

ASIA PACIFIC GATEWAY AND CORRIDOR INITIATIVE (APGCI) REPORT AND RECOMMENDATIONS

To: The Honourable David Emerson, PC MP
Minister of International Trade and Minister for the Pacific
Gateway and the Vancouver-Whistler Olympics

The undersigned are pleased to deliver this report and are thankful for the opportunity to serve the Government of Canada.

This report reflects our collective views on some of the strategic initiatives required to more fully exploit the opportunities that economic developments in Asia present to Canada, as well as to leverage our geographic and physical assets in pursuit of true Pacific Gateway status.

We acknowledge the assistance of Mr. George Tyszewicz of Transport Canada, who accompanied us on our investigations, as well as the many individuals in both Canada and in our high commissions, embassies and consulates abroad who provided invaluable assistance and access.

Context and Caveats:

The research for this report began in mid-January 2007 and the last informational meeting took place on May 10, 2007. We visited major infrastructure interfaces such as marine ports and terminals, airports and air cargo facilities, and rail yards in several countries. We consulted with airlines, rail companies, marine and air port authorities, marine port and airport terminal operators, ocean shipping companies, government agencies, labour unions, logistic councils, academics, employers and employer groups, business associations and system users.

A complete list of meetings and locations visited is provided in the attached Appendix.

This report deals with critical elements of the Pacific Gateway from a policy or strategic perspective. We do not present a multitude of figures or statistics, as this was not our mandate. But we do present our collective and unanimous views on some of the essential elements comprising the Pacific Gateway which we define as marine cargo (both container and bulk), marine terminal operations (both container and bulk), marine port authorities, railway and truck links, airports, airport authorities, air bi-laterals, air cargo, and the markets beyond Vancouver and Prince Rupert.

Though our visits were extensive, they could not be comprehensive in all respects, which may result in unintended limitations to our analysis and

conclusions. Nevertheless, we represent a range of business and life experience and were well served by the high commissions, embassies, consulates and others who assisted us in reaching the right people. We believe that while further research may be fruitful, fundamental insights, concerns and recommendations would not be radically different than what is contained in this report. In that light, we offer these observations and recommendations.

PREAMBLE:

The incredible changes in global trade and economic development, especially in Asia, create unprecedented challenges for Canada. These developments can be construed as both threats and opportunities. Canadians, and the policies and initiatives taken by all levels of government in Canada and the private sector, will determine whether one or the other prevails.

Canada is not a driver of the growth in global trade, nor is it a particularly critical participant. However, Canada is positioned to benefit by virtue of its geography and its economic and political relationships. If Canada and Canadians are visionary, bold and creative in their response to the changes in global trade, then opportunities will naturally flow. This report endeavors to point the country in this direction.

Statement of Guiding Principles

As strategic advisors, we have established a set of principles and these have guided us in our deliberations and helped us determine our recommendations.

We believe that the role of government should be primarily to provide the right policy and regulatory framework to encourage investment by the private sector in all aspects of the Pacific Gateway. This means investment-friendly policies and consistent regulation, notwithstanding changes in governments. We believe that, as much as possible, the private sector should be the generator of economic activity.

We believe that when government is required for supervision, oversight or regulation of the private sector activities, the appropriate level of government is the one closest to the economic activity and the one with the vision, financial ability and long term commitment.

We believe in the principle of market forces determining economic winners and losers. We believe in fair and meaningful competition before regulation or government involvement. Where the barriers to entry are too large or too high to create or maintain meaningful competition, we believe firstly in using market-based incentives to alter anti-competitive behavior.

We believe in creating certainty with respect to the processes of regulation and oversight. If an activity requires these, we believe that the private-sector ought to have certainty and consistency of process and a time-specific outcome.

We believe in the federal government taking additional steps to make crystal clear the roles of port authorities, whether marine or air. The port authorities are not private-sector companies. They are custodians and operators of critical national infrastructure and should not compete with the private sector on port lands and should not invest in activities or assets where the private sector companies could be or are involved.

We believe that the Pacific Gateway infrastructure is a national asset and that we should do whatever possible, in a competitive environment, to spread the economic benefits across Canada.

We believe in protecting the environment and ensuring that economic activity respects the land and communities.

We observed that while many countries, ports and companies are developing and implementing strategies and infrastructure that reflect their individual situations, they are also acting collectively in an aggressive and frequently visionary manner to enhance their positions in this new global trade environment. This is especially true in both the marine sector and the air sector. These developments will determine who will be at the center of emerging patterns and who will be at the fringe. Once established and entrenched, particularly in the marine sector, these patterns will determine economic roles and relationships for decades and will be difficult to change. The world will not wait. Just as water will flow to its destination down the easiest and best channel, so too will economic activity. To benefit, Canada must soon make itself the best and preferred channel within the context of its geography.

Asian countries, which contain most of the sending marine ports, are the ones driving most of the development in marine container flows. However, in many instances, the governments of these countries are either substantially authoritarian or operate within value systems in which decisions and investments are made in ways that are not possible in a country such as Canada, which has a more inclusive governance and decision making process. In some cases this can hinder the speed with which a country like Canada executes its strategies. The world is not a level playing field and we must address our challenges accordingly. The reality is that Canada has not demonstrated the ability to respond to the opportunities and threats of changing world trade patterns as quickly as other nations and marine ports.

Our competitors for marine containers are not the sending ports of Asia, but the receiving ports of the United States, which shares to a large degree not

only our style of governance but our limitations in such areas as labour practice, speed of regulatory approval, financial structure or stakeholder inclusion. Vancouver, for instance, is competitive because there is a need for its capacity, a limited real choice for Canadian shippers and the perception that "Vancouver is not worse than Los Angeles". This is not a recommended strategy for long-term success, nor does it serve Canadian customers well. (Receiving points outside North America, we observed, had achieved greater progress dealing with such critical issues as creating an effective supply chain and eliminating historic bottlenecks.)

The development of a genuinely successful Pacific Gateway must begin with the right vision and commitment. Canada has some advantages. Among them are location and available services: the sailing time from Asian ports to Prince Rupert is shorter than it is to ports farther south along the West Coast, and Canada's northern railway is relatively under-utilized. But these factors in themselves do not constitute a vision. Ocean carriers and users of containers measure any port or container path in terms of cost, efficiency (the ability to get in, out and through quickly) and reliability. We compete with other West Coast ports, the Panama Canal/North American East Coast ports and sometimes with the Suez Canal.

Canada must create a supply chain or logistics channel based on what is possible and measured against the ideal rather than against the expected failure of others. The other competing marine ports may suddenly stop failing and Canada could become a completely residual provider of services.

Over nearly a century and a half, Canada has demonstrated vision, leadership and commitment in many crucial nation-building and transportation developments. The construction of a transcontinental railroad in the 19th century was a remarkable achievement that defined the permanent character of the country. The development of the St. Lawrence Seaway in the middle of the 20th century was another important demonstration of national will and commitment. The impact of a truly effective Pacific Gateway could be equally profound; but there is an important difference. The Pacific Gateway is not a single, identifiable piece of infrastructure. Instead, it is a system. It requires several modes of transportation, coordination across these modes, cooperation among several levels of government and both private and public investment. Combined with vision and commitment, the critical element for success is leadership at the highest level.

While there is an important leadership role for government in the development of a Pacific Gateway, there is an equally important need for industry groups to respond. We came away from discussions with industry participants on Canada's West Coast feeling that their sense of vision didn't measure up to the need or the opportunity. Often they compared themselves with their American competitors, who do not perform well, and were only tinkering with change rather than proposing radical and fundamental

restructuring of their operations to create a significant difference. While government will need to demonstrate real leadership, industry will need to demonstrate real ability and willingness to invest, innovate, improve productivity and grow.

