



Canadian Bus Association Submission to:
The Federal/Provincial/Territorial Intercity Bus Services
Task Force
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1. **DESCRIPTION OF OVERALL INTERCITY BUS INDUSTRY**

The first task that falls to the Intercity Bus Services Task Force is to strike a practical definition of the term 'intercity'.

For the CBA's purposes, our brief prescribes the term 'intercity bus service' as pertaining only to scheduled intercity bus activity. This may seem an implicit assumption but, in reality, the distinction is very important.

For example, 'scheduled' intercity bus service omits substantial components of the overall intercity bus mode - namely, charters and contract shuttles.

To put this into perspective, contemporary estimates suggest there are roughly 5,000 'intercity' bus vehicles operating in Canada, of which some 4,000 are full-sized 40-foot and 45-foot highway coaches. However, fewer than 1,000 of these full-sized vehicles are committed to what is conventionally regarded as scheduled intercity bus operations. Much of the balance is composed of charters and contract shuttle sub-fleets. Indeed, the size of the contract shuttle segment may come as a surprise to some. To grasp how large this segment is, one need only look at the worker shuttle fleet operating under contracts in the Fort McMurray area, which alone is believed to involve more than 500 highway coach units.

Overall, the population of intercity bus vehicles is quite modest in comparison to the overall Canadian road vehicle fleet. There are some 17 million cars and light trucks in Canada as well as approximately 1 million heavy duty trucks. In addition, there are more than 30,000 school buses and another 12,000 city transit buses. In this context, the approximate 1,000 vehicles involved in scheduled intercity bus operations represent a tiny percentage of road vehicle activity within Canada.

The Full Cost Investigation Study (issued in 2008) estimated that the entire intercity bus mode transports approximately 10 billion passenger-kilometres annually (slightly less than 3% of the 325 billion total passenger-kilometres of national intercity passenger traffic). The FCI estimated that the entire intercity bus mode operated approximately 350 million bus vehicle-kilometres in order to carry this passenger traffic. Of this 10 billion in total passenger-kilometres for the overall intercity bus mode, roughly 3 billion is carried by the scheduled intercity sub-mode and the remaining 7 billion is carried by the charter and contract shuttle sub-modes.

2. CURRENT STATE OF INTERCITY BUS SERVICE

PLEASE NOTE: The following description of the current state of intercity bus service in Canada will necessarily concentrate on known facts. The CBA's frame of reference is greatest when describing the current state of the intercity bus services being provided by its own member carriers. Of course, the CBA can also draw on general industry knowledge of industry bus services elsewhere in Canada and will comment where useful.

2.1 CBA COMPONENT OF SCHEDULED INTERCITY SERVICES

The Canadian Bus Association represents by far the largest share of scheduled intercity bus services in the country between its four core carrier members: Greyhound Canada Transportation Corporation (Greyhound), Orleans/Acadian (Orleans), Saskatchewan Transportation Corporation (STC), and the Ontario Northland Transportation Commission (ONTC). The balance of the industry can be largely accounted for by members of L'APAQ, Motor Coach Canada and the BC Trucking Association.

There is no comprehensive source for statistical data on overall activity within the intercity bus industry. Because of inconsistent industry engagement, reports issued by Statistics Canada on the sector are acknowledged to be incomplete.

That said, the CBA is diligent in collecting and analyzing the internal data of its own member carriers and is able to make reliable projections concerning the CBA members' share of estimated overall industry activity levels.

According to our best estimates, CBA member carriers constitute some 70% of national scheduled intercity bus passenger volumes and more than 90% of national intercity bus parcel volumes.

For the year 2008, the CBA carriers earned some \$252 million in scheduled passenger revenues, carrying some 9 million passengers who travelled more than 2 billion passenger-kilometres in total, over the 89 million vehicle-kilometres operated as scheduled bus services. That same year, the CBA carriers generated \$97 million in bus parcel revenues but less than \$15 million in bus charter revenues.

2.2 THE EXTENT OF THE SCHEDULED BUS NETWORK

The number of service points within the Canadian scheduled bus network is not known precisely. However, CBA member carriers and their non-CBA interline partners provide scheduled bus service to some 2,400 service locations, of which about 1,000 have physical bus depots or agencies. The remaining locations are typically passenger flag stops because business volumes are too low to justify the costs of establishing a formal agency.

The CBA carrier interline network excludes locations served by other scheduled bus carriers who have not entered into an interline relationship with CBA member carriers. Although many of these other carriers are relatively small (including numerous passenger van operations), their added network coverage is not insignificant.

Overall, it is a certainty that the total number of service points within the Canadian scheduled bus network exceeds 2,500 locations. It is unlikely however, that the total number would exceed 3,000.

2.3 WHO TRAVELS BY INTERCITY BUS?

Each CBA scheduled bus carrier has a slightly different methodology for sampling passenger profiles. Providing for these variables, it is nevertheless possible to arrive at a composite profile for the 9 million passengers who annually use the services of the CBA carriers:

- more than 60% are female
 - more than 30% are students and children
 - less than 5% are children, either accompanied by adults or 'high-schoolers' travelling alone
 - some 25% are seniors (55 years and older)
 - nearly 40% are from households with annual incomes below \$25,000 (and can be considered below the poverty line)
 - more than 10% are unemployed (probably 15% during the recession)
 - nearly 15% are over 65, retired and no longer working
 - more than 75% of adult bus passengers have driver licenses,
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- but, less than 40% of bus passengers had access to a household car on the day of their bus trip.

It is important to add some context to the above ridership profile.

- Household income - conclusions about the number of households below the poverty line are difficult to reach because there is no official definition of poverty recognized by governments in Canada. However, it is reasonable to assume that an annual household income of less than \$25,000 constitutes some degree of poverty within the context of everyday living. As such, it is reasonable to conclude that a large share of our riders struggle at or near the poverty line.
- Vehicle access - while a significant majority of adult bus passengers do have a valid driver's permit, this statistic is less than fully illuminating. More reliable is the fact that more than 60% of bus passengers did not have access to a car for their bus trip that day, either because there is no car in the household or because a household car was not available to them that day. It should also be noted that bad weather diverts car users to the intercity bus mode. Obviously this would be particularly true during the winter season.
- Purpose of Trip - the majority of intercity bus travel is comprised of people visiting friends and relatives. However, survey composition may encourage this category to be selected as a matter of default. In truth, bus trip purpose varies widely depending upon the nature of the bus route being surveyed. Some intercity bus routes exist largely to provide downtown work commuter connections. Some shorter bus routes between major cities have a significant component of business travel. Student travel can constitute a substantial percentage of ridership in some areas. Finally, in less populous, more remote locations, there is a significant ridership component travelling for health reasons, to and from regional health centres. Then, there are the same-day shopping trips, the multi-day vacation/tourist travel trips, the 'looking for work' trips, the sports/entertainment event trips, etc.

- Aboriginal use - CBA carriers cannot provide hard data on the frequency of use by Aboriginal Canadians. Clearly, some routes cater predominantly to Aboriginal populations based simply on geography. There is effectively a 'band' of low-volume bus routes across the northern portions of many provinces which can be characterized as having a high component of Aboriginal bus passengers. However, even in southern portions of the provinces CBA members' service, to Aboriginal Canadians constitutes a significant share of riders. Overall, CBA members estimate that total Aboriginal bus ridership likely exceeds 5% within the combined network. At a minimum, therefore, it appears that at least ½ million of the 9 million bus passenger trips annually being provided by the CBA carriers involve Aboriginal citizens. Since some 3½% of Canada's 34 million population are Aboriginals, this 5% market share suggests an 'intensity' usage of intercity bus services by Aboriginals that is about 50% greater than the overall population but which remains in line with the 'intensity' usage levels found for lower income groups generally.

2.4 CBA CARRIER PROFITABILITY IN 2008

All CBA member carriers have been unprofitable in recent years, with the exception of Orleans' operations in Quebec. Greyhound, STC, ONTC, and Acadian (the Maritimes operations owned by Orleans) are all unprofitable. It is this overall lack of carrier profitability combined with the poor future outlook for improvement that has triggered the present industry crisis that the Task Force is now examining.

