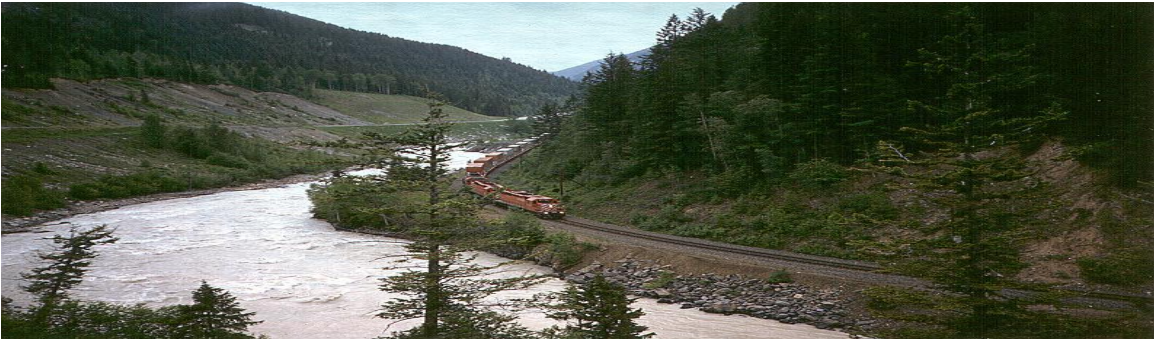




Transportation and Warehousing Industry Advisory Committee

Final Report to the BC Competition Council

12 January 2006



The Transportation and Warehousing Industry Advisory Committee would like to thank the BC Competition Council for the opportunity to present its views and recommendations on transportation policy that is critical to the success of the BC provincial economy.

The Chair of the Committee would like to thank the following people for their dedication of time and effort:

Jeff Burghardt, Prince Rupert Grain
Don McGill, Teamster Local Union 213
Bob Wilds, Greater Vancouver Gateway Council

The Committee would like to thank the following people for their assistance in preparing this report:

Steve Anderson, Ministry of Transportation
Lisa Baratta, WESTAC
Jennifer Davison, Ministry of Economic Development
David Gardiner, Comfac Services Ltd
Nick May, Ministry of Transportation

Respectfully submitted

A handwritten signature in black ink, appearing to read 'Dan Doyle', is centered on the page. The signature is written in a cursive style with a large, looping initial 'D'.

Dan Doyle, Chair

Overview

The role of transportation has evolved in British Columbia over time but its key role has always been as facilitator of regional, provincial and national economic growth and as a revenue generator in its own right. For this reason, it is intricately tied to all industries - moving goods and moving people. There are few, if any, industries where transportation services are not required for moving staff to work, moving raw materials to sites of production and moving goods and services to domestic and international markets.

Transportation is of growing importance given British Columbia's strategic location as a gateway to markets in the Asia Pacific. Transportation includes road, rail, marine, air and urban transportation, as well as transportation infrastructure and services, borders and pipelines. All modes of transportation have been critical in accessing BC's vast resources, shipping BC goods and services and in importing goods from offshore destined for all of North America. Western Canada moves approximately \$381 billion each year worth of goods and services that require physical movementⁱ.

The boom in world trade has placed enormous demands on regional and provincial transportation systems, providing employment, capital investment and revenue to British Columbians. Over the last decade, transportation industries have provided between 5-10% of all capital spending in the province. The transportation and warehousing sector employed 114,000 persons in 2003, nearly 6% of total provincial employment, while transportation alone accounted for 92,000 jobs (4.5% of total), and the sector represented 6% of BC's GDP in 2003ⁱⁱ.

This report has been prepared based on a survey conducted of individual shippers, a consultation forum at which key transportation industry organizations made presentations and on the experience and expertise of Committee members. The survey input and forum presentations were extremely informative and have helped the Committee in forming its recommendations to the BC Competition Council. The Committee also relied on recent studies and reports which are listed in an appendix to this report.

Key findings from both the survey and forum suggest that there are significant issues that both government and industry need to address in order to ensure BC's transportation sector remains competitive. These include inadequate infrastructure, sector inefficiency, high costs, the need for better governance and regulation and the availability of port and industrial land.

Competitive Performance

BC's current transportation system will not be able to meet the needs of communities and businesses in the near future. In the Lower Mainland alone, traffic congestion now costs the BC economy as much as \$1.5 billion per year. It also lengthens commuting times, increases energy consumption and reduces air quality. Bottlenecks that create inefficiencies will erode the province's competitive position and deter economic growth. The World Bank and the Organization for Economic Cooperation and Development (OECD) estimate that for every 1% increase in transportation costs, economic growth is reduced by between 2-3%.

