

HUDSON BAY RAILWAY AND THE PORT OF CHURCHILL – A BALANCING ACT¹

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Introduction

November 24, 2018 was a very good day for the 900 residents of Churchill, Manitoba. On that day, for the first time in a year and a half, a freight train arrived in the town (Redekop 2018). This paper travels back in time, in a study of events preceding that historic day. It starts in the past and ends with a little speculation on the future. The next section provides a brief history of the Hudson Bay Railway (HBR) and the Port of Churchill, with special reference to six major events that occurred between 1995 and 2018. This is succeeded by a short section on theory and method. The final section discusses the saga of HBR and Churchill; looking at the history through the lens of balance theory. This section also includes implications for theory and policy, along with a look to the future.

History

In 1733, Fort Prince of Wales was established by the Hudson Bay Company across the river from the present-day site of the Town of Churchill (CGC 1984). It offered a shorter sea route to Europe, compared to the overland route via Montreal. Over a century and a half later, the seeds for a rail line to Churchill, Manitoba were planted by Prairie farmers during the late 1890s (Bernhardt 2018). Construction of a rail line from The Pas to Hudson Bay began in 1911. Work on the line was suspended in 1916 in the wake of World War I and a shortage of funds, then resumed in 1926 (CN/CP 1976).

Opening of the Panama Canal in 1914 diverted Prairie grain traffic west to Pacific ports. Still, pressure from farmers yielded resumed construction of the HBR line in 1926 (Kozma 1997). The “On-to-the-Bay” Association, predecessor to the Hudson Bay Route Association (HBRA), formed in 1924 to lobby for the line and the port (www.hbra.ca). In 1929, a line was completed from The Pas to Churchill (CGC 1984).

Regehr (2006) recalls that construction of the HBR was slow and expensive, especially after the terminus was changed from Nelson to Churchill. The HBR line opened on September 10, 1929, costing more than \$45 million. The inaugural passenger train arrived at Churchill in September 1929. Then, the first grain shipment departed for the Port of Churchill in 1931 (Gilmore 2016). On January 1, 1958, the Canadian government transferred the HBR line to CN (Anonymous 1996). Appendix 1 shows a map of the line.

Privatization of CN – 1995

On November 17, 1995, CN shares were traded on the Toronto and New York stock exchanges (TSE and NYSE), marking the privatization of Canadian National Railway. Shortly after privatization, CN released its rail rationalization plan, including abandonment of lines of doubtful profitability (Ewins 1996), including the HBR (Anonymous 2017). Around this time, Gateway Northern Transportation Systems Ltd. incorporated, in a bid to acquire the port and rail line. However, no deal was made. To save the line, the HBRA endorsed the idea of CN finding a buyer (www.hbra.ca).

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Sale of HBR and Port to Omnitrax – 1997

Late in 1996 it was announced that CN would sell its northern Manitoba network to Omnitrax. This 810-mile network consisted of three separate rail lines, including the 540-mile line from The Pas to Churchill, i.e. the Hudson Bay Railway (HBR). In 1995, these lines together moved a modest 1.2 million revenue tons of freight. This sale was part of CN's plan to abandon 4,000 miles of secondary lines by the year 2000 (Anonymous 1996). The Council of Canada quickly called on the federal government to block the sale, due to concerns of American "economic and cultural encroachment" (Anonymous 1997).

In 1997, Omnitrax acquired the HBR. The Liberal government led by Jean Chrétien contributed \$14 million to seal the deal and agreed to fund port improvements to the tune of \$28 million; on top of selling the port to Omnitrax for one dollar. Omnitrax agreed to spend \$45 million on track upgrades and to keep the port open for at least 10 years. Since the sale, federal and provincial governments have spent \$197 million on the port, the rail line and the little town of Churchill; including \$50.5 million in direct transfers to Omnitrax, \$48 million for rail and port upgrades, and \$25 million in Prairie grain shipping subsidies (Hutchinson 2016). The Canadian government up-graded facilities at the Port of Churchill – and then gave the port to Omnitrax (Robson 2018b).

In 2008, a three-way deal was reached among the federal government, the provincial government and Omnitrax, in which each entity would invest \$20 million toward track maintenance over the following decade. Despite this funding, 2010 and 2011 were the two worst years for derailments along the line (Anonymous 2017).

Closure of Canadian Wheat Board (CWB) – 2012

Taber (2011) notes that terminating the CWB hit Churchill hard, since an estimated 95 percent of freight passing through the port was wheat board grain. Less traffic would likely mean fewer jobs for folks in Churchill. In response, the Canadian government launched the Churchill Port Utilization Program (CPUP) in April 2012. This 5-year, \$25 million program was an attempt to keep grain flowing through Churchill, with a \$9 per tonne shipping subsidy paid to the grain companies, led by Richardson International (Cross 2013). In response, Omnitrax raised its port fees by \$2.00 per tonne in 2013 and another \$1.75 in 2014, effectively pocketing about 40 percent of the subsidy (Anonymous 2017).

