

**FEDERAL PARTICIPATION IN HIGHWAY
CONSTRUCTION AND POLICY IN CANADA**

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INTRODUCTION

It would be difficult to overstate the importance of the highway system with respect to productivity and competitiveness of the Canadian economy. For example, the majority of Canada's trade with the United States (63% of the total value in 2003) is carried from origin to destination by truck.⁽¹⁾ That 91% of domestic and 72% of international trips made by Canadians in 2003 were by automobile is another indicator of the importance of highway infrastructure in the daily life of Canadians.⁽²⁾

In many federal states, such as Canada, responsibility for constructing and maintaining highways falls outside of federal jurisdiction. Nonetheless, due to the national importance of surface transport infrastructure, federal governments often participate in planning and funding highway investments. In Canada, with certain exceptions, the vast majority of the 1.4 million two-lane equivalent kilometres of roads are owned and managed by the provincial or territorial governments.⁽³⁾ The Canadian federal government's involvement in highway investment has been characterized by a series of contribution programs rather than a stable, long-term commitment. Its national highway policy, which dates back to 1974 and does not reflect major developments that have transpired since (e.g., the designation of the National Highway System in 1988 and the doubling of Canada-U.S. trade since the establishment of the North American Free Trade Agreement of 1994), appears to be the only guide for federal financial participation.

(1) Transport Canada, *Transportation in Canada 2004*, 2004, Table A2-1.

(2) Statistics Canada, *Canadian Travel Survey 2003*, Cat. No. 87-212, p. 18; and Transport Canada, *Transportation in Canada 2003*, 2003, Table 2-2.

(3) Federally owned highways total some 15,000 kilometres and include the Alaska Highway, roads in national parks, on native reserves and in the National Capital Region, international bridges and military roads.

This document provides information about federal funding and policy with respect to highway construction in Canada, past and present. It covers the federal government's attempt to establish a new national highway policy between 1988 and 1992 and its financial contributions to highway infrastructure before and after that period. Finally, it provides for comparison a description of current federal policy and funding support for highway infrastructure in the United States and Australia. This document does not, however, cover other federal government involvement in highways, such as the regulation of international crossings, the promotion of highway safety, or highway research and development activities.

A HISTORY OF FEDERAL HIGHWAY POLICY AND CONSTRUCTION IN CANADA

Highways are considered under the general class of “Local Works and Undertakings” in *The Constitution Act, 1867* and are the responsibility of the provinces and territories. Nonetheless, the federal government from time to time has contributed to construction projects under specific legislation or the programs of departments and agencies. Transport Canada is typically the lead department on federal highway investments, but other departments and agencies have also had a role, such as Public Works and Government Services Canada, Parks Canada, Agriculture and Agri-Food Canada, and Infrastructure Canada. In terms of policy development, Transport Canada worked with the provinces and territories between 1988 and 1992 to develop options for a new national highway policy. The federal highway funding and policy history over this period is described in the sections below.

A. Early Federal Highway Construction Contributions

The federal government first made a financial contribution to provincial highway construction activities through the *Canada Highways Act* in 1919. The Act provided for a \$20-million grant program over five years but was extended to 1928. Between 1930 and 1940, it seems that in the order of \$50 million in federal funds was provided for highway construction through both legislation, i.e., a series of Acts targeting unemployment relief, and departmental programs. It was under the auspices of the unemployment relief Acts that work on the 7,800-kilometre Trans-Canada Highway commenced in 1931.⁽⁴⁾

(4) G. Glazebrook, *A History of Transportation in Canada*, Ryerson Press, Toronto, 1938.

