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## BACKGROUND PAPER



# ***VIA Rail Canada Inc. and the Future of Passenger Rail in Canada***

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***VIA Rail Canada Inc. and the Future of  
Passenger Rail in Canada  
(Background Paper)***

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# VIA RAIL CANADA INC. AND THE FUTURE OF PASSENGER RAIL IN CANADA

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## 1 INTRODUCTION

In Canada, demand for passenger rail services has declined throughout most of the last 60 years as other, more competitive, forms of transportation have increased their market share.<sup>1</sup>

The decline was most marked during the 1940s and 1950s. In 1945, Canadian railways carried 55.4 million passengers, accounting for about 20% of their revenues. By 1955, passenger traffic had dropped to 27.2 million, accounting for less than 10% of revenues.<sup>2</sup>

By the beginning of the 1960s, intercity passenger rail services were provided primarily by the two national rail carriers, Canadian National Railway (CNR) and Canadian Pacific Railway (CPR). In 1977, in an attempt to stave off the complete disappearance of passenger rail services, the federal government established a Crown corporation – VIA Rail Canada Inc. – whose main goal was to provide a basic level of passenger rail services across Canada. Since its founding, VIA Rail has struggled to maintain ridership volumes and service quality. It has never managed to achieve financial self-sufficiency and depends on federal subsidies in order to continue operations.

Passenger rail in Canada is currently at a crossroads: to continue on a “business as usual” basis promises only continued decline in an industry whose current business model and institutional constraints offer few options for further expansion or development. The future of passenger rail in Canada depends, in large part, on federal government policy in this area.

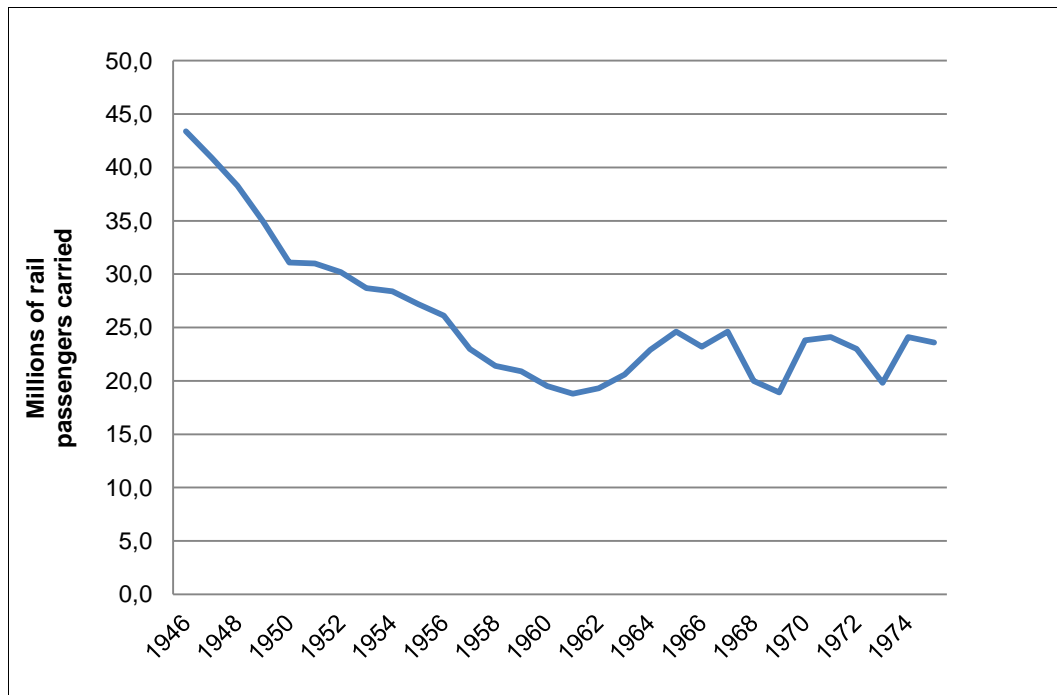
This paper provides some background and analysis on VIA Rail, outlines the current context, and suggests future challenges and options for passenger rail in Canada.

## 2 A SHORT HISTORY OF PASSENGER RAIL IN CANADA<sup>3</sup>

### 2.1 DECLINE OF PASSENGER RAIL SERVICES

From the mid-19<sup>th</sup> century to the early decades of the 20<sup>th</sup> century, railroads were the dominant form of overland transportation for passengers and freight in North America. Rail carriers faced little competition in either short-haul or long-distance transit, as trains alone had the capacity to transport both people and goods using an infrastructure network that linked towns, cities, regions and countries.

