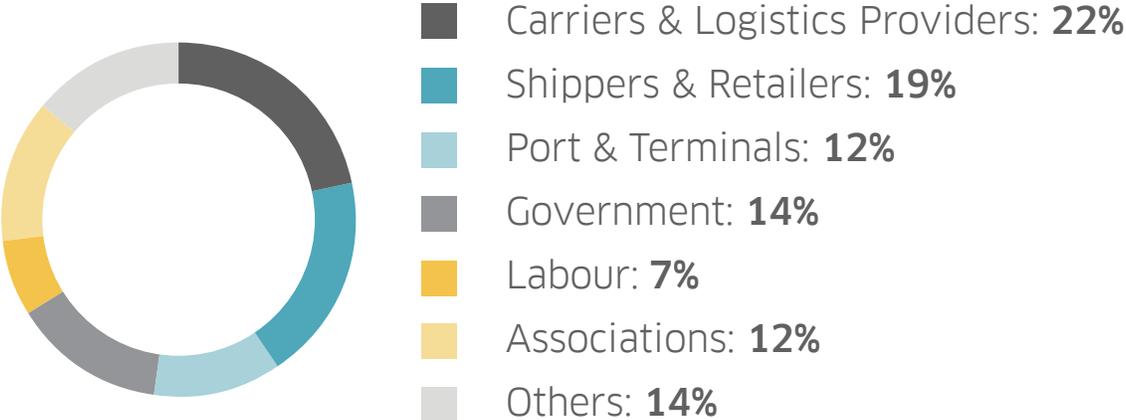


WESTAC COMPASS REPORT 2023



WE HEARD FROM:



ABOUT THE COMPASS REPORT

The annual Compass survey is a unique WESTAC product that highlights critical insights, expectations and plans articulated by leaders and executives in Western Canada’s transportation sector. The survey is revised annually to reflect shifting trends and events.

The data in this report are identified by the year they were gathered. The 2022 data were collected through an online survey from September 8 to 30, 2022.

Figures are rounded up or down to the nearest digit.

EXECUTIVE OBSERVATIONS

// It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair. //

Reflecting on this year's Compass results, I can't stop thinking about *A Tale of Two Cities*, the well-known novel published by Charles Dickens in the mid-1800s.

I thought we had moved through the worst of times caused by the pandemic and the massive infrastructure damage caused by extreme weather events in 2021. With offices reopening, commodity prices near all-time highs, and a grain harvest that appeared to be a top 5 all-time Canadian crop, it felt like the best of times were upon us. The *Compass* results indicate that revenue growth has either held steady (56%) or increased (33%). There has been no reported decline in projected capital spending, with 81% of respondents indicating that they will maintain or increase spending—all signs of positivity.

But perhaps I was living in the age of foolishness and season of darkness and about to enter the winter of despair. *Compass* respondents also noted that Canadian competitiveness is declining, and our reputation is worsening, as are our resiliency and our overall business outlook. Surprisingly, even views on the ability of supply chain partners to collaborate effectively have significantly deteriorated.

The *Compass Report* provides valuable insights and traces a roadmap that can take us back to the season of light. We must return to effective collaboration and develop a long-term infrastructure plan to address the critical bottlenecks identified in this report and improve our ability to share data. Governments need to revive the regulatory agility they demonstrated during the pandemic and their response to extreme weather events: this must become the default rather than the exception. Finally, we need to prioritize the people who work in transportation to ensure the sector is the field of choice for employees. And we need active engagement to meet our employees' needs.

I hope you share my belief that all of this is possible, because the future of our economy depends on it. WESTAC stands ready to do its part to return us to the spring of hope.



Lindsay Kislock
President & CEO
WESTAC

Climate change, COVID-19 and regulatory and legislative challenges have slipped down the list of top challenges as more immediate concerns have captured industry leaders' attention. Nevertheless, these challenges remain critical and will need to be addressed collaboratively to ensure businesses thrive without losing sight of the risks and impediments that could hinder the performance of the Canadian economy.



Image courtesy of Great Western Railway

TOP 5 BUSINESS CHALLENGES

1 LABOUR SHORTAGES

The majority (72%) of industry leaders identified labour shortages as a top business challenge. Almost half (49%) of carriers and logistics providers face labour shortages. Concerns about recruitment and retention are top of mind as the scramble for talent intensifies.

2 ECONOMIC SLOWDOWN

With a recession looming, the potential for an economic slowdown is weighing heavily on leaders as a top business challenge for the next 12 months. One in 5 survey respondents ranked it as the number one challenge.

3 INFLATION

More than half of respondents (54%) are concerned by widespread, increasing business costs, from fuel to construction materials.

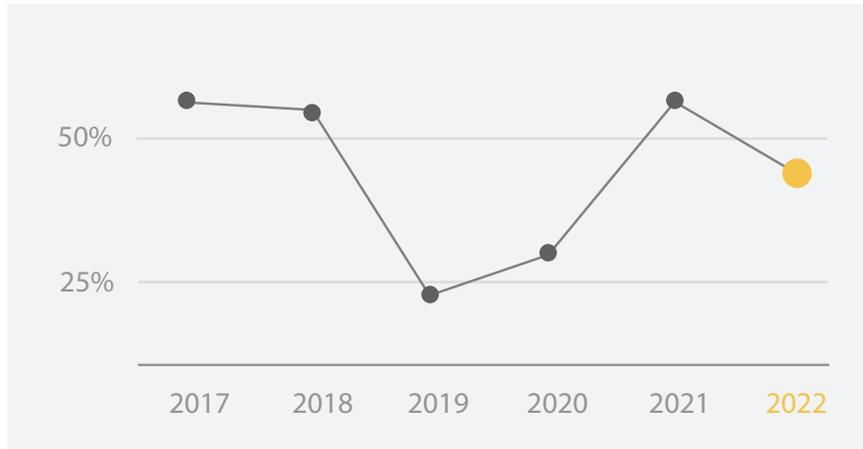
4 EXTREME WEATHER & NATURAL DISASTERS

Broader trepidations about climate change have morphed into a more myopic concern about extreme weather and natural disasters. The remnants of 2021's weather-related challenges will be a continuing cause for concern for the foreseeable future.

5 BUSINESS DISRUPTIONS

Concerns related to business disruption have fallen in the rankings, but executives remain anxious about the effects of disruptors on business operations, such as supply chain challenges and workforce-related issues.

