



# INSIGHT *versus risk...*

## FREIGHT DEMAND OUTLOOK:

IS WESTERN CANADA'S TRANSPORTATION SYSTEM UP TO IT?



POST CONFERENCE  
**Report**

The **Western Transportation Advisory Council (WESTAC)** is a balanced and influential association of key transportation organizations, represented by senior business, labour and government decision-makers. The Council highlights *the contribution of transportation to Canada's economic and social well-being* and focuses on priorities to *ensure our competitiveness in world market and economic strength*.

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This report is based on the conference held on December 3-4, 2008. Given the volatile nature of today's economy, some of the information may not reflect the current situation.

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# Executive Summary

Two hundred people representing exporters, importers, ports, terminals, railways, trucking firms and all levels of government met in Vancouver for a two-day conference in December 2008. The purpose was to discuss the outlook for freight demand and answer the question: can Western Canada's transportation system handle it? The overwhelming response was "Yes, we can".

Transport Canada and its provincial partners have undertaken a National Commodity Flow, Trade and Traffic Forecasting project, to better understand the freight movement infrastructure needs of the future. The conference emphasized the freight movements from and through Western Canada. It rolled out the preliminary forecasts generated by IHS Global Insight. The forecasts covered the period from 2008 to 2026, and included the full spectrum of commodities carried by all modes, including airfreight.

This report synthesizes the conference presentations and discussions, as well as the written input from surveys of conference attendees. Two themes emerged from the conference:

"This too shall pass" ~ it was recognized that times are difficult, but there was optimism that trade growth will return.

"Prepare now for the bounce back" ~ by continuing to make improvements in operations and investments in infrastructure, we will be ready when demand again surges.

A comprehensive report containing the final forecast data will be available in mid-2009 from Transport Canada.

*"The next year or so will be challenging. We must ramp down smartly, ...and make sure we're ready to roll when everybody else is."*

*Mike Franczak,  
Canadian Pacific Railway*





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## “This too shall pass”

Though their speaking topics and presentations differed, executive after executive who took the podium essentially said two things: ‘these are difficult times’ and ‘this too shall pass’. The short-term will be challenging for exporters, importers, and the transportation supply chain businesses that handle freight. Trade volumes have declined significantly in recent months. Financing has become more difficult for many to obtain. However, this situation will pass and the long-term prospects are good.

### Commodity boom shifts to bust

Western Canada's importers and exporters experienced a marked drop in trade activity in late 2008 as the global credit market tightened and the recession in the U.S. quickly spread around the world. Demand for and prices of many Western Canadian commodities collapsed in the final quarter of 2008 (the decline in prices is illustrated in the chart below). Coal prices rose rapidly and peaked at about US\$300 per tonne for coking coal in July and plunged in subsequent months to about 60% below July's peak. This was a far cry from the seemingly high price in 2005 of US\$125/tonne. Lumber prices have fallen about 20% since 2006. Sulphur was not moving at any price by the end of November, a steep fall from its peak of US\$820/tonne a few months earlier. Prices for potash and agricultural products remained fairly stable in the final quarter of 2008.

### Macroeconomic forecast highlights

- global growth will slow to 1% in 2009 (global economy is in recession when growth < 2%)
- U.S. growth is expected to rebound in 2011
- oil prices will reach US\$38/barrel by June '09, prices will rise gradually to US\$85-\$90 after 2010
- Canada's GDP will remain flat in '09 and increase by 2.7% in 2010
- Western provinces will lead Canada's growth

Source: IHS Global Insight

### Scotiabank Industrial Commodity Price Index\*



\*a trade-weighted U.S. dollar-based index of principal Canadian exports; index includes forest products, metals and minerals, and oil & gas.

shaded areas represent U.S. recession periods

Source: Scotia Economics, Scotiabank. Commodity Price Index January 29, 2009.

## Commodity bust will not last forever

There was a general consensus from speakers and delegates that 2009-2010 will be challenging. However, there was optimism for the future, optimism that trade growth will return, albeit at a lower rate than in recent years. One reason for optimism is the forecast that the value of the Canadian dollar will stabilize in response to renewed demand for Canada's oil and other commodities. Exporters will not experience extreme volatility in the Canadian dollar as in 2008 when it peaked at US\$1.03 before falling to US\$0.77. IHS Global Insight's forecast is for the Canadian dollar to rebound in 2010-11 to the 95 cent range.