However, with the rise of motor vehicle ownership in the early 20<sup>th</sup> century and the expansion of roads and highway networks, rail carriers began losing their dominance in the short-haul intercity markets (see Figure 1 below). Then, with the development of commercial air travel in the 1940s and 1950s, demand for passenger rail services contracted further as airplanes became a competitive alternative for long-distance travel.

**Figure 1 – Passenger Rail Volumes in Canada, 1946–1975**

Source: Statistics Canada, "Section T: Transportation and Communication," *Historical Statistics of Canada*, Catalogue no. 11-516-XWE, Ottawa, 29 July 1999, [Table T39-46, Railways, freight tonnage and mileage, passenger traffic and passenger mileage, 1946 to 1975](#).

Under continuous pressure from road transportation on short-haul routes and from air carriers at the long-distance end of the market, the Canadian passenger rail industry progressively lost market share and saw its traffic volumes and profitability decline. As a result, the industry underwent successive phases of consolidation and downsizing.

Table 1 presents the breakdown in market share among principal modes of passenger transportation (motor vehicles, airplanes and trains) in Canada over the last 40 years. A few data breaks notwithstanding, the table confirms the dominance of motor vehicles, followed by air travel and, lastly, rail travel.

**Table 1 – Passenger Travel by Motor Vehicle, Air and Rail in Canada, 1970–2008**  
(in billions of passenger-kilometres)

	Motor Vehicles	%	Planes	%	Trains	%	Total
1970	177.2	90.5%	18.6	9.5%	n/a	n/a	195.8
1972	191.6	89.8%	21.7	10.2%	n/a	n/a	213.3
1974	205.6	87.6%	29.2	12.4%	n/a	n/a	234.8
1976	216.2	86.8%	32.8	13.2%	n/a	n/a	249.0
1978	228.0	85.6%	38.3	14.4%	n/a	n/a	266.3
1980	250.1	84.2%	47.0	15.8%	n/a	n/a	297.1
1982	236.9	84.3%	44.2	15.7%	n/a	n/a	281.1
1984	267.8	85.2%	46.4	14.8%	n/a	n/a	314.2
1986	295.9	85.2%	49.1	14.1%	2.4	0.7%	347.4
1988	322.8	85.1%	54.3	14.3%	2.4	0.6%	379.5
1990	334.4	86.7%	50.1	13.0%	1.3	0.3%	385.8
1992	348.8	88.2%	45.4	11.5%	1.3	0.3%	395.5
1994	379.5	89.1%	45.3	10.6%	1.4	0.3%	426.1
1996	n/a	n/a	57.0		1.5		
1998	n/a	n/a	64.4		1.4		
2000	475.1	87.1%	68.5	12.6%	1.5	0.3%	545.1
2002	470.6	86.9%	69.3	12.8%	1.6	0.3%	541.4
2004	469.5	85.8%	76.1	13.9%	1.4	0.3%	547.0
2006	488.4	84.5%	88.3	15.3%	1.5	0.3%	578.2
2008	476.8	82.9%	96.7	16.8%	1.6	0.3%	575.0

Notes: Totals for 1970 to 1984 under-report actual total passenger travel because data for rail travel are unavailable; however, given the relatively small amount of rail travel in those years, the underreporting is not likely to be significant.

Percentages and totals are not provided for 1996 and 1998 because data for motor vehicle travel – which represents by far the largest mode of passenger travel in Canada – are unavailable.

Sources: Statistics Canada, CANSIM, Table 405-0005 (Canadian Vehicle Survey, passenger-kilometres, billions), Table 401-0001 (Operating and financial statistics of major Canadian airlines, passenger-kilometres, billions) and Table 404-0016 (Railway transport survey, passenger-kilometres, billions); and Urban Renaissance Institute, "[Passenger Travel by Motorized Modes, Canada, 1970–1995](#)," 30 January 1996.

## 2.2 ROYAL COMMISSION ON TRANSPORTATION

In 1959, noting the post-war transformations occurring within the rail industry, the federal government appointed a royal commission to formulate a new national transportation policy and to propose recommendations on how best to restructure the regulatory framework that governed Canadian transportation, particularly for the rail industry. The report of the Royal Commission on Transportation ("the MacPherson Commission," 1959–1961) acknowledged that transportation in Canada had changed considerably over the years and that many railway companies were no longer profitable. It recommended that transportation policy rely more on market forces to encourage the development of the most efficient forms of transportation, which would in turn better enable the Canadian economy to reach its full potential. Amongst its recommendations, the Commission proposed that railways be allowed more freedom to eliminate uneconomical railway routes.

