

COMPASS REPORT 2024



Transportation Leaders Catalyzing Change

The Western Transportation Advisory Council (WESTAC) is a council of organizations in the transportation sector represented by senior decision-makers. WESTAC's members span all aspects of freight transportation in Canada. They include carriers and logistics providers, ports and terminals, shippers, labour unions, and three levels of government. Members represent a significant share of the Western Canadian economy. We focus on critical issues that affect Western Canada's freight transportation network to ensure that it is sustainable, safe, efficient, reliable, and competitive.

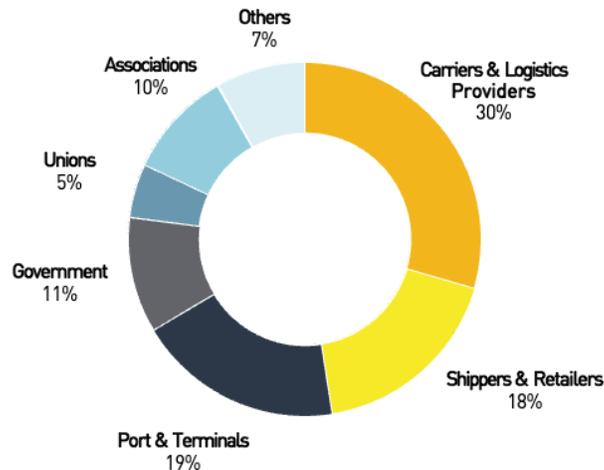
Our members work together to resolve the constraints and inefficiencies that undermine the performance of Western Canada's supply chains and transportation sector. Trade continues to be a cornerstone of Canada's economic growth, and getting goods to market reliably and competitively has never been more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

About Compass

The annual Compass Report highlights critical insights, expectations and plans articulated by business, labour and government executives across Canada's transportation industry. The survey is revised annually to reflect shifting trends and events. The report has become a well-read barometer of the state of transportation that identifies the major sectoral issues.

The 2024 Compass Report is the 7th annual report. The data reported was collected from an online survey conducted from October 4 to October 25, 2023. Figures are rounded up or down to the nearest digit. For media inquiries, contact Marzia Rizvi, WESTAC's Manager, Program Development and Communications, at mrizvi@westac.com or 604-687-8691.

Respondent Profiles:



- C-Suite Executive: 32%
- Executive Vice President/Vice President: 25%
- Directors: 17%
- Senior Government Official (Minister, DM, ADM): 9%
- Labour Leader: 7%
- Board Member: 4%
- Other: 5%

KEY INSIGHTS



Canada's regulatory environment and business investment climate have declined.

Transportation leaders expressed dissatisfaction with the regulatory environment, citing it as burdensome and slow. However, government, at times, has passed legislation too hastily, leading to unintended costs, creating uncertainty and negatively impacting the country's reputation in the global market. This sentiment contributes to the negative perception that the business investment climate has deteriorated over the past year.



Disruptions are hampering businesses.

Transportation leaders perceive the competitiveness and reputation of Western Canada's supply chains to have worsened over the past 12 months; many noted disruptions, such as strikes and environmental issues (floods, wildfires and general winter conditions), as their main reasons for holding this view. These disruptions have highlighted the need for more resilient and efficient supply chains.



Economic and geopolitical challenges persist.

The leaders surveyed believe that Western Canada's business outlook has been significantly affected by an impending economic slowdown, inflation and geopolitical instability. These factors shape the transportation industry's outlook and influence companies' decision-making processes.



Technology and infrastructure are fundamental to future resilience.

Leaders emphasized the importance of investing in infrastructure and technology, especially in rail infrastructure and better rail coordination. Such investments are critical for addressing bottlenecks, improving efficiency, attracting talent, and enhancing the overall resilience and competitiveness of Western Canada's business and transportation sectors.

TOP 5 BUSINESS CHALLENGES

- 1 ECONOMIC SLOWDOWN
- 2 INFLATION
- 3 LABOUR SHORTAGES
- 4 GEOPOLITICAL INSTABILITY
- 5 SUPPLY CHAIN RESILIENCY AND SUSTAINABILITY

The top three business challenges are consistent with what was reported last year. However, they have shifted in order, with labour shortages no longer the most significant challenge identified. For the first time, geopolitical instability and supply chain resilience/ sustainability have made the top five list, reflecting the current circumstances that the world and Canada are navigating.

