

Post “Rolling Retreat” Report on the Pacific Gateway

On September 5 and 6, a dozen people held meetings to discuss the Pacific Gateway. A wide range of senior stakeholders (listed on page 5) participated – federal government, provincial government, rail, truck/logistics, retail customer, labour, urban transportation authority, port, and airport interests – people and organizations that will impact and be impacted by PG development. This report is a summary of opinions and perceptions, rather than a consensus report. It is offered as a resource for the Federal Government and others who will make policies and investments in support of the PG.

Summary

The Pacific Gateway is a powerful concept that takes a strategic approach to enabling Canada to capture the benefits of strong Asian growth. Elements of a sound Pacific Gateway are:

- A principles-based approach, with open criteria and measurements
- A sharing of the costs and benefits among affected parties
- The Federal Government with two prime roles: PG governance, and the policy and regulatory environment
- The Federal Government finances projects: to support private sector projects, generally leveraged to draw in investment from others; and to fund projects that would not secure private sector funding but which are in the public interest
- Procedures and learning from the PG initiative become a template for other gateways

There is little hesitation in accepting that Asian economic and trade growth will continue to be strong. Disruptions in one country may shift business to others, but the underlying demand from Asia is believed to be sustainable. Yet this opportunity will not wait – it is urgent that Canada moves quickly to build the Pacific Gateway.

There are challenges. The Pacific Gateway initiative risks being viewed as “all things to all people”, creating expectations that could prevent appropriate development. At the same time, this is much more than just a West Coast initiative, making it difficult to define and contain. The Pacific Gateway opportunity will not wait, yet it lacks the sort of deadlines that face the 2010 Winter Olympics, to instill a sense of urgency and cohesion.

The US attitude towards security is negatively impacting Pacific Gateway plans. Developing and communicating sound border management and security programs will differentiate Canada on security. Resolution of cross border issues could be accomplished with the aid of the Pacific NorthWest Economic Region (PNWER), a partnership of elected and private sector interests in Alaska, Idaho, Montana, Oregon, Washington, British Columbia, Alberta, and the Yukon.

The price tag for the entire Pacific Gateway is astronomical. How is this very big job best approached? The starting point is to gather data on the significant private sector investments already made, now underway and planned. Next is to determine where we want to be in five years (30 years?) and build it in stages, by setting the timelines and “trip-wires”. Research to gather knowledge about the private sector’s plans and maintain up-to-date demand forecasts will enable public sector investment and policies that support and advance the momentum.

The governance structure of the Pacific Gateway initiative is not yet known but will need to allow for wide stakeholder input. WESTAC would welcome the opportunity to help develop the PG. WESTAC members span the West, the modes, the sectors. The tripartite nature and more than thirty years of informed dialogue and debate, are aimed at strengthening the economy through excellence in transportation. The Council’s mandate is to be a catalyst for supply chain excellence – and supply chain excellence is at the core of the Pacific Gateway.

Actions to promote the Pacific Gateway fall into four areas – policies, infrastructure, operational and process improvements, and branding and marketing.

Policies: Key Federal Government Role

Policy changes are the most important factor in developing the Pacific Gateway. Two key pieces of legislation, the *Canada Transportation Act* and *Canada Marine Act* provisions were developed in the mid-1990s, when the commercial environment was very different than it is today. As these are both being amended, a pilot initiative, where a set of policies is designed around the needs of the PG is possible. The design would include policy harmonization vis-à-vis the US. It is recognized that financing initiatives unique to PG would be difficult to “sell” with the Finance Department, and there would be calls for “me, too” from other regions.

Canada Transportation Act’s rail-shipper protection provisions – The recent efforts by Canada’s major railways and selected shipper associations to formulate a commercial dispute-resolution process is very positive. This presents an opportunity for a more open mediation/arbitration-based option in dealing with disputes over rates and service. Legislation to promote investment in needed capacity and long term stability of the rail freight operating environment is needed. Recommendation: continue efforts to develop a commercial dispute resolution process and effect speedy passage of the act.

