Alberta's Port? Networked Federalism and the Port Development in Prince Rupert

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Abstract

The opening of the Fairview Terminal in September, 2007 was an important landmark in the one hundred year history of Prince Rupert Port development. Despite the initial vision and plans of Charles Hays, a later boom provided by American troops during World War II, and another spike in development in the late 1970s, Prince Rupert has yet to fulfill its early promise as a gateway to the East. The recent emergence of container shipping and the construction of a new deep water container port is the latest in a series of efforts to fulfill that promise. Throughout its history, the port in Prince Rupert has been shaped and hindered by external political and economic forces, dependent on support from outside investors and government officials with little commitment to the local community. This paper examines these factors across time to illustrate specific dynamics that are critical components of contemporary development, and highlights the contributions and benefits of what has been termed elsewhere "networked federalism." Such a concept highlights the influence of multi-level governance, both vertical and horizontal, on public policy and development. The paper begins with a review of Rupert port development in the past, then turns to the present, and concludes with some comparisons intended to highlight prospects for the future, both in Rupert and in multi-level governance.

Introduction[2]

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[2] *The author would like to acknowledge the research support provided through the Social Sciences and Humanities Research Council of Canada's Major Collaborative Research Initiative program on "Multilevel Governance and Public Policy in Canadian Municipalities."*

been shaped and hindered by external political and economic forces, dependent on support from outside investors and government officials with little commitment to the local community. This paper examines these factors across time to illustrate specific dynamics that are critical components of contemporary development, and highlights the contributions and benefits of what has been termed elsewhere "network federalism."[i] Such a concept highlights the influence of multi-level governance, both vertical and horizontal, on public policy and development. The paper begins with a review of Rupert port development in the past, then turns to the present, and concludes with some comparisons intended to highlight prospects for the future, both in Rupert and in multi-level governance.

Incorporated in 1910, Prince Rupert was an integral part of the corporate strategy of the Grand Trunk Pacific Railway to construct a second national railway and develop a new western port that would rival Vancouver.[ii] The Federal Government was behind part of this strategy, although the decision to construct a terminus in Rupert was made by general manager Charles Hays. He promised a future city of 50,000 that would be the main link to China and the East, noting that Rupert was a good five hundred miles closer to the Far East than other ports on the West Coast. As the Grand Trunk advertised in 1909,

> To this port will come ships of the Seven Seas. Ships of the east, laden with silk and rice will soon be riding at anchor in this splendid harbour, to sail away laden with lumber; ships for the West with wares of the west; ships from the shores of far off continents trading through the new and picturesque port of Prince Rupert.[iii]

The Grand Trunk Pacific Railway was completed after nine years, in 1914, just months before the outbreak of World War I, and two years after Mr. Hays perished with the sinking of the Titanic. The Grand Trunk Railway, however, faced mounting debt costs and diminished traffic as a result of the war, and soon defaulted in 1919.

Despite such a stuttering start, Prince Rupert became a commercial fishing centre, with as many as 23 canneries in the area. In time, it also developed a ship building industry, and became home to government agencies. By the 1930s, the small city had a population of some 6,000 people.[iv]

The Japanese attack on Pearl Harbour in 1941 fueled fears that future attacks on the West Coast might lead to a Japanese base in North America, and Prince Rupert was identified as a potential target. American troops took advantage of the railway terminus and the deep water port, and Rupert's wartime population quickly surged to 23,000, with 3,380 American troops at their peak. Some 74,000 American military and civilian personnel used Rupert as the point of departure for Alaska during the war. Additionally, the Rupert shipbuilding industry built four minesweepers and fifteen freighters during the war years. With peace, however, the flurry of activity subsided. The population settled back to 8,000, and by the 1950s, the shipyards had been dismantled.