THE OUTLOOK ON THE **OVERALL BUSINESS ENVIRONMENT** HAS DECLINED



Positive views have declined.

Despite the declining business environment, respondents have a more favourable outlook than they did at the start of the COVID-19 pandemic. Strong commodity and resource demand coupled with innovation and technology in the industry are contributing to this positive outlook.

Leaders' poor perceptions of the overall business environment are influenced by fears of recession, supply chain challenges and inflation. Other notable causes for concern are high levels of government debt and workforce-related challenges.

// I do see an economic slowdown coming in 2023, but I think there is still momentum in our global demand to carry us through until Q3 of 2023. //

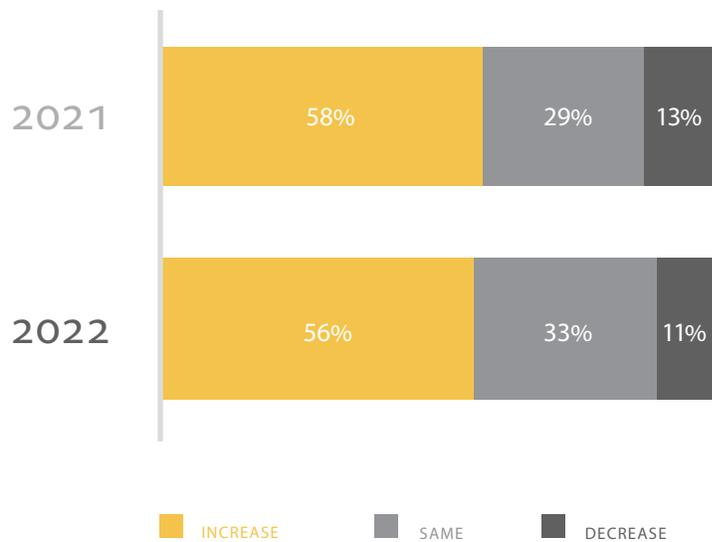
–FORWARDER

// We are coming out of the pandemic, but offsetting factors, such as inflation, create headwinds. //

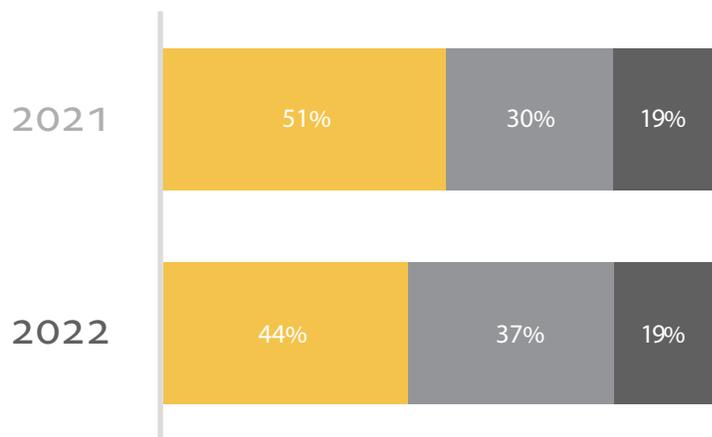
–INDUSTRY EXPERT

// Federal leadership does not drive business, and increasing interest rates and supply chain issues are going to hold it back. //

–TERMINAL OPERATOR



More than half of respondents anticipate **revenue growth** in the coming year.



Almost half (44%) of respondents anticipate increasing their **capital spending** in the next 12 months. This is a slight decline from last year (51%) as businesses address increased costs due to inflation.

Those increasing their capital spending mention replacing aging infrastructure and investing in new technologies.

// Government is getting more in the way of getting things done efficiently. [It has] always been in the way, [and is] just becoming more of an impediment. //

–LOGISTICS PROVIDER

// We continue to invest in capacity in Western Canada's supply chain, which is needed for the long term, including new warehouses and rail tracks. //

–TERMINAL OPERATOR

// The world seems to be heading into a recession that will impact our overall business environment and likely delay some major projects. //

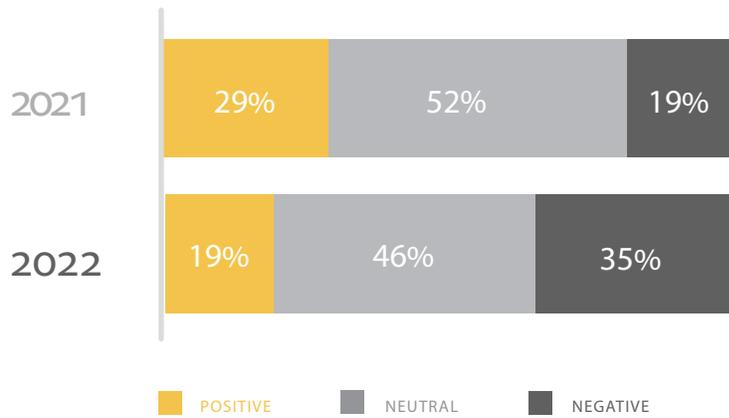
–MARINE CARRIER



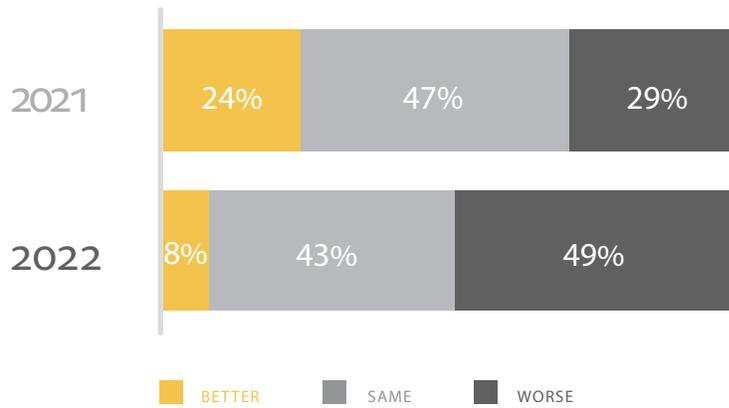


Image courtesy of G3 Canada Limited

THE OUTLOOK ON CANADA'S **INVESTMENT CLIMATE** IS WANING



Negative impressions have almost doubled since last year.



