix V: An Example of Advocacy Advertising During the Crow Rate Negotiations*. 

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Throughout his consultation with western agricultural organizations, Mr. Pepin heard the same message. If the federal government was prepared to put some money on the table, negotiations for a Crow Rate settlement could begin. The Federal Cabinet's commitment of $3.2 billion over the next four years met that commitment. Table 23: Federal Outlay 1982-83 - 1985-86 provides an updated breakdown of these figures. The commitment included about $1.8 billion to cover items such as branch line repair and hopper purchases. This expenditure was to be made regardless as to whether or not the Crow Rate was changed. The remaining sum of about $1.3 billion includes the new grain subsidy for a period of four years and would only be paid if the Crow Rate structure was changed.

The funds were to come from The Western Development Fund and raised the question as to whether the funds were supporting economic development or were they a form of social welfare payment to grain producers?
Table 17: Regional Distribution of Economic Impacts\(^1\)
of the Railway Investment Plans
(% of total Canadian impact)

<table>
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<tr>
<th>Province/Region</th>
<th>Industrial Sales</th>
<th>GDP</th>
<th>Employment</th>
<th>Income</th>
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<td>5.3</td>
<td>6.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Quebec</td>
<td>14.5</td>
<td>13.2</td>
<td>15.9</td>
<td>14.7</td>
</tr>
<tr>
<td>Ontario</td>
<td>36.7</td>
<td>34.7</td>
<td>36.2</td>
<td>35.1</td>
</tr>
<tr>
<td>Western Canada</td>
<td>43.9</td>
<td>47.0</td>
<td>41.4</td>
<td>45.4</td>
</tr>
<tr>
<td>Manitoba</td>
<td>(3.3)</td>
<td>(3.3)</td>
<td>(3.6)</td>
<td>(3.4)</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>(2.5)</td>
<td>(2.9)</td>
<td>(3.4)</td>
<td>(2.3)</td>
</tr>
<tr>
<td>Alberta</td>
<td>(13.3)</td>
<td>(14.4)</td>
<td>(11.7)</td>
<td>(12.7)</td>
</tr>
<tr>
<td>British Columbia</td>
<td>(24.8)</td>
<td>(26.4)</td>
<td>(23.7)</td>
<td>(27.0)</td>
</tr>
</tbody>
</table>

NOTE: (1) Total direct and indirect impacts

Source: Department of Regional and Industrial Expansion: Capital Investment Program and CN and CP Rail 1982 to 1991.
5.3 Policy Negotiation in a Federal State

Mr. Pepin was able to convince his colleagues that a consensus for change existed even though he could not include in that consensus the four western provincial governments. He was also able to identify enough support among the various agricultural organizations to advance the debate to the negotiation stage.

It was at this point that Mr. Pepin, although a strong supporter of cooperative/executive federalism, had to find an approach that would allow him to bring forth to Parliament a "package" for changes to the Crow Rate that had broad western support.

5.3.1 Appointment of Federal Negotiator

Mr. Pepin's main concern was how to get the President of Saskatchewan Wheat Pool, Ted Turner, to support the reform package. If Mr. Turner agreed, then so would the Presidents of Alberta Wheat Pool and Manitoba Pool Elevator. To fully appreciate both the position of the Premier of Saskatchewan in 1982, Allan Blakeney and the President of Saskatchewan Wheat Pool (SWP) Ted Turner, it is necessary to understand that the Saskatchewan Wheat
Pool was initially inspired by paradoxical, philosophical and political attitudes among farmers which continue to exist today. The basis of this paradox is that on the one hand its members are rooted within the ranks of the middle-class who believe in private ownership of land and means of production, who employ seasonal labour to produce a cash crop in pursuit of profit. On the other hand, members do not hesitate to attack the railways, banks and private grain companies for basing decisions on the need to produce profit. Nor did this so-called independent spirit restrict some producers from demanding continuation of the Crow Rate.

Grain is big business in Canada and the largest grain companies ranked in 1980 among Canada's largest companies. See Table 18: Financial Position: Grain Handling Companies, 1980.
Table 18: **Financial Positions: Grain Handling Companies, 1980**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Sales 1980 $ 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Canadian Pacific Ltd</td>
<td>9,984,546</td>
</tr>
<tr>
<td>11</td>
<td>Canadian National Railway</td>
<td>3,705,600</td>
</tr>
<tr>
<td>35</td>
<td>Air Canada</td>
<td>1,905,862</td>
</tr>
<tr>
<td>39</td>
<td>Saskatchewan Wheat Pool</td>
<td>1,730,016</td>
</tr>
<tr>
<td>44</td>
<td>IBM Canada</td>
<td>1,506,000</td>
</tr>
<tr>
<td>45</td>
<td>Canada General Electric</td>
<td>1,465,871</td>
</tr>
<tr>
<td>49</td>
<td>United Grain Growers</td>
<td>1,247,611</td>
</tr>
<tr>
<td>55</td>
<td>Cargill Grain</td>
<td>1,100,000</td>
</tr>
<tr>
<td>68</td>
<td>Alberta Wheat Pool</td>
<td>1,000,000</td>
</tr>
<tr>
<td>120</td>
<td>Manitoba Pool Elevators</td>
<td>500,000</td>
</tr>
<tr>
<td>N/A</td>
<td>Pioneer Grain</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: *Financial Post: Top 500, 1980*

The grain handling companies are widely diversified. For example Saskatchewan Wheat Pool, in 1980, had interests in over 20 companies in agriculture and beyond. The Pool mined phosphate, sold insurance, exported grain, processed margarine, formulated chemicals and manufactured textiles. It handled 2 out of every 3 bushels of grain in Saskatchewan and about 1/2 of the total prairie crop.

The strategy employed by Mr. Pepin was to convince the prairie Pools that there would be negotiations whether they participated or not. On January 11, 1982 Mr. Pepin
met the Presidents of three prairie wheat pools and secured their participation in the negotiations. It is not certain what Mr. Pepin offered in return but he was contemplating appointing Mac Runciman, retired president of United Grain Growers, as the federal negotiator. This appointment was not made because Mr. Runciman was a member of the Board of Directors of CP Ltd. Rather Mr. Pepin appointed University of Manitoba Agricultural Economist, Dr. Clay Gilson, to lead the negotiations.

In the 1970s and in the 1980s the prairie Wheat Pools had to come to grips with the risk of being major exporters. This meant learning to hedge in the future's market and facing the necessity of getting the transportation system in shape. Grain cannot be exported if it is sitting in the elevator. This reality more than any other probably explains the reason why the Wheat Pools were prepared to negotiate a Crow Rate settlement.

As expected the appointment was not universally praised (the three Prairie Wheat Pools were the major critics) since Dr. Gilson had been part of a federal Agricultural Task Force which, at an earlier period, had recommended some basic structural changes for the prairie agriculture. However, it was hard to argue that Dr. Gilson
was a "political" appointment since he was not affiliated with any political party and had not actively, up to this point, participated in the Crow Rate debate.

To ensure that Dr. Gilson had flexibility in the negotiations, he was provided with a set of Cabinet guarantees that could be used as a firm commitment for Dr. Gilson to place on the negotiations table. As outlined in Table 19: Producer Guarantees the federal government was committing a substantial amount of money to the process. For example, the ten-year commitment was double the total 1980 budget of the Government of Saskatchewan.

Table 19: Producer Guarantees

- Federal expenditures of $8.9 billion over the next decade related to the movement of grain ($3.2 billion over first four years.
- Producers to share in future cost increases.
- Continuation of branchline repair program.
- Guaranteed rail line network to the year 2000.
- Future rate increases to be determined by regulation, not the railways.
- Service and performance commitments by the railways.
- Railway investment in new capacity to move all products.

In addition to these guarantees, Mr. Pepin also provided Dr. Gilson with a specific set of negotiating principles (see Appendix 4 for a detailed set of negotiating principles) to assist him in his discussions with grain producer representatives. The key question to be resolved was how much should the grain producer pay as his/her share of the cost of moving grain. The federal government made a financial commitment by agreeing to pay the 1981 "Crow Benefit" (the difference between railway costs and the Crow Rate) on a permanent basis. It represented a commitment of $612 million as a minimum. The grain producer and the federal government were to share the cost beyond $612 million. The term "Crow Benefit" was first used by the Honourable Otto Lang, in 1974, when he proposed changes to the Crow Rate (The Bold Approach) by referring to the protection the producers had from increased rail costs because of the fixed Crow Rate.

As outlined, the provinces were outsiders in the Crow Rate negotiations. There is no question that Mr. Pepin would have preferred to include the Government of Alberta in discussions since this province and its Premier, Peter Lougheed, were strong supporters of change. Even though the province did not participate directly in the negotiations, the Government of Alberta made available to
agriculture groups in that province, the professional expertise from the Alberta Departments of Agriculture and Economic Development (Transportation Section). Since WEOC, Alberta had been developing a strong team of transportation experts and by 1980, the Province had a group equal to that of the federal Department of Transport. However, Mr. Pepin could not include Alberta without the other two prairie provinces and even in the case of the Government of Alberta, there would have been opposition from Alberta Wheat Pool,\textsuperscript{35} which had philosophical differences with the provincial government.

Throughout the Crow Rate debate the four western provinces remained divided and referred to the Crow Rate as a federal responsibility. The cost of this responsibility was not their concern.

The six month period following the appointment of Dr. Gilson demonstrated the problems that can develop in a federal state when a highly contentious and adversarial issue becomes a public platform. The initial reactions of the press in western Canada gave some evidence of events to come.
Mr. Pepin realized that even as the issue was being negotiated, behind closed doors with Dr. Gilson, both insiders and outsiders and other opponents would be launching major media events to influence public opinion. Mr. Pepin had his own communication strategy ready to unfold. *Table 20: Pepin's Communication Strategy, 1982* details the scope and efforts that the federal government was prepared to take to foster public understanding. The agents of the strategy would be federal ministers, primarily Mr. Pepin and key advisors, (again mostly advisors to Mr. Pepin).
Table 20: Pepin's Communication Strategy, 1982

1. Establish a set of meetings with editorial boards.
2. Participation in public forums.
3. Government Spokespersons to respond quickly and effectively to all criticism.
4. Undertake major and ongoing public opinion surveys.
5. Distribute brochures explaining the government's position to all grain producers.
6. Write a Ministerial letter to all 140,000 grain producers.
7. Respond to all letters to the editor in all major and other western newspapers which refer to Crow Rate reform.
8. Monitor all western newspapers.
9. Distribute Speakers' kits and media information.
10. Consider advocacy advertising.

Source: Pepin Papers, Box 10, Working Notes on Western Transportation Initiative: January 12, 1982.

The Crow Rate debate provides some interesting insights regarding the struggle to influence the public. It does demonstrate the negative affects of an adversarial system, which is natural in Canada's federal structure.
5.3.2 Public Awareness of the Crow Rate

Throughout the intensive period of debate over changes to the Crow Rate a considerable amount of documentation, data collection and analysis was undertaken. Three major rail costing exercises were conducted by Carl Snavely. Two areas were neglected. First, little work was done to determine the cost to produce a bushel of grain and second, and even more disturbing, was the lack of concern as to how much knowledge did the average grain producer have regarding his own transport costs.

A number of surveys\textsuperscript{36} were undertaken to demonstrate grain producers' attitudes towards changing the Crow Rate. It is interesting to point out that no survey conducted before 1984 tested the producers' knowledge—only his opinion was surveyed. Given the pre-eminence that polls have in public policy formulation, serious questions need to be raised as to the credibility of utilizing polling results to influence policy development. Certainly the polls conducted during the Crow Rate debate provided data on attitudes but it appears the attitudes were based on a lack of understanding. To demonstrate this point, a survey in support of this thesis was
conducted during the summer of 1985 after the Crow Rate was changed. One would have expected that producers' knowledge of their freight rates would be high given all the attention devoted to the Crow Rate in the three previous years. To test this statement a review was made of a number of surveys that were undertaken before and after the Crow Rate was changed. The results from these surveys are then matched against the survey done for this thesis.

In a survey conducted for the Government of Canada in May, 1984, three months after the first increase in freight rates for export grain in 85 years came into effect, producers were asked if they were aware of how much they were paying to transport a bushel of grain by rail as of January 1, 1984. Approximately one-third of the respondents said they did. The respondents were then asked what they were paying to transport a bushel of grain by rail. The replies ranged from .01 to .05 cents a bushel to .56 to .60 cents a bushel. A total of 24.3 per cent replied that they were paying between .11 and .20 cents a bushel. Since the average rate under Crow Rate was about .13 cents a bushel and the rate increased to about .15 cents a bushel on average, on January 1, 1984, one could state that about one-quarter of the producers
knew what freight rate they were paying to transport grain.

Even if this should be the case, the 24 per cent who were correct represents a lesser number than the 35 per cent who stated that they "thought" they knew what they were paying. The main problem with this particular survey is that no correlation exists between those producers who said they knew what they were paying to transport grain and those who actually knew what they were paying. Moreover, no correlation exists between what producers said they were paying and what the actual rate was that the railways were charging. Without such correlations it is difficult to assess how well informed producers were in May 1984 as to what they were paying to move grain. It also raises the question as to why surveys do not include questions which "define" a respondent's knowledge rather than survey his or her opinion. In the May, 1984, Canwest Survey only one question out of 87 i.e. the question requesting producers to state what they were paying to transport grain by rail, required a specific answer rather than an opinion.