The major federal highway initiative prior to the commencement of the national highway policy study of the late 1980s was, in fact, the construction of the Trans-Canada Highway. The terms of federal participation after 1949 were legislated in the *Trans-Canada Highway Act* (1949), which committed the federal government to sharing at least 50% of construction costs with the provinces for seven years to a maximum of \$150 million. There were multiple amendments to the Act as scope of the commitment grew, however. As a result, the Trans-Canada Highway was not completed until 1971 and the federal portion of the cost-shared construction grew to \$825 million.⁽⁵⁾

Otherwise, between 1950 and 1990, federal highway contribution programs focused mainly on regional economic development. Some examples of these include:

- the Roads to Resources Program (1958-1969);
- the Atlantic Development Board Trunk Roads Program (1964-1969);
- various Development Agreements administered by the Department of Regional Economic Expansion (DREE);
- the Western Northlands Highway Program (1974-1981);
- the Prairie Provinces Primary Highways Strengthening Program (1974-1979);
- the Atlantic Provinces Primary Highway Strengthening Program (1977-1987); and
- the Special Recovery Capital Projects Program (1980s).

Not including the DREE Development Agreements or the Western Northlands Highway Program,⁽⁶⁾ these funding programs totalled \$582 million.

(5) The federal government paid for 100% of the construction of the Trans-Canada Highway in national parks.

(6) Brian Hicks, Transport Canada, Highway Policy and Programs Branch, Special Infrastructure Project, *A Historic Look at the Federal Government's Involvement in Highway Infrastructure*, TP 12799E, June 1996.

B. Efforts to Establish a New National Highway Policy

In 1987, the federal government began a process to develop an integrated national highway policy, i.e., involving the federal, provincial and territorial governments, and to establish clear expectations and goals. The policy was developed in a four-phase study commissioned by the Council of Ministers Responsible for Transportation and Highway Safety between 1988 and 1992:

- Phase 1 proposed the criteria for designating the National Highway System (NHS); the routes to be included were identified and specific design standards for all routes on the NHS were recommended;⁽⁷⁾
- Phase 2 provided estimates of the costs and benefits of upgrading the NHS to the recommended design standards;⁽⁸⁾
- Phase 3 contained a review of international experiences and the results of a public consultation process;⁽⁹⁾
- Phase 4 set out options for the national highway policy and the cost-sharing and funding formula recommended by the steering committee.⁽¹⁰⁾

Federal negotiations with the provincial and territorial Ministers of Transport on the recommended funding mechanism were not successful, however, and the federal government conceded in 1994 that consensus was unattainable at that time.⁽¹¹⁾

(7) National Highway Policy For Canada: Steering Committee Report on Phase 1 (1988), available on-line at: <http://www.comt.ca/reports/nhp1.pdf>.

(8) National Highway Policy For Canada: Steering Committee Report on Phase 2 (1989), available on-line at: <http://www.comt.ca/reports/nhp2.pdf>.

(9) National Highway Policy For Canada: Steering Committee Report on Phase 3 (1990), available on-line at: <http://www.comt.ca/reports/nhp3.pdf>.

(10) National Highway Policy For Canada Phase 4: Funding, Cost Sharing and Implementation, 1992, available on-line at: <http://www.comt.ca/reports/nhp4.pdf>.

(11) See John Christopher, *A National Highway System*, BP 465E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, September 1998, for a detailed description of each phase of the study.

C. Further Development of the National Highway System

In the years following the breakdown in negotiations on a new national highway policy, the Council of Ministers Responsible for Transportation and Highway Safety continued to study and develop the NHS. In 1997, the Council updated the assessment of the conditions of the NHS and the estimated costs of upgrading it to the recommended design standards. Then, in 2003, the Council re-examined the routes included in the NHS to ensure that it included all of those that were relevant and serving national and strategic needs. As a result of the re-examination, some 2,700 additional kilometres were found to satisfy the criteria established in 1988 and were added to the NHS in 2004. That same year the Council received the mandate from the Minister of Transport to study whether Canada would be better served by a two-tiered NHS: one that included the NHS routes, and another including routes that were of economic or regional importance. When the National Highway System Review Task Force reported back to the Minister of Transport in September 2005, it had concluded that the NHS should comprise three tiers:

- Core Routes, including key interprovincial and international corridor routes identified in 1988 and 2004, as well as links to key intermodal facilities and major border crossings that connect with “core” routes;
- Feeder Routes, including key linkages between the Core Routes and population centres, economic centres, intermodal facilities and important border crossings; and
- Northern and Remote Routes, including key linkages to Core and Feeder routes that provide the primary means of access to northern and remote areas, economic activities and resources.