Nearly half of respondents believe the investment climate has worsened over the past year.

The gains made during last year's somewhat favourable investment climate have been lost. The main factor influencing this has changed from pandemic restrictions to an economic slowdown. Respondents cited an anticipated economic slowdown, labour disruptions, and unchanged legislative and regulatory hurdles as reasons why the investment climate has worsened in the past 12 months. Paired with geopolitical concerns and the expected global recession, these are hampering investment.

THOUGHTS ON INVESTMENT CLIMATE

// Canada is so highly regulated that costs to businesses are prohibitive in relation to many competing countries. The time it takes to start up a business through the red tape and permitting of various regulatory bodies puts us at a significant disadvantage and poses great risk to potential investors. //

—TERMINAL OPERATOR

// Fluctuating prices, the increased cost of capital and market fluctuations have offset many of the positive aspects. //

—LABOUR

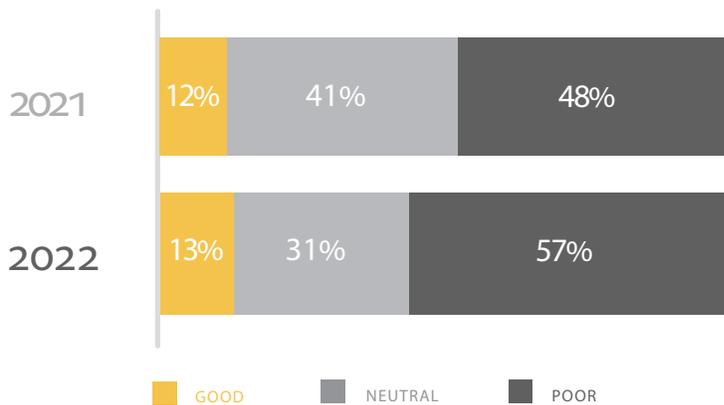
// Although the dark clouds have changed—from the uncertainty related to the pandemic and American protectionism to inflation, labour shortages, supply chain inertia and other tactical problems—the investment climate remains the same, with little to no improvement. //

—PORT AUTHORITY

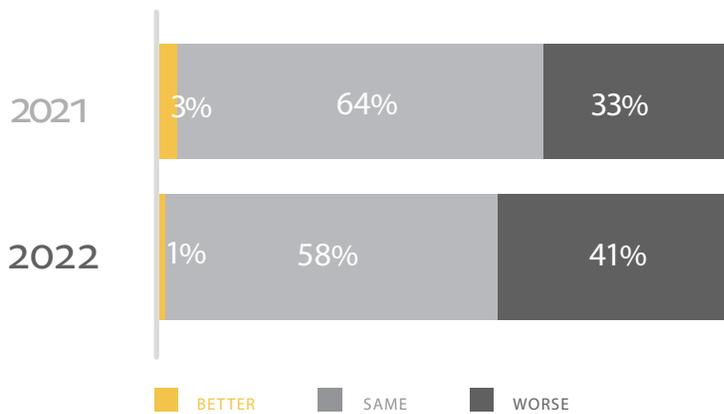
// We went from the pandemic to an inflationary environment, and neither has been particularly good for business. Our supply chains are still in disarray. Labour is scarce, and labour disruptions are a growing feature. One would have expected improvement, but this has not yet occurred. //

—SHIPPER

THE **REGULATORY ENVIRONMENT** CONTINUES TO DISAPPOINT



More than half of industry leaders (57%) have poor perceptions of the overall regulatory environment.



Reflecting leaders' negative perceptions, 2 in 5 survey respondents (41%) believe the regulatory environment has worsened over the past 12 months, up from 33% who held this view in 2021.

Leaders identified a disconnect between government and business when it comes to the need for regulatory clarity. Long processes and red tape hinder business operations and influence spending on big projects. Some respondents pointed to increasing uncertainty regarding regulations. The concern is that unclear regulations are not conducive to a robust economy that can utilize Canadian commodities to their full potential. There is an increasing need for governments to make prompt decisions to get investments and projects rolling quickly for the betterment of all Canadians.

The survey results call for attention to the regulatory framework because it is impeding rather than incentivizing initiatives that could increase capacity and improve reliability. While governments demonstrated regulatory agility during the pandemic and in their response to extreme weather-related events in southern British Columbia, this needs to be the default setting.

Why has the **regulatory environment** worsened?

// There has been no effort on the part of government to stimulate investment or take advantage of Canada's natural resources. Canada remains a resource-dependent economy, for which it is inexplicably apologetic. //