In a similar survey\textsuperscript{38} conducted for the Government of Alberta by Angus Reid Associates Inc., (previously Canwest), the same errors were made.
In this Alberta Government survey, when asked to rate the significance of the costs of transporting grain compared to their other farming costs, over two-thirds of the respondents thought this cost was somewhat or very significant. When asked to estimate what they were presently paying to transport a bushel of grain by rail to Vancouver, 67 per cent of respondents did not state an estimated amount. Only 15 per cent of respondents estimated the price to be in the range of 21 to 40 cents a bushel (the actual average rate in January 1985 would have been about 23 cents per bushel).

The lesson to be learned from this inconsistency is that opinion surveys are not an ideal form of assessing knowledge or understanding of respondents' awareness of issues or government programs. This assertion is of particular importance to the post 1985 debate over the "method of payment" issue. For example, in the Angus Reid Survey, 70 per cent of producers sampled said that farmers should receive the annual $659 million subsidy (Crow benefit) rather than the railways. How significant is this result? How well do producers understand the method of payment issue? No questions were asked that one could use to measure, not opinion but knowledge of, the method of payment issue. Therefore, in conducting the survey,
for this thesis, particular attention was developed toward determining producer knowledge rather than just opinion or perception.

5.3.3 On-Farm Awareness Survey

The Environment

The survey was conducted by the author in July 1985, approximately 20 months after the promulgation of the Western Grain Transportation Act (WTGA). During this period of time, grain producers experienced two freight rate increases to move grain by rail. The increases resulted in the average freight rate rising from $4.89/tonne to about $7.70/tonne.

Two other grain transportation issues continued to receive publicity during this time period. One of these issues was the ongoing debate concerning variable rates and the other issue was the method of payment question. The Report of the Committee of Inquiry on Crow Benefit Payment (the Gordon Hall Report) was made public in June of 1985.

In addition to the transportation issues, producers
located in the sample areas, experienced in July, 1985 the double scourge of drought and grasshoppers.

Grain prices continued to be depressed in 1985 and grain shipments fell sharply in the 1984–85 crop year from the previous record crop year for export deliveries.

These were the circumstances that faced producers who participated in the survey.

Survey Methodology and Process

The on-farm survey was designed through consultations with various senior grain and transportation officials in Ottawa, Regina, Moose Jaw and Saskatoon. Questions were designed to elicit factual information rather than opinion. Included in the survey is a section which in a somewhat unique manner defines producer awareness of federal government grain transport policy and programs.

The sample used in this project included a total of 22 producers, (Saskatchewan). Of these, ten were from the Shaunavon farming district and twelve were from the Rosetown umland. The farms in the survey varied both in size and soil type.
The actual names of producers were randomly drawn from the membership list of the Western Grain Growers Association (formerly Palliser) after the Saskatchewan Wheat Pool declined to participate.

Thirty potential participants were initially contacted by letter. This introductory letter explained the purpose and intent of the study as well as a request for their support and an indication of the type of information to be requested. In mid-June, telephone calls were made to confirm respondent participation, to establish an interview date and to answer or clarify any outstanding questions.

Twenty-two of the thirty respondents approached were willing and available to be interviewed on the pre-established dates, resulting in a 72 per cent response rate. Considering the detail of information requested, this was an excellent response. Confidentiality was guaranteed as part of the requests made.

Results of the Survey

Producers were asked specific questions regarding grain production costs, transport costs and they were
asked questions which "tested" their knowledge. Two questions were asked which related to their freight rate (new Crow Rate) to transport grain by rail to port.

First, they were asked what was their present rate (July 1985) and then they were asked what their rate would be on August 1, 1985.

The rate scale, which must be issued by April 30 each year, sets the rate for freight rate zones which cover distances in increments of 25 miles, from 325 to 2,300 miles. The rates become effective on August 01 of each year to coincide with the start of the crop year as determined by the Canadian Wheat Board.

Producers in the Rosetown and Shaunavon regions of Saskatchewan are in zones which are about 900 to 925 miles from port. This means the rate for producers in the sample would fall to about $6.00 a tonne in 1986 from $7.70 a tonne in 1985.

Approximately one-third of the producers knew what their 1984-85 rate was and one-third did not provide any response. The remaining one-third provided figures which were either wrong or for which no explanation could be provided.
In response to the question covering rates (1985-86) presently in effect there were no correct answers. It should be pointed out that the survey was conducted during July, one month before the new rates came into effect. Only about one-quarter of producers stated that the rates would be less in 1986 than in 1985, which was the correct assumption.

It should be pointed out that respondents in the author's poll were members of the Western Canadian Wheat Growers Association (WCWGA) (formerly Palliser) and are generally more aware of transport issues than most producers. Although the number of respondents in the author's survey were low, the results were confirmed by another sample undertaken by WCWGA which could not believe the results of the author's survey.

Conclusion of the Survey

The results of the On-Farm Awareness Survey demonstrated that statements expressed on the Crow Rate were based on opinions more than on knowledge. Confusion can be partially explained by the various counter-advertising programs, some of which have already been discussed and some of which are discussed in the following...
section. The lesson to be learned is that if Mr. Pepin had waited for the poll results to favour Crow Rate change, he could not have proceeded with his plan. These results also demonstrate how ineffectual were the various government (federal and provincial) and other agricultural organizations' communication and information programs.

Advertising Campaign

The historical roots of the Crow Rate were imbedded in the producers' minds and no politician until Otto Lang, in 1974, ever told them that the Crow Rate was a problem that needed to be corrected. Given this historical context, all parties began a series of "information programs" to advise the grain producer on the impact of changing the Crow Rate.

It is difficult to identify another issue in Canada which was the subject of such an advertising blitz as was the Crow Rate.

The government of Saskatchewan, in anticipation of an election, issued two brochures outlining the cost of the "Pepin Plan" to Saskatchewan producers. In one brochure producers were told that this rate could increase 13 times
by 1990 if the Pepin Plan was implemented. Included in the brochure was a postcard which could be sent to Mr. Pepin. It is estimated that 10,000 cards were received and in turn Mr. Pepin's office produced a response to each card. By the time the new legislation was passed, the grain producer had received approximately thirteen different brochures outlining some aspect of the Crow Rate!

Another major player in the advertising game was the Saskatchewan Wheat Pool. The Pool took advertisements east into Ontario. Once such advertisement, already mentioned, which appeared in several major Ontario papers was addressed: "Dear Toronto M.P.: The Pepin Grain Transportation Plan Threatens Toronto Business, not just Western farmers." (Appendix 5). It is alleged that the three Wheat Pools spent about one million dollars on advertising and related travel expenses. According to SWP President, Mr. Ted Turner, "We have spent a lot of money, but we don't apologize for it, we have a large stake in this." However the major participant in advertising was the federal government which spent in excess of $1.5 million. The federal government had its own unique problems. It lacked co-ordination. One advertisement which caused the federal government embarrassment was placed in Quebec newspapers (English and
French) by the Honourable Andre Ouellette, although the sponsor in the advertisement was Eugene Whelan, the Minister of Agriculture. The full-page advertisement was entitled: "The Crow Goes Without a FLAP". The advertisement attempted to alleviate any concerns that the Quebec livestock producer might have if changes were made to benefit the western livestock industry. The latter of course was a key component of Mr. Pepin's strategy to emphasize further processing and value-added as a benefit of Crow change. This advertisement was a forebearer of things to come. It demonstrated that Mr. Pepin's concern about Quebec's perceived hurt was beginning to become reality.

The advertising blitz which followed the announcement of Mr. Pepin, on February 8, 1982, was only the first of such campaigns. Another blitz would follow a year later as Bill C-155 - An Act to establish The Western Grain Transportation Act was being debated.

In addition to the advertising campaigns, another form of public information was introduced. Western media began receiving copies of confidential Memoranda to Cabinet documents which inter alia purported to show that the three Prairie Wheat Pools were in favour of Crow Rate
reform. As a result, all future Memoranda to Cabinet were to be written as if they were going to be released to the public. There was no authorized breach of Cabinet secrecy but the leaks were made to undermine the consensus that Pepin was attempting to develop to support his policy.

It is difficult to measure the impact of the various "information" programs but on March 23, 1983 Premier Blakeney called an election and stated that it would be fought over the Crow Rate. On April 26 the PCs won 57 out of 64 seats. The PC position on Crow Rate was a passive one which was opposed to increased rates. The NDP used their anti-Crow stand as their centrepiece and Transport Minister Gordon MacMurchy was put in charge of this program. The fact that the NDP lost so decisively (Mr. MacMurchy lost his seat) does suggest that either the Crow Rate was not an issue to most Saskatchewan voters or the PC's position on Crow was seen as a safeguard to vote PC. As argued earlier however, strong campaigns to keep the Crow could no longer guarantee an election victory.

5.3.4 Gilson Report

As the advertising battle continued Dr. Clay Gilson concluded his negotiations with representatives of the 15
major agricultural organizations and the two national railways within a 126 day time period (see Appendix 6 for a detailed set of recommendations).

Dr. Gilson recommended an increase in federal government assistance from $3.2 billion to $3.5 billion for the first four years. He also recommended a sharing formula for paying direct subsidies. In the first instance they would be applied exclusively to holding down railway rates and then they could convert into payments made directly to producers to spend at their discretion. He also recommended a number of task forces be established to complete further technical and legislative requirements. The report is complex and detailed and enabled Mr. Pepin to continue his work. Although Dr. Gilson raised the ante to $3.5 billion he did, according to Mr. Pepin, stay within his parameters. Mr. Pepin also believed the report was made in the west and involved all the interested groups in the west.45

Among western farm groups, the reaction was mixed. The most positive came from the Prairie Farm Commodity Coalition (PFCC) because of the recommendations concerning payments to producers and the Agricultural Adjustment Payment. Both measures would help to reduce the dis-
incentives to livestock and non-Crow crop producers whose organizations dominate the PFCC. Other more widely-based western farm organizations such as the Manitoba Farm Bureau and Unifarm in Alberta were also positive, expressing general support for the recommendations except for concern about, but certainly not outright opposition to, the recommendations about payments to producers and cost-sharing.

The least positive but definitely not negative response among western farm organizations (except for the NFU of course) had, to that date, come from the three Prairie Wheat Pools. Their public comments reflected favourable reaction to the consultative process, the general content of the report and the recommendations on a central co-ordinating agency, railway guarantees, continuation of Government responsibility for hopper cars and branch line rehabilitation and inclusion of canola and linseed under the new regime. However, they had reserved judgement until after the scheduled meetings with their delegates and Boards of Directors on three key issues: the "high" level of Crow benefit; the payment to producers; and the "high" cost-sharing formula. At these meetings local members and delegates were likely to be more negative than their representatives involved in the Gilson consultations.46
Since the National Farmers Union had not recognized the negotiation process, that organization continued to oppose any changes to the Crow Rate.

It is easy to take the Gilson Report to task because it failed to reach an agreement with all the parties but the real success of Dr. Gilson and his Research Director Dr. E. W. Tyrchniewicz and Secretary Don Leitch, was that they established a chemistry of good will among all the participants. According to Deputy Transport Minister, Arthur Kroeger, "rhetoric gave way to a sharing of problems and there was a common search for solutions by parties whose interests and approaches had in the past been divergent."47

Before responding to the recommendations in the report Mr. Pepin had once again to seek support from his Cabinet colleagues. In preparing his proposal Mr. Pepin, despite the fact that he had now spent two years on Crow Rate reform, remained optimistic and he believed he had made progress:

1. There was now agreement that a comprehensive solution was required. No one seriously argued any longer that the problem could be solved by buying a few more grain hopper cars.

2. The 1897 freight rate level was dead. The debate was shifting to how much more the producer should pay.
3. Westerners understood that the Crow Rate did constitute an increasingly serious problem for livestock and further processing in western Canada and a solution was required.48

The use of the *Inside-Outside Access Model* with a federal negotiator armed with Cabinet approved negotiating principles was a departure from executive federalism or some other form of problem solving body such as the Royal Commission. It was consistent with Mr. Pepin's approach to deal directly with grain producers, leaving provincial governments and opposition federal MPs on the sidelines, although Mr. Pepin realized he would have to address those groups at the legislative stage.

On July 9, 1982 Mr. Pepin submitted a 110 page Memorandum to Cabinet in the form of a highly technical and statistical document to his Cabinet colleagues seeking support to respond to Dr. Gilson's report. The Cabinet paper once again raises the question as to how well prepared other Cabinet Ministers were to discuss such a weighty document. Certainly the matters were well discussed at the officials' level and points out the need for ministers to have advisors with integrity.

At stake was a commitment of $3.7 billion of tax-
payers' money in the first four years alone. A final Cabinet decision would not be announced till February of 1983.

But in the interim, on August 4, the federal government accepted in principle the main thrust of the Gilson report and announced the formation of three task forces to continue work on outstanding technical questions.