The CBA performed an analysis of the combined 2008 results of its member carriers and found the following:

- **Overall:**
 - CBA member carriers had a combined EBIT (Earnings Before Interest and Taxes) loss of some \$20 million in the 2008 financial year.
 - CBA member carriers operated a total of 89 million bus-kilometres in scheduled bus service together with 3 million parcel truck-kilometres (to handle 'overloads' of parcel traffic) and 4 million charter bus-kilometres.

- After the direct costs of handling and delivering bus parcels are deducted from gross parcel revenues, a surplus equivalent to approximately 35% of these gross parcel revenues remains that can be used to help offset linehaul and general overhead costs.

- **Unprofitable Routes:**

- 55 million annual service kilometres (which account for 62% of the total vehicle-kilometres operated in scheduled bus service) occur on unprofitable routes.
- While these unprofitable routes account for 62% of network operations, they only account for approximately 45% of scheduled passenger revenues in the overall CBA network, averaging passenger revenues of only \$2.05 per service kilometre
- This is slightly offset by the fact that unprofitable routes generate some 65% of total network bus parcel revenues. (However, the net parcel surplus after direct costs remains relatively small – about 40 cents per bus-kilometre on average).
- Overall, these unprofitable routes average a total operating loss of approximately \$1.40 per service kilometre from scheduled passenger service alone, which is then partially offset by the average \$0.40 surplus per service kilometre that can be recovered from bus parcel services.
- In total, the unprofitable routes of the CBA carriers led to combined total operating losses of approximately \$55 million in 2008.

- **Profitable Routes:**

- Only 34 million annual service kilometres (38%) of the combined CBA carrier network are operated on profitable routes.
- These 34 million service kilometres account for 55% of scheduled passenger revenues in the overall network, averaging passenger revenues of \$4.10 per service kilometre. This is double the average passenger revenue per service kilometre on the unprofitable routes.

- Additionally, there is a minor financial benefit derived from bus parcel services on profitable routes that contributes an average parcel surplus of approximately \$0.35 per service kilometre, net of direct costs.
- Making no allowance for shareholder distributions, this represents a surplus of \$35 million on profitable routes.

Therefore, the net losses of CBA carriers in 2008 were approximately \$20 million.

2.5 THE EAST: WEST REVENUE DICHOTOMY

There are significant differences in the revenue structures of the scheduled bus routes in Eastern Canada as opposed to Western Canada. Eastern routes generate more revenue passenger traffic but far less parcel traffic.

Bus parcel revenue volumes in the east are minor. Of the \$97 million in 2008 parcel revenues among the CBA carriers, only \$12 million occurred east of Sudbury. In other words, 88% of CBA national parcel revenues occurred west of Sudbury. Of the total 89 million network kilometres operated by the CBA carriers in scheduled bus service, 43 million kilometres occurred east of Sudbury. In other words, the eastern half of the CBA network only averaged \$0.28 in gross parcel revenues per bus service kilometre while the western half averaged \$1.85 in gross parcel revenues per bus service kilometre during 2008.

The situation is somewhat reversed with respect to scheduled bus passenger revenues. Of the total \$252 million in passenger revenues during 2008, \$143 million occurred east of Sudbury and only \$109 million occurred west of Sudbury. The eastern half of the network averaged \$3.33 per bus service kilometre while the western half only averaged \$2.37 per kilometre.

Combining these two elements, the eastern half of the CBA scheduled bus network averaged gross revenues of \$3.61 per kilometre. However, after accounting for direct costs related to the parcel service, the eastern portion of the network generated \$3.43 in net available revenues per kilometre.

In the same vein, the western half of the network averaged gross revenues of \$4.22 per kilometre, thanks to very high parcel revenues. But, once direct parcel costs are deducted, the western half of the network only generated \$3.02 in net available revenue per kilometre. The western half of the network trailed its eastern counterpart in profitability by about 12% because the net advantage derived from its higher bus parcel activities could not overcome its much weaker passenger performance.

This revenue weakness in the western half of the network is rapidly worsening not only because of on-going passenger declines but also because the decline in Greyhound parcel volumes is accelerating, as discussed later in this document.

2.6 2009 OPERATING RESULTS DETERIORATE FURTHER

This already dismal financial outlook appears to have worsened in 2009. Because some CBA members have March 31st year-ends it is not possible to yet provide a detailed analysis of 2009 results - route-by-route data is not yet available. We can, however, provide a summary of the 2009 results, which demonstrate rapidly deepening losses compared to 2008.

- The combined operating losses (EBIT) of the CBA carriers increased by more than 50% from \$20 million in 2008 to approximately \$31 million in 2009.
- Scheduled linehaul revenues (both passengers and parcels revenues combined) declined from \$349 million in 2008 to approximately \$306 million in 2009, a 12% deterioration in only one year.
- Passenger traffic fell by more than 11% as compared to 2008. This occurred notwithstanding the fact that scheduled network operations only contracted by some 8%.

The worsening industry results in 2009 can be attributed to four contributing factors:

- Continuing declines in intercity bus ridership.
- The temporary effects of the recession that impacted much of the Canadian economy during 2009.
- Additional temporary effects that occurred as a consequence of service cut-back announcements being made during 2009 by carriers.
- Increased competition from subsidized modes.

2.7 2010 OUTLOOK

CBA carriers have budgeted for improvements in both their business volumes and their overall financial performance in 2010.

Overall, they have been projecting a return to the loss levels experienced in 2008. Much of this improved performance is projected to come from cost-cutting with some anticipated rebound in business activity.

Unfortunately, early returns have been discouraging. Although the key summer travel season is not yet upon us, revenue volumes have thus far not rebounded from 2009 lows. It appears extremely probable that the 2010 financial performance of the CBA carriers will not manage to recover even to the prior loss levels experienced in 2008.

3. EXPECTED FUTURE STATE OF INTERCITY BUS SERVICE

Turning from recent financial difficulties encountered by the industry to future prospects, there is little cause for optimism. Unprofitable routes appear likely to continue to decline and structural deficiencies within the scheduled bus industry remain unremedied.

3.1 GROWING LOSSES OF UNPROFITABLE ROUTES

Routes that are currently unprofitable appear set to continue to decline in economic value. Bluntly stated, there is no evidence to suggest a reversal and every reason to believe the situation will grow from bad to worse on routes that are already losing money.

The reasons for this are many. Towns and villages served by the unprofitable routes generally suffer either from contracting or stagnant population levels. Parcel volumes in the western bus network are now in permanent decline.

To make matters worse, the cross-subsidy capacity from the profitable routes is diminishing in relative terms. Profitability on 'good' routes can only be expected to experience normal rates of growth relative to overall local economies. These 'normal' growth rates will be insufficient to offset the on-going declines on unprofitable routes, ensuring a wider gap year after year. Moreover, the economic health of profitable routes is further imperilled by subsidized competitors.

Two further structural deficiencies threaten to further exacerbate the outlook.

3.2 THE DEFERRED CAPITAL OVERHANG

As scheduled bus carriers have struggled to keep their service networks in place in the face of mounting operating losses, they have redirected cash flow away from capital renewal spending. The most common method of deferring capital spending is to delay bus fleet replacement. Clearly, it is not sustainable to continue to ignore these critical investment needs. Indeed, such delays only lead to even greater financial stress.

As older capital assets continue to age, operating costs increase disproportionately because of mounting repair costs and the 'public face' of scheduled bus travel starts to visibly deteriorate, eventually resulting in further lost bus ridership.

The depth of this problem varies among the CBA carriers, depending upon the extent of their prior operating losses and the duration of time they have been deferring capital spending. For example, Greyhound now has a massive deferred capital overhang due to the age of its fleet. The same situation is experienced by most other carriers to varying degrees.

There are also other areas of bus carrier infrastructure where the same pressures are at work. Passenger depots and bus maintenance facilities eventually need to be either substantially renewed or otherwise replaced. Capital upgrades in information systems and passenger security systems need to be undertaken, etc.

The scheduled bus mode is the only mode of intercity travel that does not have meaningful access to government subsidy programs insofar as these infrastructure investments are concerned. In fact, infrastructure subsidies received by the passenger rail mode, by the marine ferry mode, and by the passenger air mode – through airport funding - are substantial.

For the CBA member carriers alone, the deferred capital overhang is valued at more than \$100 million.