Today, Rupert has a population under 13,000, and it is reasonable to conclude that the early vision of Charles Hays remains unfulfilled. The decades since the war have witnessed the boom and bust of forestry and pulp mills, as well as coal and grain exports through new port terminals. Prior to this most recent round of investment and port expansion, the Rupert Port has largely been an overload port to help relieve congestion in Vancouver. It has yet to emerge as a priority port for either export or import. Why this is so is part of the story of the Prince Rupert Port. There are at least five factors that have inhibited development and growth: competition with Vancouver; the role of the Federal government; the role of the provincial government of British Columbia; corporate interests; and limited influence of local government. Each of these factors is addressed in turn.

Vancouver Port development has consistently eclipsed any development in Prince Rupert, especially during the decades following World War II. Despite the rail connections to Rupert, Vancouver remained the port of preference for Western Canada. The choice was hardly controversial: goods travelling through Edmonton or Calgary were directed to Vancouver, located almost 300 km closer than Rupert and with more frequent rail connections. Vancouver was also a port of preference for transportation companies. It is closer to the United States, offers lower shipping costs, and more developed port infrastructure. Efforts to further develop the Prince Rupert port relied heavily on Federal Government involvement, particularly as ports fell under Federal jurisdiction. And in such an endeavour, both Ottawa and Victoria were reluctant to unsettle political support in the Vancouver area in order to pursue development in an area where there was limited electoral gain. This electoral math meant that public investment in Rupert offered minimal political returns, particularly when compared with the potential gains to be found in Vancouver. Joseph Scott, then chairman of the Prince Rupert Port Authority, explained the predicament in 1981:

> I came by this job honestly. My grandfather and father were involved before me. I have been directly promoting the Port of Prince Rupert since 1964, and for ten years before that with the Chamber of Commerce. We've always had growing pains; not enough tugs, not enough longshoremen. We don't have enough of everything. For years, the major effort was to move everything through Vancouver.[v]

The second factor is the role of Ottawa. Ports have fallen under the rubric of the Federal Government since 1936. Since Prince Rupert was far removed from the corridors of power, there remained little incentive for a strong federal role in investment and development. British Columbia already had a large port in Vancouver, and Ottawa could defer to Victoria, which could maintain benign neglect. An interesting comparison can be made with the Port of Churchill, which was developed by the Federal Government in the 1930s to help move grain exports. The port in Churchill is clear of ice only 88 days a year, while Rupert is ice free year around. Still, federal attention and investment was encouraged by the provincial government of Manitoba, which had no other port. Churchill, for example, had four automated box car dumpers as early as 1931, while Rupert received its first automated dumper only in 1974.[vi] In fairness to Ottawa, there has always been an element of risk involved with Rupert Port development, and so the Federal government might be accused of merely playing it safe. Yet at the same time, it was reluctant to cultivate stability to offset risk. Even a federal endorsement of the status quo for a seven year period might have been sufficient to encourage investment from private sources. The lack of such endorsements inhibited private interests from investing in Rupert, since any alteration of the existing regulations or shifts in federal involvement could seriously jeopardize the potential for earnings. The Federal government was at best ambivalent about Rupert and never created an attractive climate to encourage investment or development.

Third, the provincial government in Victoria can be accused, not surprisingly, of looking after the interests of Vancouver and other ports in the lower mainland ahead of Prince Rupert. One of the more serious obstacles to port development in Prince Rupert was the provincially owned British Columbia Railway. Originally built as the Pacific Great Eastern Railway prior to World War I, with track that ran “from nowhere to nowhere” within British Columbia, the firm eventually went under and was turned over to the provincial government in 1918. Under provincial direction and investment, track was built south to north, eventually connecting Prince George to Vancouver by rail, intersecting the former Grand Trunk track and then later extending further into northern BC. The Canadian National Railway track that ran west through Prince George to Prince Rupert was thus in direct competition with the provincial railway. Inasmuch as BC Rail depended on the flow of goods running south to Vancouver, Prince Rupert was left out of the loop, and the provincial government faced pressure to maintain the status quo. By one calculation, BC Rail might have lost up to 80% of its freight to Canadian National had the port in Rupert developed to rival Vancouver.vii

Fourth, corporate interests were, by their nature, disparate and diverse. Crown corporations such as BC Rail were interested in maximizing existing investments. Other corporations with interests or concerns connected to Rupert Port development included the St. Lawrence Seaway lobby, protecting the interests of ports in the East, and Vancouver Wharves, both of which objected to public investment in Rupert. CN Rail, while controlling the track to Rupert, also hoped to maximize their investments in Vancouver, and consistently argued that their mandate was to service ports rather than develop them. This same mandate, however, did not limit CN investment in north shore terminals in Vancouver.