The federal government responded in 1967 with the adoption of the *National Transportation Act* (NTA). The Act heeded the MacPherson Commission

recommendations only partially: railway operators still had to obtain regulatory approval to abandon uneconomical routes. Moreover, in the interests of maintaining some level of passenger rail services in Canada, the NTA contained provisions that enabled the federal government to compensate rail carriers for losses incurred in operating money-losing passenger routes or branch lines.

During the 1960s and 1970s, passenger rail services in Canada continued to lose market share to motor vehicles and planes, and CNR and CPR focused increasingly on the more lucrative business line of freight haulage. Intercity rail traffic volumes declined from 3.05 million passenger-miles (4.91 million passenger-kilometres) in 1967 to 1.6 million passenger-miles (2.57 million passenger-kilometres) in 1976.<sup>4</sup> Under the NTA, the federal government paid subsidies to CNR and CPR to offset their losses (up to 80% of operating costs) from operating passenger rail services. From 1967 to 1976, those subsidies increased from \$110 million to \$181.7 million.

### **2.3 CREATION OF VIA RAIL CANADA INC.**

In 1976, facing growing subsidy costs and reduced passenger traffic, the federal government revised its policy on passenger rail and ordered the Canadian Transport Commission (CTC) and both national rail carriers to develop a passenger rail plan based on the new policy. The two carriers began negotiations to determine the best way of coordinating their passenger rail services in order to eliminate unnecessary duplication, reduce operational losses and improve service delivery. However, instead of joint management of passenger rail services, CNR and CPR agreed to form a passenger rail company that would operate as a subsidiary of CNR.<sup>5</sup> As a result, VIA Rail was incorporated in January 1977, under the *Canada Business Corporations Act*, and became a CNR subsidiary in February 1977.

Later in 1977, the CTC held public hearings on passenger rail transportation in Canada. The main finding was a consensus that there should be no further reductions in passenger rail services. In response, the federal government purchased VIA Rail through an order in council and converted it into a federal Crown corporation. In April 1978, VIA Rail Canada Inc. (hereafter referred to as “VIA Rail” or “VIA”) assumed responsibility for the provision of passenger rail services in Canada.

Initially, VIA Rail did not possess any rolling stock, train stations, or associated equipment and facilities. All these items effectively still belonged to the two national rail carriers. For a time, even VIA’s operational personnel remained in the employ of CNR or CPR. VIA therefore had to negotiate operating agreements with CNR and CPR. Under these agreements, VIA paid subsidies to both carriers to reimburse them for use of their railroad tracks, equipment and personnel, and other costs incurred in providing passenger rail services. Over the next several years, ownership of some railroad equipment and infrastructure was gradually transferred to VIA Rail. As a result of this transfer, VIA Rail inherited a number of rail corridors and routes across Canada, and also a variety of outdated and obsolete equipment.

Although VIA Rail was responsible for most passenger rail services across Canada, its operations remained subject to Cabinet decision-making and federal government spending priorities. From time to time, budgetary constraints obliged the government



to order VIA to restructure its operations in order to reduce subsidy requirements. In 1989–1990, VIA underwent a major restructuring that entailed abandoning a number of uneconomical routes. This considerably reduced its operating expenditures, but at the cost of losing 45% of its annual ridership volume.

In real terms, federal operating subsidies to VIA declined throughout the 1990s and bottomed out in the mid-2000s at about \$155 million in 2002 dollars. Since then, annual subsidies have increased modestly. According to VIA's latest annual report, operating subsidies in 2010 amounted to almost \$225 million in 2002 dollars. Federal capital subsidies have risen sharply over the last three years, coinciding with federal government announcements of new capital spending to refurbish aging stationary infrastructure and rolling stock.

### 3 A FINANCIAL PORTRAIT OF VIA RAIL CANADA INC.

VIA Rail was set up by executive fiat and, despite federal government pledges, still has no enabling legislation that would provide it with an explicit mandate or with a legal framework outlining its governance powers and responsibilities.