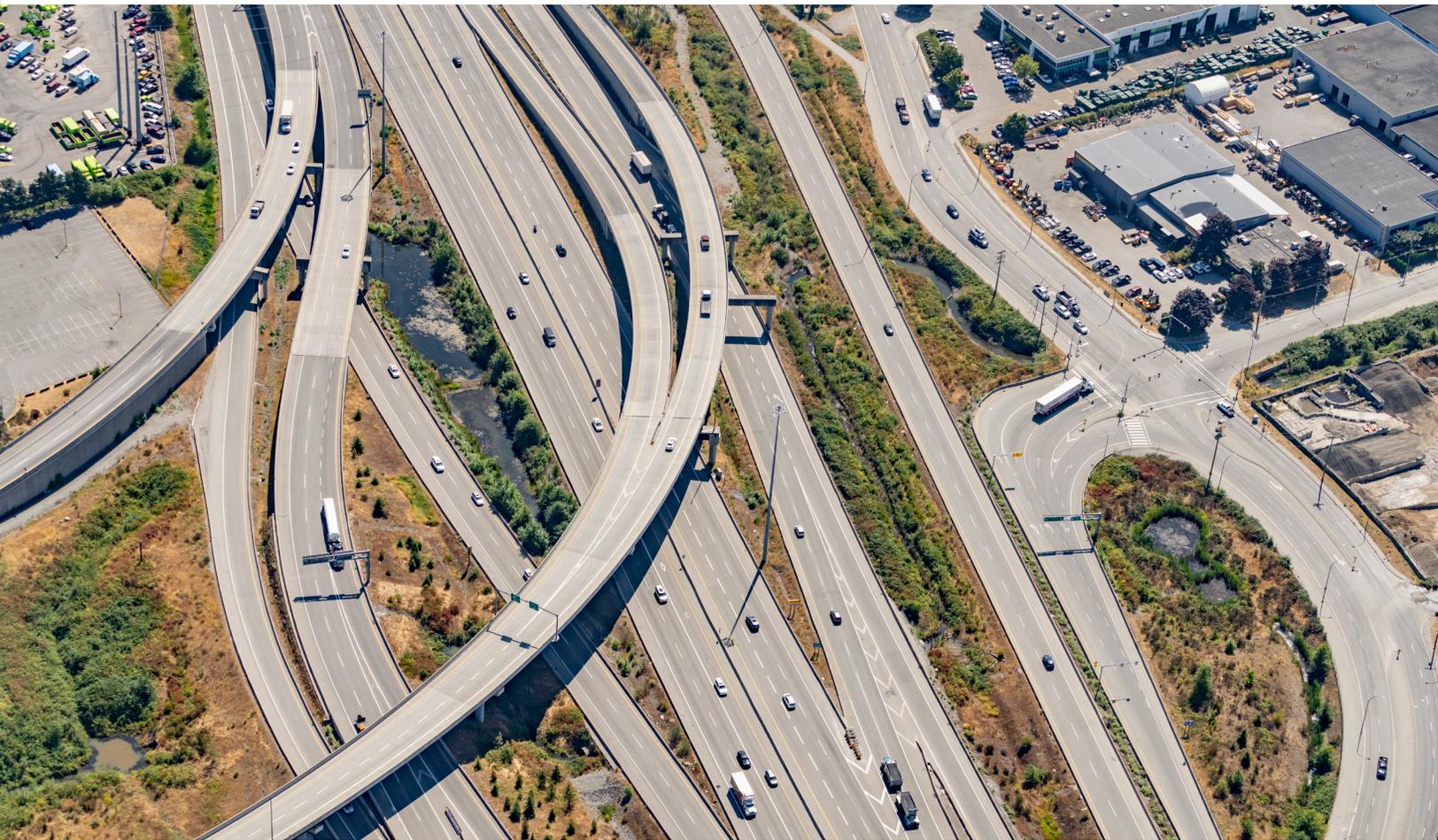
–SHIPPER

// We are slow in making progress on Indigenous agreements for natural resource development, and government processes are backlogged. //

–AIR CARRIER

// I didn't think it could get worse, but no large-scale capital projects can get built in Canada in a reasonable timeframe anymore. Our ports, terminals, infrastructure, transmission lines, etc., are all caving under unnecessary regulatory weight. //