On the marine side, the Pacific Gateway consists of a number of elements and different modes of transportation. The container trade, where strategy and action can make the greatest difference, will form the primary emphasis in this report. But bulk shipping, by rail as well as sea, presents opportunities and issues as well, and we will make several recommendations in this area as well.

Significant opportunities also exist in air travel and air cargo, but since the most critical airport infrastructure has been built, the pertinent issues are policy, regulation and port governance. Accordingly, air travel and air cargo will be dealt with at the end of the report in a separate section.

The main focus of this report will be marine container trade – and the links that make it a supply chain to Canada and the United States. This is driven in part by the opening in Prince Rupert of a container facility, which presents Canada with a new and unique opportunity because the marine container shipping business is the greatest area of global growth. Container shipping also concentrates on conveying high-value products – finished goods and component parts, which create opportunities for developed economies such as Canada's.

Because many competing ports or corridors are congested or inefficient, through superior performance, Canada has a golden opportunity to capture some of the growth in container shipping and claim a larger share of North American trade. However, if Canada fails to grasp its destiny and respond appropriately, what it already has may be placed in jeopardy.

In simple terms, ocean carriers, when they are determining the routing of their ships, look for ports that can handle volume quickly, reliably and cost-effectively. If ship owners aim their ships at Canadian ports, if they make our ports the first rather than the last stop (or, ideally, the only stop) then we can begin to call the Pacific Gateway a success. Logistics companies and users of freight will also have a voice in the channel that containers will use and will likewise base their decisions on economics, efficiency and reliability. We must build a Pacific Gateway that succeeds because it meets the needs of an emerging world rather than relying on the limitations of others.

Competition is an important factor in driving performance and this represents a challenge for Canada. We have only two Class 1 railways and they are critical to the success of the Pacific Gateway, but competition between the two is nominal and we don't take the view that they compete with rail in the United States for goods landed in Canada. We heard repeatedly during our consultations that "two is not competition". A further challenge is that our

marine terminal operators tend to measure their performance against the often-mediocre performance of others in the same port or in U.S. ports. Instead, they should be measuring themselves against higher pre-set standards and world's best practices. Finally, while the singular performance of either individual terminals or railways is important, it is less important than the combined performance of the entire system.

In many cases Canada has excellent infrastructure, which it can expand as required. However, the world views Canada as tentative and incremental in its approach to infrastructure development. It is our opinion that some aspects of the system must expand ahead of demand, with conditions and policies created for the other elements of the system to follow quickly. There is no doubt, however, that expanding port capacity is complicated by public interest and environmental concerns, which government is best placed to arbitrate. We therefore encourage the levels of government closest to the economic activity to take the largest possible roles. It is our view that they will likely be more aware of the opportunities and threats and be more able or willing to commit to a long-term program that suits the market the Pacific Gateway serves. This doesn't prevent us from recognizing that the Pacific Gateway is a national asset, with interests beyond the marine ports and their host communities, but we feel it may be time to examine the history of national control over marine ports and whether national control is the most effective in today's environment.

While it is critical that Canada develop a Pacific Gateway that is both cost effective and reliable, and while in some cases this means spending money for infrastructure, improving port capacity is not simply a function of financial investment. Shippers, ocean carriers and others overwhelmingly told us that Canadian service, whether it was port operators, port authorities, labour, railways or truckers, was unreliable. The cause of this unreliability is not always understood by those shippers and carriers; however their dissatisfaction was strongly stated. From this, we came to the conclusion that, short of spending money, there are great opportunities to improve the service and the resulting perception of service at our ports. This will require radical change, adopting such practices as a true 24/7 operating capability, a different approach to labour organization and compensation, genuinely flexible work practices and a series of incentives that can shape the behaviour of all parties.

Canada has two major West Coast ports: Prince Rupert, which is uncongested, and Vancouver, where congestion is a major concern. Though this congestion is real — some of the most productive solutions to the problem may be found beyond the port itself. We noted that with the exceptions of the enormous island ports of Hong Kong and Singapore, virtually every port around the world is planning to use rail to move containers quickly to some variation of an inland terminal where processing and distribution can continue free of congestion. We believe such a strategy would be useful for Canada. Besides relieving port congestion, inland

terminals create employment and economic opportunities elsewhere in the country. They also encourage farther-flung industries to link up to distribution systems, again spreading the benefit of the Pacific Gateway across more of Canada. Inland terminals can be especially important in generating a greater variety of alternatives to the use of empty containers heading back to Asia.

While we don't seek to promote one mode of transportation over another, we note that marine and rail transport systems are also relatively efficient in terms of their environmental impact. Rail, for instance, emits fewer greenhouse gases than trucks, and for this reason should be encouraged. Policies that focus on rail for longer hauls, with trucks for final delivery, would, we believe, best serve today's environmental concerns. Here, too, inland terminals, developed with environmental impact in mind, would prove beneficial.

Reforming the cost, structure, efficiency and stability of labour will be the most critical element in the success of the Pacific Gateway. We note that many ports around the world operate 24/7 and do so in the partial or total absence of inflexible, outdated and dysfunctional work rules. A country such as Australia, for instance, has been able to make radical changes in the role and nature of labour in their marine ports, with labour satisfied with the rebalancing of rights and obligations. The right kind of reform in Canada should similarly unlock port capacity and better utilize the existing investment across the system. In Vancouver, for example, port capacity could be improved by instituting 24/7 operations in nearby warehouses. This would also enhance railway operations, which will move more than 90% of future container traffic east of the Rockies, for they are operational 24/7. And for Canada to have a successful round-the-clock operation, the creation of inland terminals served by rail has considerable merit.

We share the concern for environmental protection and we respect due process. We believe that it is important to streamline any disconnected and overlapping processes of environmental review that may create delays and uncertainties and damage the development of the Pacific Gateway without necessarily enhancing the protection of the environment. Canada needs an environmental review process concerning ports that ensures certainty by handling genuine concerns within a reasonable and fixed time limit.

Though Canadian ports compete with their American counterparts, we need to set our own high standards in establishing a system of trade and supportive logistics, rather than abide by the standards of others. This does not mean we can't learn from others. We can and we should. But we need to look to our own unique geography, history, institutions and opportunities, then create a strategy that is both made-in-Canada and genuinely competitive in the global market. Asia will be the centre of trade development for many decades, but whether Asia's success will be threat or

a boon to our prosperity will depend on how Canada uses its geography and the energy of an educated and open society.

Developing a successful Pacific Gateway depends on cooperation between government and the private sector and between industry and communities. It also means striking a balance between efficiency and the environment. All of this will take time and all parties will need to be flexible, with the understanding that policies will require adjustment. In some instances, government action or regulation will be appropriate. In others, the private sector will provide the most effective results. Generally, however, we believe that market structures that allow for creativity and flexibility provide the best outcomes for all concerned. Attracting and retaining the private capital essential to the long-term success of the Pacific Gateway will depend on the right stable regulatory and fiscal environment together with the commitment of all stakeholders, including government.

The Pacific Gateway is not a boat or a train but a whole supply chain, from a producer in Asia to an industry or retailer in Canada, and from a producer or supplier in Canada to the world. Everything we do must fully respect that larger reality with the goal of creating the best, most efficient, most cost effective and most reliable supply chain possible from Asia into the appropriate destinations in North America.