The corporation is designated as a parent Crown corporation in Schedule III, Part I, of the *Financial Administration Act*. Under this legislation, VIA Rail has limited operating autonomy and borrowing authority;<sup>6</sup> it depends on parliamentary appropriations to offset any operating deficit incurred while providing passenger rail services. Currently, there are no specific provisions or commitments that would assure VIA Rail of stable and predictable annual government funding.

Despite the lack of a legislative mandate, VIA Rail has an implicit mandate to provide Canadians with year-round rail services to both large and small communities. VIA offers three main services:<sup>7</sup>

- intercity rail service that is concentrated in the Québec–Windsor corridor (which represents 85% of all passenger rail traffic volume);
- year-round coast-to-coast transcontinental services in eastern and western Canada (largely targeted to the tourism industry); and
- year-round services to a number of remote communities that are otherwise accessible only by air (where road construction is not feasible).

VIA Rail's income is derived from two sources: passenger rail revenues, and federal government subsidies. Because of VIA's dependence on federal appropriations, its operations are influenced by political decisions in addition to commercial considerations.

As VIA Rail does not own most of the rail networks that it uses on a daily basis, it must negotiate contracts with the networks' owners (CNR and CPR) to use the infrastructure.<sup>8</sup> Its operational performance hinges, in large part, on the terms of those contracts. VIA's passenger rail services must compete for the use of the same tracks with freight trains owned by CNR, CPR and other shortline operators. Thus, VIA Rail has only a limited ability to establish the service schedules that would best

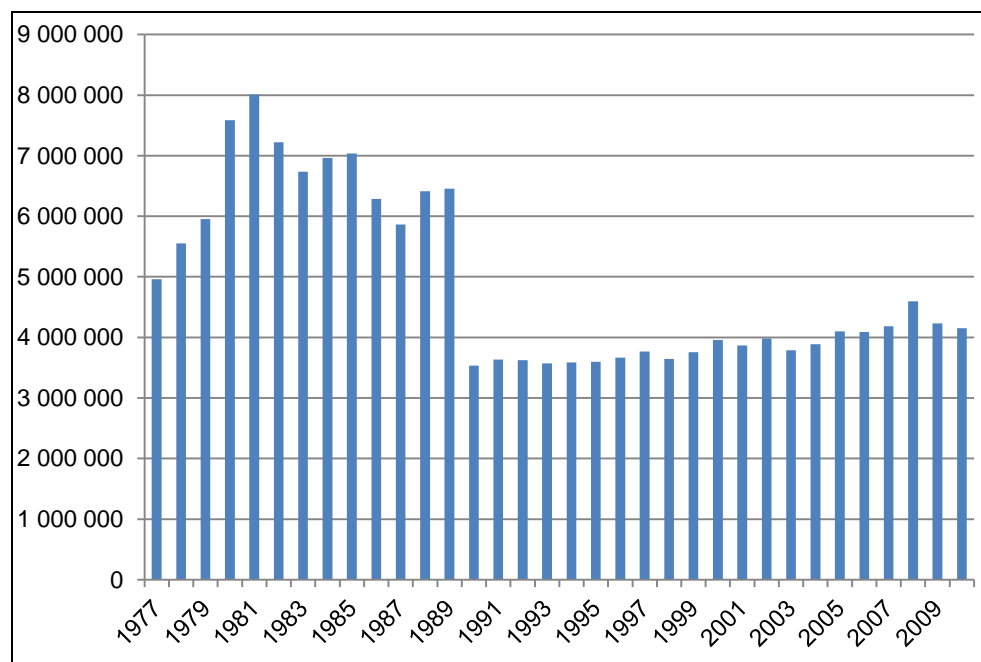
serve its own commercial interests. In recent years, VIA has struggled to improve the punctuality of its passenger rail operations. Following the negotiation with CNR and CPR of more realistic arrival and departures times for VIA's trains, the corporation's 2009 annual report announced a significant year-to-year improvement in its "on-time performance," stating that 83% of its trains ran on time in 2009, compared to only 75% in 2008. In 2010, VIA reported that 82% of its trains ran according to schedule, a slight decrease in performance compared to the previous year.<sup>9</sup>

## 4 ANALYSIS OF VIA RAIL'S PERFORMANCE

### 4.1 ANNUAL RIDERSHIP

Ridership on VIA Rail peaked at around 8 million passengers in 1981 but subsequently declined as VIA abandoned some popular but unprofitable routes (see Figure 2). During most of the 1980s, annual ridership volumes fluctuated between approximately 6 million and 7 million passengers. In 1989, as mentioned above, the federal government instructed VIA Rail to reduce its operating costs and increase revenues so as to require lower subsidies. VIA Rail restructured its operations by reducing its workforce and cutting services on unprofitable routes. Between 1989 and 1990, VIA lost over 45% of its ridership traffic as it abandoned unprofitable corridors and branch lines, focusing instead on corridors with better potential for growth in terms of both ridership volumes and revenue-generating capacity. Since then, ridership has stabilized at around 3.5 million to 4.0 million passengers per year, and traffic levels slowly increased throughout the 1990s and 2000s.