Despite the global recession, world population continues to grow at about 1.2% annually, driven by higher birth rates in developing nations. Population growth is a primary driver of demand for **agricultural products** and **fertilizers** needed to increase crop yields. As incomes improve in developing countries, people will change their diet and consume more meat. This is good news for the farmers as demand for **feedgrains** will increase.

**Forest products** have been especially hard hit in recent months (and years) as U.S. housing starts decreased to a 63-year low. Exports of forest products will not grow until U.S. housing starts rebound. In 2006, the U.S. Housing Affordability Index calculated by Raymond James reached a new low, indicating that housing was least affordable. With mortgage rates now at or near all-time lows and with the recent drop in house prices, houses are once again becoming more affordable. This will lead to an increase in housing starts once the current oversupply disappears. Due to the strong historical link between pulp demand and economic growth, pulp exports are not expected to recover until the economy recovers.

Western Canada has an abundance of high-quality natural resources. When the global economy recovers, our exporters should be ready to supply the world. For example, Sherritt **Coal** is re-opening the Obed Mountain Mine in Alberta in 2009. Canadian **potash** producers have announced mine expansions totaling 10-12 million tonnes by 2017.

Most commodity experts were fairly optimistic about the long-term. The notable exception was the forecast for **sulphur** as production from gas processing in Western Canada is declining at an accelerating rate.

### Growth Rates of Key Exports

Growth Rates (AAGR) of Key Exports from Western Canada 2008 - 2026		
	Overseas	U.S. & Mexico
Coal	1.2%	0.2%
Organic chemicals, fertilizer (incl. potash)	4.5%	1.7%
Wheat & other cereal grains*	0.5%	1.6%
Lumber*	2.1%	3.0%
Wood pulp*	0.4%	-1.7%
Paper & paper products*	0.5%	1.0%
Other raw & finished forest products*	0.7%	1.0%
Minerals, ores & concentrates (incl. sulphur)	n/a	n/a
Waterborne containerized tonnes**	3.0%	0.6%

\* non-containerized movements

\*\* includes containerized movements of commodities



# FREIGHT DEMAND OUTLOOK:

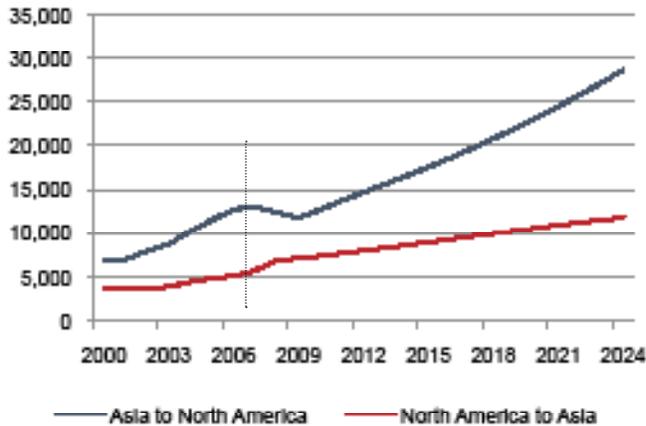
IS WESTERN CANADA'S TRANSPORTATION SYSTEM UP TO IT?

## Container movements grow

Experts agreed there will be growth in containerized trade, however opinions differed on the rate of growth. On the import side, IHS Global Insight's preliminary forecast shows container movements from Asia to North America will increase by nearly 250% from 2006 to 2024.<sup>1</sup> It forecasts that from 2008 to 2026 containerized import tonnage through Prince Rupert and Vancouver combined will grow at an average 3.4% annually and containerized export tonnage will grow at 3% per year. In contrast, Dr. Claude Comtois' forecast was more optimistic. It showed container trade on Canada's west coast growing at 9.7% annually (2007 to 2020) to reach 8.7m TEUs by 2020.