PACIFIC GATEWAY AND CORRIDOR GOALS:

Someone in Asia told us, "Without the rails, you can not have a Pacific Gateway." In other words, while the individual logistics of an international transportation system may be crucially important, by themselves they are meaningless. Canada's transcontinental rail system therefore has huge implications for the potential of the nation's "Pacific Gateway".

We have studied Pacific transportation by sea, by rail, by road and by air. While the air component is undoubtedly very important to Canada, the real potential for Canadian growth and national prosperity lies with developments that will lead to significant growth in marine container traffic, which relies mainly on sea and rail connections.

It is our view that there is an enormous potential market for container traffic to regions that can be advantageously reached from Canada's West Coast ports. This potential greatly exceeds our current or anticipated marketing targets. In other words, our future lies in our own hands. The goals we reach will be a function of our ability to develop the necessary infrastructure and properly utilize our existing transcontinental systems and services to make Canada a major player in international transportation. To make this happen will take more than physical infrastructure. Canada must also create an institutional and regulatory climate that allows exploitation of these opportunities.

This report does not recommend that Canada develop the infrastructure to handle a specific number of containers. Instead, we recommend that the overarching goal is for Canada to create the most cost-effective, productive and reliable port system, combined with reliable rail connections, to create the seamless supply chain desired by shippers.

We state that to achieve this as a nation, we believe that the goal must be for the private sector to be as involved to the greatest extent possible. To achieve this and to achieve the needed private capital, the private sector needs certainty and stability in regulation, legislation and investment policy. Further, since port authorities do exist and play a role, the private sector needs to know that if it invests at a port facility, whether marine or air, that it will not be competing with its landlord in or for a particular business enterprise. Such competition is unfair, in our view, as these landlords have perfect information and control the land that is required by the private sector.

If Canada were to create such a Pacific Gateway, with these goals and attributes, it would have the ability to grow its capacity and capture a significant market share. In short, if we develop the best possible ports on the West Coast, the volume will take care of itself. The potential of the Pacific Gateway is therefore more a question of vision, flexibility, leadership and commitment than of market limitations.

A Pacific Gateway would not only impact Canada's West Coast. Equally important is the positive effect it would have on business and communities right across Canada. Certainly, the handling of container traffic through the port is important and would add value – but the potential national impact will depend on how the corridor is structured and how policies at many levels are developed.

The current literature describing the Pacific Gateway and corridor focuses on the capacity of the Ports of Vancouver and Prince Rupert and the resulting impact that development would have in these communities. Though this is critically important, of even greater potential is the benefit to consumers and industries nationwide. A superior international transportation system would not only create an enhanced supply chain for retailers, perhaps more important, it would also increase the supply of empty containers being returned to Asia, which would create a wealth of export opportunities for Canadian industries.

Whether Canadian companies are exporting raw materials, supplying components for goods being manufactured elsewhere, or exporting manufactured products a superior, more reliable logistics system would allow these industries to be more competitive in their markets, whether those markets are Canadian, North American or international. Canadian industries all along the transportation corridor would benefit from being part of an industrial supply chain that would stretch all the way to Asia.

We also recognize that the issues surrounding a successful Pacific Gateway must include assessments of the impact on community life and the environment. We will address these issues in our recommendations, and stress that the degree to which communities believe they will benefit from increased transportation activity will undoubtedly influence their tolerance of its potentially negative impacts.

Despite our emphasis on the marine mode and its associated interface, we will also address issues related to air travel and air cargo. It is our view that geography and security concerns create opportunities for Canadian airports and companies related to air travel and air cargo. The potential benefits extend well beyond direct industry involvement but will also serve to enhance regional, provincial and national economies through increased travel, better international access and tourism opportunities.

The following recommendations and illustrations are intended to assist in the development of the policy framework for such a vision and direction.

RECOMMENDATIONS

1.0 GOVERNANCE OF PORTS (Marine)

During our travels, we observed that ports are managed in a variety of ways and sometimes involve different levels of government. Though there were at times significant differences in the effectiveness and vision of ports around the world, we could not easily attribute these differences to the presence or absence of a particular form of governance. Nevertheless our recommendations represent ideas that we believe are important in the area of governance.

The predominant form of ownership or governance around the world was a variant of the port authority model. This agent owned the land, usually on behalf of some level of government, and acted as landlord. In principle, the Port Authorities provided a certain level of infrastructure, policy development and elements such as marine safety, *but did not themselves become operators.*

The role that can and must be played by the port authority is to encourage appropriate development of the capacity and facilities essential for a successful port. At the same time, it must balance this with the legitimate needs of the environment and of various stakeholders, such as the community and business interests. The structure of the port authority should be focused on local needs, but must be designed to balance these interests with regional and national concerns. Achieving this balance must be reflected in how the board is designed, and how its members are selected and empowered. Moreover, the resulting board must reflect the legislative environment in which it operates, with clear lines of authority and

responsibility to the level of government best suited to oversee the port authority.

It is of utmost importance that our port authorities are aware they are not competing with one another, for there is no benefit to Canada of having its West Coast ports in competition. The competition, for the most part, is the ports on the west and east coasts of the US and Mexico. To work collaboratively, rather than in competition, will assist in reducing marketing, engineering and administrative costs and, perhaps most importantly, will demonstrate clear vision and the ability to alter traffic flows in a manner that shippers will appreciate and accept.

We also believe that the existing infrastructure can be best utilized if container or bulk cargo can be directed to the port, or area, that has the most capacity.

- 1.1 We affirm the amalgamation of the three Vancouver Port Authorities.**
- 1.2 We recommend that a single port authority be created to include the existing major Vancouver ports plus Prince Rupert. This is the only way to assure complete collaboration of Canada's West Coast ports and allow them to compete effectively with other North American ports. This would also assist in maximizing the collective vision of the Pacific Gateway.**
- 1.3 We recommend that the question of oversight of the BC ports by federal or provincial authorities be reviewed. In principle, the ports need strong vision, commitment and leadership, combined with the imperatives of a national perspective. If the national perspective and interest can be adequately protected, we recommend that the oversight be shifted to provincial jurisdiction.**
- 1.4 We recommend that the directors of the port authorities be chosen using a method that is transparent, merit-based, and reflective of the skills needed to balance the Board with respect to its other members.**
- 1.5 We recommend that Port Authorities play the lead role in the development of overall capacity at Canada's West Coast ports. This means capacity in terms of the ability to handle ships and land containers should grow in advance of demand. Governments may need to play an increased role and assume some of the risk inherent in this strategy.**

- 1.6 We recommend that a study be done to encourage rationalization of bulk facilities, such as those needed to handle grain, in a manner that balances the demand along rail lines and reduces pressure on sensitive urban locations.**
- 1.7 We recommend that policy makers develop container capacity in Prince Rupert before making investments in Vancouver, beyond what have been announced to date. We believe that capacity can be expanded in Prince Rupert relatively quickly and such a strategy will allow time for Vancouver to develop solutions to its congestion.**
- 1.8 We recommend that the environmental processes and approvals now shared and administered by various levels of government be streamlined and organized to operate in one approval process. Firm timelines and expectations around the granting of approvals need to be developed.**
- 1.9 We recommend urgent action to resolve issues related to First Nations, in order to facilitate the ability to plan and develop the infrastructure around the ports and along the corridor.**
- 1.9a We recommend that the ability of ports to finance expansion be reviewed. The ability to finance port development is a critical element in the strategy to develop the Pacific Gateway. Since we believe that the ports must take the lead in expanding our West Coast facilities, there must be an appropriate ability to finance this development, for it includes a significant element of risk. The current structure and the rules regarding the financing of ports are completely inadequate.**

While not linked specifically to port governance, we note that in other countries the cities in which ports reside are encouraged to set aside lands for future development. Indeed in some countries, the cities create more land for port use. Fundamental to our recommendations is the enhanced use of existing infrastructure before the construction of new. But we believe that there will come a day that the existing infrastructure at the ports will be at capacity and there will be a need to expand. Cities should be encouraged to set aside lands and zone such lands in an appropriate manner so as to accommodate growth.