Figure 2 – VIA Rail's Annual Ridership, 1977–2010

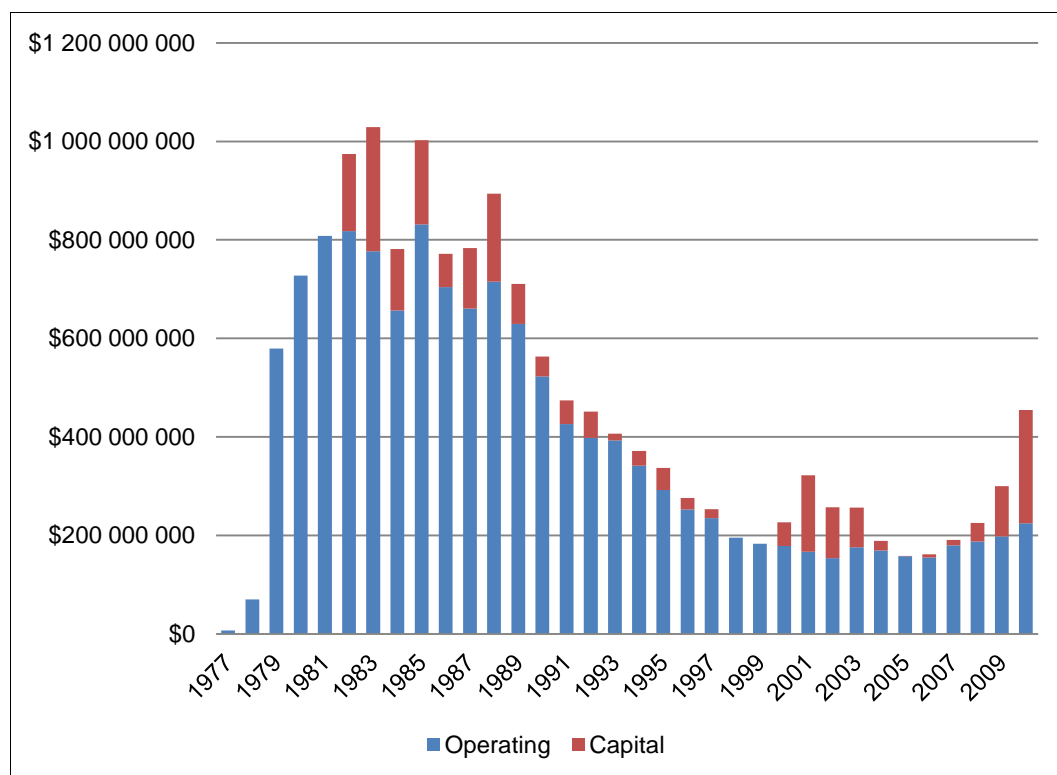


Source: VIA Rail Canada Inc., annual reports, 1977–2010.

## 4.2 FEDERAL FUNDING

Given the federal government's directive to VIA Rail to provide passenger rail services to the general population, and VIA's current operating cost structure, the corporation requires federal subsidies to fulfill its mandate. Figure 3 illustrates VIA Rail's annual capital and operational subsidies, in constant 2002 dollars.

**Figure 3 – VIA Rail's Annual Subsidies, 1977–2010  
(in constant 2002 dollars)**



Source: VIA Rail Canada Inc., annual reports, 1977–2010; and *Public Accounts of Canada*, 1977–2010.

In its first years of operation, VIA's annual subsidies rose continuously until 1983, when federal cuts to the company's budget led to a 40% reduction in its operations. Beginning in 1982, capital subsidies rose as VIA Rail disposed of some aging equipment and second-hand locomotives and replaced them with new, more technologically advanced rolling stock. By the mid- to late 1980s, total subsidies hovered between \$700 million and \$1 billion per year; then in 1989, the federal government again directed VIA Rail to restructure its operations to reduce subsidy requirements. Many uneconomical routes were altered or simply abandoned, resulting in a 45% drop in annual ridership (see Figure 2).

