

INDUSTRIAL CONCENTRATION AND CROWN CORPORATIONS

IN

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Part Two: B.C. Crown Corporations

Summary

This document analyzes the industrial concentration and the role of Crown corporations in British Columbia's key industries, including ports, oil refineries, and transportation infrastructure, and discusses regulatory and policy considerations.

Overview of British Columbia's Industrial and Crown Corporation Landscape

This report analyzes the impact of industrial concentration, crown corporations, and infrastructure investments on British Columbia's economic growth and industry development.

Impact of Crown Corporations on Industrial Concentration

British Columbia's industrial concentration is significantly affected by key crown enterprises, especially in ports, pipelines, railroads, and refineries.

- Non-B.C. crown enterprises influence major sectors like ports, pipelines, rail, and refineries.
- Federal crown corporations tend to favor central Canadian regions, potentially impeding BC's growth.
- Most federal crown directors and officials do not reside in BC, possibly affecting decision-making.
- Claims suggest crown corporations may cause industrial bottlenecks, harming GPP, labor, and consumers.

- Federal crown operations in BC are often controlled by directors outside the province, influencing regional development.

Port Infrastructure and Operations

Ports like Vancouver and Prince Rupert are vital for trade, with significant cargo volumes, investments, and planned expansions.

- Port of Vancouver handled 49.2 million tonnes in 1980, a 9.4% increase from 1979.
- Container throughput increased by 12.7% in 1980 to 124,644 TEUs.
- Coal remains the dominant commodity; sulphur increased by 25.6%; grain grew by 5%.
- Capital investment by N.H.B. in Vancouver port increased over years, with forecasted traffic volume rising to 62.5 million tonnes by 1985.
- Major planned investments include Roberts Bank Phase II (\$48M), terminal expansions, and infrastructure improvements.
- Port of Prince Rupert handled 2.62 million tonnes in 1980, a 13.9% rise from 1979.
- Major commodities include grain, wood pulp, paper, sulphur, and fish.
- Federal government plans include joint port development with private firms, with significant investments in coal terminal projects.
- Port facilities include Fairview Terminal, Ocean Dock, BC Timber, and Prince Rupert Grain, with capacities and depths suitable for large ships.

Rail Transportation and Capacity Expansion

Canadian and BC railways are crucial for resource movement, with ongoing capacity improvements and significant future investments.

- CP Rail's 1980 net income was \$121.6M; revenue was \$1.77B; freight revenue increased due to higher prices.
- Major bottleneck at Rogers Pass in BC; \$500M planned for tunnel and bridge projects to reduce grades.
- CP Rail's capacity will increase from 15 to 19 trains/day after Rogers project completion.
- Capital requirements for CP Rail are projected at \$3B (1981-85) and nearly \$5B (1986-90).

- CN Rail's 1980 revenue was \$2.65B; capital expenditures were \$454M; traffic projected to grow significantly.
- CN's expansion includes double-tracking and infrastructure upgrades, with a shortfall of \$1.6B in funding.
- BC Rail's freight is 79% of total, mainly from forest products; operates 1,631 miles of track with ongoing upgrades.
- Development of coal fields and new routes are underway, with significant investments planned.

Natural Gas Industry Structure and Market

BC's natural gas industry is dominated by Westcoast Transmission, with purchase agreements with BCPC and out-of-province producers.

- BCPC manages purchase contracts, collecting royalties for the provincial government.
- Domestic utilities and private companies serve various regions, with contracts for 214 MMcf/day.
- BC Hydro's contract is for 388 MMcf/day.
- Natural gas prices are set by the provincial government; export prices are regulated by the National Energy Board.
- The industry operates through agreements, resale, and export contracts, with a structured flowchart of transactions.

Petroleum Refining Industry and Market Power

The petroleum industry in BC is highly concentrated, with major firms controlling most capacity and retail outlets.

- In 1954, Imperial, Shell, Chevron controlled 90% of capacity; Gulf joined in 1958.
- As of 1980, 90% of refinery capacity was held by national and regional majors.
- Industry linkages and agreements reduce price competition, creating market power.
- Economies of scale and vertical integration act as barriers to entry.
- Major firms have expanded retail dominance, including gasoline outlets.
- Petro-Canada's capacity is insufficient to be a residual supplier, with less than 10% of capacity and 9% of service stations in BC.

- Several refineries have closed over time; current operating refineries include Sunoco in Burnaby and Tidewater in Prince George.

Investment and Productivity Trends

Capital and repair expenditures are vital for industry growth, with projections through 1990 indicating substantial investments.

- Total capital and repair costs are estimated to be high, with a 16-year trend providing a lower bound and a 5-year trend an upper bound.
- Productivity growth in Canada has slowed from 4-5% annually (1954-1980) to about 2% in recent years.
- Declining capital/output ratios in BC's manufacturing, construction, transport, and other sectors suggest reduced productivity growth linked to capital formation.
- Investment levels and productivity are critical for sustaining economic growth amid increasing resource demands.

Capital Expenditures and Investment Trends

The data highlights significant changes in capital and repair expenditures across industries from 1973 to 1990, reflecting investment patterns and industry growth.