If this overhang is not somehow addressed, CBA members will be forced to reduce the size and extent of their operating networks. Even if the current operating losses suddenly disappeared on the existing network and the scheduled bus carriers were able to regain operating breakeven, they still would not be able to generate sufficient excess cash flow to fund the reinvestment catch-up necessary to alleviate the capital overhang. Service reductions appear to be the only remaining alternative.

3.3 THE NEED FOR RETURN ON INVESTMENT

Shareholders invest in order to receive a return on their capital. This is true even of Crown agencies. However, the intercity bus industry has not and does not obviously offer its investors that opportunity based on contemporary realities.

The scheduled bus carriers must meet three conditions to remedy this structural problem:

- Avoid operating losses.
- Generate sufficient excess cash flow to self-finance the deferred capital catch-up that is necessary.
- Generate even further excess cash flow in order to provide a reasonable return on the prior investments made by their shareholders.

In the long run, a persistent failure to provide shareholders with a reasonable return on investment will result in divestment. In the long run this would rob bus carriers of the capital required to maintain services to the public.

Owing to the structural nature of these challenges it is clear that short-term solutions will be insufficient. Remedies must be bold and comprehensive to avoid a radical retraction and possibly collapse of the industry in the future.

These are the hard choices now facing companies and governments alike. Either the current regulatory framework is sufficiently reformed such that carrier shareholders can earn reasonable returns or governments must replace the heretofore private capital invested in the scheduled bus network with public capital.

The only other alternative is the abandonment of large portions of the scheduled bus network.

4. ISSUES AND FACTORS GOVERNING THE FUTURE

The Task Force has requested our views on the issues and factors that have governed the current state of intercity bus service and which will effect the future development of the industry. Our perspective is detailed below. Unsurprisingly, a number of these factors are interrelated.

4.1 DEMOGRAPHIC CHANGE

Demographic changes such as increasing urbanization are a significant contributor to the structural unprofitability of key routes.

Some 44% of Canadians live in the six mega-cities with populations in excess of one million - Vancouver, Edmonton, Calgary, Toronto, Ottawa, and Montreal. Another 23% live in the 27 lesser census metropolitan areas that have populations between 100,000 and 1,000,000. Then, a further 14% live in the approximate two thousand towns and villages that have populations in excess of 1,000 but less than 100,000. The remaining 19% of Canadians are deemed to be living in rural areas, but only some 2% live on rural farms. Most rural Canadians live in numerous small settlements with populations of less than 1,000.

Bluntly stated, towns and villages are shrinking. Youth typically migrate to larger population centres: for education and work. Even within a region, there is often significant population movement to the largest local centre at the expense of the smaller towns being served by the same intercity bus route in that region.

The net result is that intercity bus ridership on these 'feeder' routes suffer from significant and on-going declines. From a financial perspective, virtually all of the feeder bus routes serving smaller population centres are, and will continue to be, unprofitable.

The core issue facing the Task Force is what should be done about service connectivity to the cohort of 2,000 smaller population centres. These centres constitute at least 15% of Canada's population and frequently have limited transportation alternatives other than personal vehicles. Yet, intercity bus service is proving more and more financially unsustainable.

Most towns with populations in excess of 50,000 should be able to sustain connecting intercity bus services, so long as connecting bus trip times are roughly parallel to car trip times. But, this means that many intermediate stops in smaller towns and villages along the connecting bus route will need to be abandoned in order to shorten overall bus trip times to compete with the car mode.

In the same vein, most towns and villages with populations of less than 25,000 are unlikely to ever generate sufficient travel demand to justify connecting intercity bus services. Some form of investment is required to sustain connecting services to these smaller centres.

4.2 CAR IS THE MAIN COMPETITOR

Approximately 65% of all intercity travel occurs by private car, when measured in terms of passenger-kilometres. When measured just in terms of passenger trips, the car accounts for more than 85% of all intercity travel activity.

The scheduled bus industry relies heavily on intercity trips of less than 400 kilometres, with its greatest competitive efficiency occurring on trips between 150 kilometres and 300 kilometres. When bus trip times exceed five hours, competitive issues involving passenger comfort begin to militate strongly against the bus mode. Bus trips of between two and three hours present the most competitive subset for the scheduled bus mode. The air mode is a much less dominant competitor for such shorter intercity trips but competition from the car mode at these shorter trip distances is fierce.

There are about 17 million cars and light trucks in Canada. Moreover, these private vehicle owners typically only consider their out-of-pocket expenses such as the cost of gasoline when making their mode choice for a trip. To make matters worse, there is a significant gap between the social costs of intercity car travel and those of intercity bus travel. Governments subsidize intercity car travel to a much higher degree than intercity bus travel, especially when examined from the standpoint of passenger-kilometres travelled. For example, a single intercity bus averages a passenger load of some 30 individuals whereas a single intercity car averages a passenger load of only two. When social costs are 'shared' on a per passenger basis, the result is that the car mode causes a much greater burden in terms of these social costs.

Car ownership is a direct function of wealth. As Canada has raised its standard of living over the decades, car ownership has grown and the intercity bus mode has lost market share as a direct result.

4.3 THE LONG-TERM COSTS OF CAR TRAVEL

Oil price spikes in 2008 were believed by many to be predictive of future realities. Without even embracing the peak oil thesis, it remains undeniable that crude oil is a non-renewable resource. Furthermore we are increasingly reliant upon non-conventional and therefore more expensive sources of energy. In fact, the intercity bus mode ultimately benefits from higher oil prices as car owners adjust their mode choice decision to reflect their higher out-of-pocket costs. This is very much an issue of short-term versus long-term price elasticity. In the short term, changes in price will have a modest effect on modal choices. In the longer term, however, permanently higher oil prices would cause some degree of modal shift to bus, as intercity travellers adapt their trip decision process to new cost realities.

On a parallel note, it is also probable that the capital cost of cars will increase in real terms over time as costly new technologies are designed to reduce the environmental footprint of car travel. 'California' rules on overall car fleet efficiency are now being adopted throughout North America. This will inevitably impact the purchase price of cars. There is also a growing trend towards taxing car owners at the point of purchase in order to recover some of the social costs that they subsequently cause. It is probable that overall car ownership levels in the economy will still continue to increase but there is some expectation that this growth rate will slow in the years to come. If so, then there should be some level of modal passenger shift that could also occur in favour of the intercity bus.

If the price of oil moves permanently upwards, if the long-term capital cost of cars increases in real terms, and/or if governments move towards greater taxation on road use in order to recover a higher proportion of the social costs caused by car travel that are not now being recovered, intercity bus travel will likely benefit.

4.4 BUS HAS CEDED LONG-HAUL TRAVEL TO AIR

Air travel accounts for 32% of intercity travel when measured in terms of passenger-kilometres and now dominates the long-haul travel markets. The intercity bus mode cannot realistically compete in these markets. When a bus trip is longer than 5 hours, air is at a significant competitive advantage so long as reasonably priced fares are available.

Overall, the scheduled bus mode is now a niche player in long-haul travel markets. Bus ridership on these routes typically consists of very low-income individuals who are willing to sacrifice travel time in order to save money, tourists or those who suffer from a fear of flying.

4.5 SUBSIDIZED COMPETITION FROM VIA RAIL

The competition between the intercity bus industry and Via Rail has been repeatedly documented over the past several decades. The federal government has committed billions of taxpayer dollars to Via Rail for both capital and operations purposes. For example, the federal government recently added program spending of \$692 million and a further \$407 million on top of the 'fixed' annual Via Rail subsidy of \$169 million. Via Rail is now receiving federal subsidies of some \$350 million annually, an average funding level projected to endure until at least 2014. At this funding level, the annual federal subsidy to Via Rail is equivalent to some \$90 per rail passenger trip.

For the intercity bus industry, this presents significant competition challenges. Via Rail often uses its federal subsidies to 'finance' deep discount fares that typically have the effect of pricing train travel at or even below bus travel, even though the direct costs of a passenger-kilometre of train travel are at least three times greater than those of the scheduled bus mode. Clearly, Via Rail does not operate on a subsidy-minimization basis but on a passenger-maximization basis.