–FORWARDER



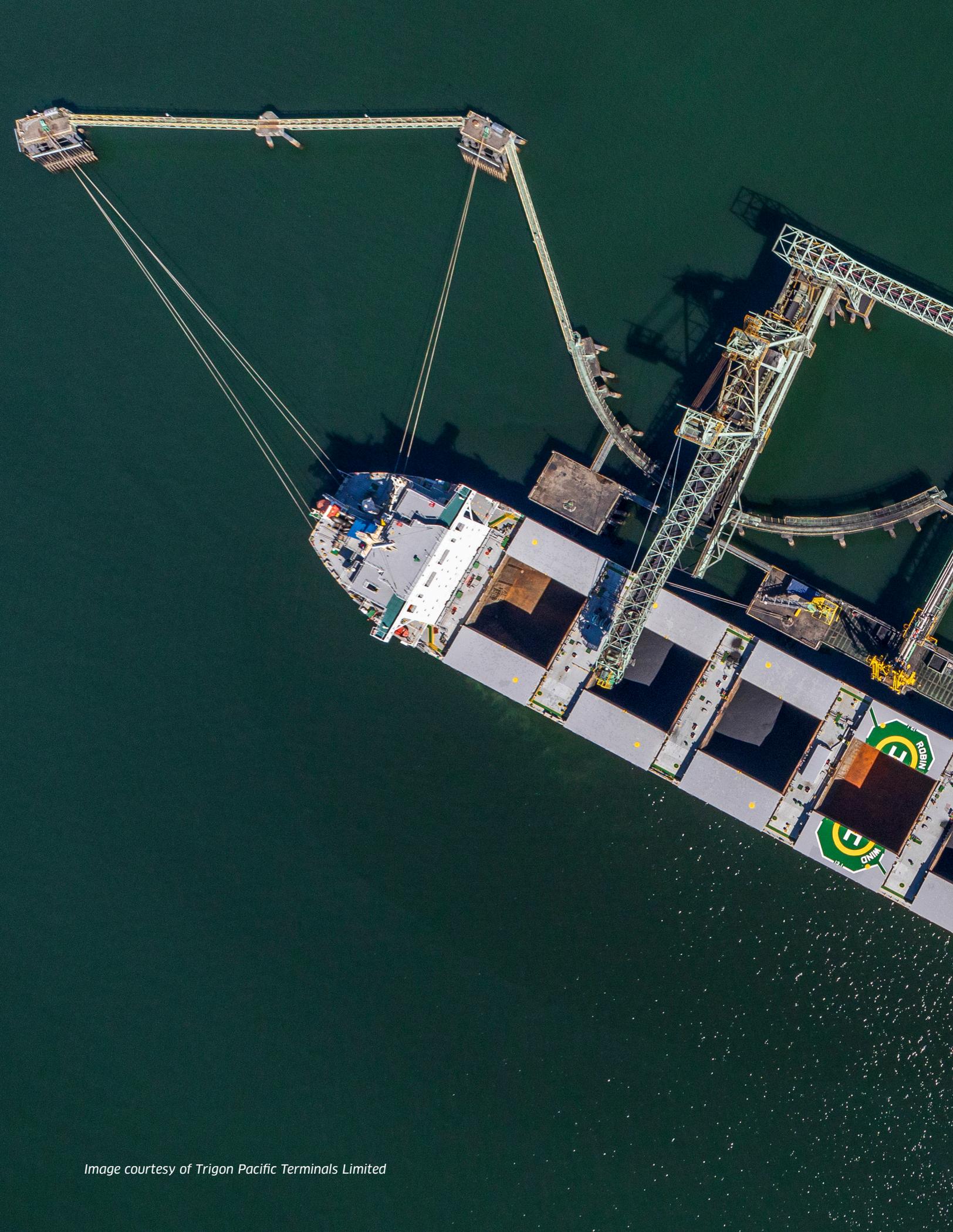


Image courtesy of Trigon Pacific Terminals Limited

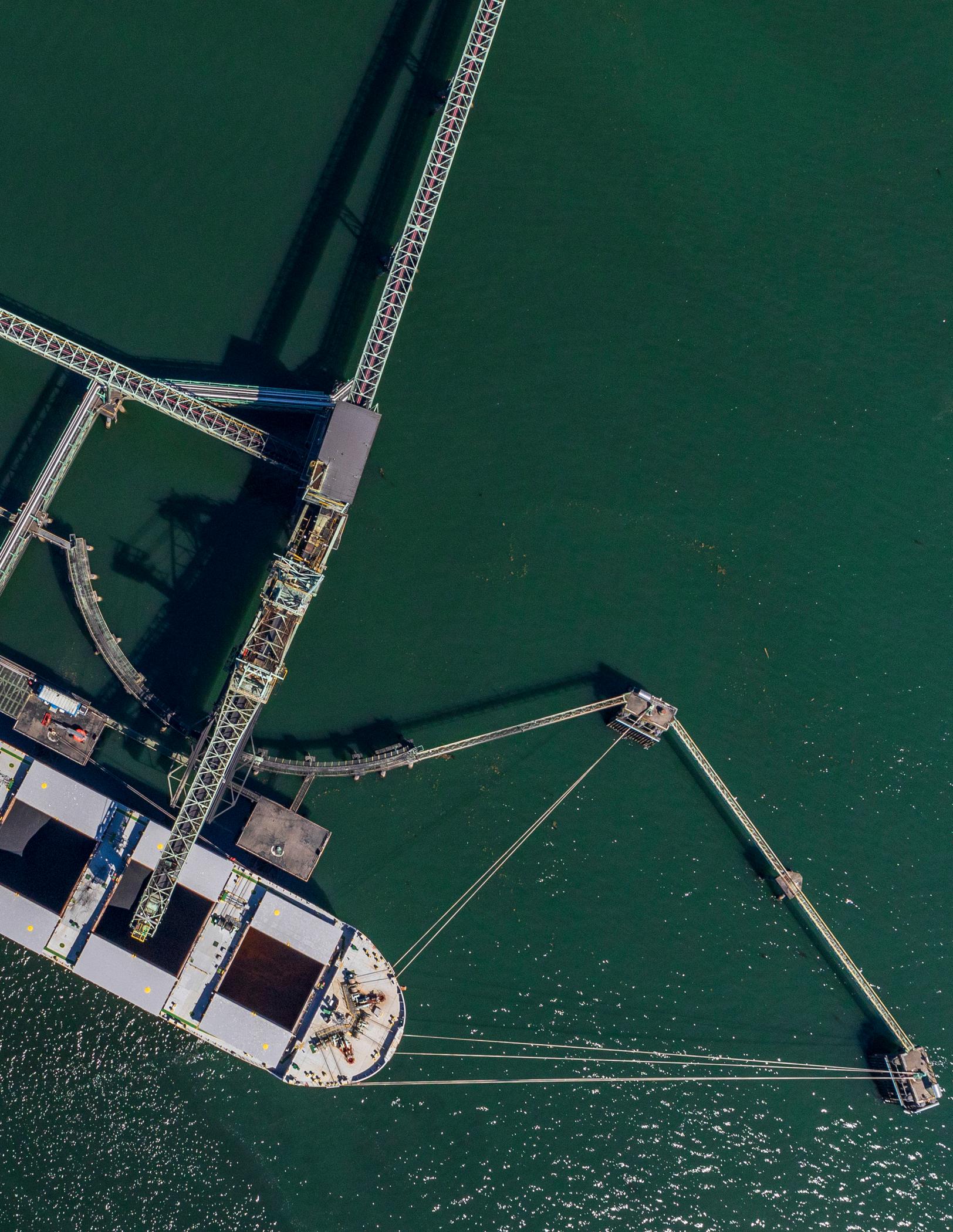




Image courtesy of the Government of the Northwest Territories

TOP 5 TRANSPORTATION CHALLENGES

1 LABOUR SHORTAGES

Echoing responses to the question about the top business challenge, 48% of survey respondents cite labour shortages as the greatest challenge facing the transportation industry in the next two years. Respondents are further concerned by the small pool of skilled workers, labour productivity, supply capacity and the difficulty of retaining workers, indicating a need to revitalize the transportation industry as the industry of choice.

2 RELIABILITY

A significant proportion of respondents (42%) noted concerns about the reliability of railways, trucks and vessels as big concerns for the industry. These are influenced by other top business and transportation challenges.

3 LACK OF A COORDINATED LONG-TERM INFRASTRUCTURE PLAN

Industry leaders are concerned about the lack of a long-term infrastructure plan that can meet the needs of today while also having the capacity and flexibility to meet the needs of tomorrow. There is a push to create a forward-thinking plan that considers capacity concerns and Canada's future economic growth.

4 DISRUPTIONS

Uncertainty arising from disruptions, including those caused by climate change, labour or ministers' orders, is a cause for concern for transportation leaders. The public belief that businesses can adapt to all circumstances is inaccurate. Disruptions negatively affect Canada's reputation, which can drive potential customers to choose other markets.

5 INSUFFICIENT CAPACITY

Insufficient capacity has been on this list consistently for the past six years. Concerns are relatively high among shippers, retailers, ports and terminals. The ongoing presence of this issue on this list indicates the urgent need to build capacity to support the Western Canadian trade transportation network.