The Council of Ministers Responsible for Transportation and Highway Safety endorsed the report and approximately 11,000 kilometres were added to the NHS network, bringing it to over 38,000 kilometres. A comparison of the original (1988) NHS route kilometres by province and territory to the expanded network in 2005 is provided in Table 1, and maps of the respective networks are provided in the Appendices.

Table 1

National Highway System, 1988 and 2005

Kilometres by Province or Territory	1988*		2005		Additions
	km	%	km	%	km
Yukon	1,079	4	2,027	5	948
Northwest Territories	576	2	1,423	4	847
Nunavut	N/A	N/A	-	-	-
British Columbia	5,388	22	7,032	18	1,644
Alberta	3,524	15	4,384	12	860
Saskatchewan	2,093	9	2,688	7	595
Manitoba	863	4	2,093	6	1,230
Ontario	5,003	21	6,836	18	1,833
Quebec	2,854	12	5,649	15	2,795
New Brunswick	962	4	1,825	5	863
Nova Scotia	882	4	1,199	3	317
Prince Edward Island	120	0	396	1	276
Newfoundland and Labrador	955	4	2,469	6	1,514
<i>Total Kilometres</i>	24,297	100	38,021	100	13,724
<i>Federal (National Parks and Alaska Highway)</i>	<i>approx. 1,137</i>				

* As reassessed in September 2004.

Note: Totals may not add due to rounding.

Source: National Highway System Review Task Force Report (2005).

D. More Recent Federal Highway Contribution Programs

Since the early 1980s, the federal government has committed in the order of \$3.6 billion to provincial and territorial highway projects. Some examples of federal programs dedicated to or including contributions to highway projects during this period are provided in Table 2.

Table 2

**Federal Highway Contribution Programs and
Federal Allocations for Shared Costs, 1984 to 2006**

Program	Period	Geographic Scope	Total Federal Allocation to 2006
Outaouais Road System Improvement*	ongoing	QUE	\$100 million
Various Economic Regional Development Agreements	1984-1992	PEI, NFL, NB, QUE	\$329 million
Yellowhead Highway Improvement Program	1987-1990	BC, AB, SK, MB	\$50 million
Highway Improvement Program	1987-1998	NS, NB	\$462 million
Co-operation Agreement for Transportation Development	1988-1994	PEI	\$15 million
Trans-Canada Highway	1988-2003	NFL	\$389 million
Regional Truck Road Program	1990-2003	NFL	\$252 million
Strategic Highway Improvement Program	1993-1999	Canada	\$523 million
Atlantic Freight Transition Program	1995-2001	NFL, PEI, NS, NB, QUE	\$326 million
Fixed Link Highway Improvement Program	1994-1998	PEI, NB	\$43 million
Strategic Highway Infrastructure Program	2002-2006	Canada	\$525 million
Border Infrastructure Fund	2004-2009	Canada	\$277 million
Canada Strategic Infrastructure Fund	2003-2009	Canada	\$103 million

* The Outaouais Road System Improvement program started in 1972.

Source: Transport Canada, Surface Infrastructure Programs.

Almost all of the highway contribution programs in Table 2 have run their course. Those that are still active in 2006 are: the \$600-million Strategic Highway Infrastructure Program, which is scheduled to end this year; the \$600-million Border Infrastructure Fund and the \$4-billion Canada Strategic Infrastructure Fund, which will continue until 2009; and the Outaouais Road System Improvement, which is ongoing. It is noteworthy that the three more significant programs are almost exclusively dedicated to highway projects on the NHS network, which makes its recent expansion all the more significant. Examples of other federal departments and agencies that currently administer programs that may fund specific provincial and territorial highway projects, among other things, include Agriculture and Agri-Food Canada, Infrastructure Canada, Western Economic Diversification and the Atlantic Canada Opportunities Agency.