Leaders expressed concerns over the intertwined challenges of an impending **economic slowdown** and continuing **inflation**. Organizations that operate with low margins are acutely feeling the pressure of a potential economic downturn and inflation. Respondents noted that consumer behaviour has also changed, as many Canadians struggle with affordability. A slowdown in consumer purchasing is reducing cargo and inventory needs, which impacts the transportation sector because it alters the demand for services from shippers and carriers.

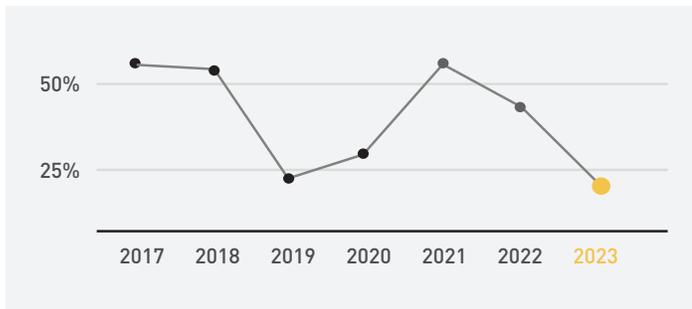
Labour shortages remain a top challenge, particularly in the skilled trades. High demand for labour coupled with generally low unemployment and jurisdictional competition for talent intensifies the situation. Like previous years, respondents noted that attracting and retaining talent was difficult. Their responses suggest a growing concern about their ability to operate efficiently and grow in the long run due to labour shortages.

The survey results spotlight growing unease over **geopolitical instability** and its far-reaching consequences. Respondents raised concerns over Canada's fractured relationship with key trading partners (China and India) and the potential for existing military conflicts (Russia-Ukraine and Hamas-Israel) to escalate or become more widespread. These concerns were later validated when Houthis began restricting access to the Red Sea.

Leaders frequently cited concerns about **supply chain resilience/sustainability**, pointing to disruptions caused by labour disputes and extreme weather events. They emphasized the importance of having a resilient supply chain to give stakeholders and customers confidence.

BUSINESS CONFIDENCE & ECONOMIC OUTLOOK

THE OUTLOOK ON THE **OVERALL BUSINESS ENVIRONMENT** CONTINUES TO DECLINE



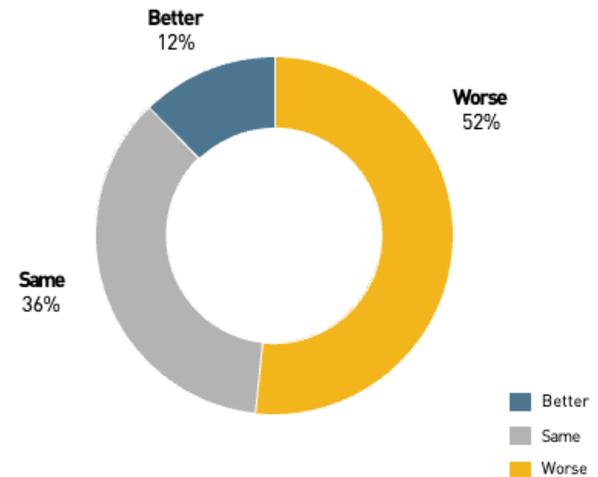
The percentage of respondents with a positive outlook.

Most respondents (79%) have a neutral or negative outlook on the **overall business environment** in Western Canada for the next 12 months. Only 20% have a positive outlook—the lowest level noted since the inception of the Compass Survey in 2017 and a sharp decline from the 43% who held a similar outlook last year. Respondents cited economic slowdown, inflation, interest rates, government policies, labour shortages and the high (and rising) cost of housing as primary concerns. Businesses are also contending with supply chain issues and the impacts of regulatory changes. Despite these challenges, those respondents who are optimistic cited the opportunities for Canada’s resource sector, for example, becoming a leading supplier of critical minerals to the world.

“ Despite the positive economic demand drivers in Western Canada, uncertainty regarding potential federal and international policy has us somewhat cautious. ”

—EXPORTER

THE **BUSINESS INVESTMENT CLIMATE** HAS WORSENE



Views on the business investment climate in the past 12 months.

