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Introduction

Good morning everyone.

I would like to thank Allen Domaas for his invitation to address the American Association of Port Authorities at its 2007 Spring Conference. On behalf of Transport Canada and the Government of Canada, I appreciate the opportunity to be here today.

Canadian Port Overview

Today, I have been asked to speak to the Canadian perspective as it pertains to intermodal freight policies. First, though, I think it would be beneficial to provide a brief overview of the Canadian port system for those unfamiliar with the established administrative and governance structure of our ports.

As some of you may be aware, activities related to navigation and shipping are under federal jurisdiction in Canada. This pertains to activities on both the water-side and the land-side of port operations.

Before the mid-1990s, there were several federal administrative frameworks in place under which Canadian ports operated. These ports functioned under different legislative and regulatory regimes, often with real or perceived advantages resulting for some ports but not for others.

During the nineties, as the federal government struggled with a crushing deficit problem, many transportation facilities, including major airports, our Class 1 railway, CN, and the air navigation system were commercialized or privatized.

In 1995, the government issued a new National Marine Policy, based partly on the findings of a review conducted by a Parliamentary Committee. The Committee had concluded that Canada's major ports suffered from overcapacity and inefficiency, and that extensive public investment in port infrastructure had not provided an adequate return to Canadian taxpayers. It was determined that the oversight of major ports should be streamlined and a level regulatory

playing field created with the objective of reducing the government's extensive involvement in port operations.

Canada Port Authority status was granted for those ports that were deemed to be strategically significant to Canada's trade, financially self-sufficient (now and in the future), linked to a major rail line or major highway infrastructure and having diversified traffic. These port authorities remain under federal jurisdiction and have limited status as agents of the Crown.

The federal government also retained responsibility for remote ports, mostly located in the arctic region of the country. The remaining ports – over 500 of them – were identified as candidates for divestiture to other levels of government and the private sector. This divestiture process is continuing with fewer than 100 ports remaining under the management of Transport Canada.

The Canada Port Authority model has been successful in a number of areas. The move to commercialize ports of national significance has helped to instil business principles and commercial discipline, allowing these ports to respond more effectively to market opportunities. Local and user interests now also have a greater say in the operations of these ports and the scope of centralized approvals has been significantly reduced.

Under the existing policy framework, the federal government has removed itself from the direct funding of port operations. Canada Port Authorities may borrow money within a defined cap, but may not act as Crown agents when doing so. In fact, due to the potential risk of liability to the Crown stemming from agent status, those departments responsible for the federal treasury have consistently scrutinized port authority finances at the time a port requests an increase in its borrowing limit. As a result, there has been a significant trade-off between financial flexibility and limiting the risk to the federal treasury.

Canadian Port Performance

Despite these financial limitations Canada's major ports have experienced tremendous growth in the last decade.

In 2005, Canada Port Authorities saw a 5 per cent increase in cargo traffic over 2004. The value of Canada's international marine trade, not counting transborder trade to the United States, was over \$110 billion in 2005.

The West Coast, in particular, has faced capacity crunches a few times in past years, as container trade from China has increased. As will be familiar to many of you, when these crunches arrive there are often chain reactions that expose

weak points in the overall supply chain. As a result, we are left to deal with greater challenges than simply port capacity – challenges linked to the rail or trucking industries or to the interconnections between modes.

In response to growth in trade, a number of ambitious expansion projects are underway. The Vancouver Port Authority is developing a third berth at its Deltaport site. In addition, Vancouver has also indicated that it is pursuing a private sector partner for the next phase of its container capacity expansion – the Deltaport Terminal Two project. At an estimated cost of \$1 billion, this project is planned to increase annual capacity at the Deltaport facility by 2 million TEUs over the period from 2012 to 2020.

Other ports are also moving forward with infrastructure developments. Prince Rupert is well on its way to completing Phase 1 of the Fairview Container Terminal and is actively pursuing the second phase, which would increase capacity by an additional 1.5 million TEUs. A number of partners, including CN, have a clear vision of providing a direct rail connection between Prince Rupert and the heartland of the American Midwest – right to Chicago and Memphis. Canada's West Coast ports are expected to have over 8 million TEUs of annual capacity by 2020, compared to 2.3 million TEUs today.

Port Authorities elsewhere in Canada are also preparing for the future. The Montreal Port Authority had a record year for traffic in 2006 and it will continue to be a key hub both within Canada and as a link to the US. The Port of Halifax is actively marketing itself in Asia as a destination for traffic routed through the Suez Canal.

Of course, despite the overall success of Canada's national port system in recent years, there are elements of the existing regime that may require fine-tuning given the pressures arising as a result of this growth. As I have noted, Canada Port Authorities are required to be financially self-sufficient and are generally prohibited by legislation from receiving federal appropriations, except in very limited circumstances.