Canada Marine Act amendments – This important act (or individual Letters Patent) need changes that reduce impediments to port funding of capital plans, which are largely unique to ports. This includes the freedom to borrow and to invest, even in areas beyond ports such as for a rail crossing in Langley. Many of the recommendations of the Canada Marine Act Review Panel’s report would improve the ability of West Coast port authorities to compete for Asian traffic entering North America. Finally, the original intent was that Canadian Port Authorities (CPAs) would be those key ports with national significance; however, many CPAs do not fit into this category, making it difficult to develop “one-size-fits-all” legislation. Current discussions on combining the three competing port authorities in Greater Vancouver may lead to more efficient use of port lands. Recommendation: increased freedom for ports to borrow and to invest.

Open Skies Agreements – The Canadian airport community supports a full Open Skies environment for all cargo unilaterally (5th and 7th freedoms). The air cargo industry recognizes that Open Skies would be an economic value-added to the economy, provided there is reciprocity and tangible opportunities for Canadian companies. Shippers are widely supportive, and the free movement of freight is common globally. The PG is more than just a West Coast initiative and this is particularly true in air service. Open Skies agreements, along with liberalization of foreign trade zone rules, would enable airport cargo hubs to be developed at key locations, to achieve growth benefits through handling Asian cargoes and providing a safety net and partner for the marine-port-surface transportation system. Recommendation: unilateral Open Skies for cargo and liberalized foreign trade zone rules.

Lack of Open Skies bilateral agreements on passenger movement are a similar obstacle to Asian-Canadian travel. The US has many such agreements; Canada has only two. Furthermore the slow pace of negotiations means that opportunities are being lost to develop business and tourism relationships that foster a strong PG. Visa restrictions and the need for air transit programs would be resolved by more Open Skies agreements. Recommendation: faster Open Skies bilateral negotiations.

Border flows – The easy flow of goods, services and people across the US border underpins Canada’s Pacific Gateway plans. The Federal Government has the responsibility for the range of issues, such as ensuring the border has adequate inspection staff on both sides; vigorously opposing arbitrary charges levied by the US; and instituting sound programs such as Canpass and Nexus across the country in a unified manner, to expedite trade. Recommendation: sustained Federal efforts to expedite cross border trade and travel.

Land utilization – This is a critical issue to the Pacific Gateway. The necessary corridors must be staked out – in much the same way as land is set aside for green space or the agricultural land reserve – perhaps by creating a port and industrial land reserve. Underpinning a well-designed land use plan will be incentives for municipalities to hold land vacant for future industrial use. *Recommendation:* protect industrial land, perhaps through a special land reserve.

Environmental approvals – Lengthy processes are a serious impediment to the Pacific Gateway. Approval processes must be streamlined, harmonized and consolidated. Perhaps there is another jurisdiction which could be cited as a best practice. Legislation governing the granting of approvals does not provide accountability or sanctions for lack of timeliness, undermining the viability of critical projects. There are also concerns that legislation is administered differently, based on local negative attitudes towards development. *Recommendation:* apply provisions evenly; speed the process without compromising the environment; identify provinces where best practices are harmonizing approvals; review and update the legislation.

Skills development and labour supply – The Pacific Gateway will create new opportunities and the need for new skills. It will have to compete with other industries and initiatives to secure the people and skills to build and operate the PG. Industry is developing recruitment and labour strategies, studying the nature of the work, the skill-sets and shortages. One Federal Government role in labour supply is to reduce restrictions for immigrants and assist in integrating them into the Canadian workforce. A provincial initiative, the BC-Alberta Trade, Investment & Labour Mobility Agreement (TILMA), to be implemented in 2007 as Canada's most comprehensive internal trade accord, will reduce barriers to the flow of goods, services and capital; enhancing the cross-border mobility of qualified workers. This will leverage the benefits of the Pacific Gateway. *Recommendation:* industry to improve work conditions & work-life balance; government to foster increased supply of skilled labour and expand mobility.

Municipal revenues – Development of a Pacific Gateway presents a particular challenge for municipalities, which have property tax as their chief source of revenue. In port communities in BC, industry often faces excessive property tax levied on terminals¹, and opposes the wide spread between residential and industrial rates. This is a symptom of a much greater financial problem facing municipalities, and reducing their taxing powers is a tough sell.

A successful Pacific Gateway will benefit federal and provincial governments directly through increased sales and income taxes, airport rents, gross revenue charges paid by ports, etc. and indirectly through added economic activity. Yet they bear little of the negative impact of this growth.