## North America Container Trade with Asia

(Thousands of TEUs)



Source: IHS Global Insight

## Sustainable Gateway

To be successful as a gateway, participants must demonstrate sustainable behaviour in terms of environmental performance. Environmental performance impacts:

- **interest rates** - some banks are charging different rates based on "green-ness"
- **insurance premiums** - insurance firms such as Lloyd's are calculating insurance premiums based on green certifications
- **market capitalization** - shareholders will not invest in companies that have poor environmental records
- **revenues** - customers such as Wal-Mart and Ikea are asking shipping lines and railways to measure the environmental footprint of product transportation
- **strategic alliances, mergers and acquisitions** - companies do not want to buy "problems"; environmental record is key factor

*"A sustainable gateway is not negotiable...It's not how much it will cost, but how much it will cost if we don't do it."*

*Dr. Claude Comtois,  
Université de Montréal*

<sup>1</sup> IHS Global Insight presented some preliminary forecast data at the conference. Final forecasts will be released in mid-2009 and will be available from Transport Canada's website. TEU forecasts were not presented.

## Air freight has room for more

The air freight sector is much smaller than the other transport sectors in Western Canada, representing about 600,000 tonnes throughput per year of high-value cargo. Canada's air freight sector is forecasted to average annual growth between 2.4% and 4.1% (Boeing World Cargo Forecast and Transport Canada forecast). Given air cargo's modest size, incremental increases in freighter services would have large impacts on growth rates (i.e. if Vancouver were to obtain two new freighter services the growth rate would be much higher than forecast).

### World Trade Patterns

The underlying demographic and structural changes that are driving world trade patterns are not forecasted to reverse in the long term. As a result, by 2038 Canada will no longer be ranked as one of the top ten countries in the world in terms of GDP; while India, which ranked #10 in 2008 will be #3 by 2038.

Country GDP Rank: top ten in each year (in Real U.S. Dollar Terms)			
1998	2008	2018	2038
U.S.	U.S.	U.S.	U.S.
Japan	Japan	China	China
Germany	China	Japan	<b>India</b>
U.K.	Germany	Germany	Japan
France	U.K.	U.K.	Germany
Italy	France	France	U.K.
China	Italy	<b>India</b>	France
<b>Canada</b>	Spain	Italy	Brazil
Spain	<b>Canada</b>	<b>Canada</b>	Italy
Brazil	<b>India</b>	Brazil	Russia

Source: IHS Global Insight

### Risks

Forecasts, by definition, contain a measure of uncertainty. Exporters face many risks:

- **credit availability** – in recent months credit markets have sharply contracted, impacting not only exporters but also capital-intensive transport businesses
- **environmental approval processes** – length of review periods may worsen business cases
- **impacts of future legislation** to deal with climate change – may have a particularly negative impact on the coal industry
- **skills shortages** – demographics continue to point to looming shortages across industrial sectors
- **substitution for natural resources** – as prices soar, customers will seek substitute products (e.g. when sulphur prices soared in 2008, China substituted pyrite for sulphur)
- **competition** from other nations – other than potash, Canada is not the dominant world supplier of commodities; the ability of other nations to export competitively priced products or process raw materials will reduce our exports (e.g. U.S. investing heavily in equipment to process bitumen from Alberta; Canada's bitumen exports will grow, sulphur exports to U.S. will fall)
- **legal risks** – mounting pressure to reduce risks of transporting dangerous goods (such as proposal to ban tank car movements of ammonia)
- **limited industrial land** – experts estimate the Metro Vancouver region will need an additional 2,500 acres of industrial land by 2020 (currently only 600 acres available); this land is required for port expansion and supporting facilities
- **protectionism** – governments are under public pressure to support domestic companies and industries rather than export jobs

Preliminary indications are that total export tonnage through Canadian West Coast ports will grow at nearly 3.5% annually between 2008 and 2013 and by 2023-2026 will have slowed to just over 1% per year. In contrast, import tonnage through Canadian West Coast ports will exceed 3% per year for each 5-year period to 2026.

Many speakers commented that growth will return and previous forecasts of traffic volumes will be achieved, although the time frame may be postponed for a year or two.



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# “Prepare now for the bounce-back”

When the economy rebounds, the response from trade will come quickly. The question “can Western Canada’s transportation system handle it?” was answered by speakers with a resounding ‘Yes!’. Rail carriers, ports, terminals, trucking firms, steamship lines and governments are acting to reduce congestion, reduce bottlenecks and increase capacity through improving operations, building additional infrastructure and (in the case of governments) changing policies to support private sector investments.