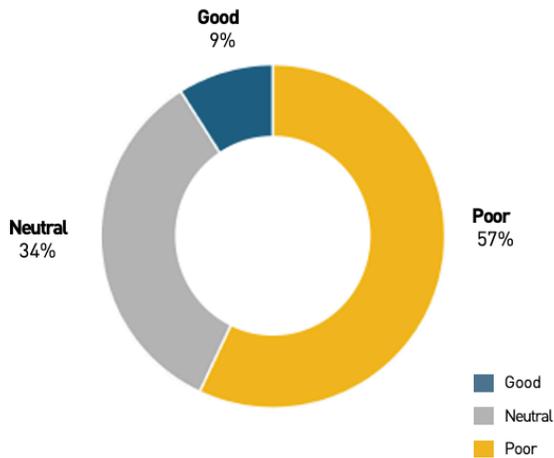
More than half (52%) of Western Canada’s transportation sector leaders feel that the **business investment climate** has worsened over the past 12 months. The investment climate is seen as uninviting due to regulatory hurdles, high costs and government policies, particularly policies related to climate change and the environment. Respondents mentioned declining productivity, difficulty securing project approvals, and geopolitical instability as contributors to the worsening business investment climate.

“ It is tough to invest in a geography that has unpredictable rules. At any minute, things could change, and it never seems like they change to help business. ”

—RAILWAY

BUSINESS CONFIDENCE & ECONOMIC OUTLOOK

THE **OVERALL REGULATORY ENVIRONMENT** IS POOR



Close to 6 in 10 transportation leaders (57%) noted that the **overall regulatory environment** in Canada is poor, and almost half (48%) believe it has worsened over the last 12 months. Many cited concerns about restrictive regulations, long approval processes for permits, hastily passed regulations and policies that do not consider the full impacts of changes. Even those who hold neutral views noted that although regulatory changes can be well-intentioned, they often result in unintended consequences, such as creating uncertainty and costs for businesses and financial implications for employees and employers.

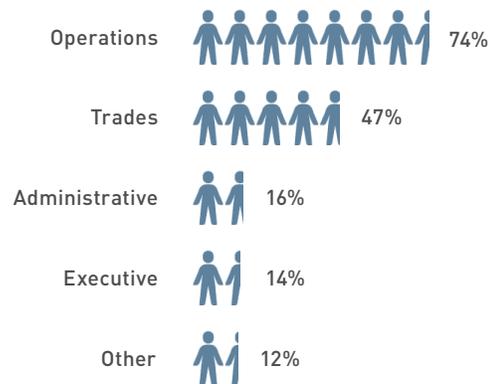
“Canada has a terrible reputation for getting things done. We continue to get in our own way, yet we are a country so rich in talent and resources.”

—PORT AUTHORITY

Softening economic conditions are evident by examining **company revenues, capital spending and hiring intentions**. A lower portion (40%) of transportation leaders noted that their company revenues have grown in 2023, compared to 56% in 2022. Projections for 2024 show a similar sentiment, with 41% anticipating revenue growth compared to 56% last year. Notably, the portion expecting a revenue decrease has nearly doubled from 11% to 20%. Yet respondents are divided on their plans for projected capital spending, with 38% noting a planned increase and 34% expecting a decrease.

Most transportation leaders expect the size of their workforce to remain the same, with fewer (29%) anticipating increases for 2024—a decline from last year when 45% anticipated workforce increases.

70% of organizations are experiencing labour shortages. Among these, operations are by far the most affected, followed by trades.



Types of positions facing shortages.

TOP 5 TRANSPORTATION CHALLENGES

- 1 **GOVERNMENT INABILITY TO MAKE TIMELY DECISIONS**
- 2 **LABOUR SHORTAGES**
- 3 **LACK OF RELIABILITY**
- 4 **DECLINING COST COMPETITIVENESS**
- 5 **DISRUPTIONS**

Infrastructure and capacity previously dominated as the top transportation challenges but have been absent from the list for the last two years. Meanwhile, **labour shortages** and **disruptions** (e.g., strikes, weather events, ministers' orders, etc.) have remained priorities for two consecutive years. Workforce-related concerns are a looming problem for Canada, especially for transportation—a sector facing an aging workforce and ongoing obstacles to attracting and retaining talent.

