Bringing it Together: Canada's Asia-Pacific Gateways & Corridors

courtesy Sauder School of Business, UBC

Canada is poised to spend over $1 billion for Pacific gateway and corridor initiatives. Managing that growth will require close cooperation between various operating partners.

BY TIM LYNCH

The ports along Canada's Pacific Coast are all experiencing challenges as a consequence of the globalization of trade and travel: Prince Rupert is gearing up to become the destination of choice for a large part of the trade between Asia and North America, while tourism along the inside passage provides opportunities for many communities to share their histories and pristine beauty with visitors from around the world. In the context of "globalization," the City of Vancouver is recognized as a multi-nodal arterial gateway city linking air, water, rail and road forms of transportation. The Port of Vancouver provides critical parts of that gateway in the transfer of import cargo from water onto land and, equally important, the reverse for exports. The hinterland around Vancouver is comprised of numerous communities and businesses dependent on the Port being able to maintain its status as a destination for doing business in a highly competitive climate. Beyond its immediate neighbourhood, the work of the port influences communities and businesses across Canada and into America.

In order to function as a world-class gateway the Port of Vancouver has to be part of a network of reliable transportation corridors in the form of roads and railways. These corridors have to provide a high degree of certainty to Canadian and foreign customers that their cargos will be transported to their destination in good condition and on time. In our highly competitive global world, national transportation systems are assessed by their ability to support a door-to-door service around the world as much as they are by deep sea harbours. Making all this happen requires multi-sector private/public planning and coordination that is supported by private and public capital investment.

Opportunities and Challenges

The Center for Transportation Studies at the SAUDER School of Business, UBC, in collaboration with Transport Canada, recently facilitated a series of round table discussion across Western Canada that resulted in a conference held in Vancouver at the beginning of May 2007. This conference brought together international transportation experts from academia, government and business to discuss the opportu-

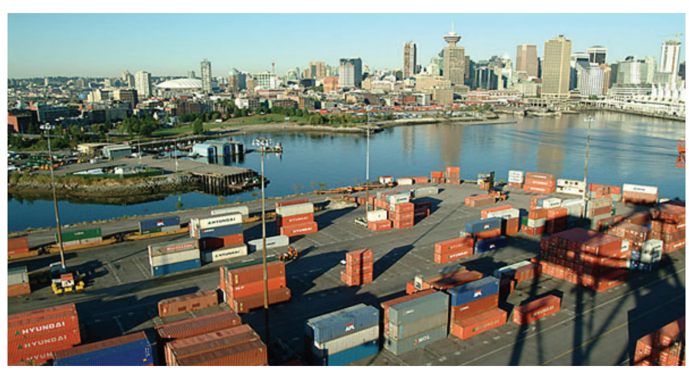

photo courtesy P&O Ports Canada Inc.

Containers await handling at P&O's Centerm terminal in Vancouver. In order to function as a world-class gateway the Port of Vancouver has to be part of a network of reliable transportation corridors including roads and railways.

nities and challenges confronting Vancouver and Canada in establishing an Asia-Pacific Gateway and Corridor. Prime Minister Stephen Harper attended the conference and reassured participants that the Government of Canada has budgeted over $1 billion for gateway and corridor initiatives. Describing the infrastructure development as the largest program in Canada in half a century, the Prime Minister said “At the dawn of the 21st century, no country in the world is better positioned than Canada to prosper in the emerging global economy, and the Gateway Initiative is obviously critical to realizing our potential.”

Presentations at the conference discussed how ports and their access and exit routes (gateways) have to be integrated so that there is a balance in managing congestion, capacity, investment and costs (price) and, at the same time, delivering high quality service in a very competitive market. In an interview during the conference, Captain Gordon Houston, President and CEO of the Port of Vancouver, described how these relationships influence management decisions at his port.

Tim Lynch photo

Prime Minister Stephen Harper speaks at the Asia-Pacific Gateway conference held in May 2007 in Vancouver. He told participants that the Government of Canada has budgeted over $1 billion for gateway and corridor initiatives.

Congestion Versus Capacity

“Defining capacity” Houston said, “is like asking the question “‘how long is a piece of string?’ I think of capacity more as a function of efficiency. It all comes down to throughput and how many boxes can you put through your terminal in the course of a year. Depending on which sector you are talking about there really isn’t congestion in the Port of Vancouver. With the bulk sector it is delivery to the port and organizing those ships, which is more to do with choreography than congestion. Congestion around container trade is not an infrastructure or lack of resourcing problem, it is a weather problem.