Lastly, local government in Prince Rupert had only limited means to foster development. The municipality owned no waterfront property, and was dependent on the Federal Government to lead the way. Alternatively, when port expansion did commence, the municipality was eager to boost local revenues, and quickly incorporated terminals into the city, pushing the tax burden onto the Port and curbing profitability.

Thus, the existing constellation of interests and resources were largely shaped against investment and development, and these factors explain in part why Prince Rupert Port development has waited so long for success. The key missing ingredient was that of leadership. Expectations for government leadership were not illegitimate, since Ottawa and Victoria owned the port lands necessary for development. This constellation of interests realigned positively during a brief period of intense investment and construction beginning in the late 1970s. With rising grain and coal exports to China and Japan, the Vancouver Port became increasingly congested. Two large projects followed: the construction of a new grain terminal, and the construction of a coal terminal, both on Ridley Island. While the two projects developed co-terminously, the stories behind each differ radically.

Eastern grain terminals continued to possess larger storage capacity, unimpressed by efforts to move grain through British Columbia. Up to 40% of Canada’s grain exports to China, for example, still moved through eastern ports in 1975, even though studies in the 1970s had demonstrated less expensive shipping costs through the West Coast.viii The rationale for this large volume through the East recognized that the infrastructure along the Great Lakes and St Lawrence could handle large volume, and also recognized, more critically, that the Vancouver Port was jammed up. With small storage capacity, and continuing labour disputes, the Vancouver Port proved unable to satisfy demand for the transportation of grain. Ships would wait at anchor, collecting demurrage costs, waiting for grain in Vancouver. In the meantime, the small Rupert terminals were full of grain but had no ships to carry it away.ix The (federal) Hall Commission on grain handling and transportation (1977) recommended, among other things, further development of the Rupert Port.x The costs of lost grain sales were then estimated at $650 million each year, and China increasingly began to purchase grain from competitors in Australia and elsewhere.xi

The push behind the construction of a new grain terminal in Rupert, however, was more than a consequence of this change in market conditions. The most interesting alteration in the constellation of interests in the 1970s was the emergence of the provincial government of neighbouring Alberta. The Alberta economy in the 1970s had been fuelled by rising oil revenues and commodity prices. Flush with cash and with a Heritage Trust Fund started in 1976, Alberta sought to invest in projects of relevance to the provincial economy. Since grain exports were hindered by the lack of developed infrastructure, it was the provincial government of Alberta that pushed for, and helped finance, the construction of a new grain terminal in Prince Rupert. Ostensibly under the framework of a consortium of six Western grain dealers, the project gained financial credibility when it was backed by the Alberta Heritage Savings Trust Fund.xii Some members of the consortium were uncomfortable backing development in Prince Rupert, preferring instead the status quo dominated by ports in Vancouver and Thunder Bay. At this early stage, poor stereotypes of the Rupert port were prevalent: stake holders thought the port froze over in the winter months and the rail connections suffered from steep grades. In reality the railway grades were less steep than the routes to Vancouver, and the port was ice free. The provincial government of Alberta assumed the dominant leadership role in 1979 and threatened to pursue other options if the grain companies did not back the Rupert port. Backed by Alberta money – up to 80% of the costs of the eventual $277 million investment were guaranteed by the province – the grain terminal went ahead, completed in 1984.xiii

Alberta’s leadership in the Rupert port development would seem counterintuitive in Canadian federalism. One would naturally look to the federal government in Ottawa, or to the provincial government in Victoria to have played such a dominant role. Yet, as reporter Thomas Kennedy described at the time of the initiative, “Alberta has long regarded Prince Rupert as its natural outlet to the sea and subsequently to world markets for its grain, coal, and other minerals and products.”xiv From Alberta’s perspective, such investment was common sense. Alberta Transport Minister noted that moving grain through Rupert would bring a net gain of 25 cents per bushel (a total of $25 million annually), allow greater volumes of export, and provide better control over hopper cars.