Government inability to make timely decisions underscores leaders' frustration with delays and perceived inefficiencies in government processes. Specific issues, such as long regulatory and environmental reviews and the lack of communication, are seen as barriers to business growth and competitiveness. Many respondents believe the government imposes excessive requirements and restrictions on businesses, leading to investment challenges that hinder their progress. Respondents also had critical views of

recent and proposed legislative changes (e.g. work/rest rules for railway employees) being implemented without adequate consultation, creating unintended consequences and harming competitiveness.

Criticisms concerning the **lack of reliability linked to railways, trucks or vessels** focused on the unpredictability and inefficiencies in the transportation network. Respondents stressed that unreliable service causes delays, drives up costs, and results in planning difficulties that negatively affect supply chains.

High operational costs, regulatory burdens, and taxes (e.g. carbon tax) were cited as primary reasons for the **declining cost competitiveness** of the transportation industry. Leaders perceive these factors as undermining their competitive edge.

Many leaders noted **disruptions**, such as environmental and weather-related setbacks and strikes, as a top challenge in 2023. Respondents suggested that these affected their business operations and their sectors' overall stability and reputation.

TACKLING TRANSPORTATION BOTTLENECKS

Transportation leaders were asked: "If the government were to budget an extra \$3 to 5 billion for transportation, what challenge would they want to see addressed?" Most mentioned infrastructure (particularly rail) and capacity. Below is a summary of the areas where respondents would like to see government investment:

- Focus on rail:
 - » Infrastructure enhancements to resolve long-term bottlenecks and improve capacity and resilience
 - » Bridge upgrades or replacements to maintain the network's fluidity and resiliency, particularly for the New Westminster Rail Bridge and Second Narrows Rail Bridge in the Metro Vancouver area
 - » Rail expansions, including new lines, rail cars and yards to alleviate bottlenecks (some also mentioned snow sheds and bridges to enhance the network)

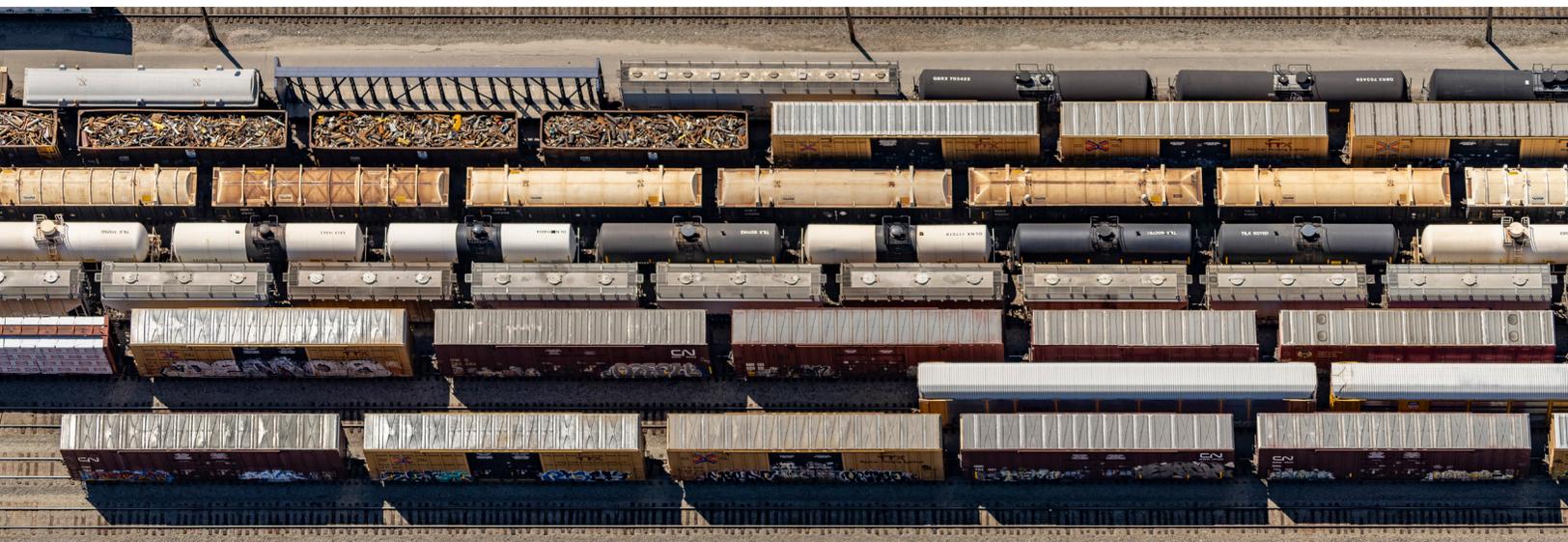
- Improvements to marine terminals and roads and exploring alternative transportation modes to reduce truck congestion and increase rail use
- Training to address labour shortages at the technical, managerial and executive levels
- Digitalization and data-sharing to improve efficiency
- A national infrastructure plan (based on capacity assessments)