However, for the most part, our ports have been able to make the necessary infrastructure investments on the strength of their revenues and continue to carry very low debt loads demonstrating again the effectiveness of their management.

Nevertheless, it is incumbent on all of us to take soundings from time to time to ensure that the current legislation and policy framework which represented the government's vision and reality of the mid to late 1990s with respect to Canada's ports, remains valid today.

Over the course of a decade, the factors that impact the transportation system can shift dramatically. With unprecedented levels of growth in overseas trade traffic, the concern now is that there will be insufficient system capacity to accommodate the rising levels of imports and exports.

Therefore, in order to maintain one of our principal objectives – to have a competitive port system that meets the needs of Canadians – we need to address these new realities. But we also need to institute change in a manner that does not deviate from the marketplace framework that we have been progressively implementing over the course of the last two decades.

New Government

Some of you may be aware that a new government was elected in Canada a little over a year ago. It has articulated a clear agenda focused on our international competitiveness and, increasingly, a determination to tackle environmental issues.

Budget 2006/Commitment to Infrastructure

In the 2006 federal budget, and again this week in the 2007 Budget, the Transport, Infrastructure and Communities portfolio received unprecedented funds over the next seven years, much of it to be directed toward public sector infrastructure, such as water and highway or transit projects.

The federal government recognizes that infrastructure investments are crucial to maintaining Canada's competitiveness and quality of life. As such, we also recognize the importance of creating the right policy climate to encourage private sector investment. So, as well as funds, we are moving to modernize key legislative instruments governing our rail and airport systems, and will be looking at amendments to the *Canada Marine Act*, the legislation that provides the policy framework for our largest ports.

Commitment to Gateways and Strategic Corridors

With respect to infrastructure, we are seeking mechanisms by which the federal government can address strategic investments that maximize benefits to the transportation system as a whole, primarily by targeting intermodal integration, expediting supply chains and reducing or removing choke points in the system. From a national perspective, one of the principal rationales for investing in infrastructure is to increase economic prosperity by facilitating the movement of trade.

As we look at the transportation system, we have recognized, as I mentioned earlier, that often the biggest challenge is to ensure a seamless integration between the modes. This is where the Gateway concept becomes important. As some of you are aware, this idea grew out of concerns on the West Coast about the impact of rapidly increasing container traffic on the efficiency and capacity of the transportation system. But it built, in large measure, on the work of the Greater Vancouver Gateway Council, a group of stakeholders representing all modes that had been meeting to discuss and work on common issues for about ten years.

Subsequently, both the provincial and federal governments have worked closely with the port authorities, the railways and others to develop a common vision. Transport Canada has played a leading role in the implementation and promotion of the Asia-Pacific Gateway and Corridor Initiative.

The federal government has committed \$ 1 billion to projects falling under this Initiative and the Province has announced an ambitious Pacific Gateway road program to ensure good connections throughout the Lower Mainland of British Columbia. And the private sector, including ports, is investing over \$5.8 billion in new capital projects.

In our view, a gateway or corridors “strategy” is, in many ways, a metaphor for an integrated approach to planning – a systems approach to address not only investments in physical infrastructure, but also policy and strategic directions. The power of the gateway concept lies, in part, in its ability to translate directly to the realities of the Canadian economy and Canadian geography.

Underlying the concept of gateways is the recognition that these are points in the transportation system where modes come together. The integration of road, rail and marine is fundamental to the gateway model, and the application of technology and sound work practices can improve the flow of goods and people.

When the Prime Minister of Canada, Stephen Harper, launched the Asia-Pacific Gateway and Trade Corridor Initiative last October, the Government also indicated that the next step would be a national policy framework, so that the “gateway” concept could be applied to a limited number of other regions in Canada. Potentially, Atlantic Canada and the Ontario-Quebec axis would be considered in this light.

Impact of Gateway/Corridor Strategy on Ports

As you can see, we are moving forward with the development of an multi-modal policy framework that intends on capturing synergies within the overall network. But, how does this specifically affect Canada's ports?

First of all, we need to recognize that some ports are more suitable for consideration as possible gateways than others. That is to say, among our nineteen national ports, there is significant diversity in the scope of operations, in commodities handled and in markets served.

We need to accept that, while all port authorities are critical to international trade, there are some ports that are intrinsically tied to international supply chains and need to be assessed in a different manner – in a manner that is consistent with broader intermodal infrastructure requirements that support the realization of trade. Others will play a vital role as hubs in regional markets, and will continue to be important components of the National Ports System.