Compared to the grain terminal, the construction of a coal terminal in Prince Rupert was far more problematic. In the early 1970s, the world demand for coal escalated, largely fuelled by growth in the Japanese steel industry. Problems of congestion with Vancouver area ports emerged, and both Japan and those corporations invested in coalmines in northeast BC pushed for the development of a coal terminal in Prince Rupert. Hicks has chronicled the “machinations, poisoned atmosphere, needless delays and inflated costs” associated with the Rupert coal terminal. At issue was a reactive role played by Ottawa and the National Harbours Board, which hindered development in order to safeguard their influence. Further complicating matters was the provincial government's continued priority to move coal through Vancouver ports. Both the provincial NDP government and BC Rail backed such a policy. It was not until the Social Credit government of Bill Bennett was elected in 1975 that the decision was made to develop a new coal terminal in Prince Rupert. The initial costs were then estimated between 50 and 60 million dollars.xv

Without active federal participation, the implementation of this decision proved exceptionally difficult. It took eight years before the Ridley Island Coal Terminal was operational, taking almost twice as long to build as the grain terminal. In the meantime, construction costs escalated to well over $200 million dollars, and the world demand in coal had diminished considerably. Delays were partially the result of disagreements between federal and provincial government over the location of the terminal. The federal government expected construction on Ridley Island, which fell under the purview of the National Harbours Board. The provincial government desired construction on Kaien Island, which was owned by the BC Development Corporation. Corporate involvement expected to secure guarantees for their investment, and "distrust and suspicion plagued the negotiations."xvi BC Rail and CN Rail each invested extensively in new track and improvements in expectation of the Rupert terminal. In the end, the agreement behind the coal terminal was a sweetheart deal that favoured Montreal based FedNav, a private corporation with strong political ties to the Federal Government. FedNav ended up investing only 10% of the costs yet secured an agreement that promised 70% of the profits. The Federal Government carried all the risk and was obligated to buy out FedNav in 1991 with compound interest on the investment should FedNav so decide. This agreement was reached only in 1981, after the grain terminal had been approved and reflected Ottawa's preoccupation with interests other than Prince Rupert or Western transportation needs.

Neither of these terminals can be considered a financial success. While the volume of annual grain exports through the Prince Rupert Port quadrupled during the first decade after the construction of the grain terminal, Rupert never moved more than 29% of the total volume of West Coast grain exports.xvii More importantly, grain exports diminished considerably by the late 1990s, influenced by world wide grain production and shifts in market demands. While "Alberta's port" is a success story in terms of getting the grain terminal built, the actual success of the port was also hindered by high debt costs and high municipal taxes. Alberta had financed the project as an investment in infrastructure vital to Alberta's agricultural exports, part of a province building mentality that crossed provincial borders.

The fortunes of the coal terminal were even less successful. Although the Ridley Terminal averaged more than 6 million tonnes of coal annually for the first 15 years, this amount was only half of the original, optimistic targets. More critically, the market price of coal had fallen sharply and profitability was entirely absent. FedNav sold out to the Federal Government in 1991, making a tidy profit on its minimal investment. By the early part of this century, exports had fallen to only 1.5 million tonnes a year, and the Federal Government was willing to almost give away a perceived albatross, the coal terminal. Since then, coal prices have risen and throughput has increased towards profitability. But at its genesis, Ridley Coal terminal was more a product of uncooperative, grudging multi level governance, with the Federal Government vulnerable to private interests.