The task forces dealing with the freight rate structure, central co-ordinating agency and legislation were to report to a steering committee comprising representatives from all the insiders (farm groups and the railways') who participated in the negotiations conducted by Dr. Clay Gilson earlier in the year. The chairmen of the three task forces were appointed in consultation with farm groups and the railways and task force members were selected by the organizations they represent. Two of the chairman were federal officials and the third was a consultant under contract to the federal Department of Transport.

Once again, by allowing the prairie agricultural organizations and the railways to participate in the committees, Mr. Pepin's strategy paid dividends. Comment
in the major newspapers in western Canada continued to be uniformly favourable and organizations such as the National Farmers Union were unable to sustain any support.

However, further problems were beginning to develop which would result in some strange alliances.

5.3.5 Inter and Intra Conflicts

In the spring of 1982 it was possible to state that a general consensus existed in the prairies that the railways lost money moving export grain and that the Crow Rate should be changed. The debate now shifted to who should receive the federal government's grain subsidy, the railways or the grain producers and if it was to be the latter, what method of payment would be chosen. Table 21 Crow Benefit Payment Options explains the differences between the two options.
### Table 21: Crow Benefit Payment Options

<table>
<thead>
<tr>
<th>Pay the Railway</th>
<th>Pay the Producer</th>
</tr>
</thead>
<tbody>
<tr>
<td>- current system</td>
<td>- proposed by Gilson</td>
</tr>
<tr>
<td>- federal support paid to railways</td>
<td>- farmers pay full cost of hauling grain</td>
</tr>
<tr>
<td>- railways keep freight charges down</td>
<td>- federal support paid to farmers</td>
</tr>
</tbody>
</table>

#### Example (\$/tonne)

<table>
<thead>
<tr>
<th>Description</th>
<th>Pay the Railway</th>
<th>Pay the Producer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feed barley at Vancouver</td>
<td>$110.00</td>
<td>$110.00</td>
</tr>
<tr>
<td>Crow Rate</td>
<td>5.00</td>
<td>27.00</td>
</tr>
<tr>
<td>Price of feed barley</td>
<td>$105.00</td>
<td>$81.00</td>
</tr>
<tr>
<td>Average freight rate</td>
<td>$27.00</td>
<td>$27.00</td>
</tr>
<tr>
<td>Farmer pays (Crow Rate)</td>
<td>5.00</td>
<td>27.00</td>
</tr>
<tr>
<td>Government pays</td>
<td>$22.00</td>
<td>$22.00</td>
</tr>
<tr>
<td></td>
<td>$27.00</td>
<td>$27.00</td>
</tr>
</tbody>
</table>

The difference between federal payments to the railways or to producers was a contentious and complex one. Dr. Gilson's main argument for payments to producers was based on his desire to eliminate current distortions in the western agricultural economy arising out of the Crow Rate and working to the disadvantage of livestock and
other agricultural products. The price of feed-grains, oilseeds and other raw products on the prairies is the international price minus transportation costs. Since the Crow Rate keeps transportation costs at very low levels, farm gate prices for feed grains are kept artificially high. The pay-the-railway approach would not resolve the distortion as grain transportation costs (e.g. freight rates) paid by producers would remain at low levels, and thus feed grain prices on the prairies artificially high. The argument in favour of pay-the-railway was that the subsidy supported the movement of export grain and that as long as the subsidy went to the railways, the federal government could not remove it.

The debate on method of payment became an east-west issue and also an issue within western Canada. Supporters in Quebec were led by a 12 person group drawn from the 74 Quebec Liberal MPs. However, the major spokesman for Quebec became Jacques Proulx, head of the Union des Producteurs Agricoles (UPA). Proulx was opposed to direct payments to producers because the higher freight rates would reduce the farmgate price of feed grain on the prairies, giving prairie livestock producers an advantage in feed costs over Quebec farmers.
Quebec produces about 38 per cent of Canadian Production of hogs and 7 per cent of beef production. Ontario produces between 30 to 40 per cent of all Canadian livestock and livestock products.

Quebec provided a market for prairie hogs in the 1960s but a surge in Quebec production transformed a deficit of 100 million pounds to a surplus of about 100 million pounds.

A change in method of payment would promote increased cattle and hog production in western Canada. Quebec believed that this increase, especially in the hog market, would come at its expense. Ontario took the position that a change in method of payment would not have a significant increase in feed grain prices in eastern Canada since feed users have the assurance that eastern feed grain prices cannot exceed corn competitive rates.49

Alberta argues that payment to railways distorts the price of feed barley in that province and acts as a disincentive to meat production. UPA takes the position that the western meat industry is strong enough without changing the method of payment.
The federal government tried to argue that the feed cost savings realized by western hog producers would not be large enough to overcome the difference in hog prices between Calgary and Montreal and the cost of transporting meat between these markets. Increased western hog production would likely be exported, rather than shipped to eastern markets. Ironically, payment to producers would restore some of the geographical advantage that the prairies should enjoy as the region where feed barley is grown. But in Canada, it seems that such logic does not count. Quebec believed that western Canadian farmers were receiving an advantage of the annual payment of $658 million. The differences within the west were even more diverse and confusing. Part of the confusion arose out of a related issue. Gilson had not only recommended that payment should be made to producers but he also recommended that the payment should be paid on an acreage basis. This was to encourage more producers to grow feed grain to support a red meat industry in lieu of export grain with its absence of any value added component. Such a scheme could dilute the per cent of money available to assist primary grain producers to pay the full cost of exporting grains. As a result, a cleavage developed in the prairies, between the livestock sector and the primary grain sector. The government of Alberta, as the province with the largest
livestock interest, quickly supported a method of payment option which would result in payments to livestock producers based on acreage. Saskatchewan, as the Province which produces 50 per cent of all the raw export grain, aligned itself with the three prairie Wheat Pools in opposition.

Both Manitoba (NDP) and Saskatchewan (PC) passed motions through their respective legislatures condemning the proposed method of payment option.

Premier Bennett supported the change since British Columbia's long-standing position was that the Crow Rate provided a subsidy at the expense of British Columbia tax payers.

Mr. Pepin was running into difficulty over the method of payment issue with the Liberal Quebec Caucus; 74 of Quebec's 75 seats were Liberal and these accounted for nearly half the 147 total Liberal seats.

The Gilson orientated task forces were also running into difficulty on two fronts. First, the Prairie Wheat Pools were adamantly objecting to any of the Crow Benefit being paid to the grain producer and no agreement could be
reached, among those that favoured payments to producers, as to how that payment should be made. See Table 22 for an explanation of the positions of the different agricultural organizations. As a result, the Prairie Wheat Pools sent a delegation to Quebec to meet with some heretofore unknown allies. The meeting was successful and Quebec's powerful farm lobby group, the Union des Producteurs Agricoles (UPA), immediately went to work within the Quebec Liberal Caucus to produce the results previously mentioned.

Mr. Pepin and his Cabinet colleagues were advised that there would be adverse impact on eastern agriculture if the Crow Rate was changed and the subsidy paid to producers. Mr. Pepin was caught between the horns of Confederation. If he acted one way he would have part of eastern Canada upset - if he acted the other way he would have sections of western Canada angry. The alliance between UPA and Saskatchewan Wheat Pool would have a profound impact on the Crow Rate legislation.
Table 22: Positions of Agricultural Organizations on Method of Payment Options

1. Direct Government Payment to Railways

Saskatchewan Wheat Pool, Alberta Wheat Pool, Manitoba Pool Elevators, Uniform of Alberta and Saskatchewan Federation of Agriculture strongly supported a direct federal government payment to the railways.

The Wheat Pools argued that the most effective way of ensuring railways provide good service is to make payment of the benefits conditional on performance. Their position was that the payment is a transportation subsidy not a production subsidy and must be seen as such by the public. Their concern was that the payment may be seen by eastern politicians as a subsidy to farmers and therefore could be removed at some point in the future.

2. Direct Government Payment to Grain Producers

United Grain Growers, Prairie Farm Commodity Coalition and Manitoba Farm Bureau strongly supported a direct federal government payment to grain producers.

These producer organizations argued that a direct federal payment to the railways would continue the current impediment to the growth of the livestock industry and discouragement of crop diversification and agricultural processing in western Canada.

Their position was that producer payments would allow farmers to dictate to the grain industry how it should evolve in the future. The elevator companies, which are largely owned by producers, may have to adapt and accept changes but in the end it will be in the best interest of the farmer.

Source: Briefs to Dr. Gilson: Spring 1982.
In late 1982 and early 1983 it was not only Mr. Pepin who was having difficulty but so were many elected leaders of agriculture organizations. First, the Canadian Federation of Agriculture was virtually impotent throughout the Crow Rate debate as its provincially organized subgroups could not agree nor could any of the sector groups. In early January both the Presidents of the Saskatchewan Federation of Agriculture and Unifarm in Alberta were defeated in re-election bids.

5.3.6 Western Transportation Initiative

On February 1, 1983, after three years of intensive negotiation and strong opposition, Mr. Pepin introduced a package that attempted to meet the demands of the various interest groups.

Table 23: Federal Outlay 1982-83 – 1985-86 ($ Millions)

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<table>
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<tbody>
<tr>
<td>1982-83 interim payments</td>
<td>$313.0</td>
</tr>
<tr>
<td>Crow Benefit Payments</td>
<td>1,954.8</td>
</tr>
<tr>
<td>Share of Cost Increases</td>
<td>146.0</td>
</tr>
<tr>
<td>Adjustment Payment</td>
<td>204.1</td>
</tr>
<tr>
<td>Branchline Improvements</td>
<td>380.2</td>
</tr>
<tr>
<td>Hopper Cars</td>
<td>434.3</td>
</tr>
<tr>
<td>Branchline Subsidy</td>
<td>278.0</td>
</tr>
<tr>
<td>Administration</td>
<td>5.7</td>
</tr>
<tr>
<td></td>
<td>$3,716.1</td>
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Source: Press Release: Western Transportation Initiatives: February 1, 1983
Table 23 outlines the dollar value of the announcement but there were other significant changes as well. First the producer would, after four years, be expected to pay the first 6 per cent of inflation increases, this was up from 4-1/2 per cent as recommended by Dr. Gilson. The Crow Benefit was pegged at $651 million per year and the highly contentious area of method of payment was changed to allow only 50 per cent to be paid to the producer. Dr. Gilson had recommended that 81 per cent of the Crow Benefit should, after four years, be paid directly to grain producers. In introducing his package at a Winnipeg news conference, Mr. Pepin stated that changes to the Crow Rate were the "greatest exercise in compromise since God created Adam and Eve."50

Mr. Pepin believed his Crow Rate package was comprehensive because it coincided with a new ports policy and a $1 billion expansion program of west coast ports and it could lead to a revolution in western agriculture. He believed it was fair because producers would not be paying 13 times Crow, as Saskatchewan alleged a year earlier, but would pay no more than 5 times Crow (1897 level) by the end of the decade. According to Pepin, both Dr. Gilson and he have compromised every step along the way to avoid confrontation and he believed that there was consensus for change.51
Despite Pepin's beliefs, reaction to his announcement was only mixed and once again the "counter- advertising" took over and the same issues were raised yet another time.

5.4 Parliamentary Process

On February 10, 1983 Parliament debated the Crow Rate and Mr. Pepin's reform package during the Opposition Members Day. Prime Minister Trudeau took an active part in the debate and said that he challenged the western Premiers at the First Ministers Conference on February 3 to agree among themselves what should be done about Crow. There was no agreement. The Prime Minister then said it is perfectly reasonable for the federal government to change a rate that is nearly 100 years old. This is in stark contrast with the position the Prime Minister took two years earlier. PMO and PCO were now supporting the initiative as part of the Prime Minister's Economic Recovery Program. The railways had agreed to invest $13.2 billion in rail capacity, mostly in western Canada, if the Crow Rate was changed. It was estimated that 375,000 person-years of work would be created over a ten-year period.

The day after Mr. Pepin had made his announcement in
Winnipeg he flew off to Saskatoon, Edmonton and Vancouver to "sell" his proposal. He met with editorial boards, held news conferences, participated in open-line radio shows and made himself and his key advisors available to the call of the media. It was at Edmonton that one of the most historic events in Mr. Pepin's career took place. A member of the National Farmers Union in a pejorative sense shouted out to Mr. Pepin: "This isn't an agricultural policy - it's an industrial policy." Mr. Pepin remembers that he broke into a smile and said. "Thank you my good man - you are right - you understand." Mr. Pepin had been attempting to establish an industrial policy in western Canada since 1968 when he was Minister of Industry, Trade and Commerce. He always believed the Crow Rate was an impediment to that policy.