SPOTLIGHT ON THE **WORKFORCE**

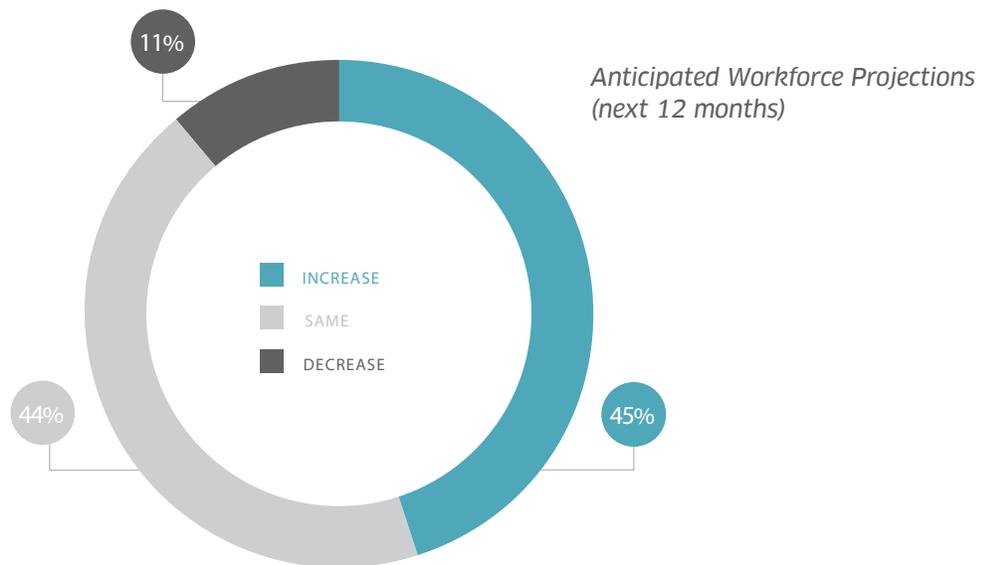
Labour shortages have been a top business and freight transportation challenge since last year. However, the impacts are now being felt more strongly.

More than half of respondents (57%) noted that their organization is facing “some” shortages, with another 1 in 5 facing “a lot” of shortages. This is the second year where this concern is particularly high among carriers, logistics providers and shippers.

In what positions are the shortages most acute?



Other includes: truck drivers, IT professionals, engineers and project managers.



Despite widespread concerns about an economic slowdown, nearly half of the respondents (45%) want to increase the size of their workforce in the next 12 months. Another 44% said they are likely to keep their workforce size the same.

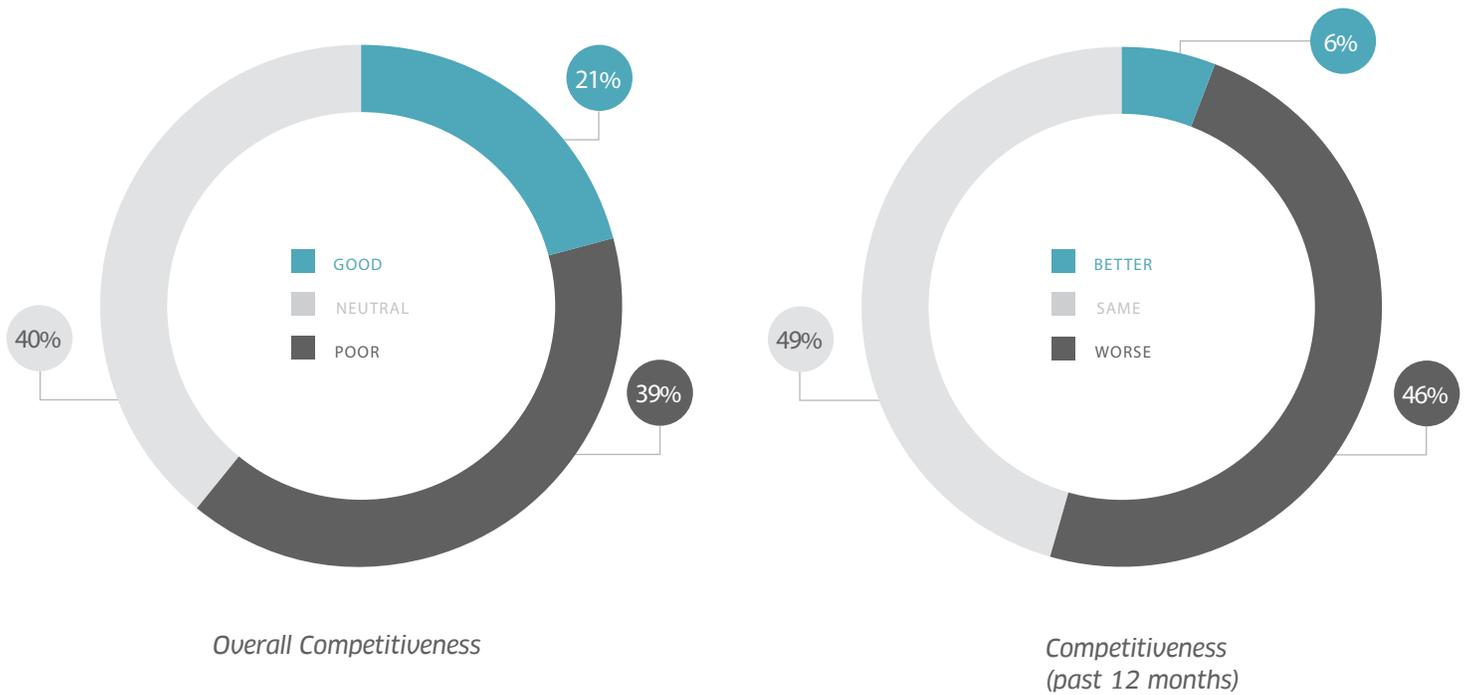
Suggestions to address labour shortages:

- Promote greater labour mobility and fluidity
- Be more open to hiring diverse candidates
- Encourage flexibility in labour practices
- Incentivize employees to retrain and upgrade their skills
- Focus on retention of current employees
- Increase salaries to reflect high cost of living
- Collaborate with educational institutions to tailor programs to address current and future business needs
- Increase and promote the availability of formal training in transportation technologies, logistics, and maintenance of critical transportation infrastructure

// Revamp HR policies and strategies to address current labour market demands and better position businesses to be attractive and flexible in the current environment. //

–TERMINAL OPERATOR

COMPETITIVENESS AND REPUTATION HAVE TAKEN A HIT



Respondents' perceptions of the overall competitiveness of Western Canada's supply chains declined for three consecutive years, with 2 in 5 (39%) rating it as poor. Half of industry leaders (46%) feel competitiveness has worsened over the past 12 months.