Without the CWB to rely on, Omnitrax was keen to diversify and identify new freight to access the Port of Churchill via the HBR. Due to uncertainty regarding pipeline capacity, Alberta oil sands operators considered the port as an alternative route. As always, capacity constraints at the port – and a short, ~3-month (August-October) shipping season – arose as obstacles (Cattaneo 2012). Additional barriers are the depth required by oil tankers and the weight of rail cars carrying oil, relative to the port's draught and stability of the rail line (Norbury 2017b).

In 1996, a group of Manitoba farmers were arrested for trying to take their grain directly to North Dakota, rather than deal through the CWB. They were charged with exporting wheat without a permit. One man spent 155 days in the Brandon jail. Sixteen years later, August 1, 2012, these folks got what they wished for, and the CWB monopoly was over. However, any joy in the closure was short-lived, as the bumper crop of 2013 was seriously mishandled by the newly competitive marketing channel (Macdonald 2014).

An abundance of grain overwhelmed capacity at the elevators and the railroads. Empty ships sat near the Port of Vancouver waiting for the grain. According to Macdonald (2014), some farmers "got half the money they (formerly) received under the CWB, and were charged twice as much to ship it." These are the main issues that brought on creation of the CWB in the first place, partly to balance the power of the railroads, in 1935.

Closure of the Port of Churchill – 2016

In April 2016, Omnitrax filed a lawsuit against the Manitoba government, claiming provincial officials unlawfully shared financial information with a third party, jeopardizing a deal to sell the rail line in 2015 (Hutchinson 2016).

Omnitrax announced the Port of Churchill grain terminal would suspend operations on August 8, 2016; and seventy port employees would receive layoff notices. In 2015, the port handled less than 200,000 tonnes of grain, despite a \$12 per tonne subsidy offered to grain shippers by the federal and provincial governments. Though the port handled less than 1 percent of all Canadian grain exports that year, the HBRA called on the federal government to retake responsibility for port operations (Cross 2016). New Democrat MP Niki Ashton has echoed this call, while Manitoba Premier Brian Pallister indicated his government will not be providing Omnitrax with another financial bail-out (Lambert 2016).

Some townsfolk blame the federal government (and Lloyd Axworthy, a cabinet minister from Manitoba in the Chrétien government) for the 2016 port closure; while others blame Omnitrax (Hutchinson 2016; Anonymous 2017). Churchill Mayor Michael Spence estimates that the port accounts for 30 percent of the town's economy, while tourism (which depends on the rail line) covers most of the rest. The Mayor would like to see the government take over the port and then sell it to local stakeholders (Gilmore 2016).

Rail line washout – 2017

On June 9, 2017, Omnitrax suspended service on the HBR line from Amery to Churchill, which had been inoperable due to flood damage since May 23. By mid-November 2017, Omnitrax and the Canadian government were pursuing legal action against each other for NAFTA violations and breach of contract (Norbury 2017a). Ottawa wanted Omnitrax to fix the damaged rail line, but the company refused – and appealed the federal order to begin repairs (Bernhardt 2018).

Omnitrax, the owner of the HBR, expected federal assistance and blamed federal government decisions (e.g. ending the CWB monopoly and terminating the CPUP shipping subsidy) for its problems. Meanwhile, small business owners in Churchill and other stake-holders (such as the HBRA) put the blame on Omnitrax, for failing to fulfill its obligation as a public utility (Norbury 2017a). This blame goes back as far as 1997, when Ottawa allowed CN to sell the HBR to Omnitrax (Robson 2018a).

Sale to Arctic Gateway Group – 2018

On August 31, 2018, the Arctic Gateway Group (AGG) bought the HBR line and the Port of Churchill (Anonymous 2018). AGG Limited Partnership is a consortium of Indigenous and northern communities, the Missinippi Rail Limited Partnership, Fairfax Financial Holdings Limited (a life insurance company based in Toronto) and AGT Limited Partnership (a food and ingredients supply firm headquartered in Regina).

On Halloween night, a train rolled into Churchill, Manitoba for the first time since the washout in May 2017 (Westhaver 2018). As always, it was enabled by Canadian taxpayers, to the tune of \$117 million to cover maintenance and operating costs (Graham 2018).

Theory and Method

Heider's *balance theory* posits that a triad of inter-personal relationships is either balanced or unbalanced, and an unbalanced triad creates tension, compelling it toward a balanced state. Phillips et al. (1998) argue that balance theory is equally applicable to supply chain or logistics triads, as well as interpersonal ones.