Although municipalities will also benefit from higher revenues from payments in lieu of taxes (PILTS) from airports and ports, and property taxes, it will not come without major costs: traffic congestion, reduced quality of life in neighbourhoods, road maintenance and road/rail grade separations, services such as water, sewer and policing, and land that is under-performing in terms of tax revenues. Failure to get costs and benefits – the incentive structure – right, forces municipalities to increase property tax revenues, including by converting industrial land to more profitable uses. Resolving the sharing of these costs will also reduce local opposition to projects in the national interest.

The Federal Government's commitment to study sustainable forms of revenue for municipalities is applauded. A complete review of the tax structure of federal, provincial and municipal taxes, perhaps in conjunction with the fiscal balance consultations, will be needed if the Pacific Gateway is to meet the test of sharing the costs and benefits among all parties. *Recommendation:* reform municipal revenue sources to include local governments in sharing the benefits of growth.

¹ Current provincial government restrictions on rates municipalities can charge are temporary.

Infrastructure: industry's prime responsibility; governments assist

Infrastructure investment is a significant responsibility of the private sector, which invests on an ongoing basis. Public and private projects that will support the Pacific Gateway have been widely identified.² They include terminal, road/bridge and rail investments in Greater Vancouver; terminal, pipeline and rail investments in Prince Rupert/Kitimat; road, rail and pipeline investments across the northern and southern east-west corridors in Western Canada; and key gateway airport investments. Border infrastructure, inland terminals and air cargo hubs, and road/rail grade separations are also critical to integrating the system.

The Federal Government's chief role is to **create the policy environment** for the private sector to make the investments. It also funds specific projects where that funding can leverage spending by other levels of government and the private sector, and projects which would not secure private sector funding but which are in the public interest.

Work is needed to develop **criteria for public investments** in infrastructure. There are questions to be answered. Is public investment done by constituency or at choke points? By determining a project's contribution in moving international freight? How are the timelines and sequencing decided? Are the data available to translate into priority projects? Where are the choke points and who should identify them? For public infrastructure investments, what are the guiding principles on how to spend public money? Potential criteria are: increase in throughput, absolute cost, the level of private interest, the productivity/efficiency gain, cost-benefit measures, and some level of public interest. *Recommendation:* in consultation with industry, develop sound, transparent criteria for public sector investments.

Road-rail grade separations are highlighted as projects which, although they do not add to rail throughput, do add to public support. A grade separation positively impacts the entire area or community around the road-rail grade separation. Such projects are in the public interest, and significantly, they reduce local opposition to projects in the national interest.

Operational and process improvements: the job of industry

Numerous opportunities exist to improve operations and processes, thereby creating non-capital capacity. These fall largely to industry, with the role of governments to support and encourage, and in some cases remove policy obstacles. Industry pursues operational and process improvements through:

- **Improved balance and integration** over geographic areas, routes and gateways, time of day, week and year, bulk vs. intermodal, and where modes meet
- **Optimizing the supply chain**, shifting efforts away from optimizing vertical operations within a company
- **Avoiding spending** themselves out of issues
- **Supporting other sectors**, such as the wide support of Vancouver Port Authority's attempts to get approval to construct Deltaport's third berth
- **Joint efforts**, such as combining into a single partnered project the replacement of the Pattullo Bridge and New Westminster Rail Bridge

Recommendation: Support, along with Provincial Governments, operational improvements through coordination assistance, public communications, and research and development, and explore potential of a single port entity in the Greater Vancouver area.

² Greater Vancouver Gateway Council: "Major Commercial Transportation System" (2003); Canada West Foundation: "Building the New Dream" (2003); Government of British Columbia: "BC Port Strategy" (2005); Western Provincial Transport Ministers: "Western Canada Transportation Infrastructure Strategy for an Economic Network" (2005); and the Pacific Gateway Strategy Action Plan (2006).

Container trucking services in the Vancouver area is experiencing ongoing problems. The reservation system is not working effectively for larger companies, and efforts are underway to make improvements. There is difficulty in policing the rates set out in the Memorandum of Agreement and this is causing some undercutting. The truck licensing system has led to too many trucks licensed to serve the port. A successful Pacific Gateway requires a resolution of these issues and the Government's ongoing assistance is appreciated.