5.4.1 Prelude to Legislation

Mr. Pepin now turned his attention to putting his package into legislative form and his concern for the support of the Quebec Caucus was causing him difficulty.*

*Caucus plays an important but secret role in the passing of a Bill. Before bringing the Bill to the House of Commons Mr. Pepin had to present and explain the Bill before the Liberal Caucus. He had to explain the policy, answer questions and try to persuade those who were opposed. The Minister's main goal was to ensure that all members of the party supported the Bill before it was debated in Parliament. Quebec members continuously threatened to vote against the Bill unless their concerns were met. The Quebec Caucus comprised of 74 of the 147 Liberal seats. The influences of Caucus in this instance was probably greater than usual.
The new PC Government of Saskatchewan was strongly opposed to the changes and the Minister of Agriculture, Eric Bernston, referred to the proposed changes as a "lethal blow" to the Saskatchewan economy. The federal government's credibility was also tested because, in an effort to placate the Quebec Caucus, a total of $93 million in agricultural incentives were included in Mr. Pepin's package. Eric Bernston met with the Honourable Jean Garon, the Quebec Minister of Agriculture, to determine ways that the two governments could oppose Mr. Pepin's plan. The Quebec-Saskatchewan alliance (both at the political and agricultural sector levels) was causing concern in Alberta and, in a letter from J. Peter Meekison, Deputy Minister of Federal and Intergovernmental Affairs to his Minister the Honourable James Horseman, the following points were made:

"The emergence of a Saskatchewan-Quebec alliance on this issue would exacerbate Alberta's concern that Quebec interests may force further compromise to the already compromised Gilson recommendations.

From a Quebec viewpoint Saskatchewan and Alberta are completely divided on the issue since, on one hand, Alberta has criticized the Quebec government for its activities while, on the other hand, Saskatchewan is encouraging Quebec's activities. In addition the emergence of a Saskatchewan-Quebec alliance may provide additional scope for Ontario to become involved in the debate. They would likely respond to producer pressures against the federal proposal."
Ontario Intergovernmental Affairs' officials have been telephoning, enquiring as to the Alberta government's official position.

Premier Devine's strategy appears to be to seek a "pay the railroad" solution which would gain Quebec support and remove the new incentives to Quebec! If Premier Devine then wishes to encourage value-added agricultural processing in Saskatchewan, the Saskatchewan Government would need to undertake long-term provincial programs to this end."


The Crow Rate issue was uniting foes. Given the anti-Quebec sentiment that was deeply entrenched in Saskatchewan at this time it is amazing that 500 Saskatchewan farmers, businessmen and politicians would "leap to their feet and cheer" Mr. Real Rancourt, P.Q. Deputy Speaker of the Quebec National Assembly, who pledged P.Q. support to "save the Crow and save the family farm." A coalition, comprised of various groups opposed to change, was formed and the strategy was to blitz Ottawa parliamentarians and bureaucrats during the week of March 24, 1983.

The House of Commons was disrupted on March 28, 1983.
when NDP Members attempted to "table" a number of plywood "white crows" which contained signatures of 135,000 westerners. In the understatement of the year the Speaker of the House, Jeanne Sauve, said, "The House of Commons is not a place for publicity; it is a place for debate." 57

Time was running out for Mr. Pepin if he was to push his package through Parliament. On April 26, 1983 Cabinet made a critical change to Crow Rate Reform. It decided to pay all the Crow Benefit directly to the railways. The Quebec-Saskatchewan-UPA-Wheat Pool Alliance had scored a major victory. Mr. Pepin had lost a battle for the first time in Cabinet to Senator Argue. The Senator was able to show that the governments of Quebec, Manitoba, Saskatchewan and the three Prairie Wheat Pools were opposed to payment to producers. Mr. Pepin could not draw upon much in the way of his support which had gone into "hiding".

Prior to the ill fated Cabinet meeting on April 26, the three Prairie Pools and UPA met in the Skyline Hotel in Ottawa to prepare strategy. The Prairie Pools arrived with a delegation of 112 carrying a mandate of another 108,000 who signed a petition to support Pool policy. 58

At the Cabinet Meeting of April 26, Mr. Pepin made
the following points to save his reform package:

1. Government was committed to the "main-thrust" of the Gilson Report, which included payments to producers.

2. The Cabinet Committee on Planning and Priorities, on February 1, agreed to 50 per cent of the Crow Benefit being paid to producers (this was in advance of the government's public announcement on February 8, 1983).

3. Payment to producers will benefit western Canada and not adversely affect eastern Canada.

4. A change at this stage will alienate support from Alberta and those groups which have supported Crow change for two years.

5. A fundamental change would delay introduction of legislation and possibly kill the initiative.

The argument failed. Led by a strong Quebec contingent (Finance Minister Marc LaLonde, Energy Minister Jean Chretian, Communications Minister Francis Fox and Consumer and Corporate Affairs MinisterAndre Ouellet) the debate was lost. Senator Argue (Saskatchewan) represented the three prairie Wheat Pools and the odds against a key element in Mr. Pepin's reform package led to a defeat.

In the front page story on May 9, 1983 the Alberta Report's headline told the story of "Pepin's Defeat - How Quebec and the Pools Licked Alberta." The story documented
the lack of support from the provincial government and various lobby groups such as the Alberta Cattle Commission. According to the *Alberta Report* "The net effect was that Transport Minister Pepin seemed strangely deserted in Ottawa, an impression that seriously hampered his fight to win Cabinet approval of his solution."60

The impact of the Cabinet decision was that much of the benefits to the livestock sector, primarily located in Alberta, would be deferred. The Editor of the *Edmonton Journal* foresaw this as early as February 7 when in an editorial he said:

"The federal government is facing up to the Crow's Nest freight rate issue with courage and clarity. For this, Transport Minister Jean-Luc Pepin deserves full credit... Alberta's role in this is very important. To date, Premier Lougheed has been content to leave this politically difficult problem with Ottawa, all the while wringing his hands about our inadequate rail system. The plucky Mr. Pepin will need more than background encouragement from Alberta if this reform is to pass through Parliament by Christmas. He will need help."61

"Liberals Sell Out" was the subject of a *Calgary Herald* editorial. The editorial said "By setting its original proposals for Crow Rate reform, the Liberal
Government has bowed to Quebec pressure at the expense of the west and created a new and serious threat to national unity." This demonstrates once again the difficulty a national government in Canada has in attempting to meet the needs of its people. The Calgary Herald chose to cite western discrimination rather than discrimination against Alberta. How could it be "western" discrimination when the policy change was consistent with the earlier position of the three prairie wheat pools and the governments of Manitoba and Saskatchewan. Interestingly the Calgary Herald, in a related story, quoted P.C. Transport critic Don Mazankowski as saying that the Pepin Plan "...was either an insult to Parliament, the spark for a Prairie-Quebec war or a disaster for western grain growers." This story was not accompanied by a headline which read, "Tories Sell Out"!

No one was more disappointed than Jean-Luc Pepin in announcing the policy change be contested, "...my heart is crying". "It is very sad", he said. "On this subject I was totally dedicated to western interests." Despite the effort by Pepin to involve the grain sector in establishing the details of the Crow Rate reform package, including participation in the drafting of the
enabling legislation, this did not prevent Don Mazankowski from stating that "Pepin insulted Parliament by releasing details of the Bill before introducing it in the House of Commons." Under Canada's style of federalism only Parliament can produce draft legislation. The public can comment and criticize but apparently when the drafting of legislation begins only parliamentarians can participate.

5.4.2 Bill C-155

As indicated the period between April 26 and May 4 was a difficult time for Mr. Pepin. A key component of his reform package had been stripped away. Initially Mr. Pepin supported that 100 per cent of the Crow Benefit should be paid to the grain producer. Dr. Gilson compromised by holding back 19 per cent of the payment leaving it with the railways. On February 8 Mr. Pepin compromised again by announcing that the payment would be split between the railways and producers.

On May 4, Mr. Pepin announced the government's intention to introduce legislation in the House of Commons. As part of the announcement Mr. Pepin indicated that the crow Benefit - now set at $651.6 million per year - would be paid directly to the railways. In addition,
Mr. Pepin outlined the government's intention to link the price of grain to the new freight rates to protect the producers' ability to pay. In announcing the changes Mr. Pepin said "politics is the art of the possible - three steps forward and one step backward." Mr. Pepin admitted "that an intense lobby by the prairie Wheat Pools, the most potent political force in western agriculture, and pressure from farm organizations in the Liberal strongholds in Quebec forced him to amend his proposal."

Mr. Pepin rose in the House of Commons on May 9, 1983 to seek a routine leave to introduce the Western Grain Transportation Bill. Approximately 2-1/2 years of intensive negotiation, consultation, argument, bickering, lobbying and compromise had produced a document which still lacked a broad base of support. What took place in the House that day was a harbinger of things to come. The NDP Party, which was adamantly opposed to the Bill, failed to grant routine approval and forced a vote. Both the Liberals and PCs were short members at the time and the division bells rang for seven hours. Eventually business in the House was cancelled. The following day Mr. Pepin obtained a majority vote 112-88 with both opposition parties voting against the Bill. The NDP would not grant
routine approval for first reading to allow printing of the Bill. Another vote was forced which was passed by a Liberal majority. The NDP position was simple. They chose to focus on the principle of preserving the 1897 freight rate rather than on how it was being changed. Not even the Saskatchewan Wheat Pool supported this intransigent position.

It was the PC Party that found itself in an awkward position. Some members, such as Jack Murta (Lisgar) in Manitoba, were absent during the second vote. Many of the agricultural organizations supporting Mr. Pepin, such as the Manitoba Farm Bureau and the Alberta Cattle Commission, saw the PC Party on the prairies as ideological allies. The PCs would have a difficult time appearing united on this issue just as every other group or organization discovered, that on a specific issue such as change to the Crow Rate, there is no middle ground. The PCs had another worry, if the Bill failed to pass, the problem may well become a PC problem given their lead in the opinion polls at that time. Mr. Pepin was confident the PCs would pass the legislation while putting on a show of resistance. Indeed the Liberal strategy was to accept all the minor amendments suggested by the PCs as long as the main thrust of the legislation was left undisturbed.68
Second reading of Bill C-155 took place on May 12, 1983. The NDP moved an amendment to give the Bill a six-month hoist. There were approximately 5 hours of debate. The Bill was debated at the second reading stage for 9 days or 44 hours of debate. There were 67 individual speakers and 97 speeches. The Bill passed second reading on June 23, 1983 by a vote of 123 to 106. At this stage Bills are passed over to a Standing Committee for a detailed discussion. Bill C-155 was turned over to the Standing Committee on Transport. The Standing Committee invites witnesses to appear before it and before it begins a clause by clause discussion.

Bill C-155 was at the Committee stage for 31 days. Hearings were held in Edmonton, Winnipeg, Regina, Vancouver and Quebec City. A total of 240 witnesses were heard and filed Briefs. The positions taken by various organizations basically remained the same as the position they took with Dr. Gilson or Mr. Pepin.

There were a total of 89 amendments to Bill C-155 but none were of a substantive nature. For example, on three occasions the PCs included the word "reliable".

As the Standing Committee on Transport continued its
deliberations two significant events occurred. First the
crop year came to a close on July 31, 1983. Mr. Pepin had
hoped to have his new legislation in place by that time in
order that the new freight rate would be in place by the
start of the new crop year on August 1. Another record
volume of grain was exported at 31.7 million tonnes, just
exceeding the previous year's record volume. These two
records established during the two years of intensive Crow
Rate debate were a major factor in influencing the grain
sector's desire for change and need for a modern efficient
and cost-effective grain handling and transport system
(Figure 4). These record volumes were 30 per cent higher
than the previous records set in the 1970s. The second
event was the surprise announcement by the Prime Minister
that Mr. Pepin and Deputy Minister Arthur Kroeger were
being removed from their posts and reassigned to other
duties.* Tory Transport Critic Don Mazankowski was to
state, "Its the most puzzling move I have ever seen."69
Greg Arson, Corporate Secretary of Manitoba Pool Elevators
said, "...the switch (to Axworthy) is like changing the
quarterback (Pepin) and the middle linebacker (Kroeger)

*Mr. Pepin took on the relatively unimportant position as Minister of State for External Relations and Mr. Kroeger became the Deputy Minister for the Ministry of State for Economic Development
The reason for appointing Lloyd Axworthy as Transport Minister was because there was general feeling in PMO/PCO (Tom Axworthy, Lloyd's brother was now Principal Secretary to the Prime Minister) that a Bill which was to have such an impact on Western Canada should be guided through its final stages by a Western Minister. Given the opposition Mr. Pepin faced at PMO it is not surprising that he was removed at the eleventh hour with the final "credit" going to Mr. Axworthy, who had leadership ambitions. It was a devastating blow to Mr. Pepin. In a letter to the former President of the United Grain Growers, A. M. (Mac) Runciman (who had written a complimentary letter to Mr. Pepin), he responded:

"You can consequently imagine my pleasure at reading your letter on the occasion of my recent "transfer" out of Transport Canada to External Affairs, not a promotion ..., but a convenient political move to which I was a "consenting adult". Of course you underestimate your own role in the Crow debate. You and a few other westerners gave my efforts the credibility without which they could not have succeeded even partially."

