BRITISH COLUMBIA CHAMBER OF COMMERCE

Submission to

Canada Transportation Act Review Panel

Review of the Canada Transportation Act

December 30, 2014

The British Columbia Chamber of Commerce is a volunteer, not-for-profit association, which serves its members as the provincial federation of autonomous community chambers of commerce/boards of trade and corporate members.

The Chamber represents the views of 125 chambers of commerce and boards of trade and over 36,000 businesses from throughout the province of all sizes, sectors and regions of the province. As such the Chamber truly is "The Voice of Business in B.C."

Known to be in operation as early as March 1867, the Chamber was re-established in 1951 with a mandate to:

- Develop a true cross section of opinions of the British Columbia business community
- Present members' opinions to the provincial and federal governments
- Promote trade and commerce
- Improve the economic and human well being of the people of British Columbia

The Chamber has been highly successful at generating innovative policy solutions through local evidence-based analysis as well as information and judgments about the needs of communities across the province which reflect the values of business leaders, influential stakeholders and community members.

The understanding that it is only through the direct input of local chambers that The Chamber develops policy recommendations has come to a growing realization by the media, public and by government that The Chamber is the organization best able to continue to offer real solutions to real challenges facing business across the province.

Given our mandate – to advocate a policy framework that promotes a healthy and vibrant economy in which all British Columbians can grow and prosper – we are very pleased to be able to present the views of our members to the Canada Transportation Act Review Panel on this issue of critical importance to our members, the province and the country.

INTRODUCTION

Transportation policy is a key driver of economic development for our country. As a trade-dependent nation, where upwards of 60% of our GDP and 1 in 5 Canadian jobs depend on trade with the rest of the world, a stable, reliable transportation network is needed to support Canadian business.

As part of an ever-changing, fast-pace, globally inter-connected supply chain, the transportation policy choices we make will have a huge impact on citizens and businesses alike.

The Government of Canada has made large improvements to our national transportation system in recent years. From Building Canada to the Asia-Pacific Gateway and Corridor Initiative, B.C. has benefited greatly from these infrastructure investments. These investments have positioned B.C., and therefore Canada, as the gateway of choice to the fast emerging economies of the Asia-Pacific. It is important, therefore, to continue to build on this success and there is no better way to do so than by having these periodic reviews of the Canada Transportation Act and the other related acts dealing with transportation.

The BC Chamber appreciates government's ongoing efforts to seek input from stakeholders on the challenges and opportunities facing our national transportation system.

In this submission, the BC Chamber will highlight several areas of interest for the members of the Chamber network. These areas include:

1. Improving Canadian Aviation Competitiveness
2. Trucking Disruption of Terminal Operation at Port Metro Vancouver
3. Strategic Infrastructure and Canada's Gateways and Trade Corridors
4. Rail Capacity and Services
5. Transportation and the Environment: Natural Gas

These five areas the Chamber focused on in this submission are all rooted in our dynamic, grassroots policy development process.

1. Improving Canadian Aviation Competitiveness

The BC Chamber appreciates the focus on how the national transportation system can be leveraged to support Canada's continued economic growth. Traditionally viewed as a simple facilitator of economic growth transportation is now increasingly recognized as an economic generator in its own right. This is particularly true in regards to the economic benefit derived from air transport.

The Chamber at both the provincial and national level has focused on the economic imperative of greater liberalized air access policies in order to create an opportunity for those willing to provide enhanced air service to Canadian cities, in particular Vancouver.

As a free market, trading nation, Canada should strive for more liberalized air transport agreements that allow market principles to determine capacity, routing and frequency issues to the overall net benefit of Canadians and Canadian businesses. The B.C. government, in their aviation strategy, offers a few examples where Canada's air transport agreements could stand to benefit from further enhanced air access. The BC Chamber agrees Taiwan (for capacity reasons) and Singapore (for routing reasons through Seoul) are potentially low-hanging fruit where further enhanced air access agreements would see immediate benefit to air travel options offered through Vancouver.

Ultimately, the focus of more liberalized air transport agreements should be creating Canadian airports as international gateways/intercontinental hubs, or what the International Civil Aviation Organization (ICAO) call Tier 1 hubs. Canada, especially Vancouver and Toronto, are well-positioned to be major hubs for traffic between Asia, South America, Europe and North America.