- Total capital expenditures increased from \$4,506 million in 1973 to \$13,569 million in 1981.
- Major industries like construction & housing, transportation, and utilities saw substantial growth in capital spending.
- Repair expenditures also rose, with total repair spending reaching \$1,074 million in 1981.
- Forecasts for 1982-1990 project continued growth in both private and public investments, with total private investment reaching over \$10,462 million in 1981.
- Public sector investments, including government departments and enterprises, also increased significantly over the years.

Industry-Specific Investment Patterns

Different industries exhibited varied investment behaviors, indicating sector-specific priorities and economic conditions.

- Mining capital expenditures grew from \$233 million in 1973 to \$1,570 million in 1981, with projections reaching \$2,827 million by 1990.
- Manufacturing industries' investments increased, notably in paper & allied products and chemical sectors.
- Construction & housing investments surged from \$1,105 million in 1973 to \$3,181 million in 1981, with forecasts up to \$4,562 million in 1988.
- Transportation and utilities sectors also experienced significant investment growth, reflecting infrastructure expansion.
- Industry-by-industry analysis suggests concentration and investment focus areas, with some industries like metal fabricating showing relatively stable or modest growth.

Public and Private Investment Contributions

The breakdown of investments reveals the relative contributions of private and public sectors to overall capital formation.

- Private sector investments dominated, with total private investments reaching \$10,462 million in 1981.
- Public sector investments, including government enterprises and departments, increased from \$1,167 million in 1973 to an estimated \$3,107 million in 1981.
- Forecasts indicate private investments will continue to grow faster than public investments through 1990.
- Public investments are concentrated in government departments, institutions, and infrastructure projects.
- The data underscores the importance of private sector capital in driving economic growth.

Investment Forecasts and Future Trends

Projections for 1982-1990 suggest sustained growth in capital and repair expenditures across sectors.

- Total business capital investments are forecasted to reach \$6,680 million by 1990.
- Repair expenditures are expected to grow from \$1,681 million in 1982 to \$2,455 million in 1990.

- Private institutional and housing investments are projected to increase from \$2,345 million in 1982 to \$3,498 million in 1990.
- Public sector investments, including government enterprises and departments, are also expected to grow steadily.
- These trends indicate ongoing expansion and increased capital allocation in key industries.

Utilities and Transportation Regulation

The section discusses the regulatory framework governing utilities and transportation in B.C., emphasizing the role of agencies like the Utilities Commission.

- The B.C. Utilities Commission regulates rates, standards, financing, and facilities for energy utilities, including B.C. Hydro.
- The Energy Act expanded the Commission's responsibilities to include regulation of B.C. Hydro rates and energy projects.
- Reviewable projects include high-capacity transmission lines, large energy storage, and power plants of 20 MW or more.
- The Commission can issue energy removal certificates for surplus energy supplies.
- Transportation regulation involves jurisdictional boundaries between provincial and federal authorities, with controls over routes, rates, and entry.
- Rail transport is heavily federally regulated, especially for inter-provincial and export grain movement, with specific rates like the Crow Rate.
- The Crow Rate, established in the 19th century, applies to grain transport with an average rate of about 12.5¢ per bushel.
- Railway costs and subsidies are significant, with projected shortfalls and calls for new arrangements for grain movement funding.

Role of Marketing Boards in Agriculture

Marketing Boards stabilize prices, control production, and facilitate transition to economic units in B.C.'s agricultural sector.

- Boards like the B.C. Milk Board, Egg Marketing Board, and Cranberry Marketing Board regulate production, supply, and marketing.
- They set quotas, fix minimum prices, and license producers.

- Boards aim to provide stable prices and expected returns for producers while ensuring reasonable prices for consumers.
- They help reduce the number of uneconomic production units and manage price variance over time.
- Owners of production rights benefit from the present value of marketing board creation, with future price changes reflecting demand-supply shifts.
- Each board has specific powers, budgets, and regulatory functions, covering a wide range of agricultural products.

Transportation Regulation and Jurisdiction

Transportation in B.C. is regulated by both provincial and federal authorities, depending on the mode and scope.

- Provinces regulate intra-provincial transport, while federal regulation covers inter-provincial and international transport.
- Federal agencies oversee air, pipeline, and rail transport, with provinces managing highway transport.
- Regulations aim to remedy market failures and promote distributive justice through route control, rate setting, and licensing.
- Major statutes include the Motor Carrier Act, Railway Act, and Transport Act.
- The Crow Rate is a key federal regulation for grain transport, with subsidies and rate controls in place.
- Railway financing involves government subsidies and projected shortfalls, with ongoing debates on compensation arrangements.

Key Provincial Statutes Impacting Industry

Numerous statutes influence B.C.'s industrial structure, covering areas from agriculture to energy and transportation.

- Acts include the Agriculture Land Commission Act, Forest Act, Gas Utility Act, and Railway Act.
- Regulations govern licensing, production, transportation, and resource management.
- Energy-related statutes like the Hydro Power Measures Act and Petroleum and Natural Gas Act regulate energy resources.

- The legislation also covers taxation, corporate regulation, labor standards, and environmental protection.
- These statutes collectively shape the regulatory environment for industries and utilities in B.C. and influence economic development.