E. Possibilities for Moving Forward?

The House of Commons Standing Committee on Transport (SCOT) made recommendations regarding the future support of the NHS in 1997. SCOT had examined three funding options for the renewal of the system: the status quo; a public-private partnership (PPP) model with a long-term, secure federal funding commitment; and a dedicated tax. SCOT concluded that the status quo was unacceptable and acknowledged that the national deficit situation at the time made a dedicated tax unattractive. In the end, SCOT recommended the PPP model as long as the federal financial situation rendered a dedicated tax unworkable.

The government responded to SCOT's recommendations by establishing a Federal/Provincial/Territorial Working Group on Public-Private Partnerships in 1997. The objective of the Working Group was to examine international experience with PPPs and their potential application in Canada. In 1998, the Working Group concluded that PPPs might be appropriate for high-volume urban roads because the revenue opportunity from user fees would be attractive to a private partner. The report also pointed out, however, that most of the NHS experienced lower vehicle traffic and might not interest private investors.

In December 2005, the Council of the Federation (an institution created in 2003 to represent the provinces and territories in intergovernmental relations) issued a report on its new vision for the transportation system in Canada.⁽¹²⁾ In general, the report calls for the continuation and extension of existing federal transport infrastructure programs as well as more, and more predictable, federal investment. More specifically, the Council of the Federation stresses that a multimodal strategy integrating surface, air and marine infrastructure investments is needed to maximize the efficiency of the existing infrastructure.⁽¹³⁾ Furthermore, it regards federal fuel tax revenues as the appropriate funding source for a permanent transportation investment program that will allow for the long-term planning required. The Council of the Federation has estimated that the transportation infrastructure needs of the provinces and territories will amount to some \$97 billion over the next ten years. Of this amount, it estimates that the amount of federal fuel tax revenues available, i.e., the amount left over after other infrastructure commitments have

(12) The Council of the Federation, *Looking to the Future: A Plan for Investing in Canada's Transportation System*, December 2005.

(13) To be integrated, the approach should take into consideration continental gateways, trade corridors, the NHS, border crossings, rail networks, marine networks, ports, airports, intermodal facilities, major urban roads and transit.

been honoured, will cover roughly one-third. The Council of the Federation believes that large investments on the part of the provinces, territories, municipalities and private sector should make up the shortfall.

FEDERAL HIGHWAY POLICY AND CONSTRUCTION IN OTHER JURISDICTIONS

The United States and Australia are two countries where federal governments are more engaged in highway policy and construction than in Canada.

A. United States

In the United States, the Federal-Aid Highway Program supports the U.S. National Highway System, among other things. Its purpose is “to assist the States in providing for construction, reconstruction, and improvement of highways and bridges on eligible Federal-aid highway routes and for other special purpose programs and projects.”⁽¹⁴⁾ This long-standing program is funded with highway user taxes dedicated to it by the Highway Revenue Act of 1956. Before that, federal support for highways came from the General Fund of the U.S. Treasury. More recent examples of transportation legislation, such as the Transportation Equity Act of the 21st Century (TEA-21) and the subsequent Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy For Users (SAFETEA-LU), have respectively renewed the dedicated funding and extended it to 2009. In the United States, all or a portion of the federal revenues from fuel taxes and heavy vehicle use are credited to a Highway Trust Fund to support highway and, to a lesser extent, public transit needs. Federation participation from the Highway Trust Fund is as high as 90% for interstate highway projects. Authorizations from the Highway Trust Fund to support the U.S. National Highway System totalled US\$28.6 billion between 1998 and 2003, which is only a small portion of the total Federal-Aid Highway Program authorizations, as shown in Table 3.

(14) U.S. Department of Transportation, Federal Highway Administration, *A Guide To Federal-Aid Programs And Projects*, available on-line at: www.fhwa.dot.gov/programadmin/00fst01.htm.