In a world where air travel is no longer limited by the distance planes can fly, but by airports they can access, Canada is missing out on the jobs and economic growth that comes from being an intercontinental hub. Better air access is needed to allow our airports to become these gateways to the world and fully realize the jobs and economic benefit that comes with it.

The benefits of liberalizing Canada's air policy would significantly improve economic opportunities throughout Canada by increasing connectivity of global business. Improved access would open new international markets, allow more carriers to operate in Canada, and improve price competitiveness of Canada as a destination.

Of particular importance is the need to negotiate Open Skies agreements with Asia Pacific nations. This region presents one of the largest growth opportunities; however restrictions in certain bilaterals do not allow Canadian airports, and therefore Canada's economy, to effectively compete in this vastly expanding marketplace.

While increasing access provides increased benefits in terms of increased revenue of equal importance to maintaining Canada's aviation competitiveness is addressing the costs imposed on the industry through taxes, charges and fees.

Aviation is a truly global industry. Travellers have options in terms of their choice of carriers, routes to their destination, or even the choice of destination and investment destination. Canada suffers from a significant competitive disadvantage through a highly uncompetitive cost structure that is passed on in higher fares, reduced competitiveness and lost travelers. This cost structure is relatively unique to Canada, such as passing the full cost of air security on to travellers.

As a nation where 80% of our population lives within 150km on the Canada-U.S. border, Canadians have the ability to access flights south of the border. Thanks to considerably cheaper flight options in the U.S., many Canadians opt to fly out of U.S. border airports. This has resulted in significant "leakage" from Canadian airports.

The BC Chamber calls on the federal government to support more competitiveness by adjusting their fees and taxes.

Numerous witnesses appearing before the Senate Standing Committee agreed that eliminating the ground rent and reducing other fees will go a long way to countering "leakage" of Canadian air travellers to U.S. border airports. While the federal government might not be particularly receptive to the idea of taking on the cost of these changes, especially at a time of continued fiscal discipline in order to stay on track for a balanced budget in 2015/16, this cost will be off-set by the increased economic activity of those Canadians flying out of Canadian airports again.

The airlines in the National Airlines Council of Canada report, ***The Economic Impacts of the Member Carriers of the National Airlines Council of Canada,*** go all the way to recommending removal of ground rents, the Air Travellers Security Charge, the federal excise tax on fuel and the NAVCAN service charge. The report does layout a 15 year projection that shows the federal government ending up anywhere from $800 million to $3.1 billion ahead depending on the increase in productivity that can be realized by the airlines and other players from these eliminated fees.

The airlines position is valid. These policy changes, over the long run, will pay for themselves in terms of expanded air travel in and out of Canada thanks to lower airfares thus growing the economy.

The BC Chamber believes fees and taxes hinder the price of air travel within Canada. These fees and taxes, such as ground rents, also hinder the ability of our airports to realize their potential as economic engines. Since the National Airport Policy (NAP) was established in 1994, Canada's major airports, such as YVR, have invested in significant infrastructure improvements. These improvements have been paid for by passengers mainly through airport improvement fees.

Though the federal government made the initial investment in our airports, the fact is ground rents collected by the federal government to date have recouped that investment. It's in the interest of the federal government to remove grounds rents, so that these savings can be passed on to airlines and thus passengers in the form of lower fares.

When it comes to our airports' infrastructure needs, the BC Chamber wants to highlight the need for the federal and provincial governments to develop a long-term infrastructure plan to guide future investment, especially in our northern and regional airports. This investment plan is critical considering Canada's focus on utilizing our natural resources and the need to get people in and out of those communities. The B.C. government was recently re-elected on a platform of liquefied natural gas development. Whether they are workers building the facilities and pipelines or investors looking to support this development, there will be a need to get people safely and efficiently in and out of northern B.C.

This investment plan can be done by tweaking the government's continued efforts through the Airports Capital Assistance Program (ACAP).

Finally, the Chamber would agree with the testimony of the University of Toronto Professor Ambarish Chandra before the Senate Standing Committee on Transport and Communications that "lowering airport charges will not be enough to bring down the cost of air travel in Canada unless there is also true competition among carriers."