There will always be challenges for our ports, challenges that are similarly faced by their counterparts in the U.S. and elsewhere. In particular, access to private capital to kick-start investments, available land for expansion, competing pressures for current waterfront lands, levels of property taxation, and an adequate and stable labour supply, will always be issues that our ports must overcome.

Overall, we need to continue with the development of policies that respond to the urgent pressures that we have experienced in recent years. By 2020, container cargo through our West Coast ports is projected to increase by up to 300 per cent. We are currently evaluating a number of options with respect to amending the legislation governing our ports – all of which are intended to provide additional financial flexibility for ports in responding to market demands.

New Challenges

Even as we focus on addressing the growth in trade spurred by the Asia-Pacific's new economic role, fresh challenges are emerging. Congestion, air pollution and concerns over the long-term impact of our activities on the climate are spurring a new awareness of the environment. Increasingly, this will be an issue that drives public pressures and government responses.

Environment

The environment has surpassed health care in some polls as the number one issue for Canadians. We cannot make a significant impact on Canada's greenhouse gases and pollution without taking serious steps to tackle the emissions from the transportation sector. We also want a marine transportation system that observes the highest possible standards for environmental protection.

Earlier this year, the Minister of Transport, Infrastructure and Communities announced Canada's ecoTransport Strategy.

It is aimed at reducing the environmental and health effects of freight transportation, including a small Marine Shore Power Program, which will support up to four pilot programs to demonstrate the potential of shore-based power for marine vessels in Canadian ports.

I recently visited the ports of Los Angeles and Long Beach, and was greatly impressed with the magnitude of environmental initiatives underway in Southern California. Certainly, a number of very aggressive programs that target emissions from vessels, cargo handling equipment, locomotives and road vehicles are well underway and have been very much accepted by the majority of stakeholders, which is often the most difficult aspect of implementation. We believe that stringent emission standards will be the norm in most jurisdictions within the next decade – the environment has become too important of an issue for the population at large.

I recognize that a number of Canadian ports are also actively involved in initiatives designed to reduce emissions and have put in place a number of incentive programs in this regard. We will continue to encourage our ports in these efforts, but we would also like to pursue the implementation of best practices and work with our international partners to harmonize approaches to reducing marine-based emissions at our ports.

Seaway and Marine Benefits

We also need to promote the marine mode as a sustainable alternative to other modes of freight movement. In this regard, Canada and the US share a very strategic inland waterway.

The Great Lakes St. Lawrence Seaway System is a vital transportation link. It has long played a key role in contributing to North America's competitiveness and prosperity.

Some people outside the Great Lakes Basin and St. Lawrence River may not appreciate the crucial role of the waterway. This resource flows directly across two provinces and eight states that are home to some 100 million people, roughly one quarter of the combined population of Canada and the United States.

The upcoming 50th anniversary of the opening of the St. Lawrence Seaway is a reminder of the importance of marine transportation. Waterborne movement is cost competitive, fuel efficient, safe, and generally environmentally sound. When integrated with rail and trucking into a multi-modal network, it can greatly increase capacity with minimal negative impacts on society.

For the Great Lakes St. Lawrence Seaway system to sustain and optimize its contribution to the future movement of goods, it needs a strategy for addressing its aging infrastructure.

Recognition of this central fact led Transport Canada and the US Department of Transportation to undertake a comprehensive bi-national study on the future needs of the waterway as they pertain to commercial navigation. This study is nearing the homestretch and a final report for public release is expected this year.

Short-Sea Shipping

Improving the awareness of the marine mode's benefits to the environment is linked to the short-sea shipping concept.

Since 2003, Transport Canada -- in collaboration with the United States and Mexico -- has been exploring the potential for short-sea shipping to offer a viable, cost-effective, and environmentally friendly transportation option that complements and augments existing transportation networks. Through the better utilization of our strategic waterways and enhanced modal integration, short-sea shipping can benefit the environment, the economy and ultimately our overall quality of life.

In order to fully realize the benefits and address the challenges of short-sea shipping, it is imperative that industry and governments work together to formulate sound business cases, coordinate policy, and share best practices. While I do not propose that short-sea shipping represents a panacea, when one considers anticipated trade growth and attendant pressures on an already stressed transportation system, we cannot afford to ignore its potential.

Closing

In closing I would note that, although there are structural differences to how our ports and other transportation infrastructure are operated, we as Western countries will continue to face similar challenges in a multitude of arenas, but particularly in accommodating growth in trade.

However, there are areas where we can act in unison, such as promoting short-sea shipping as a viable alternative to other freight transportation modes; on the environmental front, where we will need to balance a competitive and sustainable transportation system with cleaner air and a healthier environment; and with respect to security.

In collaboration, we can ensure a healthy and dynamic transportation system that benefits all of North America.

Thank you for inviting me to present today and I look forward to the rest of the conference activities.