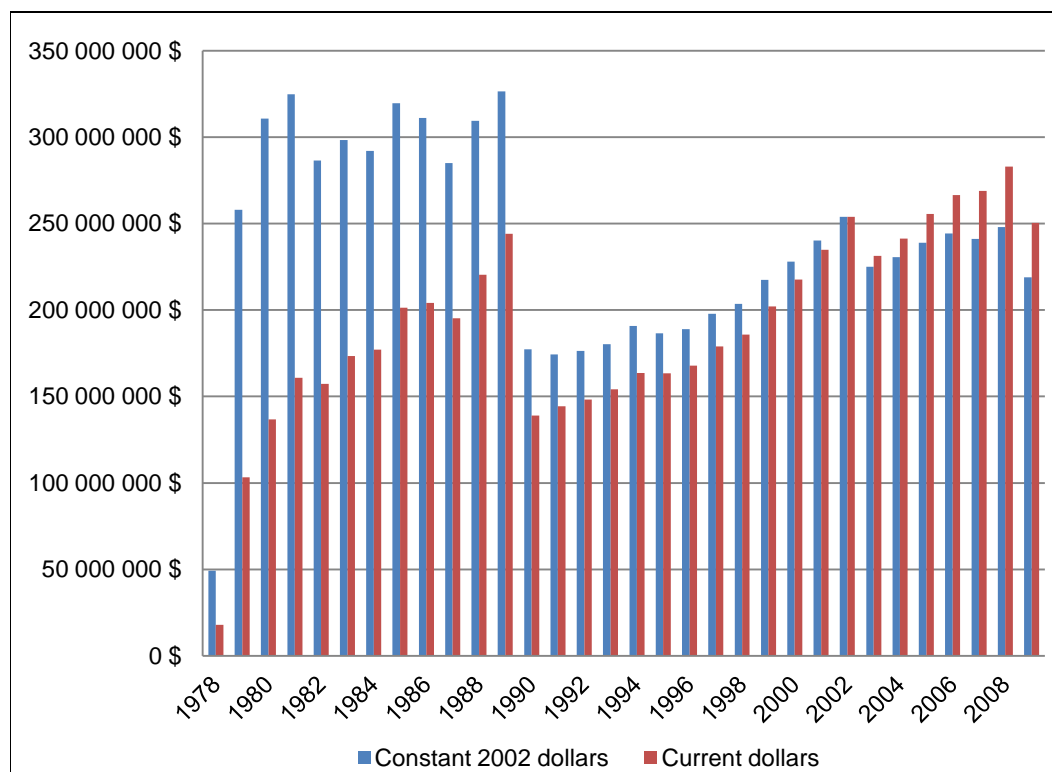
Federal funding declined continuously throughout the 1990s, at the same time as VIA was restructuring and downsizing its operations. By the late 1990s, operational subsidies, which constituted the bulk of federal funding, fluctuated between \$180 million and \$200 million per year. After declining in the mid-2000s, total annual subsidies start climbing again in 2006. In 2010, they reached almost \$445 million. (All figures are in constant 2002 dollars.)

Apart from a few isolated peaks in the 1980s, capital subsidies declined over 10 years, from the late 1980s until the late 1990s, when VIA Rail received no capital subsidies at all. Capital subsidies resumed their growth in 2000 and peaked in 2001 at almost \$155 million in constant 2002 dollars, only to decline and then surge ahead in 2009. This recent increase in capital subsidies corresponds to federal government announcements made in 2007 and in 2009 of new spending to refurbish VIA's rolling stock, upgrade fixed infrastructure facilities such as stations and tracks, and improve passenger rail services. In 2010, capital subsidies stood at almost \$230 million in constant 2002 dollars.

### 4.3 RIDERSHIP REVENUES

VIA Rail does not depend solely on federal subsidies to cover expenses, but also on passenger revenues. Figure 4 shows revenues, in both current dollars and constant 2002 dollars, directly related to passenger ticket sales. (Other revenue sources, such as investments, are not included because their overall contribution is minor.) The sudden drop in revenues in 1990 reflects the drop in ridership resulting from the abandonment of uneconomical railway routes. After this break, revenues resumed rising from year to year, reaching a little over \$283 million in 2008 (or \$248 million in constant 2002 dollars), and dropping to \$250 million in 2009 (or almost \$219 million in constant 2002 dollars). VIA Rail ridership and ridership revenues have increased over the last 20 years, but not to the extent of enabling VIA to become financially self-sufficient.