The delivered cost of any product includes a significant transportation cost that can vary from 10-50%. As transportation costs rise, BC goods and services abroad become more expensive and less competitive. US and European competitors view transportation as a key factor to economic growth and have taken measures to improve their national transportation systems. The efficiency of transportation is a key factor in BC's competitive position in the world and, in order to compete, BC businesses need to be able to move goods and services effortlessly, reliably and efficiently.

Proximity to markets, strength in technology and innovation, and a skilled work force suggest that BC has the potential to become the transportation equivalent of Hong Kong or Singapore for North America.

Factors Affecting Industry Performance

Results from the shipper survey suggest that the transportation and handling system is not responding quickly enough to the needs of shippers, is performing poorly in some respects at current traffic levels, and will be unlikely to accommodate aggregate future demand unless a combination of institutional and physical infrastructure problems are addressed and resolved.

Virtually all survey respondents felt that the overriding challenge facing transportation in BC today is that of increasing throughput and delivering this higher level of activity in a *consistent, predictable, reliable* manner.

BC is perceived as having the loudest-voiced and most effective special interest/alternate use advocates. Linked to this is the perception that lead times required in BC to gain approval for major transportation infrastructure programs are far too long and create unnecessary cost while possibly diverting business opportunity. The approvals needed come from all three levels of government and specific concern was expressed about the environmental approvals required from the government of Canada.

Federal Government regulation and policy are also of concern to industry. This is particularly true of the air sector. There is a strong sense that Canada is falling behind other nations in achieving improved international air agreements. These agreements are very important for Vancouver International Airport in obtaining significant market share of Asia-Pacific air travel. There is also a concern that local and regional airports in British Columbia have been struggling to survive economically since they were devolved from Transport Canada. This is a national problem and British Columbia has been working with other provinces and the federal government to find solutions.

Competitive Opportunities

The Province has set a goal of quadrupling the number of containers handled by West coast ports by the year 2020. Achieving this goal would mean an incremental contribution of \$6.5 billion of economic output every year to the Canadian economy with \$4.0 billion of this accruing to British Columbia. As gateways to the Asia-Pacific region, BC ports and the transportation systems that support them are key to the achieving a positive economic future.

The Federal Government has recently promised a major federal effort to help Canada capitalize on booming growth in China and India, including up to \$590 million for gateway infrastructure in BC. They are working with the government of British Columbia and, indeed, with the governments of all of the western provinces to take advantage of the fact that for Asia the closest major deep water ports, the closest major international airport in North America, are located here in British Columbia.ⁱⁱⁱ

Competitive Barriers

i. Infrastructure

There was strong praise among all those surveyed for the British Columbia Government's Transportation Plan and for the support that Canada has given for infrastructure projects in British Columbia. It is important that both governments maintain the momentum they have achieved and stay on track with these infrastructure programs. Additional infrastructure is required beyond that currently planned by the Province, including a new container berth at Deltaport, a new terminal at Deltaport, a replacement of the New Westminster rail Bridge, an expansion of the Burrard Inlet Main Rail Line, additional sidings and double tracking for railways in the interior, resolution of level crossing issues (e.g. in Langley), Inland Container Terminals or Distribution Centres within reasonable proximity to Deep sea Terminals, additional container freight station facilities with road, rail and water access. It is also essential that action be taken now to protect access to water in the Prince Rupert, Kitimat and Stewart areas since there is limited land available for development that has water access.

ii. Inefficiency:

The shipper survey suggests that current and projected inefficiencies and inconsistencies are sufficient to force many shippers to reduce their dependency on the BC transportation system by looking for possible and practical alternatives. In fact, some shippers pointed

out that buyer dissatisfaction with inconsistent service through Vancouver was contributing to increased volumes moving by rail direct to Mexico

For container shippers, a major concern is the reduced dependence on a single route. For bulk shippers, the major factors contributing to consideration of alternate routes include the lack of rail competition and inability to expand terminals in the Lower Mainland. For break-bulk shippers, a major impetus to seek alternatives is the demise of suitable break-bulk handling facilities with adequate access.

Survey respondents indicated that investing in capacity improvements (terminals and warehouses) would be ineffectual if the connecting service providers could not accommodate the additional traffic. Reliability of delivery was noted as a key factor of the marketplace. Missed deadlines can mean loss of sales or sales at discounted prices. Systemic and chronic problems can lead to permanent loss of markets as buyers are purchasing the whole transport system and not just the product, and will search for reliability in deliveries.

There is a strong sense among those that the committee spoke with that although each component of the transportation system is optimized; there is not an overall efficiency present that would allow BC to sustain itself competitively. For example, railways focus on the efficient use of their rail car fleet at the expense of on-time delivery. On a more micro level, the Committee was told about how individual labour agreements on the water front has resulted in uncoordinated rest breaks for workers in different unions resulting in an obvious inefficiency.