The substantial majority of the competitive damage suffered by the bus industry from Via Rail price competition occurs in the Windsor-Quebec City corridor - which is estimated to account for nearly 90% of Via Rail's total passenger ridership. Intercity bus carriers compete directly against Via Rail throughout this corridor. Overall, the market shares of both Via Rail and CBA carriers on these mutually contested corridor routes are roughly identical, with each mode transporting slightly more than 2 million annual passenger trips. In terms of CBA bus carrier profitability, these corridor routes account for 50% of the total bus profits earned on profitable CBA bus routes throughout Canada.

Reduced profitability on these routes result in a lessened capacity by bus carriers to cross-subsidize unprofitable and often rural routes. In this way, federal Via Rail subsidies have the unintended consequence of reducing scheduled bus service levels to smaller communities.

4.6 SUBSIDIZED COMPETITION FROM 'REGIONAL' TRANSIT

A parallel instance of subsidized competition from 'regional' transit networks also exists. When provincial governments expand subsidized transit to neighbouring communities, the private bus sector often exits these markets shortly thereafter. Subsidized transit operators typically offer lower fares even though their operating costs are considerably higher than those of the private sector.

The primary location for this expansion of subsidized regional transit revolves around the three largest cities in Canada, although there are certainly isolated examples of subsidized transit elsewhere. No matter where it occurs, it has the effect of diminishing bus markets that to that point had been served by private sector operators. Of recent note, the expansion of GO Transit bus services to Peterborough, the Niagara Peninsula, Cambridge and Kitchener have created considerable stresses on scheduled services that have traditionally been provided by private sector operators.

As with Via Rail, government subsidies to expand 'regional' transit networks into intercity bus markets eventually have the effect of reducing scheduled bus service levels to smaller communities elsewhere. Indeed, any subsidized government competition that creates an uneven competitive playing field reduces the ability of the intercity bus industry to internally 'finance' its cross-subsidy burden.

4.7 BUS TRAFFIC SHIFTING TO PASSENGER VANS

When we estimate that the CBA members operate about 70% of scheduled intercity bus passenger traffic, it is within the context of 'conventional' bus operations. In addition to that, there is an indeterminate amount of further intercity passenger traffic that is now being carried by passenger van operators. While most of these van operators serve small city-pairs legally, there are also a number of illegal operators.

Van operators can fill an important niche that meets the public interest particularly on low-volume city pairs that would otherwise not be served. The critical issue with the legal providers of these services is safety. With respect to unlicensed providers, this concern is even greater – particularly among the so-called 'bandits' on the Montreal-Toronto city-pairing.

Some CBA member carriers have experimented with owning and operating their own passenger vans but have generally found that the added complexities of operating a fleet of different vehicle sizes is too onerous. For example, Greyhound has found it is preferable to 'sub-contract' low volume routes to independent van operators and then pay them a direct subsidy to operate a route in order to continue to honour Greyhound's cross-subsidy obligations to the governing jurisdiction.

Overall, it appears that passenger van operators tend to 'eke' out a living. Passenger vans with a 15-seat capacity have difficulty generating sufficient annual revenues to accomplish much more than recovering the total vehicle costs - both capital and operating - while providing the driver/owner with a limited wage. It is questionable whether this business model is sustainable in many markets.

4.8 BUS TRAFFIC SHIFTING TO RIDE-SHARING

Informal ride-sharing has long existed and is particularly prevalent on college campuses. With the increased outreach capacity facilitated by online communications, we have more recently seen the emergence of organized ride-sharing with commercial middle-men acting as brokers.

The CBA views this development as an inevitable fact of life. Nevertheless, an unknown amount of intercity bus traffic is starting to be diverted to this 'hybrid' mode of travel.

The CBA anticipates that commercial ride-sharing will grow and increasingly divert some measure of passenger traffic from the scheduled intercity bus mode in the years to come.

4.9 LONG-TERM EFFECTS OF PARCEL COMPETITION

As noted earlier, Greyhound parcel revenues are critical to the cross-subsidization of Western Canadian bus routes. Nevertheless, most of these western routes remain unprofitable. The concern now arises that western parcel volumes will continue to decline in the coming years, thereby placing more financial pressure on the western bus routes. In particular, the 'station-to-station' segment of bus parcels is in rapid decline - with parcel clients finding that large national couriers will provide door-to-door delivery for essentially the same price.

To understand this trend, one must first grasp the relationship between market size and competition from the large national couriers such as Purolator. Small bus parcel markets often do not offer sufficient volume opportunities to attract increased competitive presence from large national couriers. Indeed, large national couriers occasionally use connecting interline services with scheduled bus carriers to provide service to small towns. Once an economic region reaches a certain critical mass, however, these large courier companies expand aggressively into new markets and make substantial investments in new parcel service infrastructure. To consumers, they offer substantially discounted pricing in order to establish higher volumes. This is now happening in many western parcel market regions, spurred on by the economic boom in the western provinces of the past decade.

The same phenomenon occurred in eastern bus parcel markets thirty years ago. The result was a diminution in parcel revenue volumes in the east to the point where it now only accounts for about 12% of the national parcel revenues of the CBA carriers.

There is compelling evidence that this loss of parcel market share is now also occurring in the west. Greyhound's national parcel revenues declined from \$94 million in 2006 to \$88 million in 2007 to \$82 million in 2008 and then fell dramatically to \$68 million in 2009. While the 2009 collapse in Greyhound parcel revenues might be partially attributed to the recession, there can be no doubt that Greyhound is still facing long-term declines in its western bus parcel volumes. Greyhound hopes to regain some parcel revenue volume in 2010, but the overall trend remains downward. Even in Saskatchewan where STC's parcel business has thus far remained stable, it is clear that aggressive expansion by national couriers will stand to lower bus company revenues and profit.

In addition, a significant portion of the commercial clients who use bus parcel services do so because of the small town network coverage that is currently offered. As the scheduled bus industry contracts the overall size of its network, these commercial parcel clients will increasingly switch to other parcel couriers. Consequently, a cascading response threatens to occur as more of the parcel network provided by bus continues to shrink.

Finally, by way of context it is important to understand that the parcel markets are deregulated. The bus parcel carriers have the right to surgically detach their bus parcel services from their bus passenger services and use trucks to run an independent parcel network. This is only a viable economic option on a few core routes, however. Many bus routes lack sufficient volumes to recover the added linehaul costs from running a truck-only service just to service parcel clients. The national couriers, on the other hand, can take advantage of their extensive network synergies to generate more parcel volumes in order to justify the introduction of new 'truck' routes as they expand.

4.10 WAGE SPIRAL CONTAMINATION

The intercity bus sector has been under constant pressure from generous wage increases to the urban transit sector for the past thirty years. Today's transit pay package consists not only of significantly higher wage levels but also generous fringe benefits and often restrictive work rules, particularly among the large transit entities.

Typically, the main transit unions also represent the unionized employees of the scheduled bus carriers, particularly drivers and garage staff. Since much of the work performed by unionized scheduled bus carrier staff is similar to that provided by unionized transit staff, there are constant labour demands to close this gap between public and private sector remuneration levels.

Reliable statistics on the measurable extent of this public-private pay gap are difficult to obtain. By comparing individual union agreements we can ascertain that it often approaches or even exceeds 50% for comparable work in some cases. This places the scheduled intercity bus carriers in a constant effort to manage the expectations of their employees. Transit is heavily subsidized and, more often than not, local politicians responsible for transit will concede to union demands rather than face the threat of a transit strike. In turn, this increases pressure for additional government subsidies.

The private sector intercity bus carriers are not subsidized by government and must recover any increase in their manpower costs through fares, operating cuts or both. This has led to a number of strike and lock-out actions in the scheduled bus industry over the years. Given the level of current operating losses among the intercity carriers, upcoming negotiations may prove to be particularly difficult. Consequently, there could well be further disruptions to intercity bus service due to labour strife.

4.11 A GREENER OPTION

The environmental advantages of intercity bus travel have been well-documented in numerous government studies, dating as far back as the 1992 Royal Commission on Intercity Passenger Transportation. The most extensive study released on this issue was the Full Cost Investigation Report of 2008. Nevertheless, the extent of these environmental advantages tends to be poorly understood by the public.