“ Better use and integration of shortline railways and inland ports into the overall supply chain, especially during times of congestion [will be instrumental in improving efficiency]. ”

—INDUSTRY EXPERT

“ [Invest in] improved corridors into BC, western port infrastructure and improve efficiency in the domestic corridors. ”

—EXPORTER



WESTERN CANADA'S SUPPLY CHAIN INSIGHTS

Recent disruptions have negatively affected transportation leaders' perception of Western Canada's supply chains. Almost half of respondents (47%) believe that the **reputation** of Western Canada's supply chains has declined in the past 12 months. Leaders pointed to reliability issues driven by last summer's West Coast longshore strike and climate-related events. There are concerns about disrupted rail service due to blockades, high costs and poor productivity. Leaders believe these factors have undermined international confidence in Canada as a reliable and cost-competitive trading partner.

“ The West Coast longshore strike was a high-profile international news event that raised concerns with customers. The length and chaotic nature of the strike, coming after the also high-profile floods and wildfires in BC, severely undermined claims of reliability and stability. ”

—EXPORTER

“ We are overly prescriptive on regulations and are not outcome focused. Government prescription stifles innovation and also prevents truly dealing with risk management and seizing on opportunities to compete globally. ”

—INDUSTRY EXPERT

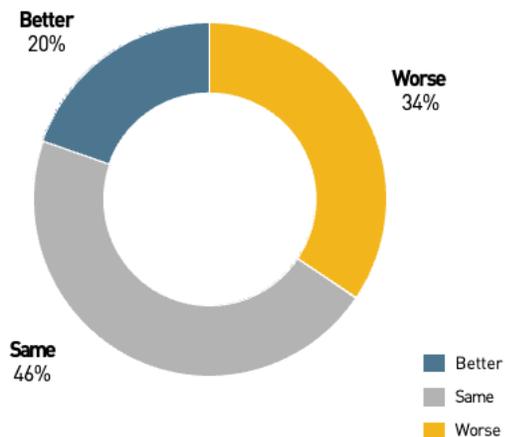
IDEAS FOR IMPROVING WESTERN CANADA'S REPUTATION

Transportation leaders suggested:

- Establishing a stable investment environment.
- Implementing proactive measures to ensure a faster and more decisive government response to labour disputes.
- Fortifying infrastructure to withstand climate impacts and strengthen supply chain resilience.
- Participating in trade missions to rebuild international confidence in Canada's supply chains.
- Investing in digital infrastructure and technology to improve supply chain management and efficiency.
- Developing a national transportation strategy that emphasizes collaboration among stakeholders.
- Enhancing safety and accountability across supply chain operations.
- Improving rail service and supporting continuous rail sector improvement.

WESTERN CANADA'S SUPPLY CHAIN INSIGHTS

THE **COMPETITIVENESS** OF WESTERN CANADA'S SUPPLY CHAINS REMAINS STAGNANT



Views on whether the competitiveness of Western Canada's supply chains has become better, worse or remained about the same in the past 12 months.

1 in 3 transportation leaders believe the competitive situation has worsened in the past 12 months. Key issues identified by leaders include labour disruption, climate change, increased costs due to legislation, and limited rail options.