Conclusion

Thus, by 2000, Prince Rupert appeared to have missed again any opportunity to fulfill the vision of Charles Hays. The enthusiasm of the late 1970s and early 1980s had led to the construction of two large terminals, but neither were profitable. Other initiatives, to construct a liquid natural gas terminal and an oil pipeline, had also fizzled with the collapse of the oil and gas market. With the fishing industry also diminished, Rupert's prospects were bleak. Despite the bleak picture, within the next decade a new container terminal had revitalized the local economy and the whole Port. What happened?

First, as Michael C. Ircha has pointed out in another article of this journal, the container industry and Chinese exports have both fuelled increased demand for ports. Prince Rupert has natural geographic advantages that can help address the need for more deep water port access on the West Coast.

Second, the opening of the Fairview Container Port seemed to coincide with a spike in economic growth in Alberta, the new *überprovince* of Canada. Indeed, Alberta Premier Ed Stelmach stated in March 2007 that Rupert was a key component of plans to establish Edmonton as an inland port: ``Our government sees the Port of Prince Rupert as offering a new and extremely effective route for container traffic… With the expansion of the Port, we can establish Alberta as an important inland terminal and distribution hub."xviii Given the history, one might expect that the two developments are related, that Alberta's economic clout has translated again into infrastructure development outside the province, part of Alberta's *drang nach Westen*.xix Edmonton's mayor suggested such a link, resurrecting the old moniker of Alberta's port. "The new port will bring two continents closer together and open up all kinds of new markets. Some people are already calling it the Port of Alberta."xx

Yet the source of Rupert's resurgence is not only a consequence of Chinese exports or Alberta's oil revenues. It is very much a consequence of effective multi level governance. The Port of Prince Rupert is part of an overall federal and provincial strategy to develop a Pacific Gateway that will benefit all of Canada. Although much of this strategy has focussed on Vancouver (again), it is now much more clearly understood that Rupert can be an important part of an effective transportation route to the Pacific, particularly in light of environmental concerns and transportation congestion in the lower mainland. Federal and provincial leadership has been evident in the development of the Fairview Container Port. Ottawa contributed $30 million to the container port and has since attempted to lighten restrictions on Ports to pursue financing for further development. The Province of British Columbia also contributed a similar amount, and, perhaps more importantly, agreed to lease BC Rail to CN Rail in order to curb competition between the two railways. This agreement encouraged Canadian National to buy in to the Rupert Port development with additional investments. The agreement also was strengthened by Maher International to fund $60 million of the Fairview Container Port.xxi Compared to the grain terminal 25 years ago, Alberta has been a minor player in Rupert's resurgence. Yes, Alberta may experience significant gains as a result of Rupert's development. But to call it Alberta's port is to focus on the past rather than the present.

The Port of Prince Rupert thus reflects the success of "networked federalism," which can draw from a variety of public and private interests, at local, provincial and federal levels to pursue common interests and strategies.xxii A consortium of cities and towns along the East-West corridor has been supportive of the Rupert Port development. The new enthusiasm is at least partially infectious: total tonnage throughput has increased by 237% between 2005 and 2007. A new Potash terminal is planned, supported by Saskatchewan interests. Phase Two expansion to the container port gathers financial support. Perhaps Charles Hays really was a visionary. It only required a network of various governments and private interests acting in concert to bring it about.

Endnotes

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i Networked federalism is a concept “located in a grid that is simultaneously horizontal and vertical, where movement is along many of the axes, not through a central hub. The institutions remain, but the pattern of movement among them and between them changes.” See Janice Gross Stein, “Networked Federalism,” in John F. Young, ed., *Federalism, Power, and the North: Governmental Reforms in Russia and Canada* (Centre for European, Russian, and Eurasian Studies, University of Toronto: 2007), pp. 77-106. I recognize the dangers of fostering one more version of qualified federalism. Yet the concept of networked federalism is more flexible than “integrated” federalism or “cooperative federalism in that more than federal and provincial governments are included, as are private and corporate interests.