To examine reasons for this, the CBA conducted an extensive focus group exercise led by Allan Gregg Strategies. Its main findings included:

- Participants instinctively assumed that air and car travel are more subsidized and environmentally damaging than either rail or bus travel.
- The majority of participants were astonished at the comparative level of subsidies provided to intercity rail travel. They were similarly surprised by the regional disparities of these subsidies insofar as Quebec and Ontario appeared to be the great beneficiaries.
- Participants were equally surprised to learn of the high environmental costs caused by rail travel – to the extent that some even refused to accept the published FCI data.
- In principle participants were generally opposed to intercity modal subsidies and were particularly opposed to modal subsidies that support more environmentally damaging modes of travel.

The intercity bus mode stands alone in terms of environmental efficiency: the air mode is twice as damaging; the intercity car mode is almost three times more damaging; and, based on the updated but yet to be publicly released FCI data, the intercity passenger rail mode will be proven to be nearly five times more damaging.

For its part, Via Rail continues to use taxpayer monies to mount numerous on-going efforts touting its supposed environmental benefits – notwithstanding documented facts to the contrary.

Given contemporary views on environmental stewardship, public policymakers will need to consider future decisions to dedicate public dollars to modes that cause lower levels of emissions.

5. ACTIONS UNDERTAKEN

The Task Force has requested input from the CBA on the actions that have thus far been taken or are expected to be undertaken in response to the issue of declining industry profitability.

5.1 COST COMPRESSION: STAFF REDUCTIONS

All CBA carriers have undergone some level of management compression during the past decade as they endeavour to do more with less. Consequently, there has been a reduction in overhead costs. On the one hand, this flattening of management levels has permitted a new culture of employee empowerment. On the other hand, mid-term and longer-term planning capacities have no doubt been partially sacrificed during the course of this effort. Ongoing emphasis on short-term profitability improvements, justified as they are, can result in a reallocation of resources away from longer-term planning functions.

There have also been staff reductions. The most dramatic example of this was the recent closure of Greyhound Canada's accounting centre in 2009. Almost 100 jobs were severed and their workloads were redistributed into much larger accounting centres in order to take advantage of economies of scale.

5.2 COST COMPRESSION: MILEAGE REDUCTIONS

There have been a series of mileage reduction programs during the past decade. In almost all cases, these mileage reduction programs have been pursued to the exclusion of outright service abandonments. In other words, frequency has been lost rather than outright access. However, recently we have seen more dramatic options pursued. In early 2010, Greyhound Canada was forced to abandon service to some 60 Ontario communities.

The motivating cause behind these mileage reduction programs has been a lack of business volume, largely brought on by the on-going depopulation trend affecting small towns and villages.

It also needs to be emphasized that not all past applications by CBA carriers for service frequency reductions have received approval from the governing tribunal.

Some members have also pursued a 'middle path' on occasion in order to address declining business volumes. This approach involves the practice of sub-contracting route operations to smaller local carriers – often relying on passenger vans. The sub-contractor is paid a fixed subsidy by the licensed carrier to operate the route, thereby creating a win/win solution. The licensed carrier's operating losses are reduced and small enterprise jobs are created.

5.3 COST COMPRESSION: UNION CONCESSIONS

As mentioned in the previous discussion on wage spiral contamination, CBA carriers have actively sought union concessions in the past. Although scheduled bus carrier unions are generally aware of the decline in business volumes and ridership during recent years, union member demands appear unlikely to abate – particularly given public sector wage settlements.

There now exists a significant compensation gap between the unionized employees of scheduled bus carriers in the United States compared to those in Canada. Recent estimates suggest that this gap is 20% higher in Canada. Repeated bus carrier insolvencies/bankruptcies in the United States combined with union relief as provided under the terms of Chapter 11 filings have effectively lowered compensation levels over the past twenty years. Both wage levels and benefit packages are now significantly lower in the United States, with work rules also being less restrictive.

In general, Canadian scheduled bus carriers attempt to gain union concessions by first reducing work rule restrictions. It is not clear, however, that work rule concessions will be sufficient in upcoming negotiation rounds, given the profitability collapse of the past few years. This heightens the likelihood of work stoppages. As mentioned earlier, the CBA is concerned that some of its member carriers may opt to abandon large swaths of their own networks in those jurisdictions where the scheduled bus network is clearly unprofitable rather than undergo the rigours of any lengthy work interruption.

5.4 REVENUE BOOSTING: REDESIGNING NETWORK SERVICES

The previous discussion of mileage reduction programs does not capture the full story. Bus carriers do not simply seek to reduce losses on unprofitable routes; they also redesign network services to increase profitability. Typically, this means improving service levels on the profitable higher volume routes - by reducing end-to-end trip times through the eradication of intermediate stops, by introducing upgraded bus equipment offering a more comfortable 'ride', and by restructuring routes to boost average passenger loads generally.

There are numerous examples of these network service upgrades. Of note, the redesigned Orleans bus and the redesigned Greyhound 'Bolt' bus offer considerably improved passenger amenities compared to prior generations of bus equipment. Lower density seating offers increased leg room, seats have an improved ergonomic design, and wireless connection ports are available.

Another tactic is restructuring routes to develop new markets. For example, by developing new routes to directly service large university campuses Greyhound has been able to boost ridership. Similarly, Orleans/Acadian is currently attempting to develop a new passenger market in the Moncton/Saint John/Fredericton triangle by offering quick connecting services that can compete directly with the private car mode.

5.6 REVENUE BOOSTING: DISCOUNTS AND YIELD PRICING

Scheduled bus carriers have also engaged in steep price competition at times. In addition to the long-standing social fare discounts that have long been extended to students, seniors and children travelling with adults, there has been increasing use of many 'niche' fare discount programs. These include same-day returns, excursion fares, companion fares, tourist 'pass' programs, commuter discount booklets, etc. All of these programs have one central objective: to increase the total passenger revenue being generated per bus mile operated.

The scheduled bus mode is not unique in these matters of yield pricing. All common intercity passenger modes pursue this tactic. We note, however, that Via Rail has been less discriminating in this regard, as demonstrated by the declining passenger yields of the past few years. When other modes attack bus market share with discounted fare offers, the scheduled bus carriers will usually respond in kind in order to prevent bus traffic loss.

There have also been various creative attempts within the scheduled bus industry to establish organized patronage programs. For example, special marketing arrangements are struck with on-campus student associations that grant a sales commission for on-campus sales. Orleans continues to have a highly effective bulk-purchase program with the Quebec Government wherein civil servants are essentially directed to travel by bus on certain city-pairs and the Government receives a substantial savings on the individual tickets because of their bulk-buy. This same approach has also been used with large private sector employers on occasion.

5.7 REVENUE BOOSTING: SYNERGY PROGRAMS

The most compelling example of synergy programs in recent years has been the expansion of Internet services by bus carriers. Bus carriers do more than just inform the public and advertise their service offers on-line. They have also established on-line sales portals, thereby generating greater sales reach while reducing ticket sales commission paid to their 'brick and mortar' agencies.

The Internet is just the most recent opportunity for the scheduled bus carriers, who have a long history of seeking out synergies:

- Carriers sell retail space in their passenger depots, usually seeking out both a rent and a concession share retail sales.
- Carriers often offset garage maintenance facility costs by selling their maintenance services to visiting foreign bus units.
- Some larger bus carriers sell their parcel administration services (client accounting and billing, tracing, etc.) to smaller bus carriers.
- Some regional bus carriers help offset their overall infrastructure costs by also operating local school and local transit services.
- The scheduled carriers have also had some success in selling the exteriors of their buses as advertising platforms, using bus 'wraps'.

For the most part, synergy programs in the scheduled bus industry have resulted in overall cost reductions. There have even been various attempts to partner with other modes in order to generate greater revenue levels. Most of these attempts at intermodalism have only generated minor revenue improvements, however.

The passenger modes still tend to operate in isolation to each other, leaving it to individual passengers to seek out the most effective multi-modal connections to manage their travel needs. Of particular note, carriers have found that most local transit authorities are unwilling to formalize connecting facilities with the intercity bus network.

5.8 DEALING WITH GOVERNMENTS

In many jurisdictions, it is necessary to secure government or regulatory approval prior to implementation of needed changes. As such, maintaining sound relations with the various governing tribunals is a critically important aspect of cost containment.

6. OTHER INFORMATION

The Task Force has requested that the CBA provide any other information that we believe could be helpful towards its deliberations.

