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Federal transportation divestiture of remote ports and airports in Atlantic Canada: An introductory analysis

Mark D. Davis *

School of Public Policy and Administration, Carleton University, 1125 Colonel By Drive, Ottawa, Ontario, Canada K1S 5B6

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ABSTRACT

The governance framework of the national transportation system in Canada shifted dramatically in recent years with divestiture of many federally funded transportation services to stakeholders such as the provinces and territories, local governments, not-for-profit corporations and the private sector. Although the academic literature declared divestiture a success with the creation of port and airport authorities for urban centers, it largely overlooked the management consequences for remote ports and airports of the transition from dependence on federal subsidies to owning, operating and funding remote transportation infrastructures. This paper examines the divestiture impact on remote sites and demonstrates that the outcome of the federal devolution process has varied based on the ability of each remote site to attract investment from other levels of government and/or the private sector. An introductory case study of remote ports and airports in the provinces of Newfoundland and Labrador, Nova Scotia and New Brunswick is presented. The research assesses issues relating to the divestiture process, post-devolution structure, individual site performance, and locally desired changes to the present system. The paper concludes that governance frameworks for remote regions will continue to evolve into a myriad of approaches based on each community's political, economic and social circumstances.

1. Introduction

The provision of transportation services to remote regions presents significant challenges for national and provincial/state governments, regional development agencies, local communities and the private sector. Transportation serves as a key medium for two-way access in rural areas; on the one hand providing access to regional, domestic and international markets, while on the other hand supplying the community with timely and competitively-priced goods and services. Historically, access to remote areas in developed countries was provided by government funded transportation sites and services through the principle of cross-subsidization, whereby revenues garnered from profitable urban transportation services would cover portions of transport costs in rural areas, with public expenditures covering funding shortfalls. In the past 20 years, however, rising government deficits and the belief that government should "steer and not row" resulted in the divestiture of national transportation systems through commercialization initiatives such as devolution of ports and airports to the industry's stakeholders. As a result, governments have relinquished control of most urban transportation sites to for-profit and not-for-profit entities, effectively eliminating the cross-subsidization principle.

The Canadian experience with transportation reform is no exception to this trend, as the federal government divested many federally funded transportation services to stakeholders such as provinces and territories, local governments, not-for-profit corporations and the private sector (Padova, 2005). From a ports perspective, the federal ministry of transportation, Transport Canada, released the National Marine Policy (NMP) in 1995, which called for commercialization of the national ports system (Transport Canada, 2002). The NMP classified larger and financially self-sufficient ports as Canada Port Authorities (CPAs) whereby the federal government continued to own CPA port lands but divested administrative responsibility to port authorities. Most of the remaining ports were designated "regional/local" and formed part of a port divestiture initiative that transferred ownership to other stakeholders. In addition, Transport Canada retained a small number of ports designated as "remote."[1]

As part of the modernization of the national airports network, Transport Canada released the National Airports Policy (NAP) in 1994 (Transport Canada, 2010a). Under the NAP, airports in urban areas and provincial/territorial capitals were classified under a National Airport System (NAS) according to traffic levels, whereby the federal

[1] The definitions of Transport Canada "remote" sites differ for ports and airports. Under the 1995 National Marine Policy, Transport Canada retained ownership of 60 ports operating in remote communities, which are areas where "water transport is the primary mode of transportation for the movement of people or goods for at least some portion of the year" (Transport Canada, 1995). By contrast, the National Airports Policy defined remote airports whereby "Airports are considered to be remote if air transportation is the only reliable year round mode of transportation available to the community it serves" (Transport Canada, 2010a). For the sake of simplicity, the term "remote" in this paper refers to sites formally known as "regional/local" and/or "remote" historically employed by Transport Canada.

* Tel.: +1 613 424 2663.
E-mail address: mdavis5@connect.carleton.ca.

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government retained ownership but devolved responsibility to airport authorities. As part of the reforms, nearly all of the remaining non-NAS airports were classified as either "regional/local" or "small" airports via a divestiture process. Similar to the ports case, a small number of the remaining ports were classified as "remote"[1] and continued to be funded and in most cases operated by Transport Canada. In order to assist airports with transition following divestiture, Transport Canada unveiled the Airports Capital Assistance Program (ACAP) in 1995 to fund safety-related infrastructure projects (Transport Canada, 2011).

The academic literature has previously examined many aspects of Canadian transportation divestiture over the past two decades (Brooks, 2007; Brooks and Prentice, 2000). Despite the favorable response to divestitures, the majority of academic contributions have focussed on NAS airports and CPA ports, which are mainly located in urban areas and are largely financially self-sufficient. Consequently, this paper attempts to fill the current research void by conducting a preliminary analysis of the impact of divestiture on remote ports and airports in Atlantic Canada, with specific focus on the managerial consequences for individual sites. Research will include consideration of aspects such as site management frameworks, operational roles, local community involvement, the prevalence of stakeholder partnerships, and remaining site challenges.

