

From: Glen Hodgson

To: Overseers of Crown Corporations

Date: July 6, 2021

Re: **THE INTERCITY AND RURAL BUS MARKET: MANY WAYS TO REACH THE DESTINATION**

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*Canada's Crown corporations form a major part of the economy, but rarely draw detailed scrutiny. In his latest C.D. Howe Institute [Commentary](#) and in this special Intelligence Memo series, Fellow-in-Residence Glen Hodgson sets out principles for effective governance for Crowns. Today, we examine the case for a Crown for intercity and rural bus service.*

Greyhound recently announced it is finally leaving the intercity bus market in Canada. The company had already suspended all operations in Western Canada in 2018 and the remaining routes in Ontario and Quebec have now ended permanently. The combined effect of higher car ownership, ride sharing facilitated by social media, price-competitive air and rail alternatives, and ongoing migration to cities have all affected intercity and rural bus ridership.

Greyhound's departure creates a potential market gap. Is there a role for the Crown corporation model to fill a perceived gap for intercity bus service?

Let's start by defining the issue. The potential market gap is for predictable, reliable, affordable, and safe intercity (and rural) transportation, notably but not solely on the routes formerly served by Greyhound. In some provinces and regions, there may be market-based transportation service alternatives that can help fill the gap. The public policy issue is how to ensure more complete market coverage for reliable and safe travel at a reasonable cost.

There are three basic options.

#### **1. Leave it to the market**

The first is to do nothing and leave it to the market to develop alternatives. Private bus service exists in many regions, and Greyhound's full departure from Canada may encourage other private transportation service providers to fill any market gaps. Ride sharing is another alternative to regional and inter-city bus service. Social media has enabled much more efficient connections between passengers and drivers, so in some cases there is a ready-made and affordable alternative to intercity bus service. But there are also likely to be limitations to relying solely on the market. Market coverage can be an issue as scheduled bus service or an arranged ride may not be readily or frequently available between and among certain locations. There are also important issues related to personal security, especially for women, children travelling on their own, people with disabilities, and older people.

#### **2. Offer Incentives**

The second option is to offer fiscal incentives to existing or new bus service providers to expand to underserved locations. Detailed analysis would be required to identify the specific market gap(s) to be addressed along with the ultimate nature and scale of incentives required.

Under this approach, the fiscal cost of supporting the service would be defined and transparent. This option has the advantage of relying on the private market and avoiding the need to establish a new government-owned entity with the attendant set-up, resourcing and operating costs.

Offering fiscal incentives would mean a direct fiscal cost to the jurisdiction's treasury, which could displace or delay other desired public spending. There is also the possibility that an incentive may not actually be required for the private sector to fill the identified market gap, which would mean wasting scarce public resources.

#### **3. Consider a Crown for Intercity Bus Services**

The third option is to consider creating a Crown corporation for intercity and/or rural bus services. British Columbia implemented this option in 2018 when Greyhound withdrew from northern BC (but Saskatchewan notably shut down its rural bus Crown, citing high operating subsidy costs). As outlined in our recent Commentary, pursuing this option would require a clear definition of such a Crown corporation's purpose, market positioning and desired service levels, the broad approach to governance, operating powers, and its financial relationship with the shareholder government. This in turn would require detailed analysis of market conditions, the extent of any market gap, Crown service options, and financial implications.

The market for intercity and rural bus service is mature. A Crown for bus service should avoid crowding out existing bus service providers or discouraging possible new market entrants. Market gaps appear regionally, so considering the role of a Crown should take place at the provincial level.

So is there a role for a Crown corporation model to fill a market gap for bus services left by Greyhound's departure? For some, doing nothing to address the market gap might be the option. Others may decide that approach may not ensure adequate access to reliable and safe intercity and rural transportation. Provinces will need to do their homework on the case for setting up their own bus business, assessing the perceived gap against service alternatives and expected fiscal costs.

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