6.1 CROSS-SUBSIDY BURDEN OF NON-CBA CARRIERS

The CBA does not have access to the detailed financial data of non-member carriers. However, an in-depth knowledge of Canada's carrier networks suggests that most of the unprofitable bus routes in Canada are being operated largely by CBA carriers.

The notable exception is the regional bus network operated in Quebec by member carriers of L'APAQ - specifically, Maheux, Gallant, Intercar, and Limocar. All of these smaller Quebec networks were designed with route cross-subsidies in mind. Each of these mini-networks has one core route that is profitable, which is then used to cross-subsidize its remaining unprofitable feeder routes.

Apart from the regional networks of the L'APAQ carriers, no other non-CBA carriers appear to bear significant cross-subsidy burdens:

- Pacific Coach Lines only operates between Vancouver and Victoria and between Vancouver and Whistler.
- Quick Bus Lines only operates between Vancouver and Seattle
- The Red Arrow service only operates in the Calgary/Edmonton/Fort McMurray corridor and in the Banff tourist market.
- Coach Canada now only operates in the Toronto/Montreal corridor and in Toronto/Buffalo corridor, having recently abandoned its unprofitable route between Hamilton and Guelph in response to the recent expansion of the GO Transit bus network.

6.2 COMPARATIVE MODAL SUBSIDIES

The best single source of data on government subsidies granted each year is the Annual Report on Transportation issued by Transport Canada. It has some drawbacks in that it fails to fully capture all provincial subsidies to the various passenger modes and data reports lag a full year. A partial source of alternate data is the Canadian Transit Fact Book issued annually by CUTA, although it only enumerates government subsidies to local transit entities.

Drawing on all these sources, the CBA estimates current subsidy levels from senior governments to various passenger modes are roughly as follows:

- **Local Transit:** CUTA reports that its members received \$2.9 billion from the senior governments in 2008, of which \$2.3 billion was related to capital (either grants or debt servicing assistance). The federal capital contribution was \$632 million during 2008.
- **Passenger Rail:** Overall, intercity passenger rail mode appears to be receiving some \$400 million annually from the senior governments, with federal subsidies to Via Rail (\$343 million in 2009) accounting for most of this amount.

- **Marine Ferries:** Ferries are dual mode, transporting both passengers and freight. Federal subsidies to marine ferries amounted to \$187 million in fiscal 2008/09. Provincial subsidies to marine ferries are more difficult to determine but British Columbia's operating contributions (excluding capital assistance) to BC Ferries appear to have exceeded \$150 million in 2008/09. Overall, it appears that total senior government subsidies to the marine ferry mode easily exceed \$300 million annually.
- **Air Passenger Mode:** While senior governments do not provide direct subsidies to individual air carriers significant support is provided for air infrastructure assistance. For example, the federal government reports that it spent some \$800 million on the air mode in 2008/09 while recovering some \$700 million in lease and fee revenues. The federal government appears to have net air mode spending of approximately \$100 million annually, largely involving airport assistance grants. Provincial spending levels on the air passenger mode are more difficult to specify but appear to be approximately \$100 million annually.
- **Intercity Bus Mode:** The only direct subsidies to the intercity bus mode are provincial support payments made to the two Crown-owned bus carriers (STC and ONTC). The total amount is approximately \$11 million in annual funding assistance. This amount excludes the \$3.1 million subsidy temporarily granted to Greyhound by the Manitoba Government in order to help sustain existing intraprovincial bus services during 2010. The Quebec government also provides some funds to rural communities in order to sustain services where abandonments would otherwise have occurred.

The above modal subsidy estimates speak for themselves. Clearly, the intercity bus mode stands apart from all the other passenger modes as lacking in senior government funding.

6.3 TRAVEL WARRANTS

The full extent of travel warrant usage across all modes is not known. However, it is possible to accurately describe the frequency of bus travel warrant use among CBA carriers.

Overall, CBA carriers generate \$6 million annually in passenger revenues from bus travel warrants. A small percentage of this total volume comes from private sector entities – such as travel agencies packaging tourist trips that involve a bus connection, camp caterers and drill rig operators transiting their employees to remote work sites, etc. More than 90% of all bus travel warrants are billed back to public agencies. Clearly, the federal government is by far the largest user of bus travel warrants.

Geographically, the use of bus travel warrants is most prevalent on the three Prairie Provinces and Northern Ontario, accounting for some 75% of all CBA carrier warrant revenues. Eastern Canada (including Southern Ontario, Quebec and the Maritimes) only accounts for 11% of issued warrants while BC and the Territories account for the other 14%. Bus travel warrants are mainly used on more remote bus routes, which explain why these provincial usage patterns are so heavily skewed towards the Prairie areas.

This relatively heavy concentration of bus travel warrants on the more remote bus routes raises another issue. If these bus routes cease to exist, how do the public agencies finance the mandated travel of their clients? In nearly every example, there are no connecting train services. Governments must either pay for very expensive airfares, where this option is even available, or they must pay for some form of connecting taxi/van service. Given the individual trip distances that are typically involved with bus warrants, either option will become quite expensive, compared to the spending levels of government agencies that now exist.

6.4 BUS SAFETY ISSUES

Intercity bus services have a superior safety record and have been repeatedly found by various government studies to be the safest mode of intercity passenger travel, save and except for Class 1 commercial air travel. Nevertheless, any comprehensive examination of the intercity bus landscape must highlight this issue.

The most pronounced safety issue relates to the prospect of deregulation. Should this occur in some jurisdictions, there will be necessary questions as to whether the excellent safety record of scheduled intercity bus carriers can be maintained.

Individual CBA carrier safety practices often exceed the existing regulatory safety minimums established in law. The best example of this is the driver training and safety performance monitoring standards typically now in place among the CBA carriers. The existing minimum government requirements for licensing commercial bus drivers are significantly less onerous. A more prosaic example is the simple issue of tire tread depth, with CBA carriers tending to replace their tires long before the minimum tread depth required by law is reached. On balance the industry does not oppose deregulation. But it does believe safety protocols should be maintained.

Another significant safety concern is the prospect of unintentional safety errors being made by new industry entrants. The investment of time, knowledge, resources and training to ensure high standards for safety is not always made with equal vigour by individual enterprises. Moreover, lack of experience can sometimes lead to tragic situations.

Some jurisdictions already have relatively strict bus safety standards now in force. Other jurisdictions need to consider upgrading their bus safety standards before they consider lowering the regulatory barriers to industry entrance. As a first step in this regard, there would be value in performing an 'inventory' comparison between the actual safety standards of the main scheduled bus carriers as opposed to what is currently required in law.

6.5 EUROPEAN CONGLOMERATE OWNERSHIP

The three largest scheduled bus carriers in Canada - Greyhound, Orleans, and Coach Canada - are all wholly or partly owned and fully controlled by the three largest European transportation conglomerates: First Group PLC, Keolis, and Stagecoach, respectively.

These three corporations are large and each is involved in a range of passenger transportation services throughout the world. These include intercity bus operations, intercity rail operations and local urban transit operations. Jointly, they have approximately 250,000 employees and annual business revenues that are many times greater than any passenger carrier based in Canada.

The three Canadian bus carriers owned by these European companies account for nearly 80% of Canadian intercity bus industry revenues, both passengers and parcels. The conglomerates are publicly-traded companies, with all of the usual obligations to provide a reasonable return to their shareholders. In such a context, Canadian governments should expect increasing pressure to demonstrate sensitivity to shareholder concerns.

6.6 THE IMPORTANCE OF CANADIAN BUS MANUFACTURING

Another issue of which the Task Force needs to be aware is the important role being played by Canadian bus manufacturing. The two largest bus manufacturers in North America are both based in Canada: Winnipeg's MCI and Volvo/Prevost which is based in Sainte-Claire, Quebec. While the bulk of their respective bus unit sales are to clients outside Canada, these two manufacturers still depend upon domestic Canadian bus sales for commercial viability. Neither of these manufacturers has been in robust financial condition historically and both are now struggling with the current economic climate. In this respect, the ability of CBA carriers to address their deferred capital overhang will directly benefit these same manufacturers – maintaining employment, skills and economic activity in both Manitoba and Quebec.

6.7 CANADIAN/AMERICAN COMPARISONS

It is natural that the Task Force will draw upon recent U.S. experience to understand how intercity bus services have been addressed there and what lessons can be learned for application in Canada.