2.0 TERMINAL OPERATIONS (Marine)

We noted on our tours that most ports have a number of competitive terminal operations and that in the larger ports there are also terminals owned and operated by shipping lines. We observed that ports with a competitive array of operators generally tended to offer a greater variety of

competitive possibilities to both ocean carriers and users. We also found that the investment in facilities such as cranes and automated or computerized systems varied widely among terminals. Both port authorities and the shipping companies were at times frustrated with the inadequacy of investment at some terminals.

- 2.1 We recommend that terminal operations be run by private sector companies and not by the port authorities or governments.**
- 2.2 We recommend that competition among terminal operators is desired as a principle and care should be taken to sustain a competitive environment.**
- 2.3 We recommend that a systemic approach be taken to achieve an understanding of port capacity before a conclusion is reached that a particular port must necessarily be physically larger. We note that the current terminals have capacity limitations caused by both the inability of the rail system to remove containers in a timely manner and the poor work practices and lack of co-ordination among operators, truckers, workers and railways. We believe that if capacity is viewed as a system and not simply as a series of individual facilities, this, along with resolving labour issues, will combine to unlock a significant measure of existing capacity.**
- 2.4 We recommend that customs activities and clearances be fully transparent between Canada and the United States. This would allow American officials complete access to inspection facilities and documents, and would create a seamless and efficient movement of goods that have entered our Pacific Gateway but are destined for the US.**

3.0 PORT LABOUR (Marine)

We visited ports in countries where labour lacks bargaining power as well as other ports, in countries such as The Netherlands, the UK and Australia, where the value of labour is highly recognized and therefore has the ability to play a major role. It is noteworthy that all jurisdictions we visited outside of North America have to some degree come to terms with the historic tradition of dock labour as a source of conflict and irrational practices.

There are prohibitive costs built into our West Coast labour structures. These include outdated practices such as the use of daily hiring halls, dispatch employment and over-manning. Addressing these issues will lead to an immediate increase in the true capacity of our port system.

These improvements are available without increased capital spending. In fact, the responsible course of action would be to accomplish these changes before additional taxpayer money is spent.

The ability to change the labour environment on the Canadian docks is perhaps one of the best opportunities to differentiate ourselves from competing US ports. Failure to do so would be an impediment to a significantly enhanced Pacific Gateway.

We learned from both the labour union and management in Australia that their system, which changed in the late 1990's, has benefited both parties. Significant developments in that process are illustrated as follows:

- Major reforms in Australian port governance occurred in 1995 (Ports and Maritime Administration Act) at which time the current Port Authority model was adopted with a blend of private/public attributes resembling somewhat Canada's crown corporations. Australian ports, however, fall under state (provincial) jurisdiction with negligible federal oversight. A key component of the 90's reforms was a dramatic overhaul of labour practices which were endorsed by both the Maritime Union of Australia (seafarers & dockworkers) and employers (terminal operators).
- Maritime labour modernization flowed from general labour reform initiated in 1983 and was accompanied by an opening of the economy and the adoption of a floating exchange rate. A move to company/salaried employment began in 1993/94 and culminated in 1998 after a particularly contentious period, during which Patrick Terminals (now Toll Group), locked out its union workers and forced labour change with backing from the federal government. Redundancy and high costs were undermining terminal operations to such a degree that Patrick, a domestically owned terminal operator, was prepared to shut down entirely if major labour issues were not addressed. Within a few weeks legislation was passed and the federal government's retrenchment policy was initiated, which resulted in the federal government putting up \$240,000,000.00 towards employee pay-outs that rationalized the existing workforce. This payout was re-paid through a container levy.
- The process in 1998 was initiated through the efforts of the federal government, terminal operators and the pragmatism of the union leadership. No layoffs have occurred since, despite technological innovation. The 1998 agreement not only dealt with redundancy but addressed fundamental and systemic labour practices. The impact of dispensing with hiring hall and dispatch practices and moving towards company/salaried employment cannot be overestimated. The elimination of an overtime culture and adoption of salaried labour with permanent full-time and part-time employees working to a 24/7 roster is truly dramatic, especially when contrasted against the antiquated hiring hall/dispatch process which continues in North America. Contract

negotiations are also less onerous; the Maritime Union of Australia negotiates directly with terminal operators across the country in a two-fold process. Part one provides a broad framework agreement for the whole country while the second part of an agreement caters to regional specifics.

- Understandably, this process is facilitated by the fact that until April 2007, there were only two terminal operators in Australia, namely: Toll Group and DP World (Hutchison Port Holdings has now made its presence felt in at the Port of Brisbane). This being said, the country's ports are essentially run by a duopoly which maintains a "cozy" relationship with the state governments and port authorities - terminal operators lease land from the port authorities. Union contracts are generally re-negotiated every three to four years and there has not been a strike since the labour disturbances of 1998. All parties (ports, labour, terminals, state/fed governments, shipping lines) agree that labour relations and productivity have vastly improved since the turbulent 70's and 80's which witnessed a steep decline in Australia's economic performance.

3.1 We recommend that Canada study the structure of dock-related labour in Australia and find ways to transfer the lessons learned to Canada. Australia represents the best example we could find of a fully re-structured labour regime, which appears to serve the interests of the workers as well as the logistics industry and the nation.

We were told by all parties, including labour leaders, that they consider the current arrangement a success. Australian ports operate a genuine 24/7 schedule with a virtual absence of overtime. The workers have a relatively high annual salary with predictable hours, steady employment and known promotion and retirement provisions. Workplace rules are flexible and adapt well to innovation and there is a structured regime for the entry of younger workers.

3.2 We recommend that the Government of Canada take the lead in the institution of a different labour regime on Canadian docks, supported by new legislation if required. The reality is that no individual terminal operator will have the resources or strength to take this on alone. In Australia, the lead was very clearly taken by the federal government. This type of initiative will undoubtedly require legislation and commitment at the federal level.

3.3 We recommend the following elements as critical to a new and effective labour structure:

- **eliminating the British Columbia Maritime Employers Association;**
- **eliminating of dispatch hiring hall practices;**
- **reviewing and reducing the practices that cause severe over-manning for specific dock tasks including the practice of working four hours and getting paid for eight; and**
- **creating permanent employment levels at facilities in a direct employer-employee relationship.**

While these recommendations affect labour, it should be noted that industry has been equally responsible in allowing such work practices to become an enshrined component of the West Coast labour and employment model. This model is noticed by shippers outside of Canada and is affecting our ability to compete with other ports.

We did not make it one of our recommendations to consider all the labour associated with the Pacific Gateway as “essential”. But policy makers may have to consider such a step in the future as the shippers and sending ports in Asia consider the entire labour situation in Canada related to the ports as unreliable.

4.0 THE RAIL CONNECTION

Our first observation is that in order to serve the national interest, there needs to be a re-balancing of interests with respect to the railway companies and the stakeholders in Canada.