ii See Sue Harper Rowse, *In Times of War: Prince Rupert, 1939-1945* (n.p. 2005).

iii From the Grand Trunk Pacific Railway booklet (1909), as quoted in Rowse, p.2.

iv The limited literature on Prince Rupert Port development reflects limited attention generally. Dr. W.B.M. Hicks has written a passionate memoir and history of the Rupert port which contains both the insights and perspectives of a participant in initiative of the 1970s. Although this author recognizes that Hicks’ work is not an academic source, much of the historical detail of the Rupert Port is well covered, and is frequently cited here. See W.B.M. Hicks, *Hay’s Orphan: The Story of the Port of Prince Rupert* (Prince Rupert Port Authority, 2003).

v “Prince Rupert Prepares to become a Major Port,” *Globe and Mail* September 2, 1981.

vi Hicks, *Hay’s Orphans*, p. 91.

vii Hicks, p. 43. Although the ratio has changed over the years, the current ratio of elected representatives to the provincial legislature and the House of Commons can illustrate the limited influence of Prince Rupert. Victoria has more than 40 MLAs from the lower mainland, and only 1 from Prince Rupert. 21 MPs are elected to Ottawa from the lower mainland, 1 from Prince Rupert and points East.

viii Hicks, pp. 70-78.

ix Hicks, p. 81.

x Greg Mason, “The Grain Handling and Transportation Commission,” Canadian Public Policy / Analyse de Politiques, 4: 2 (Spring, 1978), 235-245

xi See “Dr Horner’s Vital Task,” *Globe and Mail* 25 September, 1979, 6.

xii The six grain handlers included the Alberta Wheat Pool, the Saskatchewan Wheat Pool, United Grain Growers, Manitoba Pool Elevators, Pioneer Grain, and Cargill Grain.

xiii See Jeff Sallot, “Alberta raises loan to aid grain project,” *Globe and Mail* 13 July, 1983, 8. Hicks points out that the BC Provincial Government spent some $45 million to support bankruptcy protection at the same time that Alberta invested heavily in the province. See Hicks, p. 65.

xiv Thomas Kennedy, “Excess of one-way traffic hurts ARR’s income,” *Globe and Mail* 29 March, 1978, B4.

xv Hicks, p. 141.

xvi Hicks, p. 144.

xvii Hicks, p. 124.

xviii “Stelmach: Port of Prince Rupert Connector Event,” (Edmonton, March 28, 2007) http://www.premier.alberta.ca/speeches/speeches-2007-mar-29-Prince_Rupert_Port.cfm.

That one of five directors of the Port of Prince Rupert board is from Alberta suggests some influence, though hardly dominant.

xix On the challenges of Alberta's economic growth to Canada generally, see Allan Gregg, "Alberta's Challenge to Canada," *The Walrus Magazine* (September, 2006).

xx "Push for Prince Rupert," *The Edmonton Journal* (March 30, 2007) http://www.uofaweb.ualberta.ca/govrel/news.cfm?story=58565. That one of five directors of the Port of Prince Rupert board is from Alberta suggests some influence, though hardly a dominant role.

xxi See the article by Gary N. Wilson and Tracy Summerville in this volume.

xxii Janice Gross Stein referenced Piet Mondrian's "Broadway Boogie Woogie" as a visual depiction of networked federalism. See http://www.dl.ket.org/webmuseum/wm/paint/auth/mondrian/broadway.jpg. It seems to me that reference to Alberta's Port reflects an outdated "silo" approach to federalism, with the appropriate artwork the controversial "Voice of Fire" by Barnett Newman that can be viewed at http://beaux-arts.ca/cybermuse/search/ artwork_zoom_e.jsp?mkey=35828. Alternatively, a more blurred boundary between provinces that captures Alberta's leadership in the grain terminal might be portrayed by Picasso's "Three Musicians" at http://moma.org/collection/browse_results.php?object_id=78630.