For the last three years Jean-Luc Pepin had tackled one of the Country's longest standing problems, mastering its technical difficulties with passion, dedication and
diligence. Throughout this period he established the role of statesman in public policy development. It is a sad fact of Canada's adversarial political system that acknowledgement can only come when one is removed from the matter at hand. A year after his "transfer" and after the Western Grain Transportation Act was passed he finally received acknowledgement from his opponents. Don Mazankowski said, "there is one thing that is almost universal as far as western farmers are concerned, that is they always felt that they had the ear of the Minister and could trust him and he was very frank and forthright." 73

Contrary to the intelligence of the PMO, Mr. Axworthy became a "lightening rod" which drew opposition criticism. With Mr. Pepin and his close relationship with grain producers out of the way, the Western Grain Transportation Bill had a rough final ride into third reading. One such delaying tactic came on September 14, 1983 when the PCs called for a three-year delay in implementing the changes. This motion came at a time when the Standing Committee was about half-way through its clause-by-clause debate of the 70 clause Bill. Consistent with debate on the Crow Rate, this position had supporters (Saskatchewan) and detractors (British Columbia). Mr. Mazankowski also submitted a new proposal to change the method of payment issue.
Mr. Mazankowski promoted a "freedom-of-choice" alternative allowing each of 140,000 grain producers to choose whether or not they wanted to receive their share of the Crow Benefit directly or should it go to the railways. The alternative had a "populist" theme but such a scheme was totally unworkable and Mr. Mazankowski provided no details of how his scheme could be implemented. Reaction in the western press was highly critical with the *Edmonton Journal* indicating that the Crow Rate was studied to death and the Tory tactics can only harm the Alberta economy.\(^{74}\)

On September 26, 1983, the Standing Committee reported to the House of Commons that it had considered Bill C-155 and agreed to report with a list of 80 amendments (all inconsequential). At the same time a Senate Committee began its study of the legislation. It took the Senate Standing Committee exactly four weeks to complete its clause-by-clause study.

Bill C-155 passed by the Liberal majority at the Committee stage, but it still had to face four hurdles:

1. Report Stage
2. Third Reading
3. Senate Approval
4. Royal Assent
Transport Minister Axworthy had three amendments to make to the Bill.

1. To set up a "safety net" limiting freight rates to 10 per cent of grain prices.
2. More specialty crops added to the Crow Rate list.

Report stage is usually a report to the House of Commons on the changes made to the Bill during Committee study but because all three parties brought in subsequent amendments, the government was forced to limit debate.

At one stage the list of subsequent amendments reached 174 forcing the Speaker to rule 79 of the amendments out of order including many proposed by the government. Closure of debate was the only recourse left for the government.

When Jean-Luc Pepin launched his drive to change the Crow Rate three years ago one wonders if even he knew that he would launch an issue which dwarfed the *Constitution* in terms of emotion, press coverage and parliamentary debate.
It is hard to believe that a freight rate on a bushel of grain, established in 1897, would turn out to be perceived to be more important in some parts of the country than the Constitution.

By the time the final vote was to be taken on November 13, 1983 the debate had shifted focus so often that "a parliamentarian virtually needed a billboard to keep track of who stands where. More than 200 interest groups ranging from British Columbia roadbuilders to the Lutheran Church have offered their views". The government compromised its position several times to find a middle-ground that never existed. Throughout the debate, the provinces all stated the matter was a "federal" responsibility but never hesitated to provide advice that was divided as that between the grain producer from Saskatchewan and the livestock producer from Alberta. Even the federal Tories and Alberta Tories could not agree on how to tackle this issue.

Procedural disputes kept the Western Grain Transportation Bill before the House of Commons. Finally, on November 3rd the Toronto Globe and Mail in an editorial stated:
"The opposition parties have presented the views of their electorates. They have won important changes, they have kept the bells ringing, got into an all-night sitting and traded insults with each other. The battle has degenerated into a political fracas. Let it be finished. Let the Legislation become law." 77

The Crow Rate Bill was upsetting the entire agenda of Parliament. The federal government had intended to begin a new session with a Throne Speech on November 15th, but if Bill C-155 was not passed in the on-going session it would have to be reintroduced all over again in any new session. The present session had began in the spring of 1980. The government still required a vote at the report stage of the Bill and another full day of debate was required at third reading.

It took a "deal" to break the log-jam. The three parties agreed to debate the Bill for one day (November 6) and allow a vote at the report stage and to debate the issue one more day on November 14 (third reading). This would allow the House a one-week break before a new Throne Speech.

Bill C-155 had tied up business in the House of Commons for two months. The Opposition had introduced 170
amendments "with the sole purpose of delaying the Bill". The Speaker had ruled nearly half of them out of order. Parliament was debating the level of freight rates that western grain producers paid to move their grain by rail to port for export. The rates were so low that it cost more to ship a letter from Moose Jaw, Saskatchewan to Vancouver than it did a 60 pound bushel of Number 1 Canadian Western Spring Wheat.

5.4.3 The Western Grain Transportation Act

On November 15, 1983, by a vote of 141 to 114, the House of Commons passed Bill C-155 undoing the legislation which had been put in place 58 years earlier by another Parliament.

The debate over the Crow Rate was arguably the angriest since the flag debate in June, 1964. The flag seemed to have become what Pearson had hoped that it would be, "an expression of the willingness of the young to break with their past." Breaking with the past is what Mr. Pepin believed was what the Crow Rate was all about.

On November 23, 1983 the legislation was formally proclaimed law. It was almost 9 years to the day the
former Transport Minister Otto Lang first petitioned Cabinet to change the Crow Rate.

5.5 **Inside–Outside Access Model for Policy Negotiations/Formulations**

The previous sections examine the role and scope of interest group activity in Crow Rate reform negotiations. The approach developed by Jean-Luc Pepin contains some unique features which need to be examined further. In an attempt to get the major agricultural groups to the bargaining table, Mr. Pepin realized the potential for including some groups and excluding others, such as the provincial governments. This inside–outside approach is developed to provide a framework to analyze the process developed by Mr. Pepin to change the Crow Rate.

In the *Inside–Outside Access Model*, the federal government is replaced by an appointed negotiator. The negotiator is issued a set of specific principles which have Cabinet support. In place of the provincial government(s), 16 major prairie agricultural organizations are invited to participate in the negotiations. Only the National Farmers Union declines the opportunity to participate. In addition, both the major railways are represented in the discussions. This is the inside group.
On the outside are the four western provincial governments, the now isolated western wing of the National Farms Union, the Canadian Federation of Agriculture, the Quebec based farm organization (UPA), the general public, and even to some degree the federal government, although the federal negotiator did not object to consulting with senior officials from the federal Departments of Agriculture and Transport.

In an effort to influence the outcome of the negotiations, those on the outside began major public information programs through media advertising, public information meetings and release of information kits.

Many of the organizations represented on the inside also participated in this "public" debate process which ran parallel to the negotiation process. (See Figure 7: Inside-Outside Access Model).
FIGURE 7
Inside-Outside Access Model

Insiders
- Federal Negotiator (Gilson)
- Prairie Wheat Pools
- Manitoba Farm Bureau
- Sask. Federation of Agriculture
- Canola Crushers
- UNIFARM
- CN Rail
- CP Rail
- WAC
- PFCC

Prairie Wheat Pools
Commodity Groups

Dr. Gilson

Railways

WAC

PFCC

Manitoba Farm Bureau

CROW RATE PLAN

UF

NFU

Media

CFA

Senator

Union des Producteurs Agricoles (UPA)

EXECUTIVE FEDERALISM

Canadian Wheat Board

UNIFARM

Media

CFA

Senator

Union des Producteurs Agricoles (UPA)

EXECUTIVE FEDERALISM

Canadian Wheat Board

UNIFARM

Media

CFA

Senator

Union des Producteurs Agricoles (UPA)

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Some aspects of the *Inside-Outside Access Model* are consistent with some of the features of the *Multiple-Crack* theory. Agricultural groups did lobby both the federal and the four western provincial governments. However, the interest groups were organized under two umbrella organizations, the Prairie Farm Commodity Coalition and the Western Agriculture Conference. This tended to weaken the bargaining position of the agricultural section since the two groups had different policy positions. In addition, Quebec's agricultural association (UPA) lobbied its provincial government to oppose any changes to the Crow Rate. The process did prove costly to both major groups since neither got the full result it wanted from the negotiations. This result illustrates the point raised by Schultz in his examination of the *Multiple-Crack* theory, which he argues does not account for this potential cost.

The *Inside-Outside Access* approach allows for organizations to participate in negotiated settlements. This implies that some compromise is required on the part of all participants. Regional umbrella groups have a difficult time in meeting the objectives of all their individual members. National organizations may become impotent in such negotiations. The *Inside-Outside Access*
approach is designed to produce results and therefore it is unlikely that any one party can reach all its objectives.

Another feature of the Inside–Outside Access Model is that it excludes the provinces from direct negotiations. As a result, the model does not relate to Simeon's Limited Access Model in any way. In Simeon's model, it is interest groups that are excluded from direct participation and in the Inside–Outside Access Model, it is the provinces that are excluded from direct negotiations and participation in resolution of an issue under federal jurisdiction.

The Inside–Outside Access Model can be more effective than the Limited Access Model in ensuring the involvement of parties, such as the grain handling companies, in resolution of issues that affect them directly.

In support of developing their negotiating positions both the major agricultural groups, the PFCC and WAC, made extensive use of federal and provincial officials in developing data. Robert Presthus found "that interest groups focus mainly on the bureaucracy". This approach is typical of the Multiple-Crack theory and demonstrates that the Inside–Outside Access Model was not the only approach
adopted during Crow Rate reform. The point that regional expression is better accommodated in the *Inside-Outside Access* approach, than positions preferred by national organizations, has already been made. The point is further emphasized by examining the role of the Canadian Federation of Agriculture.

This national body was unable to articulate any policy which represented its membership, who were divided by province, sector and by ideology. This supports Alan Cairns who found "national executive is sometimes reduced to an aggregation of contradictory provincial particularisms unable to agree towards proposed Ottawa policies."81

Thorburn82 identified the Crow Rate process as an example of unilateral action because provincial economies were affected and provincial governments were not part of the process. Provincial governments traditionally see themselves as the "protector" of the people of their respective provinces. In the *Inside-Outside Access Model* the federal government went directly to those most affected by Crow Rate changes and negotiated a settlement. It is difficult to accept Thorburn's argument that this represented unilateral action. The requirement to have a
federal-provincial compromise or agreement on all issues, demonstrates an inherent weakness in Canada's federal structure. Intergovernmental agreement on Crow Rate reform was impossible, since provinces such as Manitoba and Saskatchewan were opposed to grain producers paying higher freight rates. Thorburn also did not acknowledge that the grain industry was intimately involved in writing the draft legislation that formed the basis of the *Western-Grain Transportation Act*.

The *Inside-Outside Access Model* appears to be robust and usable since the approach was subsequently used to develop the Western Grain legislation. The model was used to explain how "insiders" were involved in the establishment of the new rate structure, the development of railway performance guarantees, the creation of the Grain Transportation Agency and, more importantly, the drafting of the *Western Grain Transportation Act*. All of this was accomplished before Parliament began its formal debate on Crow Rate reform.

**Summary**

The chapter outlines the strategy development and policy negotiation stages of Crow Rate reform.
Distinctions are drawn between problems which might arise in any federal state and those problems which are particularly acute in Canadian federalism.

Historically, consensus for major policy development in Canada requires agreement among governments. The federal government is reluctant to change policy under its jurisdiction without support from the provinces. This is partly explained because Canadian provinces have unique constitutional authority and can provide formidable opposition if necessary. This was demonstrated by the Prime Minister in 1981, when he indicated that he would not give leadership in changing the Crow Rate without support of the three prairie Premiers. Not only did the Prime Minister not receive any support to change the Crow Rate, two provincial legislatures (Manitoba and Saskatchewan) adopted resolutions condemning any action to change the Crow Rate. This is a good example of one of the negative outcomes of Canadian federalism where provincial governments resort to adversarial rather than collaborative approaches to solving public policy issues.

The chapter demonstrates that the federal government, in deciding to change the Crow Rate, was forced at first to develop a strategy along provincial lines rather than
respond to developing a system to meet the requirements of the grain industry. The federal government's Crow Rate policy affected the prairies as an economic unit yet the "battle-lines" were demarcated on a sectorial and on a provincial basis. It was for this reason that the federal government finally adopted what is described in this thesis as the Inside-Outside Access Model.

The ways in which the combination of federalism and interest group action constrain change are identified. The role of interest groups is outlined and emphasis on how they exploit the federal system is described. However, the same federal system enables governments to mobilize interest group support for policy change. Indeed, in the case of the Crow Rate, it was the prairie agricultural groups which requested action to overcome transportation capacity problems in 1979, which gave Mr. Pepin the legitimacy he required to begin discussions on change.

An argument is presented that the media in Canada tend to exploit federal-provincial conflict in reporting on issues rather than just presenting information. The conflict is reported on a provincial basis unlike the United States where differences are usually cited on a
regional or sectorial basis. In Canada even the sectors such as the meat industry can be defined on a provincial basis. An example of this would be Alberta which accounts for 60 per cent of the meat produced in western Canada.