A number of initiatives are being studied or implemented:

- Where containers are handled, moved and stored – part of a broader set of initiatives related to charging premium prices for premium space or premium service
- Increasing capacity utilization through lengthening the work day, week and year, and adopting technologies such as ITS and process improvements related to handling and sourcing

Recommendation: Foster continuing efforts by ports, terminals, trucking companies, the Vancouver Container Truckers Association and other trucker representatives, to improve container trucking outcomes.

Branding and marketing: shippers and service providers assist Government

Image matters. **Problems or the perception of problems**, regardless of whether they relate to system capacity, labour relations, congestion, or some other factor, undermine our success in Asian markets. In describing the impact of such problems on our global image, we remember that “we are a pimple on their world.”

The Canadian transportation and logistics service providers welcome the opportunity to serve in a supporting role in global branding and marketing, with a primary role in explaining their activities to the surrounding communities, and in resolving local issues so that communications with global players is positive.

A strong Pacific Gateway requires a sound mix of policies, infrastructure investment, operational and process improvements, and branding and marketing. Its benefits can be far-reaching, as the procedures and learning from the Pacific Gateway initiative form a template for other gateways.

Participants

Hon. Rob Renner (Minister of Municipal Affairs, Government of Alberta), **Jane O'Hagan** (Vice President, Strategy & External Affairs, Canadian Pacific Railway), **Pat Sinnott** (Senior Vice-President, Supply Chain, Canadian Tire Corporation), **Paul Johal** (President, CAW Local 2006 - Vancouver Container Truckers Association), **Paul Waite** (Vice President, IMX, CN), **Ron Tepper**, President & CEO, Consolidated Fastfrate Inc.), **Glen Vanstone** (Director of Cargo & Business Innovation, Edmonton Regional Airports Authority), **Pat Jacobsen** (CEO, Greater Vancouver Transportation Authority), **Don Krusel** (President & CEO, Prince Rupert Port Authority), **Brian Bohunicky** (Director General, Strategic Policy, Transport Canada), **Capt. Gordon Houston** (President & CEO, Vancouver Port Authority), **Lisa Baratta** (Manager, Corporate Services, WESTAC), **Ruth Sol** (President, WESTAC).

Recommendations*

Actions to promote the Pacific Gateway fall into four areas – policies, infrastructure, operational and process improvements, and branding and marketing. The Federal Government's **lead role** is in providing the policies and the global branding and marketing. It has a **support and catalyst role** in infrastructure and operational and process improvements.

Canada Transportation Act's rail-shipper protection provisions –

Recommendation: continued efforts to develop a commercial dispute resolution process and speedy passage of the act.

Canada Marine Act amendments –

Recommendation: increased port freedom to borrow and to invest.

Open Skies Agreements –

Recommendation: unilateral Open Skies for cargo and liberalized foreign trade zone rules.

Recommendation: faster Open Skies bilateral negotiations for passenger service.

Border flows –

Recommendation: sustained Federal efforts to expedite cross border trade and travel.

Land utilization –

Recommendation: industrial land protected, perhaps through a special land reserve.

Environmental approvals –

Recommendation: provisions applied evenly; speed the process without compromising the environment; identify provinces where best practices are harmonizing approvals; review and update the legislation.

Skills development and labour supply –

Recommendation: industry to improve work conditions & work-life balance; government to foster increased supply of skilled labour and expand mobility.

Municipal revenues –

Recommendation: municipal revenue sources reformed to include local governments in sharing the benefits of growth.

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Criteria for public investments –

Recommendation: in consultation with industry, sound, transparent criteria for public sector investments developed. Road-rail grade separations are highlighted as appropriate projects.

Operational improvements –

Recommendation: along with Provincial Governments, support operational improvements through coordination assistance, public communications, and research and development, and explore potential of a single port entity in the Greater Vancouver area.

Container trucking services –

Recommendation: foster continuing efforts by ports, terminals, trucking companies, the Vancouver Container Truckers Association and other trucker representatives, to improve container trucking outcomes.

Branding and marketing –

Recommendation: Government takes a lead role in global branding and marketing.

Best practices template –

Recommendation: Government uses the procedures and learning from the Pacific Gateway initiative as a template for developing other gateways.