“Winter happens every year in Canada. I am always surprised that people don’t appreciate how winter affects port business. This past November we had a series of windstorms only days apart. Consequently, ships were not able to keep on schedule. Once the winds get above, I think it is forty kilometres an hour; the cranes shut down because they can’t pick the boxes up without them swinging, creating a very dangerous operating environment. When we have freezing rain on the terminals it means you can’t move things around. And the railways suffered a series of avalanches on their lines this past winter. All of that combines to stop movement and the result is cargo backing up. You simply can’t control the weather.”

photo courtesy Vancouver Port Authority

Captain Gordon Houston, President and CEO of the Port of Vancouver.

The Competitive Port Business

When asked how his port maintains quality service Houston said, “Service quality is all about efficiency. To improve this further we need to share information among the operating entities; something we are getting better at. Two years ago, we found that containers were starting to back up. When we investigated we realized that railways and port operators were not coordinating their requirements. Extra cars meant that the railways had empty cars hanging around. Fewer cars meant that there were too many boxes and not enough rail cars. We now have a conference call with railways and terminal operators every day and it has made a tremendous difference. These types of problems are solved when we share information.

In the highly competitive business of port services we have to aggressively market Vancouver as a preferred destination for cargo. We do our marketing at the source. For export cargo — resources based sulphur, potash, grain, coal and such — we have people in central Canada. For the import cargo we have an office in Beijing. There is a need to make people aware of the Port of Vancouver and how much it costs to bring their ship in. Is the business competitive? You bet it is. The major selling point is the destination of the goods. Our job is to capture 100 per cent of the Canadian market and we are close to that mark.”

Consequences of Port Amalgamation

When asked to outline how he sees port amalgamation affecting Lower Mainland marine business Houston said, “One of the big advantages in the amalgamation is the ability to plan this marine gateway for the next 25 years. This process is all about land use planning, land development and coordinated land use with the municipalities. One of the big advantages of the collaboration is that we bring together the resources of the river businesses and communities with the financial resources of a large international port. We fully expect to see short sea shipping developed around the Lower Mainland and possibly into parts of the U.S. in a much bigger way than it is today. That is absolutely what we want to do; it is very much in our plan. We calculated that one facility would take eighty thousand truck trips off the road. Can you imagine twenty of those barges moving up and down the river and along the coast? It would be a huge benefit to congestion and the trucking industry in that their trips would become more direct and efficient as we move into night, the environment would also benefit. We could do this with the river ports in some kind of joint venture, but it makes a lot more sense as a single port authority."

A View From There

Commenting on how the Lower Mainland marine communities are viewed by his customers, Captain Houston said, "One of the big benefits a port the size of Vancouver has is the presence of small marine businesses: water taxis, sea planes, the tug businesses, the various repair shops and the infrastructure for movement of domestic cargo — the barges. Without these independent business entities in place you are just a place to bring cargo and move it away. With such facilities you have got a full service port. All of these small industries are very important to the Port of Vancouver, and they are extremely important on the river. These businesses all combine to make up the Port. It adds to the quality of the Port in the eyes of both the foreign and the domestic shippers."

The Social Cost of Gateways

From a more global perspective, conference presenters looked at continuing exponential growth in trade from China. They discussed the degree that Canada was experiencing "push" or "pull" forces in responding to such events. Several presentations acknowledged that canal and rail traffic are more efficient, reliable, and environmentally-friendly forms of transportation than truck traffic. Concern was expressed that major arterial roads in the U.S. and Canada are at their maximum capacity with no chances of accommodating more traffic. Port expansion invariably leads to increases in real estate values which mean people working around ports have to move out to the suburbs. Consequently, local transportation investment is about connecting the suburbs to downtown/port areas rather than interconnecting suburbs, which over time tends to create isolated dormitory communities.

A cost benefit analysis by Professor Joseph Berechman of City University, New York showed that truck freight movements from additional port activity have significant impact on traffic conditions in the New York and New Jersey region. Being a highly congested and densely populated region, this additional traffic translates into substantial annual social costs. Using a wage rate of $7.20 per hour he calculated the total annual social costs was between $663 and $884 million. For a rate of $32.30 per hour he calculated it to be in the range of $1.215 billion to $1.620 billion. Some 53 percent of these totals was time wasted due to congestion. These calculations are based on estimates for the costs of vehicle operation, congestion, accidents, environment impact, and infrastructure investment and maintenance. Describing his calculations as conservative, Professor Berechman said that his type of calculations should be incorporated into any "cost of benefit" analysis of port expansion investments.