Surprisingly, there are important different differences in the two markets that make easy comparisons difficult.

Greyhound is the dominant scheduled bus operator in both countries, constituting about 45% of Canadian bus passenger trips and 55% of American bus passenger trips. The nature of the scheduled bus markets in the two countries is quite different, however. In Canada, scheduled bus travel is far more heavily focused on short-haul trips with the average Canadian bus passenger travelling one half the trip distance of the average American bus passenger. In addition, American bus ridership appears even more skewed towards the lower-income strata than is the case in Canada.

The most important distinction between the two countries however is the relative market penetration of scheduled bus activity. In Canada, such penetration is considerably greater than in the United States, despite the fact that the American scheduled bus industry has benefited from federal subsidy support systems since 1978 and 1991 in the form of fuel tax rebates and route/carrier subsidies, respectively.

Normally, one would expect Canadian markets to be one-tenth the size of their American counterparts, reflecting the ten-fold difference in relative population size. In Canada, there are at least 14 million annual scheduled bus passenger trips compared to only some 40 million trips in the United States. This suggests that the relative market penetration of the Canadian scheduled bus industry is at least three times greater than one would expect in terms of population density.

This is partially explained by the corresponding difference with parcel market penetration. Canadian bus parcel revenues are some three times greater than those in the United States - a remarkable figure in the context of population density. It is logical to infer that this gap in bus parcel activity levels has contributed to the underlying three-fold difference in respective scheduled bus passenger levels. For 'feeder routes' bus parcel activity has acted as a de facto glue that holds in place the Canadian scheduled bus network. Without the internal route cross-subsidies from Canadian parcel market activity, many of these Canadian rural feeder routes will certainly disappear, which will then have a cascading impact on the remainder of the Canadian scheduled bus network.

The other main cause of this three-fold gap in scheduled bus passenger trips is the ongoing impact of U.S bus deregulation. This dramatic change in the mode's policy and regulatory framework in the United States led to a partial collapse of the intercity bus network. In a detailed study issued in 1991, the GAO determined that more than 50% of the communities served by the American bus network in 1981 had been abandoned by 1989.

Since that time, governments have struggled to play catch-up through other means, leading to a series of federal and state funding programs focused on encouraging the re-establishment of intercity bus services. These programs have enjoyed limited success thus far and, indeed, the restructuring of federal assistance programs in 2007 was an explicit acknowledgement of their inadequacy to date.

There were an estimated \$258 million in total government subsidies allocated to American intercity bus services in 2009, consisting of the following components:

- \$77 million for rural services (bus and terminal acquisitions as well as operational subsidies) under the 5311 (f) program.
- \$103 million in funding under the economic stimulus program.
- \$12 million in passenger security infrastructure upgrades.
- \$9 million in wheelchair lift installations.
- \$30 million in savings achieved from the partial federal fuel tax exemption.
- \$27 million in state funding assistance.

6.8 TAX EXEMPTIONS

The CBA has often appealed for fairly structured federal tax exemptions for intercity bus carriers that might reflect a modest percentage of the support offered directly to competitor modes of travel such as rail. Specifically, the industry has sought relief from diesel fuel taxes and accelerated capital cost allowances on new bus purchases. These efforts have proven unsuccessful.

Given the superior environmental record of the intercity bus mode and the oft-stated desire of governments to reduce car traffic it is unclear what the public policy rationale is for refusing these appeals. Moreover such policy approaches have been shown to have good effect in jurisdictions where they have been adopted. For example, the Quebec government provides a 100% rebate on the provincial fuel tax for scheduled bus activities. Similarly, the US federal government provides a 70% rebate on its federal fuel taxes to all intercity bus carriers. This has helped to stabilize service in the past. However, given the precarious financial state of intercity bus services at present, it is clear that even these tools, though necessary, would prove insufficient.

Tax exemptions on the approximate 35 million litres of diesel fuel consumed annually by the CBA carriers will provide some measure of financial assistance-about \$6 million in total-but that would still leave a substantial shortfall in what is now an annual combined operating loss of \$20 million or more.

By way of contrast, others have sought and received such support. For example, in 1992 the trucking industry was granted a capital cost allowance of 40% of the declining balance on highway equipment whereas the bus industry was left unchanged at 30% declining balance on its highway equipment. This inequity is difficult to understand given the extent of public policy benefits that intercity bus can deliver.

New challenges in the tax system loom that will further affect the industry negatively. The most pointed is the advent of HST in Ontario and in British Columbia – a reform incentivized by federal financial transfers – which has exacerbated the asymmetrical treatment afforded public transit operators as compared with private sector intercity bus operators.

Transit operators are generally exempt from having to charge sales taxes. When regional transit networks expand their networks into private sector intercity markets, they not only have the benefit of taxpayer subsidies to finance their activities but also can provide sales tax exemptions to their passengers. Using Ontario as an example, GO Transit will not charge the 13% combined HST on its passenger fares but does receive 100% of GST input credits and 84% of input credits on the provincial portion of the HST. Competing intercity bus carriers must charge their passengers 13% more in having to collect the HST. This constitutes an institutionalized prejudice against the private sector - making an already unfair competitive situation even worse.

6.9 ENVIRONMENTAL PERFORMANCE IMPROVEMENTS

The environmental benefits of intercity bus travel were already explored in some detail earlier. However, it bears emphasis that recent developments and new approaches are set to intensify these advantages and even further shrink the environmental footprint of the intercity bus sector as compared to other modes and, in particular, rail.

There are three key reasons behind this quantum leap in bus environmental performance:

- The transition from 2-stroke diesel engines to 4-stroke diesel engines in the mid-1990's has improved fuel efficiency by more than 25%.
- The advent of the 45-foot bus frame has increased seating capacity by 20% on average, thereby increasing average passenger loads per bus kilometre operated. Combined with fuel efficiency standards, this reduces the average fuel usage per passenger-seat by 40% compared to the early 1990s.
- Most importantly, stringent EPA emission standards for diesel highway engines have recently been fully implemented and now virtually eliminate all air pollution emanating from bus engines.

These changes have not occurred without cost to the commercial carriers. For example, implementation of the EPA highway diesel engine standards has increased the purchase cost of a new bus by more than \$35,000. However, the money has been well spent when examined in terms of environmental gains. A 1990-vintage highway bus unit typically averaged 6 grams of NOX emissions and 0.6 grams of PM emissions per brake horsepower-hour. The EPA standard for highway buses manufactured after March of 2010 is 0.2 grams of NOX and 0.01 grams of PM. In twenty years, bus NOX emissions have been reduced by 97% and bus PM emissions have been reduced by 98%.

No other passenger mode's technology can come close to demonstrating such massive improvements in their respective emissions.

6.10 COMPETITIVE IMPLICATIONS OF FULL COST PRICING

The FCI study recently performed by the governments has provided policy-makers with an unblinkered insight into full cost pricing. As Task Force members will already be aware, the last CTA review in 2001 recommended that full cost pricing be adopted by governments over a phased-in period of time. The prevailing view of the CTA panel was that the long-term interests of Canadian society were best served by transparent mechanisms for allocating economic resources. Their view was that full cost pricing of transportation resources provides the most efficient means to achieve that objective.

A new factor has now entered this continuing debate - massive government debt levels. Governments are seeking to develop new revenue sources and avoid substantial new funding commitments. In this context, the policy inertia that has encumbered moves towards full cost pricing is now diminishing.

Insofar as intercity travel is concerned, the FCI data provides insight as to the long-term competitive implications of full cost pricing. It is now possible to accurately estimate the unrecovered social costs that each mode of intercity travel causes. If full cost pricing were implemented, the resulting re-balancing would favour air and intercity bus modes leaving intercity car and passenger rail modes to assume a fairer share of their respective social costs.

Based on the FCI data, it would appear that intercity bus and air modes could recover appropriate social costs with a fare hike of roughly 10%. The intercity car mode, on the other hand, would have to generate a 30% increase. The intercity passenger rail mode would need to more than double its current fares in order to recover the mode's social costs.

Obviously, such aggressive cost recovery actions could only be accomplished over an extended time-frame.

6.11 DISABLED ACCESSIBILITY

Intercity bus carriers have a long history of accommodation for disabled riders. Unlike other public modes, guide dogs have been permitted on scheduled buses for many decades, as have companions of the disabled riding free-of-charge. To strengthen this relationship, the Voluntary Accessibility Code was adopted by all CBA carriers more than a decade ago.