According to Carson et al. (1997), there are two scenarios yielding a balanced triad: (1) all three entities are in harmony with one another, i.e. all dyadic relationships are harmonious; or (2) one dyadic relationship is harmonious and the other two are not. Triads are unbalanced when two dyadic relationships are harmonious and the third one is not, i.e. is discordant. The state in which all three entities are in harmony is an “ideal” balance. On the other hand, the state in which all three are in discord is likely terminal.

The triad as a unit of analysis aligns nicely with the public-private-people partnership (4P) approach to sustainable development. Zhang et al. (2015) add “people” to the traditional public-private partnership (PPP) dyad. This concept recognizes the community or people as important stakeholders in addition to the public and private sectors. People are involved in transportation systems as consumers, workers and others impacted by public- and private-sector decisions.

In terms of methodology, this paper conducts historical research, drawing on multiple primary sources of evidence, e.g. newspaper articles, government reports and other documents. Its purpose is to understand the (recent) past through examination and interpretation of the documents. The main sources of evidence are newspaper and trade journal articles. Wagstaff and Niemann (2019) argue newspapers and journals are good primary documents because these periodicals report events as they happen or soon after. Also, these sources typically try to provide balanced and objective accounts of current events.

Discussion

Interpretation of the (recent) past

Appendix 2 presents Slides A-F, which are briefly described below.

Slide A: A triad is born, with the privatization of CN on November 17, 1995. However, since CN wants to abandon/sell the HBR line, the relationship between the federal government and CN could easily slide from harmony to discord, disrupting triad balance.

Slide B: Sale of the rail line and Port of Churchill to Omnitrac on August 20, 1997 yields an ideal balance. But this balance is delicate, riding on public sector subsidies and private sector service performance.

Slide C: Termination of the CWB monopoly jeopardizes grain traffic, along with public sector harmony with both private sector and the people. However, the federal government provides special grain shipping subsidies – saving the day and maintaining the delicate, ideal balance, with all three entities in harmony.

Slide D: Omnitrac closes the Port of Churchill grain terminal. Relations between the public and private sectors are clearly discordant. If the people maintain harmonious relations with both public and private sectors, the triad is in an unbalanced state, based on the public-private discord. However, if the people take sides by blaming either the government or Omnitrac for the closure, a balanced state is achieved, at least temporarily. Finally, if the people are in discord with both public and private sectors (all dyadic ties turn negative), the unbalanced triad may be moving toward termination ...

Slide E: After the wash-out – and its failure to repair the rail line – both government and the community mostly blame Omnitrac for the unfortunate situation. There are more calls for the federal government to take over the port and rail line. A strange, temporary balance ensues, based on the public sector and the people being in sync vis-à-vis a common enemy, the private company Omnitrac.

Slide F: Sale of the rail line and Port of Churchill to the Arctic Gateway Group on August 31, 2018 yields another delicate, ideal balance. Similar to the sale of line and port to Omnitrac back in 1997, this balance hangs on public sector subsidies and private sector service performance.

Observations

1. Maintaining a balanced state appears to be dependent on public sector subsidies.
2. Public policy shifts, private sector decisions or natural disasters lead to unbalanced states.
3. Due to monopoly positions of government and the railroad, the people lack power in the triad.

Speculation on the future

From 1997 to 2017, the federal and provincial governments spent \$197 million on Churchill, including \$129 million on direct spending on the HBR line and Port of Churchill (Norbury 2017b). According to Hutchinson (2016), “As a commercial enterprise,” the Port of Churchill has “been mostly a flop, always tied to the public purse” Indeed, a 2012 government task force on the future of Churchill focused on “commercially-viable opportunities that are not contingent on additional public sector spending” (Canada/Manitoba 2013).

The port is hampered by low freight volumes and the rail line is positioned atop unstable terrain. Indeed, due to light traffic volumes and heavy track maintenance costs along the HBR, Prentice (2018) proposes converting the rail bed into a gravel road. In a typical season, only 17 bulk cargo ships would land at the port to load grain destined for faraway lands (Hutchinson 2016). While its shipping season runs from late July/early August until late October/ early November (Cross 2013), climate change is predicted to add up to two months to the port’s short season (Norbury 2017b).

With many questions and few (if any) answers, the paper closes with discussion of several possible future scenarios: (1) an all-weather road extended to Churchill; (2) a five-month shipping season at the Port of Churchill (enabled by climate change); and (3) nationalization of the port and rail line.