The federal government's approach to change the Crow Rate is conceptualized in this thesis as the *Inside-Outside Access Model*. This model describes how Mr. Pepin attempted to bypass provincial governments and deal directly with affected parties. The approach was successful in changing the freight rate structure but Mr. Pepin was forced to make major compromises to his policy. A coalition of powerful interest groups and their provincial governments remain a potent force in national policy-making, even in areas of exclusive federal jurisdiction such as the Crow Rate.
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CHAPTER SIX
SUMMARY AND CONCLUSIONS

6.0 Summary of Thesis

The purpose of this thesis is to demonstrate difficulties in changing national policies such as transportation in Canada and to analyze a decision-making model - the Inside-Outside Access Model - which explains the strategy employed by Mr. Pepin to overcome political-institutional obstacles to Crow Rate reform. The central thesis is that Canada's style of federalism, with unusual amounts of power allocated to and exercised with increasing vigor by the provinces, exerts extraordinary constraints on the development and implementation of national policies in Canada. The basic approach to examine this thesis is a systematic study of a national transportation policy issue which demonstrates the constraints of Canada's style of federalism. The Study examines the federal government's attempt to change a rail freight rate (the Crow Rate) a policy which pegged export grain freight rates at a level set in 1899. This examination identifies how the fragmentation of authority, implicit in Canada's federal system, makes policy changes especially difficult.
This increases the level of consensus required before major new policies can be introduced and steers the political system towards an incrementalist pattern of policy adjustment. This fragmentation of national policy development appears to have been worsening. Concomitantly, the changing structure of federalism is a major constraint in the development of national policies such as transportation needed to sustain the economic union of Canada.

The thesis provides an overview of the role of the Canadian political system in the formulation of public policy and demonstrates that public policy development in Canada has become institutionalized and rigidified to such a degree that even changing an 1899 freight rate becomes a time consuming and hotly debated subject.

The thesis traces the development of federalism and province-building to demonstrate that national policy development now requires agreement of essentially eleven governments. In turn, these governments have established complex, central policy structures to deal with intergovernmental matters.

The traditional role of the Cabinet system is discussed and by example it is shown how the Premiers have
become the new regional spokesmen. But the Premiers speak from a provincial platform and view programs from this narrow perspective. Each province must be able to satisfy itself that it is a net winner before approval is granted to a change in national policy.

The general public's role in the democratic process is limited to a single vote at election time. Between elections, its role is even more limited. Interest groups face major problems in attempting to influence the ten provincial governments and the federal government. Governments tend to regard other governments as the crucial player but in turn governments will mobilize interest group activity in support of their respective positions. Given the existence of eleven governments in Canada, each with sophisticated and large, bureaucratic, supportive machinery, it is both difficult and expensive for interest groups to influence the federal-provincial agenda. However, even the ability to influence only one or two governments could influence the whole agenda.

The strongest ally of special interest groups is the media. The media not only report the news but also help to shape it by the amount of time it devotes to particular issues. As was demonstrated in the Crow Rate debate, the
role of the media was to exploit the adversarial differences of the various organizations rather than, as the media saw its role, as passively producing information and reaction to the government's strategy to resolve the Crow Rate issue. Journalists were not merely detached observers of the Crow Rate debate, they were part of the strategy employed by both sides of the issue.

Since Confederation the Canadian transport system has had a dual purpose. On the one hand it is expected to provide an efficient and a high level of service at a "reasonable" cost and on the other hand it is expected to be an "instrument of national purpose". The transport system has never been able to fulfil this conflicting role.

Canada suffers from its geography. The major impediment to a balanced national economy is the burden of distance. The population is small, unevenly located and separated by mountain ranges, vast plains and the largest lakes in the world. It is for these reasons that in Canada spatial loyalties are stronger than ideological loyalties. Large countries such as Canada, with scattered populations, experience isolation and tend to blame remote (federal) governments for this predicament. This is true even though 80 per cent of Canada's population is urban
and even though nearly all of Canada's cities, in excess of 100,000, are located on the Trans-Canada Highway. However, this corridor of population stretches over 4,000 miles and passes through six time zones. It is not by accident that Canada has developed the largest and most expensive transport system per capita in the world.

As the railways were built, a linear pattern of central place service towns evolved across the prairies. The land was occupied by grain and livestock farms, with grain delivery points established five to ten miles apart to accommodate horse haulage. However, by the 1930s this settlement pattern was changing and by the time the Crow Rate debate took place major changes were underway in agricultural society. There was resistance by many to these changes and for many the Crow Rate was just another change which had to be resisted.

The thesis argues that Macdonald's National Policy and Laurier's Railway Policy were *ad hoc*, parochial and costly. The policies were unable to match the expectations of an emerging western region. In the early part of the 20th Century, following the formation of Alberta and Saskatchewan in 1905, these unrealized expectations laid the foundation for western alienation and railway bashing.
By the 1930s both the railway and grain handling systems were vastly over-built. However, the emerging federal-provincial conflict over transport issues prevented system rationalization from developing. Part of the problem was the shared jurisdiction between the two levels of government with the provinces having jurisdiction over the road system and the federal government over the railway system. The provinces embarked, in the 1930s, on a major road-building program which enabled trucks to attract traffic from the railways, leaving both national railways with an expensive over-built system.

An examination of the evolution of the federal department of transport (DOT) was pursued to demonstrate that as recently as 1970, this department had only a narrow national transportation policy role. As a result, the development of transportation policy in Canada remained rooted in railway ideology of which the Crow Rate was a major component. What policy that existed was ad hoc in that road and motor carrier responsibilities were not covered by the *National Transportation Act* (1967). No coordination existed between the federal government and the provinces in transportation policy development. The provinces road building programs and the concomitant need to rationalize the rail system were not addressed.
The Western Economic Opportunities Conference of 1973 was an attempt to address this issue and led to federal-provincial studies of alleged freight rate discrimination. The perception of both federal and provincial politicians was that a valid case could be made to support the notion of freight rate discrimination. The fact that a case could not be substantiated through those joint federal-provincial studies leads to a number of interesting conclusions relevant to the Crow Rate issue. First, there is a gap between the perceptions held by politicians, both at the provincial and federal levels, in contrast with the facts. Second, the issue of freight rate discrimination breaks down when examined on a specific rate/movement basis and third, the federal government is reluctant to disapprove positions taken by the provinces. The provinces remain free to criticize the federal government when they choose but the opposite rarely occurs. As a result, whenever the federal government chooses to change national policy, provincial support can be a crucial factor.

The unwillingness of the federal and the four western provincial governments to address the Crow Rate in the 1970s, proved costly to prairie grain producers. Canada's grain producers must move their product at least three
times further than their competitors resulting in high transport costs. The weakness of Canada's political structure resulted in western grain producers being served by an archaic grain transport system, which broke down in the 1970s and grain producers had to lose or forego $1 billion in grain sales.

The thesis provides insight into the period between 1970-1980 when the grain transport system reached this crisis point. The Crow Rate was one of the root causes of that crisis. The policy responses from the federal and provincial governments resulted in many costly and ad hoc programs to meet the crisis.

The early 1980s was a period of change, during which the Crow Rate became a national issue. Railway losses were identified in the 1970s and, significantly, they were generally accepted by grain producers and governments as a major problem for both grain producers and shippers of bulk commodities. The railways indicated that significant added capacity was required to move anticipated increased volumes of all commodities to export position. However, the railways took the position that without resolution of the Crow Rate, this work could not be undertaken. The railways were expected to be losing up to $1 billion
dollars a year by 1990 if no changes were made. In addition, WESTAC predicted that if added capacity was not available to the western rail network, the region could lose $1 billion dollars a year because of failure to move non-grain commodities to export position.

Social and economic changes on the prairies have altered the political map of agriculture. As a result in 1974, for the first time, agricultural organizations were formed to develop consensus for change. These organizations had disparate views on changes to the Crow Rate. The Saskatchewan Wheat Pool meeting of November 21, 1980 at which the delegates voted to support a compromise proposal on the Crow Rate, was identified as one of the most significant events of the Crow Rate reform process.

In assessing the strategy development and policy negotiation stages of Crow Rate reform, the thesis identifies those constraints particularly acute to Canadian federalism, one of which is the requirement for agreement among governments in seeking consensus for policy development. In seeking solutions, the federal government is often forced to develop programs and policies along provincial lines rather than a more cost effective and efficient regional or sectorial plan. Both
interest groups and the media operate most effectively on a provincial basis. National organizations such as the Canadian Federation of Agriculture were virtually impotent during the entire Crow Rate debate, because they could not identify national positions which had the support of regional or provincial affiliated organizations such as Unifarm in Alberta and the Saskatchewan Federation of Agriculture. In turn, the media tended to exploit both federal-provincial conflict and conflict between various interest groups.

The conflict between the federal government and the province of Quebec was outlined. Quebec was not directly affected by Crow Rate change, yet there was a perception that its agricultural sector could be hurt by such changes. This is another example of the negative aspects of Canada's adversarial system which tends to pit one province against another, in a country where distance itself is a burden, and this leads every province to believe it is not understood by either Ottawa or any other province. National policy-making within this context becomes difficult if not impossible. The Prime Minister and the Premiers, although possessing the constitutional authority and ability to initiate change, can at times become captive to public attitudes.
The difficulty that governments have in determining public attitudes through public opinion surveys was discussed. The thesis presented evidence to show that the expensive government(s) information programs to inform grain producers about the reasons for and against change, were unsuccessful and that the public attitudes on the Crow Rate were primarily perception-based.

The evidence analyzed, demonstrates the difficulty the federal government encountered from the provinces when it attempted to initiate a change in Crow Rate policy. Without provincial government consensus to change the Crow Rate, the federal government was forced through the actions of Transport Minister, Jean-Luc Pepin, to establish legitimacy for Crow Rate reform by promoting the need for change with the affected parties - the prairie grain and red meat industries. As a result, the Crow Rate debate was to some extent a case of interest group politics and/or economics. The thesis devoted particular attention to these factors. But it was the lack of provincial consensus which forced the federal government and Mr. Pepin to bypass seeking legitimacy for change through provincial agreement (collaborative federalism), to a new threshold in policy-making. Through the use of a case study, the thesis traces the historical perspective

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of national transportation policy, or the lack of such policy, as a prelude to the somewhat unique process adopted in 1982. The thesis describes this process as the Inside-Outside Access Model. It considered the appropriateness of other models such as the Multiple-Crack Model and the Limited-Access Model, and examined features of these models with the Inside-Outside Access Model.

The model explains how Mr. Pepin bypassed provincial governments and established negotiations directly with those agricultural organizations most directly affected by changes in the Crow Rate. Mr. Pepin's strategy was to meet the needs of those organizations in order to establish legitimacy and offset future provincial governmental objections. The model explains how the approach was successful in changing the freight rate structure but every participant, including the federal government, was forced to compromise. The negotiation process produced the basis for the Western Grain Transportation Act which was passed in 1983. Although the Act abolished the old Crow Rate structure, it stands as another example of expedient, inadequate and ill-comprised legislation created by Canada's federal system. Many of the key agreed upon items in the process described by the Inside-Outside Access Model, such as method of pay, were subsequently withdrawn.
by the federal government to get the legislation through Parliament. This further demonstrates the difficulty a federal government faces when it attempts to change or establish components of national transportation policy, even when it deals directly with those affected by change.

6.1 Conclusions

This thesis demonstrates the ways in which the combination of federalism and interest groups constrain change. The intensity of opposition to a particular policy may well be primarily rooted in the economic interests and the traditions of important groups in society. But the existence of a diffused federal system gives those groups an additional level of government that can be mobilized to defend their interests. Moreover, provincial governments often reinforce the fears of the population and interest groups, provide strategic leadership for their protest, and bestow legitimacy on their resistance to change. A coalition of powerful interest groups and their provincial governments is a potent force in national policy-making, even in areas of exclusive federal jurisdiction such as the Crow Rate.

In an effort to offset the combination of federalism
and interest groups' ability to constrain change, the federal government through its Transport Minister, Jean-Luc Pepin, created a process for policy negotiation which bypassed provincial governments and dealt directly with those parties most affected by change. To assist in understanding public policy formulation, the thesis developed a conceptual framework for those negotiations. The *Inside-Outside Access Model* was demonstrated to be consistent with the process that successfully brought changes to the Crow Rate. The model also proved to be robust and appropriate to analyze other follow-up negotiations on related matters such as a new rate structure, the formulation of the Grain Transportation Agency and railway performance guarantees.

6.2 Further Research

The *Inside-Outside Access Model* is presented as a variation of other public policy models such as the *Multiple-Crack* and *Limited Access* models developed by Morton Grodzin and Richard Simeon respectively. The *Inside-Outside Access Model* was demonstrated to be effective in explaining the process established by Jean-Luc Pepin to change the Crow Rate.

An opportunity exists to further examine the
appropriateness of utilizing the *Inside-Outside Access Model* to describe the process followed to develop a new Rail Safety Act. There are many similarities between this process and the Crow Rate reform process.

The federal government is considering changing the federal grain transport subsidy once again. The *Inside-Outside Access Model* could be used to analyze the resolution of that issue.

It is hoped that others will examine the potential of this model in other fields where federal jurisdiction clashes with provincial ambitions. The model should be tested as an instrument to understand not only the processes that affect changes in national policy but also as a means of examining how to involve greater representation of the general public in policy development in a federal state such as Canada, where power is shared among eleven governments.
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LIST OF APPENDICES

No.

I  An Act of Parliament to Authorize a Subsidy for a Railway through the Crow's Nest Pass - June 29, 1897

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An Act to authorize a Subsidy for a Railway through the Crow's Nest Pass.