The ships, the marine ports and the railroads are three parts of an integrated system. We take the view that Canada has two efficient railroads and if allowed the opportunity, both have the ability to compete with their American counterparts. Given the published efficiency ratios of CN and CP, we believe that both railroads could compete successfully in the US market, to a much greater degree than at present, if the capacity and performance of the Ports of Vancouver and Prince Rupert allow them to do so.

We were given the impression by both rail companies that they were willing to expand the capacity of their systems if they could clearly see the demand, but were unlikely to expand ahead of demand and thus create pricing pressures for themselves. Given that Canadian shippers have no real alternative, this absence of surge capacity results in a situation where any surge in demand or problem created by weather or other disruption immediately creates congestion. This is usually experienced in a physical sense at the ports, though the origin of the problem may be elsewhere in the system. Since Canadian shippers have no real alternative, they absorb the result but are very unhappy with the level of service they have experienced.

We could anticipate that if CN and CP begin to compete more in the US, as the Canadian ports expand, they may be required, for competitive reasons, to maintain a high level of service to their US customers. This has the potential to make service even worse for Canada if the pressures must be absorbed by customers who have no alternatives. The railroads have demonstrated that they each act primarily in their own financial interest. So while we do not necessarily recommend regulation, we suggest that an expansion of opportunities for the railroads must come with the acceptance of responsibilities or policies that will assure that service to Canada is, at a minimum, maintained or, even better, enhanced.

We noted it is a common practice in other parts of the world, such as The Netherlands, the UK and Australia, that the ownership and operation of the track is separated from the operation of trains. This creates the opportunity for competition and a greater diversity of service options. We are very concerned about the limited nature of rail competition in Canada and recommend that consideration be given to creating a greater diversity of service. In Canada, we found two circumstances of particular concern:

- Competition is limited, and the single operator at Prince Rupert is of specific concern. Service goals should be established, allowing current operators to retain their monopolistic positions on the basis of meeting clear service requirements involving reliability, cost and access. While dispute settlement processes may be part of this solution, focusing on them creates a negative, after-the-fact approach. We believe more emphasis should be placed on assuring service levels in advance.
- The rail companies made it clear that they make the most money on their long haul routes, which they define as from the West Coast to either Eastern Canada or the Central US. This means that the Prairies and Interior BC are served reluctantly, as reflected by the experience of shippers in those areas. Serious consideration should be given to creating additional service options (using short- or medium-haul independent rail companies) between major areas of the Prairies and the West Coast Canadian ports. These could be part of a single system or several smaller and shorter systems that serve regional interests.

As we visited ports around the world, we noticed that many are adopting a strategy of loading trains directly at the port. This was often driven, at least in part, by the need to use the limited and expensive waterfront space more effectively. In other instances, it allowed for the more efficient mixing of containers from different ports or terminals onto destination-specific unit trains. A further reason was to reduce the congestion of trucks leaving the often crowded port zones.

We believe that inland terminals of some kind, similar to those associated with many of the ports we visited, provide a model for the strategy needed in Canada. Built where land and other pressures are less severe, they would

solve the congestion at the ports and may allow for the creation of more effective destination-specific unit trains. In Rotterdam, this idea was taken a step farther; all traffic leaving the port region by rail was organized in maximum length unit trains that traveled through The Netherlands on a new dedicated freight-only line destined for any one of 22 inland terminals such as Vienna or Milan.

We note that containers will be unloaded at several marine terminals in the Vancouver region and possibly more than one in Prince Rupert. These containers in turn are destined increasingly for a limited range of inland terminals in various locations in Canada (mostly in Eastern Canada) and the US Midwest. This suggests that these various streams of containers could be joined, sorted and sent as efficient units to their final destination. The reality is that Canada's existing rail structure, which is dictated by mountain passes, creates a situation where the containers effectively pass through a funnel to the Prairies and then diverge to points east and south.

The rail companies should be encouraged to study the way containers leave the congested coastal areas, with the objective of reducing congestion by developing a pattern of inland terminals that would permit the rational handling of the stream of containers. Such a pattern would also provide enhanced opportunities for Western Canadian shippers to gain access to the system.

A long term solution to the problem of congestion in Vancouver may require investment in superior exit and entry corridors for trains from the Port of Vancouver to a point east of the city. (The Alameda Corridor in Los Angeles and the new rail corridor in The Netherlands are interesting examples). Specialized corridors would eliminate much of the current congestion caused by trucks moving freight between terminals and around the region. We noted that Rotterdam, Los Angeles/Long Beach, Felixstowe in England, and Sydney and Melbourne in Australia had all created or were considering variations of this pattern of inland terminals serviced by special trains.

Different ports have developed creative and locally appropriate strategies to deal with local congestion. For example, Los Angeles/Long Beach had a severe problem of congestion during peak hours on major roads leading inland from the ports. The solution was to introduce a system known as "PierPass", which charges a levy on any truck leaving the ports during certain hours.

Specifically, PierPass is a program (a non-profit corporation) developed by the Ports of Long Beach and Los Angeles to mitigate the problems of congestion on the freeways serving the ports and to reduce the impact on air quality and noise pollution. Containers leaving or arriving at the ports can use the local freeway system or the Alameda Corridor, a new rail link developed in recent years that eliminates all level crossings between the ports and the major rail terminals in central Los Angeles. The fee for the use

of the Alameda Corridor is \$18.00 per TEU and we understand that all containers leaving the port are charged this fee whether they use the rail link or not. While the Alameda Corridor diverts many containers to rail, there remains a significant portion that leaves by truck, especially freight destined for the local market or the "Inland Empire" where the major warehouses are located. The preferred solution is a new inland terminal served by rail in the "Inland Empire" 100 km east of the ports but the rail access is not adequate and while the land has been set aside the inland terminal does not yet exist. This new terminal would allow for containers to leave the port by rail for virtually all purposes and destinations.

To deal with the problems caused by trucks arriving at the ports or leaving the ports, a new system known as "PierPass" was implemented in 2004 to increase the attractiveness of entering and exiting the ports during off-peak hours. A fee of \$50.00 per TEU is charged for all containers that leave the port by truck during peak hours which are defined as 3.00am to 6.00pm Monday to Friday. There are certain exceptions. We were advised that 34% of truck traffic is now in the off-peak hours and the program has contributed to a significant reduction in the truck traffic on adjacent freeways.

The revenue generated by the PierPass fees is refunded to terminals that operate an effective off-peak program to compensate them for the extra cost of longer hours and the labour costs related to overtime or night and weekend shifts. The fee is paid by the owner of the cargo. While there is an extra cost, the use of off-peak hours reduces the overall cost of transportation by less time required on each movement and the reduction of idling by trucks reduces air pollution. While not a permanent fix, PierPass has mitigated the negative impact of the ports to some degree and greater incentives or disincentives could alter traffic patterns even more.

PierPass is an innovative system that does not alter traffic patterns through regulation but provides incentives to all parties to alter their behaviour in ways that contribute to the goals of less congestion and improved air quality. Presumably variations on this theme could be used by any port with similar issues. The system has made a great contribution to the relief of local road congestion.

In other ports, there is a levy on each container, which is used to deal with specific concerns. In Australia, the levy was used to create a fund, which paid severance packages to workers made redundant by policies that had been introduced to rationalize the labour structure and develop more efficient ports. Other levies are used to fund the infrastructure necessary to improve access to and from the ports.

These approaches are based on the principle of user-pay and serve as incentives to alter behaviour. There is substantial scope for creativity in the areas of targeted levies and incentives, particularly those aimed at altering behaviour, rather than simply raising funds and costs.