British Columbia will only have an efficient transportation system when there is coordinated problem solving, data collection, bench marking and performance measurement. At this point in time, there is no organization charged with that responsibility. Any organization that is given these responsibilities will have to provide incentives to encourage cooperation among individual transportation providers. It is very important be sponsored and funded equally by industry, the Government of Canada and the Government of British Columbia. The committee recommends that the following steps be taken to put an organization in place:

1. Get industry commitment to the concept
2. Get commitment to the concept by the two governments
3. Prepare a governance plan
4. confirm a preliminary budget for the organization
5. establish a detailed implantation plan and **implement it**

The province has done some preliminary work on this concept which will helpful in getting the initiative moving.

iii. High Costs

Transportation costs for many commodities are usually the second highest cost after either raw materials or production costs, and are therefore always significant. In general, with respect to tariffs and rates, percentage of sale price for bulk materials is in the range of 33% and higher. For break-bulk the range is 20 to 40%. For containerized traffic it is

below 20% and can be as low as 1% depending on what goods are shipped in the container.

iv. Consistency, Predictability and Reliability

The overriding challenge that transportation in BC faces today is that of increasing throughput and delivering this higher level of activity in a **consistent, predictable and reliable** manner. That is what will be measured by shippers to determine if BC's transportation system is effective and thus competitive. Good performance in these areas is essential to provide BC with a competitive advantage.

Any disruption in the transportation system such as the tugboat strike and trucker dispute that have occurred in this past year, have a tremendous negative impact on the perceived reliability of the transportation system. Past labour disputes have followed a pattern of long indecisive negotiations, followed by a short strike and culminating in a back to work order or legislation. This process has been very harmful to the international reputation of our transportation system. It is time that all the parties concerned find a better way of setting collective agreements.

v. Governance and Regulation

The responsibility for transportation in British Columbia is shared by the federal and provincial governments. Canada regulates and controls inter-provincial rail, air, marine and ports. The Province controls road transportation including highways and motor vehicle regulations. It will be very important for there to be a coordinated approach by these two levels of government to ensure best use of tax dollars and to facilitate an efficient industry. The Province is also the owner of the BC Rail Port Subdivision which plays a key role moving goods to and from Vancouver Port Authorities Delta Port. The Province has been considering selling this rail line. There is a general sense in the industry that it should be kept by the Province to ensure that there is open access to the port.

In the last few years the Government of Canada undertook mandated reviews of the Canada Marine Act and the Canada Transportation Act. It received many good ideas for improvements to those pieces of legislation but has not implemented them.

The consensus of all we spoke to is that the improvements need to be implemented without further delay.

Municipal governments also have an impact on transportation. There was a lot of concern expressed by transportation providers about the governance structure in the Greater Vancouver area. The general impression was that local government lacked motivation to support the transportation industry because local government is not elected by transportation providers. This is manifested through taxation policy and intrusion of residential activity into industrial areas. The Province has taken positive steps to limit the mill rate on port facilities; however that has been overwhelmed by property assessment increases.

Industry has been, and still is concerned with the governance structure of the Greater Vancouver Transportation Authority (GVTA). Industry would like to see a more professional and less political board.

There are three port authorities in the greater Vancouver area which are in competition with each other for business. They each have their own management structure and business development sections. The Committee felt that an amalgamation of the authorities into one would be more efficient, provide for more logical overall planning for facilities and present a more coherent face to the Asia Pacific markets. The most significant advantage of this would be the ability to have co-coordinated land development for these three authorities. This is something that does not exist today and leads to duplication of investment or lack of investment by a port Authority that does not have sufficient funds to invest in needed development. This would eliminate confusion by customers of the gateway and remove artificial subsidies

According to shipper survey results, the most commonly referenced features needed to create/maintain a competitive transportation system, listed in order of frequency, are:

- Performance to agreed standards and service levels
- Coordinated problem solving, data collection and unification, performance measurement and benchmarking
- Overriding of local and special interests when decisions are required to improve the system to provide universal benefits
- Reduction of peaks, to be replaced by more even traffic flows
- Equal and common access to all port facilities

It would be a major challenge to achieve these goals under the present governance model. It is time for a new model. The new governance model should include an independent planning and monitoring entity to take on the various desired coordination and evaluation functions. Such a body might need to have some compliance and enforcement powers. The almost universal feeling was that various system components, left to their own devices and driven by specific short-term objectives, would not succeed in contributing to system improvements without a strong quarterback to direct the effort.