There is not sufficient competition in the Canadian air travel market. This lack of competition has several reasons. Our domestic carriers are hindered by their inability to seek foreign investment. BC Chamber policy calls for foreign ownership restrictions to be reduced. This would allow carriers to access adequate capital to support their balance sheet, expand and compete more globally and domestically. This would also allow for other airlines to enter the market.

2. Trucking Disruption of Terminal Operations at Port Metro Vancouver

Port Metro Vancouver handles more than $180 billion in total value of cargo annually. The Port generates just under $10 billion in direct GDP. PMV supports almost 100,000 jobs, with 38,000 direct jobs right here in B.C. Port Metro Vancouver is the top port in North America for total foreign exports and the largest port in Canada. As a trade-dependent nation, where 60% of GDP and 1 in 5 jobs rely on international trade, it is vitally important that Port Metro Vancouver have the tools available to ensure port operations are not shut down for long periods of time.

The most recent labour disruption by truckers in 2014 held up cargo with an economic value in the order of $750 to $885 million per week, having a negative impact on the regional, provincial and national economy by approximately $3.5 billion. The results of the above dislocation have harmed the reputation of Port Metro Vancouver.

The fact that, for the most part, the withdrawal of port services was perpetrated by non-unionized owner-operators who only represent 25% of the container truckers, and the support by 1 union (UNIFOR) representing 12 companies, created extreme challenges for our terminals. The task in dealing with a multitude of individual competing trucking firms and independent operators can be onerous to make recommendations to the assorted parties being trucking firms, trucking owner operators, terminal operators and Port Metro Vancouver as well as the provincial and federal governments. Understandable concern within the industry questions whether this latest round of concessions merely represents a "Band-Aid" solution which may not lead to long-term stability and be subject to repeat performances of labour strife.

Labour stability is a key competitive advantage in the shipping industry. Our long-term 8 year agreement with the 4500 ILWU longshoremen put our west coast ports in an enviable position, but that success is being undone by on-going unrest with truckers.

While the labour situation with truckers is complex because it deals with a federal entity in the port and provincial regulation of the trucking industry, it is important that a long-term solution is found so that trucking issues don't continue to threaten the long-term viability of the port. For this reason, the Chamber would like to see a process in place to examine union and non-union trucking employment and legal ramification of such employment under existing legislation and/or regulation within the federal government.

3. Strategic Infrastructure and Canada's Gateways and Trade Corridors

B.C. is Canada's gateway to the Asia-Pacific. Port Metro Vancouver and the Port of Prince Rupert are two shining stars that position our region to benefit during the Asian century ahead. British Columbia's two major ports are the closest ports-of-call along the west coast of North America to the many economically vibrant ports of Asia. This geographic advantage puts our ports up to 3 days closer to Asia than U.S. ports.

Thanks to the federal government's investment in the Asia-Pacific Gateway and Corridor Initiative (APGCI) to tune of $1.4 billion, which was leveraged with provincial, local and private sector dollars to over $3.5 billion, we have laid the foundation to prosper from the fast emerging markets of the Asia-Pacific.

While the APGCI brought together marine, rail and road modes of transportation to tackle infrastructure problems with great success, it won't shock anyone to say more still needs to be done. There is replacing the Massey Tunnel with a bridge that will unclog the congested Highway 99 corridor and enable the full utilization of Delta port and the Fraser River for goods movement. The New Westminster Rail Bridge needs to be replaced to allow goods and resources to access our North Shore terminals on Burrard Inlet, while not impeding the flow of goods along the river.

The APGCI is a model of infrastructure investment that worked and the federal government should continue to use the APGCI to continue to build needed transportation infrastructure in B.C and across western Canada. It didn't just work as a funding model. It also worked because it brought all transportation modes together to view and enhance each mode in a holistic fashion.

Our national transportation policy, and supporting legislation such as the Canada Transportation Act, has to be innovative. A major focus of the Chamber and its members is fiscal discipline. We have been strong supporters of the federal government's efforts to balance the budget. At the same time, we have also been vocal in our support for on-going investment in strategic infrastructure, especially transportation infrastructure. To balance these two goals, the Chamber supports value-for-money assessment during the planning stage for all infrastructure projects. We have recommend that the federal government continue to promote public-private partnerships, through P3 Canada, where it is cost effective and appropriate.