The question of finding a balance between imports and exports is both a problem and an opportunity. Canada reputedly fills a much higher proportion of its departing containers than does the US through the ports of Los Angeles/Long Beach. Ocean carriers considered this an advantage in favour of Canada. If the Pacific Gateway strategy is successful and the quantity of arriving containers increases dramatically, there is no assurance that the containers departing loaded will increase in anywhere near the same proportion. To remedy this will require the development of export markets, export strategies and new products; all will have an opportunity to expand with the new, low-cost shipping that will accompany an increase in imports. These opportunities particularly apply to bulk commodities and manufactured goods. In some cases, the products and possibilities already exist, but the access to the empty containers is limited by both a dearth of loading points and by the policies of the rail companies. This opportunity for Canada will require an appropriate mix of policies and possibly financial or other incentives.

There is also a relationship between container and bulk shipping that offers opportunities. Certain freight must go by container and other freight can only travel by bulk. However, there is some part of the flow that can go in either mode and sometimes the shift from bulk to container increases both the market value and size of market, since it accommodates customized products with a correspondingly higher value.

This has an impact on limited rail capacity through the mountains since specialized bulk cars travel full to the west and return empty to the east. The basic container flow is the reverse. Any shift of bulk to containers increases the value and attractiveness of the Pacific Gateway to the ocean carriers and reduces the number of cars that must travel through the mountains to deliver the same volume of freight.

There are many opportunities to enhance the ability of the rail system to better serve the Pacific Gateway, the users and the nation and the following recommendations address many of these concerns and opportunities.

4.1 We recommend that the guiding operating principle for rail companies be market-based; but with the clear understanding that where a monopolistic ownership structure exists, a relationship is required with the other stakeholders that results in a more level playing field.

4.2 We recommend the full implementation of the dispute resolution mechanism or similar mechanisms as part of the contribution to a more balanced relationship between the rail companies and users of the service.

4.3 We recommend that all demurrage and service charges currently used by the railways be fully reciprocal. Shippers and

terminal operators argue that the railway service levels do not always support the arbitrary nature of these charges. The railways must accept that their failure to abide by service commitments has implications for shippers and operators. We believe this method of reciprocity will lead to better rail service.

4.4 We recommend that the regulatory environment for the rail companies be designed to provide maximum stability within a framework of assurance of service indicated in the other recommendations.

4.5 We recommend the development of a system of inland terminals as an overall strategy to serve the following purposes:

- reduce port congestion by removing containers from the port area more quickly;**
- reduce congestion on the roads in the Vancouver port area by eliminating the transfer of containers (destined for more distant destinations) between terminals or ports by truck;**
- reduce the need for road-related investment caused by this unnecessary movement of trucks;**
- create employment opportunities at points along the corridor;**
- create opportunities for shippers along the corridor by creating enhanced access to the unit trains moving in either direction;**
- create a system that improves access to empty containers for potential exporters; and**
- improve the ratio of loaded export containers thereby enhancing the overall attractiveness of Canada as a Pacific Gateway.**

4.6 We recommend that a system be designed using financial incentives or other appropriate means with the specific goal of enhancing the quantity of filled export containers.

4.7 We recommend that a system similar to the PierPass system used in Los Angeles be implemented in Vancouver for the purpose of reducing congestion and moving toward a genuine 24/7 operation.

4.8 We recommend the removal of all restrictions within the control of Canadian authorities on cabotage (the movement of marine containers between two points within Canada), with regard to the domestic use of containers.

4.9 We recommend that tax policies, such as Capital Cost Allowances, be redesigned to be competitive with those in the United States, in recognition of the expectation that our Pacific Gateway rail companies must compete with American Pacific Gateway rail companies.

Finally, we have stopped short of recommending any kind of open access or joint running rights application to our two national rail carriers. We can say that there is sufficient shipper concern with railway performance that there is merit in considering this long standing option. However, it is our opinion, given our previous views on competition, goals and objectives, that the railways should be given an opportunity to demonstrate a marked improvement in service through their support of these recommendations. If the railways fail to demonstrate that improvement, we would strongly suggest allowing open access on the national carriers' railway network.

Another alternative to true rail competitiveness would be to establish what other countries have established in terms of the ownership of the rails and the rail bed. If we were to follow the examples of The Netherlands, England and Australia, the rails and rail bed would be purchased from Canada's two major railways and put into an Authority structure which would then offer access to any rail company for a fee. This acquisition would be financed through the issue of financial instruments in the public capital markets.

5.0 AIRPORTS, AIR TRAVEL AND AIR CARGO

The growth of Asian economies and the development of marine trade links with North America have a parallel in the air component of the Pacific Gateway. The issues and opportunities are different than those of the marine component and will be dealt with separately in this section. Unlike the marine component of the Pacific Gateway, the air component has a more tangible "people" side to it, as a result of international air travel.

Generally, most international travelers and shippers have a positive view of Canada and therefore policies that encourage the use of air travel and air shipping through Canada will be met with a positive response. Given the security issues regarding travel to or through the US, there are opportunities for Canada to meet the legitimate needs of security, yet create a more welcoming environment.

Air policy should be viewed as a facilitator of international commerce and travel and should be determined on that basis, rather than one based on protectionist interests. We believe that transportation serves the national economic interest; it therefore follows that increased choices in terms of air service, access and price will make Canada not only more competitive as a destination but will facilitate opportunities for its increasing use as a world transit point. Once again, we believe in the principle of open access and competition.

Canada's international air carriers are, we believe, now of sufficient size and of sufficient stature that they can compete with any other international air carriers, given a level playing field. We believe that it is in the national interest for our air carriers to be successful internationally and within Canada. The existing legislation governing the structure of ownership may be an impediment to responding to competition created by air carriers with a profit motive. Further, many state-owned international air carriers appear to use their airlines for public policy objectives rather than for efficient transportation based on competitive profit principles.

Air cargo is also an important and integral part of the Pacific Gateway and its success. Like inbound marine container cargo, air cargo can go to any airport as most of it is destined for places other than the airport cities. This is particularly true of Vancouver as the local market is not large and we are told that approximately 50% of landed air cargo is destined for elsewhere.

We have been told that more than 80% of global air cargo is carried in the bellies of passenger aircraft. Further, according to The Boeing Company, global air cargo is expected to grow at a rate exceeding 6% annually for many years to come. However, we have also learned that for many years Vancouver International Airport (YVR), as well as Canada's other gateway airports, have not been as successful as other destinations outside of Canada in capturing their natural share of this growth. We believe this desired growth has not occurred in part because of the lack of significant growth in passenger aircraft serving Vancouver International Airport and other major airports, along with an air bilateral policy that does not encourage foreign carriers to serve Canada's airports. For this reason, we feel that Canadians and all Canada's airports would benefit from our recommendations.

The creation of airport authorities by the federal government moved the governance and operation of many of Canada's airports, which are national assets, into more "private" hands. This has had a demonstrably positive impact in terms of infrastructure development and responsive management. And since we believe the management and responsibility for an asset should be located as close to its economic activity as possible, the creation of airport authorities clearly does this. We therefore support their creation and the continued operation of these national assets. However, despite the creation of beautiful and user-friendly passenger terminals that have nicely responded to the increasing demand for air travel, some 15 years later we believe that the federal government ought to look at the governance structure of these authorities for a number of reasons.

Among these is the concern, expressed by many, that the cost of operating at YVR (and other Canadian airports) is too high compared to competing airports, particularly in the US. There is also a concern that there is little incentive to control or reduce costs of operations, which are borne by the private sector, including airlines, because of a perceived lack of accountability on the part of airport authorities.