**Figure 4 – VIA Rail's Annual Ridership Revenues, 1978–2009**  
(in current and constant 2002 dollars)

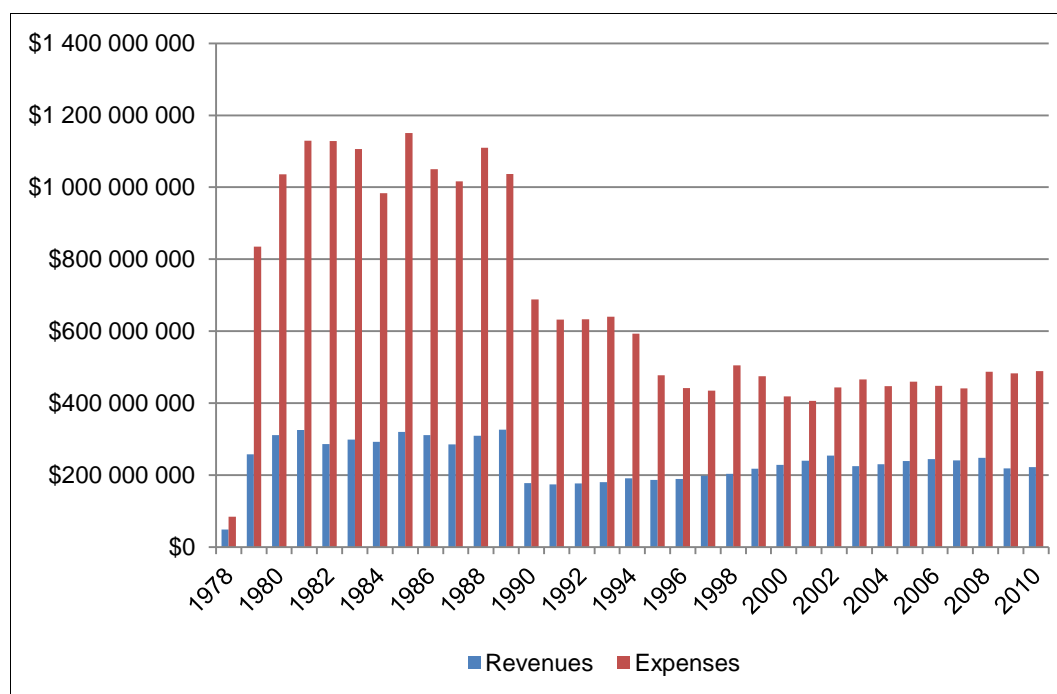


Source: VIA Rail Canada Inc., annual reports, 1978–2009.

#### 4.4 REVENUES VERSUS EXPENSES

Figure 5 tracks passenger revenues and expenses, both adjusted for inflation to ensure year-to-year comparability. There is a notable disparity between expenses and revenues in VIA Rail's first years of operation; then after 1990, when VIA underwent further restructuring, expenses contracted slowly while revenues gradually rose. While expenses clearly remain well above revenues generated, VIA Rail has had some success since the mid-1990s in containing expenses through improved management of contractual agreements with CNR and CPR and better cost-control of its own operations.<sup>10</sup> Over the last 15 years, annual expenses have hovered around \$400 million while passenger revenues have stabilized around \$200 million.

**Figure 5 – VIA Rail's Annual Revenues and Expenses, 1978–2010**  
(in constant 2002 dollars)



Source: VIA Rail Canada Inc., annual reports, 1978–2010.

#### 5 SOME OBSERVATIONS ON VIA RAIL'S FUTURE

VIA's current levels of operational subsidies are only enough to maintain the current level of passenger rail services. Capital funding is intermittent, and is used largely to repair and refurbish existing rolling stock and installations, not to significantly upgrade the passenger rail system.

Despite unpredictable government subsidies, VIA Rail has managed over the years to stabilize its annual ridership volume. It has also achieved some success in improving its operational efficiency and in managing its contractual obligations with CNR and CPR. These efforts, however, have not been enough to realize profitability.<sup>11</sup> Commercial viability remains an elusive goal, and VIA cannot expect to continue operations without federal government support.

VIA Rail's ability to run its business efficiently is severely constrained by the fact that it must share railroad tracks with the two national rail carriers and does not have priority access to these tracks. Thus, VIA cannot easily establish the schedules or routes that would best promote its own commercial interests. However, increasing the frequency and speed of passenger services on the existing rail infrastructure would directly affect maintenance costs, track capacity and passenger safety for all the carriers using those tracks.