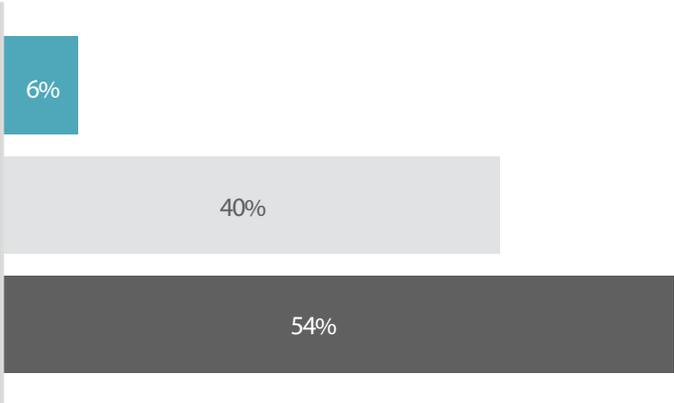
// Natural weaknesses and the lack of redundancy in assets, especially roads and rail, have been exposed by flooding and forest fires. The lack of a long-term plan with input from the private sector makes Canada an outlier. //

–INDUSTRY EXPERT

// The network lacks surge capability, and we have lost opportunity as a result. //

–TERMINAL OPERATOR

As with views on competitiveness, more than half of industry leaders (54%) perceive the **reputation of Western Canada’s supply chains to have worsened over the past 12 months**. Respondents cite issues like floods, forest fires and the industry’s difficulty in alleviating supply chain backlogs as hampering reputation.



Reputation (past 12 months)

■ BETTER ■ SAME ■ WORSE

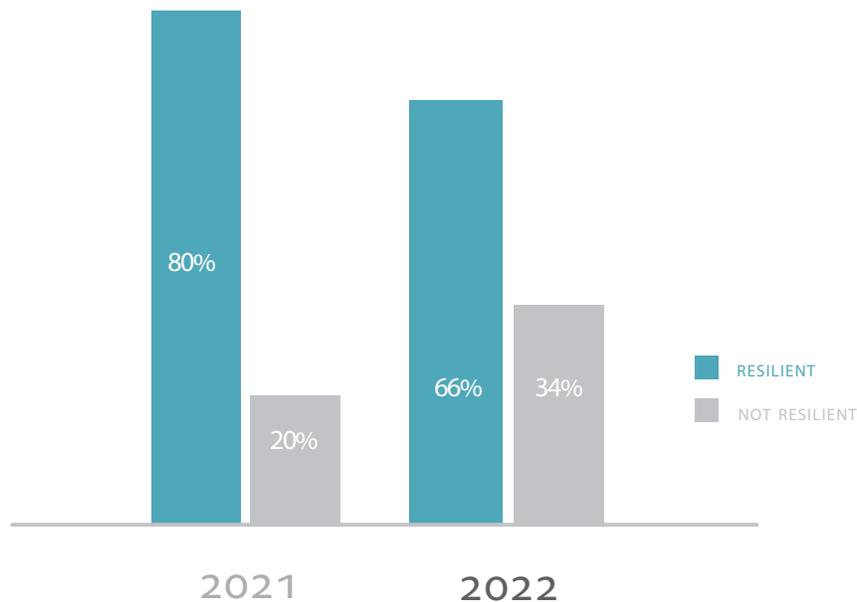
// Western Canada has been affected by disruptions like flooding and forest fires in BC, inadequate rail service, and public demonstrations. Customers question our ability to deliver on time. //

–GOVERNMENT

// Fires, floods and severe weather events critically disrupted railways and ports. Dependency on one route to the west coast for exporters and importers is a huge risk. //

–SHIPPER

RESILIENCE



Even with neutral-to-poor perceptions of competitiveness and reputation, many industry leaders (66%) rate Western Canada's supply chains as resilient. However, this is a significant drop from the 80% who held this view last year.

// 2021 was a pivot point for global consumers. Previously, it was understood that winter conditions strained supply chains. However, with disruptions starting in July 2021 and not ending until early 2022, it has become clear that Western Canadian supply chains are not resilient. //

–SHIPPER

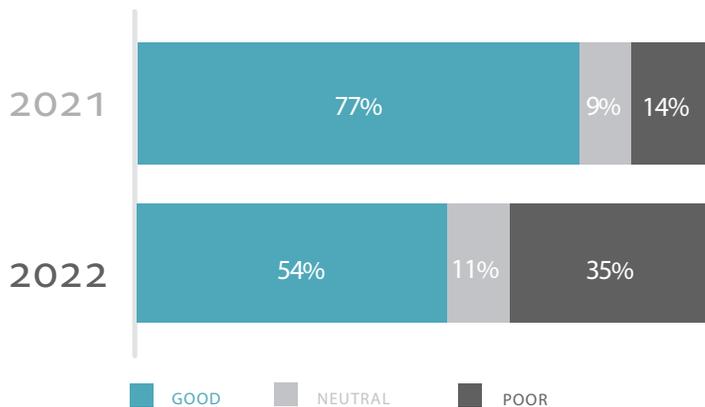
// Invest in existing infrastructure and underutilized supply chain assets to increase resilience and efficiency. This includes maintaining short line infrastructure and encouraging cooperation between short lines and Class 1 railways to maximize existing assets. //

–RAILWAY

// The fires and floods that affected British Columbia in 2021 shut down the entire supply chain. The quick response to the situation (getting the railways back up and running and bridges and highways rebuilt) was nothing short of remarkable. This was all accomplished without a master plan. A master plan to confront situations like this in the future has to be developed. //

–LOGISTICS PROVIDER

COLLABORATION



54% of respondents rated their collaboration with supply chain partners as good over the past 12 months, a significant decline from 77% last year. Executives cited greater communication, transparency and engagement with all stakeholders as critical to improving collaboration.

Suggestions to improve collaboration:

// Greater collaboration looks like openly and honestly sharing transportation data so that the real problems can be identified. //

–PORT AUTHORITY

// Collaboration starts with communications and cooperation. We still need to work on these things. //

–LABOUR

// Greater collaboration would be the willingness of organizations to partner together, whether to discuss issues/opportunities, contribute to and develop projects, or share information and data. //

–GOVERNMENT

Competitiveness, reputation and resilience are linked. Poor perceptions of one influence perceptions of the other. Collaboration and transparency are key to improving relationships between transportation stakeholders and will invariably improve overall views on Western Canada’s supply chains. Positive views of these factors are critical for Canada’s global competitiveness and trading relationships.