Global Implications

Perhaps it was a reflection of the balance in the presentations made at the conference, but while one part of me was excited about the expansion of Vancouver Port and its corridors, another part was concerned about the rationale for such expansions. It seems that Canada is being pressured into investing in Pacific gateways and corridors to satisfy the desire of Asian countries to "catch up" with the "developed world" at any cost. There seems to be a case of the tail wagging the dog, or is it the tiger?

People I spoke to at the conference agreed that the exponential growth in manufacturing and port building in Asia would not be tolerated in any nation founded on the rule of law and private ownership of land. The general sentiment seems to be that lack of labour standards, land ownership, human rights, and environmental practices within exporting Asian countries have to be accepted as costs of global trade. As the history of the fishing and marine industries on Canada's west coast documents, the "developed world" has lived through bloody, rebellious strikes and revolutions in order to achieve its standards of civility. A possible cause for concern about the globalization bubble bursting is that history may repeat itself. Old fashioned political rebellion could happen in the "catching up" countries if they do not begin to include the costs of supporting their citizens to achieve the standards enjoyed by their customers in the costs of manufacturing and transporting their exports.

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For Info

Most conference papers are available at:
www.gateway-corridor.com
BC Government's Gateway Program webpage:
www.th.gov.bc.ca/gateway

The Trouble With Empties

All those empty shipping containers being shuffled around Canada's ports are both a symptom and a source of underlying supply chain problems. But what are the solutions?

BY SIMON HILL

When it comes to port expansion, communication between various operating entities is key to success. It's true for $1 billion infrastructure investments, and it's true for something as seemingly simple as dealing with the flood of empty containers flowing from our growing ports.

Ten years ago, empties weren't really a problem — container shipping was very much in its infancy on the West Coast, at least in terms of sheer volume, and terminals had plenty of room to store empty containers. But as imports have grown, so too has the challenge of dealing with empties. Traditionally the various transportation nodes — shipping lines, terminals and railways — have tended to try to pass on the costs of dealing with empties. "The run from North America to Asia is certainly the backhaul," points out Scott Galloway, Director of Trade Development at the Port of Vancouver, "and we're now working on the principle that our very expensive container terminals can no longer be used for storing empties."

The port's stance is reasonable enough, given that storing empties has a huge impact on terminal throughput, but it does mean that new solutions are required. The most obvious solution is to simply store empties elsewhere, and there are companies in the Lower Mainland that now carry on a brisk business doing just that: At Delco Container Inc. the number of containers in and out of the storage facility has tripled in seven years, while the number of empties at nearby Deltaport terminal has correspondingly fallen from 10,000 TEUs to 2,500 TEUs.

The port is also exploring what Galloway calls "virtual" empties storage. "This is basically the idea of using knowledge to create space," Galloway explains. "You use information dissemination among stakeholders to improve the efficiency of moving empties around the Lower Mainland." The biggest challenge with this plan, of course, is that to work really well we need more exports.

Currently, the Port of Vancouver's principal containerized exports are wood pulp, lumber, pulse crops (peas, beans and lentils), waste paper, hay/alfalfa, and pork. Empty containers destined for loading could, with an appropriate information system, be shuttled directly from unloading facilities to loading facilities for export shipment. But there are significant hurdles: pulse crop farmers tend to want 20-foot containers for their crops, while imports arrive in 40-footers; and what about all those containers that are surplus to our export needs?

For shippers, dealing with these problems can seem like more trouble than it is worth: "Some of the shipping lines say the costs of doing export business are so high, and the export rates so depressed, that it's not worth shipping exports," says Clint Morgan, president of Delco. "They're better off to evacuate the containers empty and re-import them loaded with goods." Delays at the railway node don't help matters — it can take six weeks for a shipping line to get a container back after being transferred to rail, and according to Morgan this is prompting shipping lines to consider eliminating final destination rates, instead providing rates only to Vancouver for destuffing.

For this reason, Morgan says that the federal government's recent gateway initiatives are a step in the right direction, but not a real solution. "It will help locally," he says, "but ultimately we need to fix the trade balance and fix the railways, or more carriers will start delivering to the East Coast." Galloway is more hopeful that, by working together, the various transportation nodes can come up with their own solutions: "The knowledge base tends to be fragmented," he says, "the various nodes deal with each other on an operational basis, but now they need to start dealing with each other from a business perspective."