**Operational improvements** to increase capacity and efficiency are ongoing. For example, railways are adding locomotives, increasing train lengths and increasing velocity. Terminals are looking at ways to improve their ability to unload railcars quickly. This may involve re-configuring rail tracks at the terminals.<sup>2</sup> These efforts by railways and terminals will improve system reliability on an on-going basis and reduce the time it takes to recover after a disruption (e.g. bad weather).

**Planning and construction** of transportation infrastructure must continue during the downturn because of the long lead times for large-scale projects. If plans do not proceed despite the downturn, the infrastructure needed to handle future growth will not be ready in time. One positive example of such planning is in Alberta, where much of the land for the ring roads around Calgary and Edmonton was acquired in the 1970s and 1980s. Portions of the roads are scheduled to open in 2009.

**Transportation needs are changing.** The shipper community wants to ensure that the transportation community understands its changing needs for transportation services in the future. Agriculture is a good example. Producers will further diversify crop production, reducing acreages of wheat and increasing production of oilseeds and special crops, therefore the demand for containers rises. Greater domestic processing will change the outputs – ethanol, distiller grains, biodiesel, etc. – these products require different equipment to transport the goods within Canada and throughout North America. Although the overall volumes of grain exports will be steady, transportation networks and systems will be required to adapt. Trucking will increase, with more shorter hauls of products from farm to processing plant and less bulk grain moved by rail. There will also be more north-south moves and more tankers (e.g. for ethanol) and less dry bulk.

*“We have to keep productivity improvements coming so when demand returns we can handle it.”*

*Morley Strachan  
TSI Terminal Systems*

*There was a general recognition that the industry’s ability to add capacity depends on community support – businesses are making efforts to recognize and reduce impacts on the community and are working to reduce their environmental footprint.*

<sup>2</sup> Transport Canada is leading a multi-stakeholder study, the “North Shore Trade Area Study”, focusing on improving goods movement on the North Shore of Metro Vancouver. The study is examining options to improve access for rail and terminal facilities, including track configurations and road-rail grade separations.

**Oil sands development** will also alter infrastructure needs. This requires expanding highway capacity to transport more than 29,000 over-dimensional loads to the oil sands region (between 2009 and 2015). Currently, there are not enough 'highway slots' available to handle the delivery of such project cargoes. Building infrastructure to deliver sulphur extracted from processing oil sands to offshore markets is also required. Despite recent announced reductions, substantial oil sands investments are still being made – spending forecasted for 2009 will still exceed that in 2006 by more than 14%. The Government of Alberta has plans to improve transportation in the oil sands region.

### *Transportation Industry makes investments*

Transportation service providers are continuing to make productivity and capacity improvements during the downturn to ensure they can meet future transportation needs. Infrastructure projects underway or in planning include:

- Berth 3 (open by end of 2009) and Terminal 2 at Deltaport
- Phase 2 of Fairview container terminal in Prince Rupert
- Potash shed expansion at Neptune Bulk Terminals and new potash terminal in Prince Rupert
- Siding extensions by CN and CP (in some cases, to handle trains that are 20% longer)
- Coal terminal expansions in Prince Rupert & Metro Vancouver
- New facility to handle liquid sulphur at Ridley Terminals in Prince Rupert
- Berth expansion at DP World (Centerm)

Break-bulk capacity will be maintained in Vancouver for exporters (primarily forest products) as Lynnterm will not be converted to a container terminal. There had been concern that break-bulk terminal capacity would decrease through pressure to convert to container terminals.

## Provincial Government Plans

### Manitoba

- developing an inland port – “CentrePort Canada”: designating 20,000 acres of land; creating a corporation to market, develop, attract investments and operate the inland port; building infrastructure projects to support it (CentrePort Way)
- increase efficiency of goods movement south to the U.S. border by creating St. Norbert Bypass
- build interchange at intersection of Highways 1 & 16

### Saskatchewan

- through a strategic framework, Transportation for Economic Growth, link regional economic activity with supply chains, facilitate intermodality and provide for corridor continuity through urban centres
- investing in a Global Transportation Hub in Regina which is centred on building inter-modal transportation infrastructure that will increase rail capacity, improve supply chain access and efficiency and maximize economic development opportunities for the province
- a Rural Highways Strategy will provide long-term, sustainable and managed expansion of the primary weight system