Table 3

**U.S. Federal-Aid Highway Program Authorizations, 1998-2003
(US\$ billion)**

Program	1998	1999	2000	2001	2002	2003	Total
National Highway System	4.1	4.8	4.8	4.9	5.0	5.1	28.6
<i>Total Federal-Aid Highways</i>	<i>23.8</i>	<i>28.2</i>	<i>28.9</i>	<i>29.5</i>	<i>30.1</i>	<i>30.6</i>	<i>171.0</i>

Source: U.S. Department of Transportation, Federal Highway Administration, *Financing Federal Highways*, Appendix C, <http://www.fhwa.dot.gov/reports/fifahwy/ffahappc.htm>.

B. Australia

In 2004, the Australian government implemented a new multi-modal policy, called AusLink, to plan, fund and deliver land transport infrastructure of national importance. AusLink covers both road and rail networks and is meant to improve upon Australia's existing planning and decision-making apparatus, which the government described as "short-term, ad hoc and fragmented across transport modes and jurisdictional boundaries."⁽¹⁵⁾ The approach contemplates increased federal government investment and allows for longer-term planning to ensure that "the nation's land transport network meets future challenges" while avoiding the social, economic and environmental costs of "poor and uncoordinated infrastructure decisions."⁽¹⁶⁾ The Australian government committed A\$9.2 billion (A\$3.6 billion in new funding) to AusLink over the first five-year planning period to 2008-2009. The funds will be directed towards the AusLink National Network, regional network investments, local road grants and investments related to a transportation safety program.

The Australian government is committed to producing a rolling five-year National Land Transport Plan to identify high-priority investments that deliver significant national benefits to be undertaken during that period. The states and territories are also expected to share in costs, and there is potential for private sector involvement too. The Australian government created legislative, intergovernmental and institutional mechanisms to support its new AusLink policy.

(15) AusLink White Paper, available on-line at: www.auslink.gov.au.

(16) *Ibid.*

CONCLUSION

Although highways are the responsibility of the provinces and territories, the federal government has a long history of providing assistance for highway construction in Canada. Over this history, the federal government approach to assistance has been described as “ad hoc,” “project by project,” and “unpredictable.” From the unemployment relief Acts of the 1930s to the Strategic Highway Infrastructure Program currently in existence, federal highway construction participation programs have been limited both in duration and to specific types of projects. This is in contrast to the United States and, more recently, Australia, both of which have pledged long-term funding to a wide range of state highway construction activities.

It is a generally accepted notion that efficient transportation is a key contributor to a country’s economic productivity and competitiveness, not to mention the overall quality of life for its residents. Critics of the Canadian approach to federal funding for highway infrastructure argue that it has resulted in a highway system that is inadequate for the country’s needs today. Moreover, some believe that if the federal highway policy does not change, it may impede the development of a Canadian highway system that will accommodate future demand and facilitate economic growth.