The paper begins with a literature review on Canadian remote transportation and highlights the many challenges facing policy makers and remote sites since divestiture. In order to analyze the management impacts from divestiture, Taylor's (1997) model of a strategic enabler is applied to depict Transport Canada's role among remote port and airport stakeholders. The next step expands Halpern and Pagliari's (2007) key management characteristics of regional and independent airports to provide a benchmark for analysis of the remote ports and airports under consideration. Based on these theories, a set of questions are postulated for port and airport managers as part of a qualitative research questionnaire for a small sample of remote sites in Atlantic Canada. The results of the questionnaire and background research are presented next, followed by the managerial implications of remote ports and airports since divestiture. The final section summarizes the main findings and provides direction for future research.

2. Research questions and methods

2.1. Literature review of remote ports and airports in Canada

Several observations have been highlighted in the literature on remote ports and airports in Canada. From a ports perspective, small ports "serve two main functions: as points of transfer of raw materials and/or finished products of local industry, and centres of regional distribution for commodities such as petroleum, salt, and general cargo" (Slack, Vallée, Comtois, & Lagimonière, 1993, p. 1). Since federal divestiture of remote ports in the late 1990s, sites have been administered by a combination of commercial and not-for-profit organizations, which at times has led to complex inter-site relationships (Debrie, Gouvernal, & Slack, 2007). Following devolution, many local communities were unwilling to assume management of small ports, as these sites were considered less commercially attractive compared to their airport counterparts (Dion, Slack, &Comtois, 2002). According to Debrie et al., the federal government essentially "washed its hands" of the administration of small ports, leaving these sites to find partnerships, address environmental issues, acquire safety and security funding, and manage current and potential conflicts between ports. In particular, Dion et al. observed that most remote ports were exempt from municipal taxation when under federal ownership, but many divested sites faced significant taxation rates following devolution that were much higher than rates for newly divested airports.

Although not without challenges, newly divested small airports in Canada faced more favorable financial circumstances in the years following devolution. Dion et al. explained that airports were more attractive than ports for local communities, as they were viewed as a "community resource" due to the more tangible aspect of providing passenger (as opposed to cargo) transportation. In addition, they noted that airport employees had ample operational experience at the time of divestiture, as many members in the local community had been working in local airports during Transport Canada ownership. One of the most important factors that favored airports over ports following devolution was what Dion et al. referred to as the local perception that the ACAP would serve as a consistent and long-term source of funding for airport infrastructure needs. By comparison, federal port funding was considered too small an amount for too short a period of time, thereby rendering port ownership and operations less attractive in the long run.

2.2. Theoretical foundations

Due to the recent institutional shift from federal ownership to divestiture of many remote airports and ports in Canada, an examination of the managerial impacts of devolution would be incomplete without first considering the nature of the changes in transportation governance. According to Carney and Mew (2003), the literature on airport governance and management has had too narrow a focus on the efficiency impacts of governance reforms such as privatization. The authors noted that extending consideration to governance aspects such as commercialization and devolution of airports provides an opportunity to analyze the many managerial, economic and financial incentives that may arise from such changes. It therefore follows that governments must consider the potential impact upon a site when decisions that affect ownership structures are considered. In the authors' view, "[t]he task confronting the state is to choose a governance mode that links its aspirations with the inducements needed to attract private sector resources….if airports are to be managed as a normal business with both profit and public responsibilities (like most businesses) they need a governance regime that provides the incentive to do so" (2003, pp. 222, 228).

The first step in the analysis of governance factors is for the state to consider its new role in the ports and airports system. A key aspect of this paper is Transport Canada's decision to move from direct owner and operator of remote ports in Atlantic Canada to a "strategic enabler" of the transportation system. A strategic enabler may be defined as a government entity that establishes policy goals and strives to create conditions that provide incentives for policy actors to achieve stated objectives. Following divestiture, Transport Canada has become a promoter of local ownership and operation of remote port and airports. Local remote sites were therefore faced with new challenges of attracting capital and managing sites without direct federal influence. The methods employed by Transport Canada to assist newly divested remote ports and airports, along with the reaction of site managers to these changes are thus the focus of this paper and is discussed further in the next section.

Given the unique nature of the Canadian transportation divestiture model, few theoretical models account for current issues facing remote ports and airports. The theoretical model proposed to describe the Canadian remote case is an application of Taylor's (1997) "arm's length but hands on" framework to describe the British Department of National Heritage (DNH). Taylor believed that the transformation of a central government away from a financier and operator of government services does not necessarily decrease the center's influence within the policy network. Rather, the evolving roles for each stakeholder following the transformation may initially lead to new policy networks operating below their potential as they adjust to their new policy environment. When this sub-optimal result is factored with the center's traditional financial, legislative and regulatory powers, Taylor claimed that the central government remains the most apt to steer the priorities of the network according to its policy goals.