### Alberta

- Calgary and Edmonton Ring Roads
- projects to support Asia Pacific Gateway: twin Hwy 1 through National Parks; Hwy 2 and 41st Ave improvements in Edmonton; improvements to 52nd Street in Calgary
- projects to support oil sands in Woodbuffalo/Fort McMurray area: twin Hwy 63, new bridge over the Athabasca River, new interchanges at Thickwood Blvd and Confederation Way, re-construction of Grant McEwan Bridge, widening Steinhauer Bridge, future interchanges to be built at MacKenzie Blvd, Hwy 69 and Parsons Creek Access

### BC

- building the Northern Corridor network: Hwy 97 & Hwy 16 improvements
- projects to enhance connectivity between terminals in the Lower Mainland: replace Pitt River Bridge, create South Fraser perimeter road, Port Mann Bridge/Hwy 1 expansion
- improving links beyond BC: Kicking Horse Canyon improvements, expand roads to Pacific Highway truck crossing



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## The Government Role

Governments were encouraged to participate in investments to enable the system to handle future demand. Suggestions included:

- making improvements at **border crossings**, especially at Emerson in Manitoba to provide a separate lane for truck traffic
- investing in **export and bulk infrastructure** at ports (don't limit investments to container projects)
- supporting development of **inland ports**

Beyond investment support, governments were urged to ensure that their policies support and enable industry and support trade. For example, it was explained that capacity and efficiency would improve if the federal container cabotage rules were revised to allow foreign containers more than one incidental move within Canada and to allow moves that are not in the general direction of ports.<sup>3</sup>

There is a fear that some air freight handling firms will be driven out of business and that passenger airlines may stop accepting air freight if Canada adopts the same standards as the U.S. regarding air cargo screening. The government could support the industry by focusing on screening high risk cargoes rather than screening at the piece level. The Federal Government was urged to create a more flexible bilateral regime which would allow air freight operators to 'triangle' services over several countries.

## Final Forecasts

The conference brought insight and an overview of future demand for transportation in Western Canada. Detailed forecasts will be released by Transport Canada and IHS Global Insight in mid-2009. The forecasts will outline export, import and domestic traffic and will be available from Transport Canada's website.

## Top Issues

### ...facing the transportation industry

Participants were asked their views of the biggest issues facing Western Canadian transportation in the next decade. Responses included:

- having sufficient infrastructure, improving funding for infrastructure, making timely infrastructure investments
- ensuring consistency of service
- improving integration and co-operation between all parties; more collaboration between transportation suppliers and shippers
- adapting to climate change
- retraining and sustaining the workforce during the downturn
- not enough land in Vancouver

### ... facing organizations

Participants were also asked about the issues facing their own organization in the next 10 years:

- finding qualified staff
- obtaining and managing growth
- smoothing flow of the supply chain
- lengthy federal approval processes (for funding and environment approvals)

## Consider Our Impact...

*Should shippers make choices based on price alone or should they be encouraged to consider impacts of their choices? For example, two rail cars of wood pulp are equivalent to seven containers which require 14 truck moves, leading to increased congestion on road network.*

<sup>3</sup> In February 2009, the federal Finance Department announced similar proposed changes and invited public input.



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**Daryl Swelishoff**, Sr. Managing Dir, Paper & Forest Products, Raymond James Ltd.

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**Leslie Vandersteen**, Logistics Coordinator  
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**Daniel Veniez**, Chairman  
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**Capt. Arnold Vingsnes**, President  
Arnold Vingsnes & Associates

**Greg Vurdela**, VP, Mktg & Info Services  
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**Mark Young**, Commercial Manager  
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# FREIGHT DEMAND OUTLOOK:

IS WESTERN CANADA'S TRANSPORTATION SYSTEM UP TO IT?

