

Gateways and Canada's Ports Policy: Issues and Impediments

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Agenda

- Is the World Really Flat (as argued by Thomas Friedman)? Is China the Whole Game?
- Access North America: Three studies on the role for Atlantic Canada
- Port Governance Issues
- Marine Policy Issues
- Hinterland & Corridor Issues
- Five Conclusions

The World is Not Flat But Round...



Route	Distance	Transit Days
Hong-Kong to New York via Panama	11,301 N. Mi.	22-31
Hong-Kong to New York via Suez	11,632 N. Mi.	Min. 24

Source: Drewry, 2005

The Halifax (Suez) Transit Time Advantage from South Asia is Clear

Transit Time From	Mumbai (India)	Laem Chabang (Thailand)	Singapore	Port Klang (Malaysia)	Hong Kong (China)
Halifax	14:13	19:20	18:06	17:21	21:00
NY/NJ	15:01	20:18	19:05	18:20	21:23
Norfolk	15:18	21:01	19:12	19:00	22:06

Note: Times are based on 22 nautical miles per hour.

Source: World Ports Distances Calculator (<http://www.distances.com>) as cited by APEC (2006: 26, Table 6). Used with permission.

Halifax will not compete with Canadian west coast ports from North Asia or with southern US ports for access via Panama.



China is Not the Only Game

- As China's influence is growing, Mexico has already lost position as a source for imports. Canada needs to decide what it wants in its relationship with the US, and in its relationship with the rest of the world. It can be a gateway to North America.
- As Chinese wages encounter inflation and FDI moves west to India, Russia and Brazil, the "Tipping Point" also moves west. Long term, the east coast via Suez rebalances some of the west coast congestion.
- China is not the only game... UNCTAD (2006): growing investment in Eastern Europe; Atlantic Canadians should consider investing in India and South Asia.

Three Studies on the Atlantic Gateway

- CPCS Transcomm (2006):
 - Something for everyone
 - Private-sector led
 - “predictable, sustainable and fair regulatory framework”
- McMillan (2006): draws attention to the importance of the region in global supply chains but does not provide guidance on how Atlantic Canada should move forward to capture the opportunity
- APEC (2006) concludes that
 - Halifax offers the best opportunity in the container trades
 - Saint John and Canso have roles as energy gateways
 - Saint John and Halifax have a short sea opportunity
- None provide governance and regulatory guidance

Traffic Diversion Impact: Sarnia Tunnel Investment



Inspiring Minds

Year	Mid-West TEUs	Total TEUs	Share of HPA Traffic
1994	13,509	311,097	4%
1995	38,724	382,575	10%
1996	42,494	392,273	11%
1998	65,083	425,435	15%
2000	94,887	548,404	17%
2002	86,815	524,336	17%
2004	91,747	525,553	17%

Note: Tunnel opened 1995.

Source: Port of Halifax



Four corridors:
Can the Atlantic
Region Become a
Bigger Gateway to
North America?

Port Policy and Governance (1)

(In-depth Studies)

- *National Marine Policy, 1995:*
 - Autonomous, financially self-sustaining
 - 3 ownership/management models (CPAs, local/regional, remote)
- Two review panels (CTAR, 2001; CMAR, 2003) made recommendations:
 - Changes to port financing in terms of ability to make investments (currently is restricted)
 - Flexibility in managing real property
 - Governance adjustments (Who controls director appointments? Does the governance model work?)
- The current system lacks transparency and is not well managed from a system performance and customer service perspective.
- The non-recourse “autonomous” government agency approach is unique...

Port Policy and Governance (2)

(A Comparison of Financing Practices*)



Inspiring Minds

Investment Activities	No Cost Recovery	Partial Cost Recovery	Full Cost Recovery
Berth or sea-lock capital investment	52	26	22
Financing of organizational restructuring and associated labor compensation	50	25	25
Land acquisition, disposal	54	25	21
Leasing, concessioning of terminal operations	33	26	41
Maintenance of port access roads	48	33	19
Waterside maintenance (e.g., dredging, channel maint.)	48	30	22

Source: Cullinane and Brooks (2007)

*42 large PAs, 9 countries

Port Policy and Governance (3)

(A Comparison with the US)



- There is no national ports policy
- US general cargo ports tend to be publicly-owned (state, municipal, spec. navigation districts, some bi-state, some county), governed by public boards and operated by tenants
- Federal influence is exercised “subtly” through funds for dredging and channel maintenance
- Ports have wide access to many financing options (including tax-exempt bonds)
- Fawcett (2007) concludes that the US approach means US ports can and do get access to capital needed to compete (Canadian ports have severely restricted prospects)

Two Corridors Seek Policy Support for Short Sea Development

- Rectification of policy, costing or process impediments (i.e. environmental costing, unique marine safety regs) that disadvantage the marine mode relative to land alternatives.
- Some form of shipper stimulus to explore SSS use (perceptions and inertia play a role).
- More substantive cooperation between Canada and its NAFTA partners on
 - A harmonized marine regulatory framework
 - Harbor maintenance tax exemption
 - Advanced notification and documentation requirements.
- Improved data.
- Identifying ways in which liability insurance might be rendered more commercially competitive.

Source: Brooks, Hodgson and Frost (2006: iii).



Hinterland and Land Corridor Issues

For Canadian corridors: Inter-provincial barriers need to be addressed.

For the US corridors:

- Non-tariff barriers (“Land Transportation Standards Subcommittee seems to have left the building”)
 - No **harmonization of hours of service**, for example.
 - **Equipment standards** remain “a dog’s breakfast.” (The “Unfinished Business” of NAFTA—Brooks & Kymlicka, 2007) Goal: **Regulatory convergence**
- Access to cargo (cabotage)
- Infrastructure gaps (35% of the TBWG infrastructure gap is in Atlantica)
- Security compliance issues

Cost of US Import Compliance on the Canadian Trucking Industry (DAMF)



Inspiring Minds

Cost Impact Item	Annual Minimum (C\$ millions)	Annual Maximum (C\$ millions)
Truck delay	231.0	433.0
Driver compliance	3.4	6.8
C-TPAT Compliance	5.0	10.0
Computer systems	2.5	5.0
Administration	14.0	28.0
Less Border surcharges	-77.0	-77.0
Net cost impact	178.9	405.8

DAMF 05 Best Estimate: C\$290 million per year, 4% of expenses.

Five Conclusions

- Clarify roles—both federal and provincial. (The focus on Gateway and Corridor development is an important component of future Canadian competitiveness.)
- Make the Atlantic Gateway a national priority. (Past performance is not an indicator of future performance)
- Identify a change agent (and develop a plan to bring the whole country on side; most of the decision-makers do not reside in Atlantic Canada).
- Make the needed changes to port governance (good suggestions in two reform reports)
- Commit to addressing regulatory and governance impediments, border issues to build landside trucking corridors to the US and viable short sea options.

The Atlantic Gateway is Canada's and North America's east coast port for South Asia.

**Thank You!
Questions?**



The big vessels are in Halifax!