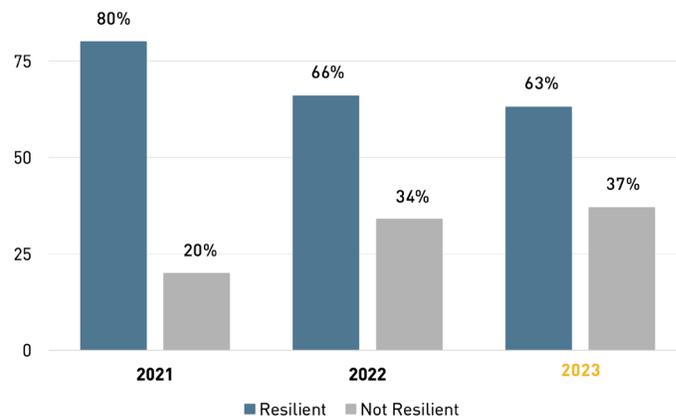
“ New legislation has dramatically increased costs along the supply chain without providing any additional benefit. ”

—**RAILWAY**

“ Canada's supply chains remain under constant threat of disruption from strikes, climate change and extreme weather. ”

—**TERMINAL OPERATOR**

THE **RESILIENCY** OF WESTERN CANADA'S SUPPLY CHAINS CONTINUES TO DECLINE



Despite the challenges identified by transportation leaders in this report, 63% still believe that Western Canada's supply chains are resilient. However, positive sentiments have declined over the past three years.

IMPROVING RESILIENCY

Transportation leaders shared their thoughts on how to build resiliency into the western trade corridor. Their suggestions include:

- Plan proactively for disruptions and maintain spare capacity.
- Invest in robust, reliable and cost-efficient gateways.
- Designate key supply chain players as critical.
- Increase climate-resilient infrastructure.
- Define and measure resiliency targets.
- Encourage competition because it builds optionality.

SPOTLIGHT: TECHNOLOGY



Technological adoption and innovation have become central pillars of industry discussions. The following section explores the development of these trends, highlighting the transformative impact on operations, workforce and competitiveness.

Reasons to Adopt New Technologies

Respondents shared their main reasons for adopting new technologies:

1. Improving productivity and efficiency (74%)
2. Strengthening competitive position (38%)
3. Cost savings (31%)
4. Increasing capacity (25%)
5. Risk management (minimizing operational risks and disruptions) (24%)
6. Improving supply chain visibility (22%)
7. Improving workplace safety (20%)
8. Improving the ability to forecast demand with the use of data analytics (19%)

Despite the rise in cyber threats, only 5% indicated investing in improving cyber security measures, highlighting a potential area of vulnerability.

Barriers to Adopting New Technologies

-  Budgetary constraints (50%)
-  Uncertain return on investment (41%)
-  Too many untested technologies requiring due diligence and evaluation (36%)
-  Resistance to new and unfamiliar technologies (32%)
-  Lack of relevant skills and competencies (29%)

Budgetary constraints remain the most significant barrier to adopting new technologies. The other notable constraints suggest that transportation leaders are struggling with the pace at which new technologies are being introduced.

Likelihood to Adopt Specific Technologies

Adopting technologies has become necessary for businesses to be competitive, resilient and efficient. The top five technologies that have been adopted or are projected to be adopted in the next two years by transportation firms are:

Top technologies already adopted:

1. Digitization (56%)
2. Automation (38%)
3. Predictive Analytics (38%)
4. Drones (34%)
5. Internet of Things (IoT) (33%)

SPOTLIGHT: TECHNOLOGY

Top technologies likely to be adopted in the next 2 years:

1. Big data analytics (30%)
2. Predictive Analytics (24%)
3. Digitization (20%)
4. Machine Learning (18%)
5. Artificial Intelligence (AI) (17%)
6. Generative AI (17%)

Generative AI was a new addition to the latest Compass survey after exponentially growing in popularity in 2022/2023. 12% of the respondents have already adopted it in their organizations. Relative to other new technologies, Generative AI has been transformational, indicating its potential to revolutionize everything from logistics planning to customer interactions.

An interesting absence from the top five lists is blockchain. The initial excitement over blockchain's potential has tempered as the industry faces practical and operational implementation challenges, including high costs and scalability. Instead, the focus has shifted to the Internet of Things, AI, and Digital Twins.

This spotlight on technology underscores the importance of a strategic approach to technological integration. Leaders who navigate the changing technological environment with prudent risk management and workforce development will enhance their resiliency and competitive position.



Traditional AI typically relies on large datasets that include human input, conversations, user queries, and responses to train models for tasks like data analysis, pattern recognition, and decision-making.