## PROGRAM - Wednesday, December 3

- 7:00 am Registration and Continental Breakfast
- 8:00 am **Opening Remarks**  
Kristine Burr, Assistant Deputy Minister, Policy Group, Transport Canada  
Ruth Sol, President, WESTAC
- 8:15 am **Outlook for Economic Drivers of Trade & Transportation**  
Sara Johnson, Managing Director, Global Macroeconomics, IHS Global Insight (USA)  
Chris Holling, Executive Managing Director, Global Trade & Transportation Advisory Services, IHS Global Insight (Canada) Limited
- 9:30 am Break
- 10:00 am **Commodity Outlooks**  
Moderator: Tracey Orr, Vice President, Global Trade Finance, TD Bank Financial Group  
*Coal* Allen Wright, President & CEO, The Coal Association of Canada  
*Forest Products* Daryl Swelishoff, Senior Managing Director, Paper & Forest Products Analyst, Raymond James Ltd.  
*Grain* Chuck Penner, Senior Consultant, Informa Economics  
*Sulphur* Barry Clarke, Principal, Pentasul Inc.  
*Fertilizers* Tom Maville, President, TL Maville & Associates for the Canadian Fertilizer Institute  
*Discussion*
- 11:30 am **The State of Logistics: The Canadian Report 2008**  
Bob Armstrong, President, Supply Chain & Logistics Association of Canada
- 11:50 am **Containerized Freight**  
Dr. Claude Comtois, Professor, Université de Montréal  
*Discussion*
- 12:30 pm Lunch
- 1:30 pm **Bulk & Break-Bulk Panel**  
Moderator: Yuen Pau Woo, President & CEO, Asia Pacific Foundation of Canada  
Daniel Veniez, Chairman, Ridley Terminals Inc.  
Jim Belsheim, President, Neptune Bulk Terminals (Canada) Ltd.  
Tim Chapman, President & Chief Executive Officer, Western Stevedoring Company  
*Discussion*
- 2:30 pm **Intermodal Panel**  
Moderator: Dr. Garland Chow, Associate Professor, Sauder School of Business, University of BC  
Morley Strachan, Executive Vice President, TSI Terminal Systems  
Paul Waite, Vice President for IMX, CN  
David Watson, President, Canadian Operations, OOCL  
Capt. Chris Badger, Chief Operating Officer, Port Metro Vancouver  
*Discussion*
- 3:45 pm Break
- 4:15 pm **Air Freight & Global Supply Chains**  
Moderator: Marian Robson, Senior Associate, True North Public Affairs  
Rick Erickson, Principal, RP Erickson & Associates  
Shakeel Bharmal, General Manager, Purolator Global Supply Chain Services  
*Discussion*
- 5:30 pm Reception
- 6:30 pm **Dinner & Keynote Speaker**  
Gordon Gibson, Political Analyst

## Thursday, December 4

7:00 am Hot Buffet Breakfast

8:00 am **Grain Case Study**

Moderator: **Mark Hemmes**, President, Quorum Corporation

**Tim Kennedy**, Director of Logistics, Viterra

**Michael Adams**, Assistant Vice President, Grain (Marketing & Sales) Canadian Pacific Railway

**Ken Wozney**, Office Manager, RTM Transport

**John Law**, Deputy Minister, Ministry of Highways and Infrastructure, Government of Saskatchewan

*Discussion*

9:30 am Break

9:45 am **Surface Freight**

Moderator: **Dr. Trevor Heaver**, Professor Emeritus, University of BC

**John Spacek**, Assistant Deputy Minister, Transportation Policy & Motor Carrier Divisions, Manitoba  
Infrastructure & Transportation

**Keir Packer**, Senior Policy Advisor, Freight Transportation & Trade, Government of Alberta

**Tom Prendergast**, Chief Executive Officer, TransLink

**Lisa Gow**, Executive Director, Pacific Gateway Branch, Ministry of Transportation & Infrastructure, Government of  
British Columbia

*Discussion*

11:00 am Break

11:15 am **Leaders' Panel: Integrating the Results**

Interlocutor/Moderator: **Capt. Gordon Houston**, President & CEO, Port Metro Vancouver

**Steve Frasher**, CEO, Washington Marine Group

**John E. Ellis**, Vice President, Schenker Pacific Logistics Ltd.

**Tom Dufresne**, President, ILWU Canada

**Mike Franczak**, Vice-President, Operations, Canadian Pacific Railway

12:45 pm **Summary**

Rapporteur: **Dr. Bill Waters**, Professor Emeritus, Centre for Transportation Studies, UBC Sauder School of Business

Closing Remarks: **Helena Borges**, Director General, Surface Transportation Policy, Transport Canada

1:30 pm Conference Ends (Buffet Lunch provided)

*WESTAC acknowledges the following associations for their support:*

*BC Chamber of Commerce*

*BC Trucking Association*

*Canadian Transportation Research Forum*

*Chamber of Marine Commerce*

*Chamber of Shipping of BC*

*Supply Chain & Logistics*

*The Van Home Institute*



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