These authorities now have the ability to effectively tax without any meaningful public oversight. For example, the AIF (Airport Improvement Fee, which is a tax on passengers) is used, we are told, by airport authorities as a vehicle to fund infrastructure, whether it is actually required to accommodate growth or not. We do not believe there is sufficient accountability as to where these funds are actually used, nor is the collection of such funds meaningfully tied directly to infrastructure construction. All this leaves the potential for AIF funds to be used in non-airport activities such as the funding of subsidiaries, which conduct business outside of the airports' core businesses.

In short, it is felt that despite many public debates, the existing governance structure, on its own, is not sufficient for the custodians of such valuable national assets.

A related issue to airport user costs is the land rent that is currently paid by airport authorities to the federal government. We are told that this land rent is a significant obstacle to growth of the private sector businesses, including airlines, and is the most significant impediment to YVR being cost-competitive with competing airports in the US. We suggest that the original reasons for the existence of this land rent may have disappeared since the creation of Canada's Airport Authorities. Many are of the opinion that if it were reduced or eliminated, the resulting economic growth and contribution would be of greater value than the rent abatement.

Our approach to these and other issues is to ensure that costs for the infrastructure that supports Canada's gateways be as low as possible. We also believe that existing infrastructure should be used to the greatest extent possible to create efficiencies, which can create a cost advantage compared to competing airports. Canada's airport authorities must compete for business with other airports in the world, and particularly with those in the United States. It is therefore vitally important that our airport facilities not only be competitive in terms of amenities and state of repair, but also concerning the costs borne by the passengers, airlines and other stakeholders.

At the operational level, we believe the private sector should be encouraged to invest in areas outside the actual passenger terminal and airfield. Our premise is that the private sector, given encouragement and a stable equitable regulatory framework will make better and faster decisions than do governments and near-government entities. The following recommendations reflect our views on air travel and air policy.

5.1 International Open Skies

We recommend that Canada take a much more aggressive approach to open skies. Recognizing the challenges and opportunities associated with an open skies initiative, we fully encourage the development of a level playing field in the sense

that any negotiations to this end provide Canadian carriers with the same opportunities of international market access as those for foreign carriers.

We believe that such access under a much broader air policy should include the right of foreign carriers to access any city in Canada as many times as they deem feasible.

Reciprocity rights for Canadian air carriers should be a condition but the bias should be toward open access. The decision of a Canadian carrier not to use reciprocal rights should not be a significant reason to deny access to Canada by competing foreign carriers.

We take the view that air travel to Canada will encourage business, educational and tourism. Further, air travel to Canada will also enhance the air cargo business as outlined above. More airplanes in Canada mean more opportunity to achieve market growth in air cargo.

5.2 North America Cabotage

We recommend that Canada should negotiate with the US the "Sixth Freedom Lite", a modified version of the "Sixth Freedom Right" – the right or privilege, with respect to scheduled international air services, to transport, via the home country of the carrier, traffic moving between two other countries.

We believe Canada should strive for North American cabotage as its ultimate goal, for it would create meaningful domestic competition, capture efficiencies and drive costs lower. We also realize that this initiative is unlikely to succeed at this time. However, we believe that there is an opportunity to negotiate a modified form of cabotage with the US, which will begin to move towards these goals.

Under this recommendation, a foreign carrier would be allowed to pick up passengers in a Canadian city, transport them to a US city and then transport them to another Canadian city. This is not presently allowed under existing bilaterals and would effectively allow for many of the benefits of full cabotage to be captured.

5.3 Air Carrier Ownership

We recommend that the federal government study the current ownership restrictions related to Canadian air carriers with a bias to removing them altogether.

Air carriers now compete not only domestically but internationally and must constantly be changing and adapting to new market conditions. This includes not only routes flown but also the product they place in the air for the passengers, as well as the maintenance of aircraft and computer systems. All of these investments require capital.

We believe that the current restriction of air carrier ownership is an impediment to existing air carriers in need of new capital and a significant entrance barrier to new Canadian carriers that need capital.

5.4 Universal Transit without Visa

We recommend that Canada adapt its laws to allow foreign travelers, who normally would require a Canadian visa, to transit Canada to another country without requiring a Canadian visa for such a transit.

This refers to the issue of a passenger landing in Canada and traveling on to the United States *or another country* without technically entering Canada. This is a particular irritant for Vancouver as a Pacific Gateway hub which has a high level of passengers transiting Vancouver to the United States.

Canada's current policy treats international transit passengers as "arriving" passengers and requires them to be processed and cleared into Canada before boarding their plane for elsewhere. This is an impediment to seamless air travel and most major non-North American international gateways have successfully dealt with this issue and allow passengers to transit without being processed.

International passengers are a significant revenue generator, and should Canada adapt its laws to allow foreign air travelers to transit Canada (without a visa) en route to another country, this useful service would have the potential to be of significant advantage for Canadian airports over their American counterparts.

5.5 Role of Airports

Our recommendations seek to change airport management behaviour through enhanced governance and accountability. If these do not work as intended, we can envision another model where the airport authorities become public corporations in every sense but become much more regulated than they are at this time.

We recommend that the federal government and the provinces undertake a study to determine how to change the governance structure of airport authorities to achieve true accountability for all stakeholders. We present the following examples:

- **We recommend that an independent and effective ombudsperson with the necessary mandate, authority and duty be appointed to deal with airport issues both in terms of operations and airport policies.**

This person should have the unfettered right to meet with any stakeholder to hear legitimate concerns. Care should be given to the terms under which this person is appointed, to whom he/she reports and to the mandate under which he/she shall operate.

- **We recommend that the airport authorities be required to be more fully transparent in dealings with stakeholders. This means that airport authorities must publicly provide details of any material contracts with the private sector to ensure that the playing field is forever level.**

We understand that there may be private sector companies that do not wish contract information to be public, but note that in other countries this is the policy on airports and private sector companies may make a choice to do business at airports, given these disclosure requirements.

- **We recommend that the airport authorities be subject to Freedom of Information statutes.**
- **We recommend that the federal government study how Canada's airport authorities could be placed on the same footing as their US competitors in terms of raising and pricing new capital, through a review of airport rent and through the use of tax exempt bonds.**

Clearly, airports must be able to raise necessary capital when required for infrastructure. In the United States, airports are mainly able to rely on the credit rating and credit worthiness of their ultimate owners (whether they are the state, county or municipality). Raising capital this way usually makes it tax exempt to the buyer of the security therefore it is a much cheaper way to raise new funds.

6.0 AIR CARGO

6.1 We recommend that encouragement be given to all initiatives

that are designed to take advantage of the capacity available as part of passenger travel or as unique linkages for all-cargo flights. This includes appropriate customs processes that facilitate onward movement, as well as examining additional cargo movement options.

Virtually every aircraft between America and most of the rest of the world passes through Canadian airspace or very close to it. This creates theoretical opportunities that can become realities with the right policies. A strategy that is responsive to airports, air carriers and other stakeholders will pay huge economic dividends for Canada.

7.0 ADDITIONAL COMMENTS

A number of concepts or suggestions were presented to us either directly or indirectly during our investigations. Some relate to the concept of the Pacific Gateway and others are parallel opportunities that may be worthy of further examination. Though we were not able to fully explore these suggestions, we would nevertheless like to acknowledge them.

7.1 The Port of Churchill

We recognize that the Government of Manitoba and the private operators of the Port of Churchill have made considerable efforts to develop strategies for the more effective use of this potential Pacific Gateway. Changes in ice cover as a result of global warming, along with economic and political developments in Russia may create additional opportunities for future use of the port through the Northwest Passage. Extending the season through the use of icebreakers would provide a critical element for the port's future economic viability.