[Assented to 29th June, 1897.]

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Subject to the conditions hereinafter mentioned, the Governor in Council may grant to the Canadian Pacific Railway Company a subsidy towards the construction of a railway from Lethbridge, in the district of Alberta, through the Crow's Nest Pass to Nelson, in the province of British Columbia (which railway is hereinafter called "the Crow's Nest Line") to the extent of eleven thousand dollars per mile thereof, and not exceeding in the whole the sum of three million six hundred and thirty thousand dollars, payable by instalments on the completion of each of the several sections of the said railway of the length respectively of not less than ten miles, and the remainder on the completion of the whole of the said railway; provided that an agreement between the Government and the Company is first entered into in such form as the Governor in Council thinks fit, containing covenants to the following effect, that is to say:—

On the part of the Company:

(a.) That the Company will construct or cause to be constructed, the said railway upon such route and according to such descriptions and specifications and within such time or times as are provided for in the said agreement, and, when completed, will operate the said railway for ever;

(b.) That the said line of railway shall be constructed through the town of Macleod, and a station shall be established therein, unless the Governor in Council is satisfied by the Company that there is good cause for constructing the railway outside the limits of the said town, in which case the said line of railway shall be located and a station established at a distance not greater than five hundred yards from the limits of the said town;

(c.) That so soon as the said railway is opened for traffic to Kootenay Lake, the local rates and tolls on the railway and on any other railway used in connection therewith and now or hereafter owned or leased by or operated on account thereof shall be equal and uniform.
of the Company south of the Company’s main line in British Columbia, as well as the rates and tolls between any point on any such line or lines of railway and any point on the main line of the Company throughout Canada, or any other railway owned or leased by or operated on account of the Company, including its lines of steamers in British Columbia, shall be first approved by the Governor in Council or by a Railway Commission, if and when such Commission is established by law, and shall at all times thereafter and from time to time be subject to revision and control in the manner aforesaid;

(d.) That a reduction shall be made in the general rates and tolls of the Company as now charged, or as contained in its present freight tariff, whichever rates are now the lowest, for carloads or otherwise, upon the classes of merchandise hereinafter mentioned, westbound, from and including Fort William and all points east of Fort William on the Company’s railway to all points west of Fort William on the Company’s main line, or on any line of railway throughout Canada owned or leased by or operated on account of the Company, whether the shipment is by all rail line or by lake and rail, such reduction to be to the extent of the following percentages respectively, namely:

- Upon all green and fresh fruits, 33\(\frac{1}{3}\) per cent;
- Coal oil, 20 per cent;
- Cordage and binder twine, 10 per cent;
- Agricultural implements of all kinds, set up or in parts, 10 per cent;
- Iron, including bar, band, Canada plates, galvanized, sheet, pipe, pipe-fittings, nails, spikes and horse shoes, 10 per cent;
- All kinds of wire, 10 per cent;
- Window glass, 10 per cent;
- Paper for building and roofing purposes, 10 per cent;
- Roofing felt, box and packing, 10 per cent;
- Paints of all kinds and oils, 10 per cent;
- Live stock, 10 per cent;
- Wooden ware, 10 per cent;
- Household furniture, 10 per cent;

And that no higher rates than such reduced rates or tolls shall be hereafter charged by the Company upon any such merchandise carried by the Company between the points aforesaid; such reductions to take effect on or before the first of January, one thousand eight hundred and ninety-eight;

(e.) That there shall be a reduction in the Company’s present rates and tolls on grain and flour from all points on its main line, branches, or connections, west of Fort William to Fort William and Fort Arthur and all points east, of three cents per one hundred pounds, to take effect in the follow-
One and one-half cent per one hundred pounds on or before the first day of September, one thousand eight hundred and ninety-eight, and an additional one and one-half cent per one hundred pounds on or before the first day of September, one thousand eight hundred and ninety-nine; and that no higher rates than such reduced rates or tolls shall be charged after the dates mentioned on such merchandise from the points aforesaid;

That the Railway Committee of the Privy Council may grant running powers over the said line of railway and all its branches and connections, or any portions thereof, and all lines of railway now or hereafter owned or leased by or operated on account of the Company in British Columbia south of the Company’s main line of railway, and the necessary use of its tracks, stations and station grounds, to any other railway company applying for such grant upon such terms as such Committee may fix and determine, and according to the provisions of The Railway Act and of such other general Acts relating to railways as are from time to time passed by Parliament; but nothing herein shall be held to imply that such running powers might not be so granted without the special provision herein contained;

That the said railway, when constructed, together with that portion of the Company's railway from Dunmore to Lethbridge, and all lines of railway, branches, connections and extensions in British Columbia south of the main line of the Company in British Columbia shall be subject to the provisions of The Railway Act, and of such other general Acts relating to railways as are from time to time passed by Parliament;

That if the Company or any other company with whom it shall have any arrangement on the subject shall, by constructing the said railway or any part of it, as stipulated for in the said agreement, become entitled to and shall get any land as a subsidy from the Government of British Columbia, then such lands, excepting therefrom those which in the opinion of the Director of the Geological Survey of Canada (expressed in writing) are coal-bearing lands, shall be disposed of by the Company or by such other company to the public according to regulations and at prices not exceeding these prescribed from time to time by the Governor in Council, having regard to the then existing provincial regulations applicable thereto; the expression “lands” including all mineral and timber thereon which shall be disposed of as aforesaid, either with or without the land, as the Governor in Council may direct:

That if the Company or any other company with whom it shall have any arrangement on the subject shall, by constructing the said railway or any part of it as stipulated for in the said agreement, become entitled to and shall
get any lands as a subsidy from the Government of British Columbia which in the opinion of the Director of the Geological Survey of Canada (expressed in writing) are coal-bearing lands, then the Company will cause to be conveyed to the Crown, in the interest of Canada, a portion thereof to the extent of fifty thousand acres, the same to be of equal value per acre as coal lands with the residue of such lands. The said fifty thousand acres to be selected by the Government in such fair and equitable manner as may be determined by the Governor in Council, and to be thereafter held or disposed of or otherwise dealt with by the Government as it may think fit on such conditions, if any, as may be prescribed by the Governor in Council, for the purpose of securing a sufficient and suitable supply of coal to the public at reasonable prices, not exceeding two dollars per ton of two thousand pounds free on board cars at the mines.

And on the part of the Government, to pay the said subsidy by instalments as aforesaid.

2. The Company shall be bound to carry out in all respects the said agreement, and may do whatever is necessary for that purpose.

3. In order to facilitate such financial arrangements as will enable the Company to complete the railway as aforesaid without delay and to acquire and consolidate with it the railway from Dunmore to Lethbridge, hereinafter called "the Alberta Branch," which, under the authority of chapter thirty-eight of the statutes of 1893, it now operates as lessee, and is under covenant to purchase, the Company may issue bonds which will be a first lien and charge and be secured exclusively upon the said Alberta Branch and Crow's Nest Line together in the same way and with the same effect as if both the said pieces of railway to be so consolidated were being built by the Company as one branch of its railway within the meaning of section one of chapter fifty-one of the statutes of 1888, and that section shall apply accordingly, such first lien to be subject to the payment of the purchase money of the Alberta Branch, as provided for in the said covenant to purchase.
The Crow's Nest Pass Agreement
DATED 6th SEPTEMBER, A.D. 1897

AGREEMENT
Between Her Majesty Queen Victoria, represented by the Minister of Railways and Canals
AND
The Canadian Pacific Railway Company

Re: Subsidies to construct a railway from Lethbridge in the Territory of Alberta through the Crow's Nest Pass to Nelson, B.C.

THIS INDENTURE made the Sixth day of September in the year one thousand eight hundred and ninety-seven between Her Majesty the Queen acting in respect of the Dominion of Canada and herein represented by the Minister of Railways and Canals, hereinafter referred to as "the Government", of the first part, and the Canadian Pacific Railway Company hereinafter referred to as "the Company" of the second part.

Whereas it was enacted in effect in an Act passed in the last Session of the Parliament of Canada held in the sixtieth and sixty-first years of Her Majesty's reign intituled "An Act to authorize a subsidy for a Railway through the Crow's Nest Pass" that: subject to the conditions therein mentioned, the Governor in Council might grant to the Canadian Pacific Railway Company a subsidy towards the construction of a railway from Lethbridge in the Territory of Alberta through the Crow's Nest Pass to Nelson, in the Province of British Columbia (which railway is hereinafter called "the Crow's Nest Line") to the extent of eleven thousand dollars per mile thereof, and not exceeding in the whole the sum of three million six hundred and thirty thousand dollars, payable by instalments on the completion of each of the several sections of the said railway of the length respectively of not less than ten miles, and the remainder on the completion of the whole of the said railway to the satisfaction of the Minister of Railways and Canals provided that an agreement between the Government and the Company should be first entered into in such form as the Governor in Council may think fit, containing covenants to the following effect, that is to say:

On the part of the Company:
(a) That the Company would construct or cause to be constructed, the said railway upon such route and according to such descriptions and specifications and within such time or times as should be provided for in the said agreement, and, when completed would operate the said railway forever; and also covenants to the effect of those hereinafter contained and numbered consecutively from 8 to 15 inclusive.

AND WHEREAS the Governor in Council has duly approved of the description, conditions and specifications hereto annexed, marked "C" as the descriptions, conditions and specifications for the construction of the said railway.

NOW THIS INDENTURE WITNESSETU that in consideration of the premises and of the covenant on the part of the Government hereinafter contained the Company doth hereby for itself and its successors covenant with the Government as follows, that is to say:
1. The Company shall and will well and truly and faithfully make, build, construct and complete a line of railway called the Crow's Nest Line from Lethbridge in the Territory of Alberta through the Crow's Nest Pass to Nelson in the Province of British Columbia, the points and approximate route and course being shown on the plans marked "A" and "B" hereunto annexed and in accordance with the specification hereunto annexed marked "C", and all bridges, culverts and works appurtenant thereto, and will build, construct and complete the said line of railway, bridges and culverts, and perform all engineering services, whether in the field or in preparing plans or doing other office works, to the entire satisfaction of the Governor in Council.

2. The Company shall and will locate and construct the said line of Railway on as straight a course as practicable, between the points above mentioned, with only such deviations as shall be allowed by the Governor in Council.

3. The gradients and alignment shall be the best that the physical features of the country will admit of in conformity with the aforesaid specifications hereunto annexed marked "C".

4. The Company shall and will furnish profiles location and other plans and bills of quantities of the whole line of railway in ten-mile sections, and before the work is commenced on any ten-mile section, such profiles location and other plans and bills of quantities shall be approved by the Governor in Council, and before any payments are made, the Company will furnish such further returns as may be required to satisfy the Minister of Railways and Canals as to the relative value of the works executed with that remaining to be done.

5. The Company shall commence the Works embraced in this agreement forthwith and shall prosecute the same with all reasonable despatch so that the line may be completed to the South end of Kootenay Lake on or before the thirty-first day of December, 1898, or such later date as the Governor in Council may upon good cause shown grant and allow and so that the remaining portion of the railway viz: from the South end of Kootenay Lake to the Town of Nelson shall be completed not later than the thirty-first day of December, 1900, or such later date as may for like good cause be in like manner allowed. In the meantime, that is to say, from the time of the completion of the said line to the South end of the Kootenay Lake and the final completion of the whole line to Nelson the Company shall provide such facilities as may be necessary for the carriage of freight in car loads without transhipment between the South end of Kootenay Lake and Nelson, time being declared to be material and of the essence of this contract and in default of such completion as aforesaid the Company shall forfeit all right, claim or demand to any and every part of the subsidy remaining unpaid as also to any moneys whatever which may be at the time of the failure of the completion as aforesaid due and owing to the Company.

6. The Company will upon and after the completion of the said line of Railway and works appertaining thereto truly and faithfully keep the same and the rolling stock required therefor in good and sufficient working and running order, and shall continuously and faithfully operate the same forever.

7. The Company will build, construct and complete the said line of railway and works appertaining thereto in all respects in accordance with the specification hereto annexed, marked "C"; and upon a line of location to be approved of by the Governor in Council.

8. The said line of Railway shall be constructed through the Town of McLeod, and a station shall be established therein, unless the Governor in Council is satisfied by the Company that there is good cause for constructing the railway outside the limits of the said Town, in which case the said line of railway shall be located and a station established at a distance not greater than five hundred yards from the limits of the said town.
9. So soon as the said railway is opened for traffic to Kootenay Lake, the local rates and tolls on the railway and on any other railway used in connection therewith and now or hereafter owned or leased by or operated on account of the Company South of the Company's main line in British Columbia, as well as the rates and tolls between any point on any such line or lines of railway and any point on the main line of the Company throughout Canada, or any other railway owned or leased by or operated on account of the Company, including its lines of steamers in British Columbia shall be first approved by the Governor in Council or by a Railway Commission, if and when such Commission is established by law, and shall at all times thereafter and from time to time be subject to revision and control in the manner aforesaid.