EXTREME WEATHER AND CLIMATE CONCERNS

Industry leaders value long-term planning as they implement mitigation strategies to address climate change and learn from the unprecedented weather events of 2021—from droughts to atmospheric rivers. There is a consensus that it is important to understand the carbon footprint of their operations, invest in climate-resilient equipment, and develop metrics to monitor progress and performance.

// We need to stop thinking of such events as unprecedented. Instead, consider the fact that they are likely to occur rather than assume they won't. //

—INDUSTRY EXPERT

// We have a comprehensive ESG [environmental, social and corporate governance] strategy that we are executing. It contains carbon reduction targets supported by actions. We have also adopted an internal price of carbon that we use in capital investment decisions. //

—SHIPPER

// We are diversifying products and taking climate challenges into consideration. We are also handling sustainable commodities to reduce our carbon footprint and ensure we meet air quality standards. It is important for us to minimize environmental impacts on all future projects. //

—TERMINAL OPERATOR

// We are completing a full climate change analysis that will guide us on new construction and clarify risk to existing facilities. //

—PORT AUTHORITY

LESSONS LEARNED: **EXTREME WEATHER EVENTS** OF 2021

Transportation leaders echo the need to be resilient. They cite long-term planning and updated infrastructure as critical for the industry to manage future weather conditions better.

// These events will become more frequent and could increase in intensity. Our transportation infrastructure needs to be hardened to improve its resilience. //

–SHIPPER

// That gateway redundancy/resilience for current needs of critical export/import is more important than growth. All existing rail lines that connect west to east, including less used options, must be retained and readied for service for development and emergencies. //

–LOGISTICS PROVIDER

// Industry-wide cooperation and sharing of knowledge are critical to quick and adequate response in the face of weather events. //

–RAILWAY

// We have underinvested in capacity and resilience in the supply chain infrastructure, but to the credit of railways and governments, the emergency response and restoration work was impressive. //

–PORT AUTHORITY

// Resilience is tied to increasing capacity to operate under more variable conditions. Long-term thinking will allow plans to be put in place. //

–INDUSTRY EXPERT





WHERE ARE THE **INFRASTRUCTURE BOTTLENECKS?**

Respondents shared their insights on where they believe the most critical infrastructure bottlenecks are in Western Canada. Many responses focused on Vancouver and the Lower Mainland, citing capacity and infrastructure challenges hindering millions of dollars of export and import potential. Concerns highlighted by industry leaders include:

- Second Narrows Rail Bridge and the New Westminster Rail Bridge
- Rail congestion and capacity
- Shortage of industrial land

// The Fraser Canyon area is critical to both railways. Climate makes it extremely prone to disruption. Reinforcements of alternate routing need to be urgently developed. //

–SHIPPER

// Ocean ports don't have the infrastructure to handle all the volume. Ships are waiting a long time to unload, and then it takes days to load onto rail. //

–AGRICULTURE

ELEMENTS OF A LONG-TERM, COORDINATED SUPPLY CHAIN

Industry leaders cited the lack of a coordinated long-term infrastructure plan as one of the top transportation challenges this year. Survey respondents shared what they would like to see in such a plan.

// [We need] a framework within which to share data and objectively identify those investments or regulatory changes that would increase capacity, reduce end-to-end cost and cycle time. //

–LOGISTICS PROVIDER

// [We need] significant highway infrastructure investment, including rest areas, identification and funding for commercial ventures (food, lodging, fuel), [along with] ties to ports (sea and air) and railway systems. //

–TRUCKING

// [We need] to address the current, well-documented challenges and look beyond these to plan for new growth in demand so the trade corridor will remain resilient and competitive and have adequate capacity and fluidity. This could include designing new western trade corridors, not just upgrading the existing ones. //

–GOVERNMENT

// [We need] a clear plan on prioritization of what investments and expansions are necessary, backed by solid data and input from the private sector. This includes a detailed analysis of what the rail and road networks can carry and an analysis of the best use of federal port lands across the West—and how these can be optimized for the benefit of the entire nation. //

–TERMINAL OPERATOR

TAKEAWAY MESSAGES



Prioritize Your Workforce

There is a need to prioritize people. The current labour shortages are likely to persist for the next two decades. Organizations urgently need to focus on employee retention, hiring policies, and overall HR strategies to build resilience and make transportation the industry of choice.



A Long-Term Plan is Needed

A sustainable long-term transportation plan is essential for a competitive and resilient industry. The plan should include a corridor strategy to target infrastructure bottlenecks and improve innovation in the industry. The new strategy should knit the provincial goods movement plans together with private sector investments to develop a long-term investment plan. Such a plan would need to look beyond the immediate horizon to ensure we invest in projects and technologies that will help us meet tomorrow's climate and trade goals.



Regulatory Agility Is Key

Regulatory systems that are strong, agile, transparent and predictable confer a competitive advantage. The transportation sector is subject to a rigorous and extensive regulatory framework. It meets some of the world's highest regulatory standards, which safeguard the environment, protect public health and safety, and align with community values. However, processes need to be improved to allow timely decisions on critical infrastructure projects.



Collaborate, Collaborate, Collaborate

Effective, transparent collaboration is imperative to ensure a sustainable industry that optimizes the transportation supply chain network. Increased stakeholder collaboration will lead to a better policy and regulatory framework.

HOW WILL WESTAC HELP?

Convene

We play a convening role across sectors and governments. Our responsibility is to bring parties together and develop a common understanding of the events and issues that affect the business of transportation.

Broker Information

We continuously gather critical industry research and findings to share with transportation stakeholders.

Voice Concerns

We raise awareness of critical transportation issues and act as a catalyst to stimulate discussion and search for solutions.

Engage

We bring individuals, transportation leaders and governments together, ensuring they're engaged and moving forward collectively to improve Western Canada's transportation industry.

Transportation Leaders Catalyzing Change

WESTAC is a not-for-profit, non-partisan forum composed of leaders from the private sector, government and labour.

Our members work together to resolve the constraints and inefficiencies that undermine the performance of Western Canada's supply chains and transportation sector. Trade continues to be a cornerstone of Canada's economic growth. Getting goods to market reliably and competitively has never been more essential.

Please feel free to use the survey results in your reports and presentations. You can also request additional resources, including infographics, presentation slides and print or digital copies of Compass Reports.

To order, contact Marzia Rizvi, WESTAC's Manager, Program Development and Communications, at mrizvi@westac.com or **604-687-8691**.



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