7.2 Winnipeg Airport Cargo Proposal

Winnipeg International Airport is working with the Russian city of Krasnoyarsk to take advantage of Great Circle travel to develop what could be a most efficient air bridge between Asia and North America. Just as Prince Rupert offers the shortest sea distance between Asia and North America, geographic realities combined with changing aircraft technology (which allows aircraft to fly the full distance with a full cargo load) make Winnipeg the air equivalent of Prince Rupert. Asian goods would flow to Krasnoyarsk and be air freighted to Winnipeg, where they could connect to other airports or be distributed by train truck to virtually anywhere in North America. We feel this initiative should be given consideration based on its merits.

7.3 Grain Containerization

The rationale for shipping by container is based on the potential development of higher value crops through the retention of grower identity, the utilization of empty containers and the development of a just-in-time supply system from farm to end user. While a significant amount of specialty grain is already moving internationally by container from Canada, the United States and Australia, we believe that changes to infrastructure on the Prairies would promote trade of this kind in Western Canada. For instance, strategically placed inland terminals could become specialized collection points, distributing goods in both directions – removing commodities incoming by container from the West Coast, then refilling those containers with grain or other commodities and sending them back to the coast. However, historically, the prairie rail system was not designed for this pattern of freight, which has left a legacy of reluctance on the part of the railways to invest in such a new access structure. The railways' view is that this should be part of a national policy. We would like to see a policy environment that develops trade by encouraging the utilization of empty containers by the railways, along with investment in appropriate facilities.

As the Pacific Gateway reaches its objectives of a much greater flow of east-bound containers, the proportion of empties will rise dramatically, unless policies are created to fill them with grain and other commodities. We noted that in Australia shipping patterns have been developed that permit the loading of up to 37 tonnes per container instead of the more typical 20- to 22-tonne maximum in Canada. Change of this magnitude can dramatically alter the economics of international shipments of containerized grain.

8.0 CONCLUSIONS

We, the three strategic advisors to the Minister, had not met prior to this assignment and have different backgrounds and therefore perspectives. Perhaps therein lays the wisdom of the individual appointments. Still, through intensive and extensive travels, learning and discussion, we were able to reach the above recommendations unanimously. This was necessary for that was our goal.

We chose to define the Pacific Gateway in the broadest way possible after reviewing the current literature on the subject authored by the different levels of government and the private sector. We studied what had been developed over the past several years by many stakeholders and determined that our mandate was to provide policy and strategic recommendations for the country and in the best interests of Canadians.

While we have not provided a myriad numbers and statistics based upon our many meetings, we did take note of them and used them where appropriate in forming our recommendations. We believe that our mandate was to rise above the back and forth of costs and opportunities, expressed in dollars or TEU's or tonnes. We sought to study other systems in other countries and find solutions for Canada. We took the learnings and experience of others and applied them in a Canadian context.

We realize that our recommendations may be considered drastic by some. We recognize much of what we have proposed has not been proposed in this manner before. But we credit Minister Emerson and the Government of Canada for allowing a "clean slate" look at a national treasure yearning to be developed.

If we could leave the reader with a few thoughts, they would be these. The largest opportunity for economic activity and success for Canadians with the Pacific Gateway is through the development of a marine container business that has national reach. But we learned very quickly and repeatedly that Canada is not a particularly important world player. What was made so clear to us, mostly in Asia, is that we have to find ways to be better than our competitors which are principally in the United States. Being less bad is the wrong strategy. We must develop best practices. While shippers would prefer Canada as a port of call, they are concerned with the entire labour situation and with reliability of our infrastructure. Until these are dealt with, we will not reach the goals we have set out as a country. The solutions will require a national will and commitment to succeed. And they will require different and visionary thinking from the private sector stakeholders.

As Canada has done in so many ways in the past, the time has come for us to lead the world once again with best practices with respect to the Pacific Gateway. The solutions are there. We have to act, as the world will not wait.

Once again, we thank you for the opportunity to serve Canada and make comments and recommendations regarding the Asia Pacific Gateway Corridor Initiative.



Jeff Burghardt



Arthur DeFehr



T. Richard Turner

Appendix

CONSULTATION MEETINGS AND LOCATIONS

AUSTRALIA

Sydney

Canadian Consulate General
DP World
P&O – FORMER MANAGEMENT OF DP WORLD PORTS
Maersk
Maritime Union of Australia
New South Wales Maritime
Port of Sydney
Shipping Australia
Toll Group

Melbourne

Business Council of Australia
Port of Melbourne
Victorian Department of Infrastructure
Victorian Freight and Logistics Council

CANADA

Calgary

CP Rail

Montreal

CN Rail

Ottawa

Canadian Department of Foreign Affairs and International Trade
Transport Canada

Prince Rupert

City of Prince Rupert
Prince Rupert Port Authority
Ridley Terminals Inc. (RTI)

Toronto

BMO Nesbitt Burns
TD Securities

Vancouver

Air Canada
Asia Pacific Foundation
BC Maritime Employer's Association
BC Wharf Operators Association
Business Council of British Columbia
Canada Border Service Agency
City of Vancouver
Container Trucking Forum Chairman
Delta Port
Fraser Port Authority
Greater Vancouver Gateway Council
Prince Rupert Port Authority
TSI Terminals Systems Inc
Vancouver Board of Trade
Vancouver International Airport Authority
Vancouver Port Authority
Western Transportation Advisory Council

Victoria

British Columbia Ministry of Transportation

Winnipeg

Agricore United
Canadian Exporters and Manufacturers
Cargill Canada
James Richardson International.
Manitoba Business Council
Manitoba International Gateway Council
Omnitrax
University of Manitoba - Transport Institute
Winnipeg Airport Authority

CHINA

Hong Kong

Baltrans
Cathay Pacific
CN WorldWide
Consulate General of Canada
CSAV Norasia
Hong Kong Air Cargo Terminals Ltd.
Hutchison Port Holdings/HK Int'l Terminals
Kerry Logistics
Valles Steamship

Shanghai

APGCI Mission to China with the Minister of International Trade and Minister for the Pacific Gateway and the Vancouver-Whistler Olympics (Shanghai portion)

NETHERLANDS

Rotterdam

Canadian Embassy
CN Worldwide
ECT Terminals
Evergreen Netherlands
Holland International Distribution Council
Maersk
Port of Rotterdam Authority
Rail Service Centre Rotterdam

The Hague

APM Terminals

SINGAPORE

APL
Canadian High Commission
PSA International Pte Ltd.
Singapore Air Cargo Agents Association
Singapore Airlines

UNITED ARAB EMIRATES

Dubai

Canadian Consulate
DP World
Dubai World Central
Emirates Group
Jebel Ali Free Zone (Jafza) International
Maersk

UNITED KINGDOM

Felixstowe

Mediterranean Shipping Company
Port of Felixstowe (Hutchison Ports)
Port of Felixstowe (Management from former Ownership by P&O)

UNITED STATES

Denver

Omnitrax

Los Angeles

Alameda Corridor Transportation Authority

Canadian Consulate

PierPASS

Port of Long Beach

Port of Los Angeles

TraPac Terminals

New York

Canadian Consulate

Port Elizabeth (New Jersey)

Maier Terminals

Written Submissions Received

British Columbia Ministry of Transportation

City of Vancouver

Edmonton International Airport Authority

Vancouver International Airport Authority

Winnipeg Airport Authority