10. A reduction shall be made in the general rates and tolls of the Company as now charged, or as contained in its present freight tariff, whichever rates are now the lowest, for carloads or otherwise, upon the classes of merchandise hereinafter mentioned, westbound, from and including Fort William and all points East of Fort William on the Company's Railway to all points West of Fort William on the Company's main line, or on any line of railway throughout Canada owned or leased by or operated on account of the Company whether the shipment is by all rail line or by Lake and rail, such reduction to be to the extent of the following percentages respectively, namely:

Upon all green and fresh fruits, 33 1/3 per cent;
Coal oil, 20 per cent;
Cordage and binder twine, 10 per cent;
Agricultural implements of all kinds, set up or in parts, 10 per cent;
Iron, including bar, band, Canada plates, galvanized, sheet, pipe, pipe-fittings, nails, spikes and horse-shoes, 10 per cent;
All kinds of wire, 10 per cent;
Window glass, 10 per cent;
Paper, for building and roofing purposes, 10 per cent;
Roofing felt, box and packing, 10 per cent;
Paints of all kinds and oils, 10 per cent;
Live stock, 10 per cent;
Wooden ware, 10 per cent;
Household furniture, 10 per cent;

And no higher rates than such reduced rates or tolls shall be hereafter charged by the Company upon any such merchandise carried by the Company between the points aforesaid; such reductions to take effect on or before the first of January — one thousand eight hundred and ninety-eight.

11. There shall be a reduction in the Company's present rates and tolls on grain and flour from all points on its main line, branches or connections west of Fort William to Fort William and Port Arthur and all points East, of three cents per one hundred pounds, to take effect in the following manner: — one and one-half cent per one hundred pounds on or before the first day of September, one thousand eight hundred and ninety-eight, and an additional one and one-half cent per one hundred pounds on or before the first day of September, one thousand eight hundred and ninety-nine; and no higher rates than such reduced rates or tolls shall be charged after the dates mentioned on such merchandise from the points aforesaid;

12. The Railway Committee of the Privy Council may grant running powers over the said line of railway and all its branches and connections, or any portions thereof, and all lines of railway now or hereafter owned or leased by or operated on account of the Company in British Columbia south of the Company's main
line of railway, and the necessary use of its tracks, stations and station grounds, to any other railway company applying for such grant upon such terms as such Committee may fix and determine, and according to the provisions of the Railway Act and of such other general acts relating to railways as are from time to time passed by Parliament; but nothing herein shall be held to imply that such running powers might not be so granted without the special provision herein contained;

13. The said railway, when constructed, together with that portion of the company's railway from Dunmore to Lethbridge, and all lines of railway, branches, connections and extensions in British Columbia south of the main line of the company in British Columbia shall be subject to the provisions of the Railway Act, and of such other general acts relating to railways as are from time to time passed by Parliament;

14. If the company or any other company with whom it shall have any arrangement on the subject shall, by constructing the said railway or any part of it, as stipulated for in this agreement, become entitled to and shall get any land as a subsidy from the government of British Columbia, then such lands, excepting therefrom those which in the opinion of the director of the Geological Survey of Canada (expressed in writing) are coal-bearing lands, shall be disposed of by the company or by such other company to the public according to regulations and at prices not exceeding those prescribed from time to time by the governor in council, having regard to the then existing provincial regulations applicable thereto; the expression "lands" including all mineral and timber thereon which shall be disposed of as aforesaid, either with or without the land, as the governor in council may direct;

15. If the company or any other company with whom it shall have any arrangement on the subject shall, by constructing the said railway or any part of it as stipulated for in this agreement, become entitled to and shall get any lands as a subsidy from the government of British Columbia which in the opinion of the director of the Geological Survey of Canada (expressed in writing) are coal-bearing lands, then the company will cause to be conveyed to the crown, in the interest of Canada, a portion thereof to the extent of fifty thousand acres; the same to be of equal value per acre as coal lands with the residue of such lands. The said fifty thousand acres to be selected by the government in such fair and equitable manner as may be determined by the governor in council, and to be thereafter held or disposed of or otherwise dealt with by the government as it may think fit on such conditions, if any, as may be prescribed by the governor in council, for the purpose of securing a sufficient and suitable supply of coal to the public at reasonable prices, not exceeding two dollars per ton of two thousand pounds free on board cars at the mines;

16. The company shall not let or sub-let the said works or any portion thereof to any foreigner, or any corporation composed wholly or in part of foreigners, or employ or suffer to be employed on the said works any person who is not at the date hereof a british subject or a bona fide resident of canada, or who is not certified to by an agent of the immigration department of canada as having come to canada as an immigrant, intending to bona fide settle in the country, unless either the minister of railways is satisfied that there is not available sufficient canadian labour to enable the company to complete the works within the time limited therefor as aforesaid, or there be some other reason which shall be deemed by the governor in council sufficient in the public interest, in which case or cases, and in so far as the said minister may deem it necessary, and for any particular portion or portions of the work, and for any specified period or periods, and as to any particular number of persons, he may from time to time consent in writing to the employment of such persons as are hereby otherwise prohibited.—provided that nothing herein shall be held to prevent the importation of any manufactured materials required by the company for the
construction of the railway upon payment of the established Customs duties; and further that upon any wilful or negligent breach of this covenant being established to the satisfaction of the Governor in Council, the Company shall be liable to forfeit and pay out of the subsidy earned and otherwise payable to them such sum as liquidated damages as the Governor in Council may determine upon for each day any prohibited person may be so employed.

17. And the Government covenants to pay to the Company the said subsidy by instalments as aforesaid.

IN WITNESS WHEREOF the Honourable Andrew G. Blair, the said Minister of Railways and Canals hath caused to be hereto set his hand and the seal of the Department of Railways and Canals and the signature of the Secretary of the said Department and the Company has caused to be hereto set its Corporate Seal and the hand of its President and its Acting Secretary.

Signed, Sealed and Delivered by the Company in the presence of:

(Sgd.) H. G. Joly de Lotbiniere
Acting Minister of Railways and Canals.
(Sgd.) L. R. Jones
Secretary.

(THE CANADIAN PACIFIC RAILWAY COMPANY
(Sgd.) W. C. Van Horne
President.
(Sgd.) A. R. G. Heward
Acting Secretary.)
APPENDIX III

COMPILATION OF EDITORIALS FROM MAJOR WESTERN NEWSPAPERS, 1981–82

i)  Edmonton Journal – Circulation – 168,000
November 3, 1981
"it is time to kill the Crow so the real golden goose can live. It is time prairie farmers started bearing a fair share of the transportation burden. It is time to strengthen western Canada's railways... Mr. Pepin deserves Mr. Lougheed's frank support."

ii)  Manitoba Cooperator – Circulation – 20,000
November 12, 1981
"Obviously Mr. Pepin won his plea to look five years down the road. The Manitoba Pool delegates overwhelmingly supported the director's resolution allowing them to negotiate... Round one to Mr. Pepin." (emphasis added).

iii)  Winnipeg Free Press – Circulation – 240,000
November 16, 1981
"He (Premier Blakeney) must think it is in the national interest for him to take a position that is isolated from that of every other responsible agricultural organization in the west, a position that refuses to address the problem, but only to complain about it."

iv)  Saskatoon Star-Phoenix – Circulation – 58,000
December 21, 1981
"Those who would abandon the Crow have made convincing arguments about the need for rates based on costs. They argue the railways need more money for hauling grain if they are to be convinced to move prairie crops rapidly and efficiently. There seems little doubt that rates which have remained the same for decades are unreasonable, when both farm incomes and railway expenses have been increasing yearly."
APPENDIX III

v) Winnipeg Free Press – Circulation – 240,000
December 3, 1981

"By reversing Manitoba's position on the Crow Rate, Mr. Uruski has demonstrated a remarkable misunderstanding of the economics of grain transportation. By suggesting that, of the Crow is to be negotiated, the Canadian Pacific Railway should first return all its land grants and reimburse Canada for natural resources already processed, he demonstrates an equal misunderstanding of history."

vi) Edmonton Sun – Circulation – 78,000
Week of January 15–21, 1982

"We pamper our farmers. They form such a germinal part of prairie mythology that we shy away from serious analysis of their financial position or political power. In fact, farmers have emerged as a potent and economic and political force over the last 20 years. And unless we are careful they may build too much on their recent success at a huge cost to Canada's taxpayers."

vii) Winnipeg Free Press
January 15, 1982

"STILL WRONG ON CROW"

"Manitoba agriculture would benefit from a change in the Crow Rate. Even those farmers who, in Mr. Uruski's eyes, would lose by any change could well benefit from a rationalized transportation system that is based on the world as it is in 1982, not as it was in the last century."
On February 8, 1982 the Honourable Jean-Luc Pepin, Minister of Transport, issued a statement of Federal Government policy on western rail transportation for assuring adequate rail capacity to meet the current state of the rail system and how future needs be met.

The Minister specified seven principles as a basis for arriving at a solution:

1. A statutory framework should be created by Parliament to give effect to the new arrangements, and specifically to provide a basis on which adequate compensation to the railways for moving grain could be established at the earliest possible date.

2. In accordance with proposals made to it by the major producer organizations in western Canada, the Government of Canada is prepared:
   a) To commit itself by statute to the payment on an annual basis of an amount equivalent to the 1982-82 shortfall in railway compensation; and
   b) to enter into discussions with the producer organizations and the railways concerning ways of meeting cost increases incurred in the fiscal years beyond 1981-82.

3. While Government is prepared to bear a substantial part of the cost of grain transportation in future years, its resources are limited. An increased contribution by grain producers will be required.

4. In return for being compensated, the railways will be required to take action on several fronts, including:
   a) performance and service guarantees related to grain transportation;
   b) commitments regarding additional investment programs that would be undertaken;
   c) adjustments to other rates in order to promote agricultural diversification and processing in western Canada; and
   d) presentation of data concerning their revenues, costs and investment plans.
5. The economic distortions within the agricultural sector, stemming from the statutory rate, should be reduced without recourse to new transportation subsidies for crops not covered by the present statutory rate, or for goods such as livestock and processed agricultural products.

6. The new framework to be developed should promote increased efficiency and economy in the operation of the grain transportation system, and the western railway system as a whole.

7. Nothing in the new arrangements shall effect the existing Government's financial commitment for branch line rehabilitation. In addition, the Government will take prompt action to procure an additional 1,280 hopper cars in 1982.
Dear Toronto M.P.:

The Pepin grain transportation plan threatens Toronto business, not just western farmers.

Transport Minister Pepin's plan for western transportation will not only cost farmers an unreasonable amount of money, but will affect Eastern business as well.

We estimate that, based on what Mr. Pepin has announced, $4 billion dollars will be taken from Western producers during the next ten years, through elimination of the Crow Rate. How does this affect business here? Quite simply, Western farmers will have less to spend. That means less for farm machinery, less for chemicals, less for tools, and less for many of the goods needed for farming operations, goods manufactured by Eastern companies.

This, coupled with the fact that Western communities will suffer greatly because of this enormous loss in revenue, shows the Pepin Plan is a concern for all of Canada.

We need your support.

We'd like you, as a Member of Parliament, to look at these and other very serious problems with the Pepin Plan. Then, once you have the complete story, we hope you'll support our case that the Pepin Plan must be stopped, and do your part in seeing to it that it is.

Western farmers don't want the Pepin Plan. Many Eastern businesses will suffer from it. And it threatens a very important aspect of our Canadian economy.

We urge you to stop it.

SOURCE: Toronto Globe and Mail
March 30, 1983

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Dr. Gilson made the following specific major recommendations:

1. The total railway revenue shortfall (the Crow benefit) for 1981–82 be set at $644.1 million.

2. The Crow benefit be paid totally to the railways in 1982–83 with an increasing portion of this payment each year thereafter being paid to the producer either directly or by a freight credit option until 1989–90 when the proportion would be fixed at 81% to producers and 19% to the railways.


4. A temporary Agriculture Adjustment Payment be paid from 1983–84 until 1988–89 to neutralize adverse affects on "non-Crow" grains and to reduce the dilution effect on "Crow grain" producers.

5. Canola and linseed meal and oil be included under the new statutory rate structure.

6. The railways receive, on a phased-in basis, a contribution to constant costs at a level of 20% of the variable costs of transporting grain, with the first 12% of this contribution being considered as part of the rate structure and the remaining 8%, plus all line-related variable costs, being related to performance.

7. A Central Coordinating Agency be established superseding the present Office of the Grain Transportation Coordinator, to decide on railway performance and service guarantees and to promote and encourage increased efficiency and economy measures.

8. Future, railway cost increases up to 6% be shared equally between the Federal Government and producers for the period 1983–84 to 1985–86, with a maximum of 3% annual increase for the producer. After 1985–86, the shippers would pay the first 3% of cost increases and share equally with the Federal Government the next 3% increase with an aggregate maximum of 4–1/2% for the producers. The cost of transporting future volume increases beyond this crop year's base amount of 30.4 million tonnes be borne by the producers.
9. To protect producers against possible declines in grain prices, consideration be given to the feasibility of establishing some form of Grain Freight Stabilization Fund along lines similar to the Western Grain Stabilization Program.

10. A review be undertaken in 1985–86 of the items such as railway costs, the payment system, the branch line rehabilitation system, the Agricultural Adjustment Program, and railway performance and service guarantees.