Even if VIA Rail could gain greater access to existing tracks or build its own separate rail network, questions remain about the commercial potential of passenger rail services compared to alternative modes of transportation in Canada. According to a number of studies, passenger rail could potentially fit particular market niches, especially within the Québec–Windsor corridor, that have been found to have the best commercial growth potential for such services. These routes could even be competitive against short-haul regional airlines. However, the gap between potential and actual profitability remains wide and difficult to bridge.<sup>12</sup>

## 5.1 HIGH-SPEED RAIL: PANACEA OR PIPE DREAM?

Current institutional and market constraints severely limit the growth prospects for passenger rail services in Canada. Since 1989, a number of studies have examined the viability and the growth potential of these services under a range of scenarios. Although the studies differ in approach and methodology, they concur on several points:<sup>13</sup>

- Under prevailing market conditions, passenger rail services are uneconomical and, without continued and substantial government support, will continue to decline.
- VIA Rail must negotiate with the mainline freight carriers for access to, and right-of-use of, rail tracks. This situation raises questions about the suitability of passenger rail services using a railroad network that is principally dedicated to freight haulage. Should building a separate, dedicated track network for passenger rail services be considered?
- There are a limited number of routes with some potential for growth in passenger volume and revenue, mostly within the Québec–Windsor corridor.
- Existing rolling stock and fixed installations are rapidly aging and will need to be replaced and/or upgraded.
- High-speed passenger rail provides the best potential for profitability and market growth but would require substantial investment in advanced technology and new equipment.
- High-speed rail options would require a dedicated track and electrification of the entire network, with few or no level crossings.
- Most, if not all, scenarios involving the adoption of high-speed rail would require continued government financial commitment, particularly in the form of underwriting the significant capital costs of the project.

- Some scenarios involve the federal government nationalizing fixed railroad installations and allowing a single, private carrier to provide passenger rail services competing against other modes of transportation.

Studies of the feasibility of a high-speed rail network in Canada have found that while such a network would be technically feasible and desirable on a number of fronts (e.g., it would provide environmental and economic benefits), it would not realize a high enough return on capital outlay to attract private-sector investors to finance the entire project. For this initiative to proceed, large financial commitments would have to be secured from the federal government, including the underwriting of part of the capital costs associated with the development and building of new and advanced rolling stock and fixed facilities.<sup>14</sup>

In February 2009, the federal government together with the governments of Ontario and Quebec awarded a \$3-million contract to a consortium of consultants, the EcoTrain consortium, to update a 1995 study on the feasibility of high-speed rail in the Québec–Windsor corridor.<sup>15</sup> The 1995 study (which was sponsored by the same three governments) concluded that a high-speed rail link would be possible and desirable, but not without public investment amounting to 75% of total project costs.<sup>16</sup> Although the results of the current study were expected in 2010,<sup>17</sup> the report was released to the public in November 2011. It estimated the total development costs of the high-speed rail project at \$18.9 billion to \$21.3 billion in 2009 dollars, depending on the locomotive technology used (i.e., diesel versus electric). It also found that, while the completed project could cover all operating costs, participating governments would have to contribute significantly to the development costs and receive no financial return on their investment.<sup>18</sup> According to press reports, the minister of Transport has said, “In these fiscal circumstances, a new project of this scope is not a priority for our government.”<sup>19</sup>

## 6 CONCLUSION

Over its 33-year history, VIA Rail Canada Inc. has managed its (non-legislated) mandate of maintaining passenger rail services with relatively limited resources. It has improved its operational efficiency in recent years despite ongoing constraints, including its lack of independence from federal Cabinet decision-making, its reliance on unpredictable federal subsidies, the sharing of rail tracks and other fixed facilities with CNR and CPR, and the fact that it has little or no latitude in deciding whether to focus on profitable routes or discard uneconomical ones.

At current funding levels, together with an aging rolling stock and rail infrastructure, VIA's capacity to deliver passenger rail services will eventually begin to decline. High-speed rail has often been proclaimed as the possible future for passenger rail in Canada, but the prohibitive price tag associated with developing and building such a complex system presents a huge challenge to governments and public finances. The current economic climate, uncertainty associated with the future growth potential of high-speed passenger rail, the availability of alternative and competitively priced modes of transportation, and VIA's continued reliance on government support, all conspire against the introduction of high-speed rail in the near term in Canada.

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