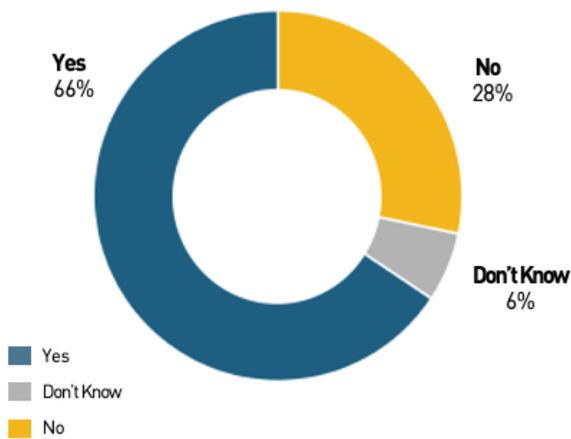
In contrast, **Generative AI** is trained on diverse datasets with the primary objective of learning patterns and generating content that exhibits predictive patterns, often producing creative and human-like outputs.



SPOTLIGHT: CLIMATE CHANGE COMMITMENTS

The ripple effect of climate-related events on western trade corridors has been profound and has significantly impacted the network's reputation, operations, and resiliency. Such disruptions have led to delays, infrastructure damage and increased operational costs.

STRONG COMMITMENT TO LOWERING EMISSIONS



Of those committed to lower emissions, 35% have a net-zero commitment, and 31% are committed to lower emissions by a certain percentage. Nearly half chose 'prefer not to answer,' suggesting the organization has no timeline or the leaders may not know their organization's commitment.

As a result of increased weather and climate-related disruptions, the industry is making a strong commitment (66%) to lowering emissions compared to 2021 (48%). Over one-third of the respondents have committed to a net-zero target. Respondents with a net-zero commitment generally seek to achieve this over the longer term (more than 25 years), with only 22% anticipating that they will do so within the next 10 years. The increased focus on climate change reflects a shift in the industry's perception of environmental challenges. The commitment to net-zero targets and the prioritization of climate-related issues indicates a more proactive and long-term approach to sustainability.

Strategies to Adapt and Mitigate Climate Change Impacts

1. Collaborating with government/other organizations for sustainable initiatives (53%)
2. Decarbonizing operations (electrification of vehicles, assets, etc.) (52%)
3. Adopting alternative fuels (e.g. biofuels) (40%)
4. Investing in research on carbon offsetting and emissions monitoring, etc. (35%)
5. Enhancing contingency planning (such as planning alternate transportation routes, etc) (32%)
6. Investing in climate-resilient infrastructure (32%)
7. Investing in last-mile delivery (21%)

The transportation sector is embracing a strategic and integrated approach to sustainability, focusing on long-term resilience and proactive climate action. Commitment to net-zero targets and embedding climate considerations into business strategies are now critical, underscoring the need for resilient infrastructure and evaluation of environmental impacts on projects and operations. Collaboration between industry stakeholders will prove to be crucial for an effective and pragmatic approach to addressing climate challenges.

TAKEAWAY MESSAGES

Develop a Plan to Dispel Economic Pessimism



A dominant theme in the report is the prevailing sense of pessimism in business confidence and the business outlook. The impending economic slowdown, inflation and high interest rates are causing many of these negative views. The government has a crucial role in addressing these challenges with a focused economic plan prioritizing improved cost competitiveness, a streamlined regulatory environment and a complimentary transportation infrastructure plan.

Prioritize Building Supply Chain Confidence



Supply chains in Canada have had a tumultuous few years—first with rail blockades, followed by the pandemic, climate-related events and labour disruptions. The world view on our ability to deliver on our commitments has declined. Working collaboratively, we must build back global confidence in our ability to deliver Canadian goods to market. To accomplish this, government and industry must work together to define and develop key economic corridors and plan for an efficient, sustainable, and resilient future. With a plan in hand, government, industry and labour need to work together to sell a Team Canada plan to our trading partners.

Create a Workforce of the Future



Canada's working population is declining. The government's commitment to immigration will remain a key driver of our future economic prosperity. The approach to immigration needs to become laser-focused on the skills and education required to support current and future vacancies. Continued collaboration between industry and labour is necessary to strategically develop our current workforce with the technical skills and capabilities to manage changing technologies.



225-1130 West Pender St.
Vancouver, BC V6E 4A4
(604) 687-8691

westac.com
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