Recommendations

Preamble:

The Provincial Government is encouraged to continue with implementing its Transportation Plan and Ports Strategy including the development of a container facility at Prince Rupert

Recommendations:

1. Protect industrial land and transportation corridors (similar to structure for agricultural land). Do not sell BC Rail Port sub-division
2. Implement recommendations coming out of the reviews of the Canada Marine Act and the Canada Transportation Act.
3. Change municipal taxation approach for port lands from the present one that is based on land value to a new model that uses throughput and other economic measures to set taxes
4. Consider tax incentives (credits) to facilitate private sector investment in transportation infrastructure
5. Improve Consistency, Predictability and Reliability of the transportation industry
By:
 1. Taking a “BC Progress Board” approach to measuring the efficiency of the overall transportation system.
 2. Setting up an agency to work with the transportation industry to optimize the efficiency of the overall transportation system. This agency may need some incentives to get industry onside
 3. Reducing the opportunity for labour and other disruptions
 4. Amalgamating the three port authorities in Vancouver into one

Appendix 1:

List of Shipper Survey Respondents

Agricore United - Murdoch MacKay

ALCAN - Lindsay Thomson

Canadian Fertilizer Institute - Roger Larson

Canadian Tire - Neal McKenna

Canadian Wheat Board - Dale Martin/Brian Morriss/Mark Thibault/Al Kirton

CANFOR - Ian McGiver/Brian Knight
Canpotex - Scott Rudderham
Cargill - Loch Coburn
Catalyst Paper Corporation (formerly Norske Skog) - Bob Lindstrom/Gerry Rolufs
CRSA Logistics Limited - Doug Stewart
Elk Valley Coal Corporation - Jim Popowich/Gordon Eberth
Hudsons Bay Corp - Mike Thomas
Locher Evers International - Bruno Locher
Luscar ltd. - Glen Scott
Methanex Corporation - Glen Worobets
NBTL - Tony Nardi
NEMI - Rick Evans
Prince Rupert Grain Ltd. - Jeff Burghardt
Prism Sulphur - Eugene Nagai
Saskatchewan Wheat Pool - Richard Wansbutter
Schenker - Allan Dickie
Shell Canada - Ken Keenan
Sultran - Lorne Friberg
Teck/Cominco - John Murphy
Western Pulp Limited Partnership - Dave Ingram
Weyerhaeuser - Craig Nessor

Appendix 2:

List of Presenters - Consultation Forum

BC Ministry of Transportation - John Dyble
BC Wharf Operators Association - Toni Nardi
BC Trucking Association – Paul Landry
BNSF Railway - Jim Titsworth
Canadian Pacific Railway - Jane O'Hagen
City of North Vancouver - Her Worship Barbara Sharp
CN Rail - Ross Goldsworthy
Council of Tourism Associations of BC - William Harding
Fraser River Port Authority - Captain Allen Domaas
Kelowna Airport Authority - Roger Sellick
Prince Rupert Port Authority - Don Krusel
Southern Railway of British Columbia - John van der Burch
TransLink - Ian Jarvis
UBC Centre for Transportation - Bill Waters, Yossi Berechman, David Frank
Vancouver Board of Trade - David Park
Vancouver International Airport - Tony Gugliotta
Vancouver Port Authority - Captain Gordon Houston
Western Transportation Advisory Council - Dario Valdiva, Ruth Sol

Appendix 3

References

- "BC may get \$560 million for Asian Trade", by Peter O'Neil, Vancouver Sun 01 Oct 2005
- "British Columbia's Response to Federal Policies Affecting the Competitiveness of Canada's Air Transportation System", Government of British Columbia (draft - April 2005).
- "Canada's Pacific Gateway", Greater Vancouver Gateway Council, January 2005.
- "Multi Modal Action Plan", Ministry of Small Business and Economic Development and Ministry of Transportation, March 2005.
- "Opening the Arteries for Growth", Western Transportation Advisory Council, November 2003.
- "Opening Up BC", Ministry of Transportation, undated.
- "Realizing Our Prosperity Potential - Third Annual Report", Ontario Task Force on Competitiveness, Productivity & Economic Progress, November 2004.
- Shipper Survey conducted by David K Gardiner, Principal, Comfac Services 28 October 2005.
- "Transportation as an Economic Growth Engine: Challenges, Opportunities and Policy Suggestions", BC Progress Board, December 2004.
- "West Coast Ports Strategy", Ministry of Small Business and Economic Development, Ministry of Transportation, March 2005.
- "Western Canada Transportation Infrastructure Strategy for an Economic Network", Western Provincial Transportation Ministers Council, March 2005.

ⁱ "Opening the Arteries for Growth", Western Transportation Advisory Council (WESTAC), November 2003.

ⁱⁱ "Transportation as an Economic Growth Engine: Challenges, Opportunities and Policy Suggestions", BC Progress Board, December 2004.

ⁱⁱⁱ "BC may get \$560 million for Asian Trade", by Peter O'Neil, Vancouver Sun 01-Oct-2005