The Code commits the CBA carriers to ensuring that all front-line personnel receive sensitivity training for dealing with disabled clients. The Code requires participating bus carriers to maintain at least 10% of their fleet with wheelchair lifts and 'tie-down' positions. The Code also established a three-level complaints resolution process that culminates with any still unresolved complaint being adjudicated by the federal government.

These accommodations are not without cost. For example, a lift-equipped bus costs about \$40,000 more than an unequipped bus and this cost is borne strictly by the carrier unlike in the United States, where the federal government pays for all bus lifts under the American Disabilities Act. Moreover, bus carriers must maintain hydraulic lifts in good working order and also operate a disabled service reservation desk, wherein a disabled client pre-orders a lift-equipped bus. These arrangements are made notwithstanding the fact that no CBA carrier has ever had as much as 1/20th of 1% of its bus ridership using this bus lift service in any given year. In other words, maintaining 10% of the CBA fleet with lift-equipped bus units over serves the actual demand for this service by some 200 times.

Nevertheless, the CBA has been fully supportive of the Code and is actively participating in a process led by Transport Canada to update and modernize its provisions.

6.12 THE STATUTORY OBLIGATIONS OF GOVERNMENTS

The statutory obligations of governments with respect to ensuring that citizens have a minimum standard of connecting service and mobility are unclear. The CBA lacks the ability to pronounce definitively on these issues but urges the Task Force to explore these issues thoroughly. In that respect, the following should be considered.

The BNA Act sets forth the divisions of powers between the federal and provincial governments, but does not specify government obligations per se. Section 6 of the Charter of Rights and Freedoms makes reference to individual mobility rights, but does not specify the extent of any ensuing government obligations. Section 5 of the Canada Transportation Act does set forth government obligations, stating that there should not be any undue obstacle to the mobility of persons. It also prescribes an obligation to advance the well-being of Canadians in both urban and rural areas. As well, there are the various government obligations under Aboriginal treaty rights.

If there is an obligation upon governments to ensure that some level of connectivity remains publicly available, it clearly is conditioned by reasonable and practical limits. The population size of communities will necessarily be a critical determinant: the connectivity needs of a town with 25,000 likely taking precedence over the needs of a settlement of 500.

7. RECOMMENDATIONS

The CBA acknowledges considerable frustration over the lack of policy focus that has traditionally been afforded to the intercity bus mode. We are the least subsidized mode, the least costly mode, the least environmentally damaging mode, the most flexible mode and also the safest surface travel mode. If competitive playing fields were level, the intercity bus mode would have a better chance of operating on a financially sustainable basis. But, we are required by regulation to operate unprofitable routes as a social 'duty' while our direct competitors are subsidized by either one or another level of government.

This must change. Otherwise, the breadth and depth of the traditional intercity bus service network will be irreparably ruptured and small-town Canada will become disconnected from publicly available services. The financial ability of the bus industry to fulfill its traditional connecting role has eroded so much that it has now passed the point of no return.

If the objective of the Task Force is to recommend policy changes to governments that will enable the intercity bus industry to revivify its operations in a manner that will permit reasonable rates of return while serving the needs of the travelling public, there are a variety of measures that should be taken.

In particular, the CBA urges the Task Force to keep three core principles in mind as it conducts its work.

- First, the sine qua non of an economically viable intercity bus sector is a legislative and regulatory regime that will enable private sector operators to respond to market conditions as they evolve.
- Second, there is not a “one size fits all” panacea for the industry. Each jurisdiction must take account of its unique social and economic attributes as it seeks to create a hospitable climate for a sustainable industry.
- Third, in pursuing reforms to the policy framework governing the intercity bus sector, we should seek to not only strengthen the industry itself but also facilitate the prospects for a stronger intermodal approach nation-wide, one that extends a higher quality of passenger transportation service and integration to all corners of the country.

Accordingly, the CBA proposes the following recommendations.

7.1 Regulatory frameworks must be sufficiently amended such that carriers can quickly adapt their service offerings to reflect prevailing market conditions. In practical terms, this means that all provinces and territories should adopt the essential elements of the regulatory system currently in operation in Ontario whereby intercity bus operators are merely required to give 90 days notice of changes to or abandonment of any given route.

7.2 This recommendation is likely to lead to a not insignificant reduction in the overall service levels currently provided by intercity bus carriers, especially in rural or more remote communities.

At the same time, changing demographics have lead to urban congestion, infrastructure deficits and gridlock in major metropolitan communities. Fiscal pressures have made it increasingly difficult for governments in rural or urban communities to satisfy the demand for publicly funded transportation services.

Private sector transportation expertise is not a panacea. Nevertheless we are confident that governments can save money and enhance services by doing a better job of drawing on the skill sets that are characteristic of private sector transportation service providers. Whether it is modern maintenance procedures, back-office administrative processes or the direct provision of multi-modal transportation services to travellers, private operators possess knowhow to improve services and reduce costs.

Where a jurisdiction decides to mandate bus services to ensure their continuance, or to satisfy unmet demand, it should be accomplished through least cost bidding wherever possible. Subject to service and safety standards being met as specified in public bid documents, least cost should be the governing principle for contracted services.

7.3 The CBA believes that individual Canadian governments must be allowed some reasonable degree of policy latitude to address the specific bus service issues that they each face within their respective jurisdictions. But, this latitude for individual policies must be co-ordinated within the context of a national bus transportation policy framework. Otherwise, conflicts between and among various jurisdictions are bound to arise. As things now stand, passengers on profitable routes in one jurisdiction are effectively being burdened by higher passenger tariffs in order to support operating losses on unprofitable routes in other jurisdictions. This is one of the key reasons why the scheduled bus carriers have been so resolute in their announced intention to 'fix' the problem. Internal route cross-subsidies that act across borders are unfair and wrong. One jurisdiction cannot be allowed to 'piggy-back' off the citizens of another jurisdiction.

It is essential that 'hidden' route cross-subsidies should not be permitted to cross provincial boundaries without the prior knowledge of the governing jurisdictions.

7.4 This raises some serious questions concerning the roles and responsibilities of various levels of government.

At present, the federal role solely consists of approving bus vehicle types for road operation in Canada, providing a legislated definition of what constitutes a bus, helping co-ordinate bus safety and security standards among the jurisdictions and overseeing issues pertaining to disabled access to bus services.

Beyond the above-noted issues, the federal government has devolved much of its authority for establishing operational regulations to individual provinces/territories.

Is this the full extent of the federal role in intercity bus services? Do the federal or provincial governments have any broad duties concerning small-town connectivity? Does the federal government have any specific duties to ensure that interprovincial connecting services remain in place? What is the federal duty in respect of passenger intermodalism? These are fundamental questions that remain unresolved.

The precise duties of the federal and provincial governments need to be clarified and stipulated.

7.5 Insofar as safety and security are concerned, care must be taken to ensure that existing standards are not compromised.

The governing jurisdiction must ensure that carrier safety/security practices are clear and appropriate and that enforcement procedures are in place so that new entrants meet or exceed the same standards and practices that are adhered to by incumbent carriers.

7.6 As we noted previously, the Canada Transportation Act Review Panel (2001) recommended that full cost pricing be adopted by governments over a phased-in period of time. The prevailing view of the CTA panel was that the long-term interests of Canadian society were best served by transparent mechanisms for allocating economic resources. Their view was that full cost pricing of transportation resources provides the most efficient means to achieve that objective.

At a time when governments are burdened by massive levels of debt new revenue sources that alleviate that burden while accomplishing progress on social and environmental goals seems to make good public policy sense. In fact, governments are already moving in the direction of full cost pricing. Gasoline taxes, toll roads, and taxes or surcharges on inefficient systems are becoming more common in Canada.

The CBA endorses the principle of full cost pricing and urges governments to explore other means of valuing transportation systems that better reflect contemporary social and economic conditions.

7.7 Environmental concerns are top of mind for many Canadians. The documented environmental record of the intercity bus sector is exemplary and should be encouraged.

The federal government (and where appropriate, provincial governments) should proceed forthwith to adopt the Quebec model whereby intercity operators are granted a 100% fuel tax exemption on their operations.