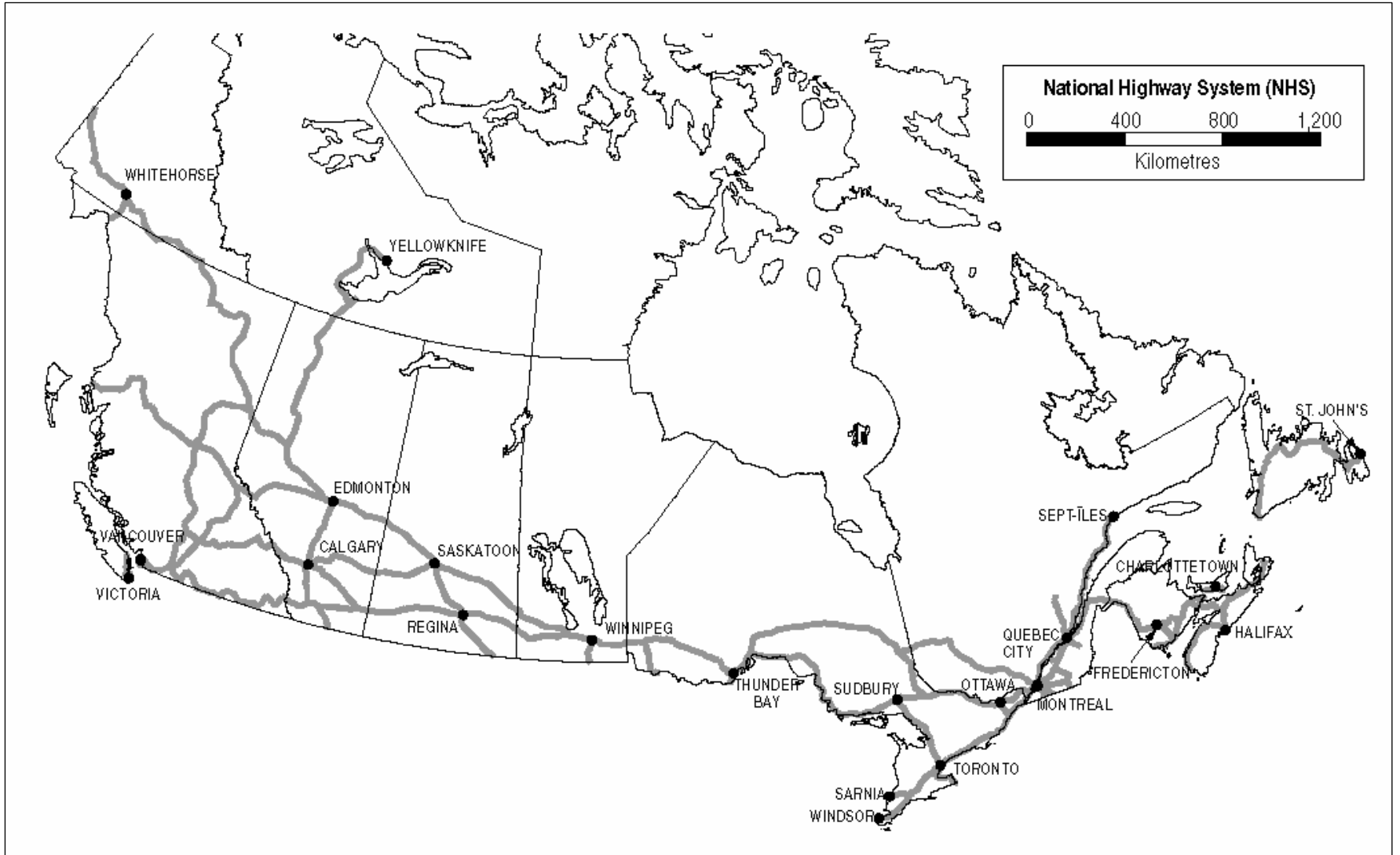
Stakeholders assert that planning an efficient transportation system is a long-term process that is even more of a challenge without the promise of long-term funding. In Canada, the lack of a long-term commitment on highway funding from the federal government is a recurring issue. It was lack of consensus on a long-term funding formula between the federal government, the provinces and the territories that led to the abandonment of a new national highway policy in 1994. In 1996, the House of Commons Standing Committee on Transport studied ways to fund the renewal of the National Highway System; its recommendation that the federal government make a secure, long-term, sustainable funding commitment was not incorporated into policy. Finally, other government and industry stakeholders have repeatedly asked the federal government to dedicate some share of federal fuel tax revenues to highway programs, to no avail.

Maintaining the status quo means that federal contributions to highway projects likely will continue through bilateral negotiations with the provinces and territories under various programs and agreements. Also, if the current trend prevails, it is probable that future federal contributions will focus on the National Highway System, which expanded between 1988 and 2005 from roughly 27,000 kilometres to 38,000 kilometres. One change in federal transportation policy worth noting is support for the multimodal “gateway” concept, which emerged in the final days of the 38th Parliament and continues despite the recent change in government.

APPENDICES

APPENDIX A

NATIONAL HIGHWAY SYSTEM MAP, 1998



Source: *Transportation in Canada 1999*, Transport Canada.

APPENDIX B

NATIONAL HIGHWAY SYSTEM MAP, 2005



Source: National Highway System Review Task Force Report, September 2005.