First, how would an all-weather road impact cost, service and sustainability of transportation to Churchill? Generally, rail transportation is less accessible and slower, but cheaper and more sustainable (in terms of lower emissions) compared to truck transportation. Would these general principles hold in the instance of transportation to Churchill via rail versus road? Car and truck drivers, along with shippers and receivers of freight, would surely benefit from an all-weather road. Of course, such a road would be detrimental to the railway; it would increase competition for freight and passenger traffic. Building an all-season road, rather than maintaining an unstable rail line, may be a more sensible expenditure of tax dollars. It could be argued that rail subsidies benefit a few folks – and roads deliver benefits to many.

Second, what are some implications of a five-month shipping season fueled by climate change? Climate change might be good for the port, but it is likely to increase instability of the rail line (Canada/Manitoba 2013). Should climate change initiatives be abandoned in the interest of a longer shipping season via the Port of Churchill? The impacts of melting sea ice are complex. Some stakeholders (polar bears, tourists, traditional coastal communities) are likely to be threatened. Others (Arctic port operators, ocean carriers and shippers) may see opportunities.

Third, should the port and rail line be nationalized? What are the costs and benefits of ongoing subsidies? Who are the relevant stakeholders? Surely they include the triad members (“the people,” i.e. communities served by the rail line and the port; federal and provincial governments; and the railway/port owners and operators. Other relevant stakeholders are the tax-payers of Canada and Manitoba, as well as shippers of grain and other commodities. Perhaps this is a good time to invite these folks to come together for some discussion on the future of the Hudson Bay Railway and the Port of Churchill ...

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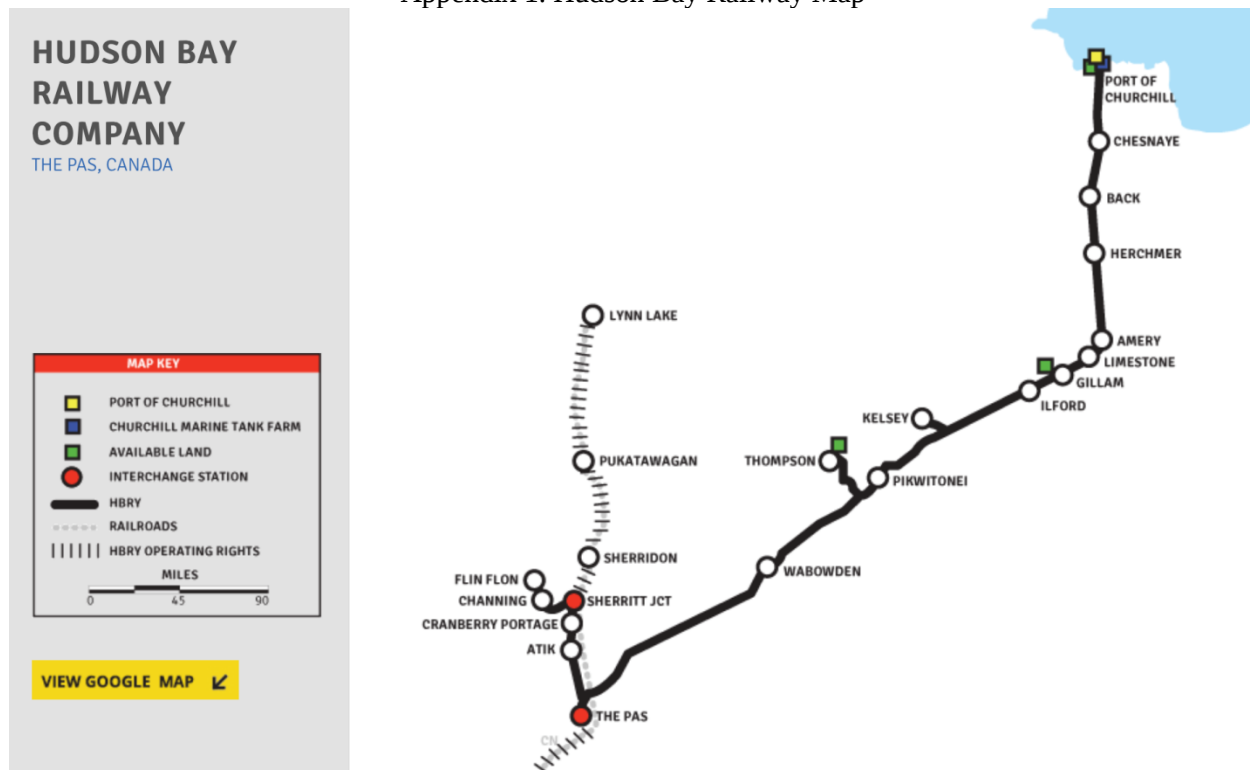
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Appendix 1. Hudson Bay Railway Map



Appendix 2. States of Balance