4. Rail Capacity and Services

The Chamber welcomes the particular focus placed on rail service in the mandate of the CTA Review. For some time Chamber members have recognized the importance rail-based supply chains play in a vibrant commodity markets across Canada.

Rail transportation of Canada's many export commodities to and from B.C.'s communities, and across Canada, is critical to the economy of B.C., western Canada and the Canadian economy as a whole. From potash in Saskatchewan to pulse crops in Alberta or mining & natural gas products in B.C., the movement of Canada's many resources is dependent on timely rail service that meets the needs of shippers, while balancing the interests of rail companies looking to run a profitable business. While the Chamber supports the free market efforts of our national rail companies, our Chamber network in B.C. also supports a continued effort to maintain and improve rail service in our smaller resource communities.

Across the western provinces and in British Columbia, particularly Northern B.C., rail service has seen a decline in level of service at a time when there is an increased demand by shippers. In the prairies, 2013 was a record harvest for grain that is shipped around the world. Grain farmers, however, have not been able to access rail service to get their crops to market.

In addition, there is not enough certainty over delivery schedules as the railways frequently bump shipments and change the delivery date. There is no accountability for delivery dates and according to the railway they have never had a late shipment as it always arrives on the date stated in their system. Two Fort Nelson companies experienced over 300 lost days in slightly more than a 6 month period. With the uncertainty in rail deliveries more companies are relying on trucking, resulting in a significant increase in traffic, decrease in road conditions and an increase in environmental impacts.

Beyond our agricultural and mineral resources that find their way to B.C. ports from across the country, the anticipated increase in LNG production in British Columbia also requires reliable and accountable rail service. Unreliable rail system performance has increased operating costs and acts as a disincentive to future investments. In addition, reliable rail service is critical to remote and end-of-line communities that not only rely on the rail themselves, but also serve as a continuing point for moving essential products such as fuel and gas industry requirements further north and into other more isolated areas such as the Horn River and Liard Basins, Yukon and Northwest Territories. Businesses are highly dependent on products arriving "on time" to ensure B.C. and Canada is seen as a dependable supplier to customers and export markets.

The railways are unique entities of strategic national importance that operate to maximize profit for their shareholders. At the same time, they also serve the national interest by providing reliable, cost-effective service to shippers. Increased throughput and reliability of service will improve the capacity of businesses throughout British Columbia and across Canada.

With this special relationship between the rail companies that have carried on the tradition of running our railways and the businesses who for all intent and purpose need the use of this vital piece of national infrastructure, the BC Chamber would recommend the Canada Transportation Act review panel to look at amending the Act to allow for greater transparency of delivery times, without compromising commercially sensitive info of the railway, as well as a better process for community awareness and consultation when service will be affected in our smaller, usually rural, resource communities.

5. Transportation and the Environment: Natural Gas

The B.C. government has made the creation of an LNG export industry the major focus of government initiatives since its election….

B.C.'s transportation market is dominated by petroleum-based fuels, with the long distance heavy-duty transportation sector making up most of this use. Overall, when compared to natural gas, diesel is expensive and produces more greenhouse gases (GHG) and other pollution than natural gas in the same use. Given the recent surge in natural gas reserves created by the shale gas boom, future supplies for natural gas are less likely to be supply constrained than diesel and so less vulnerable to cost inflation.

Further, B.C. has an abundance of natural gas, most of which is exported. Due to similar abundance in the United States', prices are depressed[1]. In addition to seeking other export markets, encouraging substitution of natural gas for diesel in the transportation sector makes direct economic sense, by reducing the cost of transportation so crucial to our geographically diverse economy. To encourage the cost-effective utilization of expanding natural gas resources and reduce GHG and other air pollutant emissions, the government should look for opportunities to help accelerate this market transformation.

1 U.S. Energy Information Administration. (2013). Chapter 3: Natural gas. In EIA, International Energy Outlook (pp. 41-66). U.S. Department of Energy.

One projected consequence of the shift from diesel to natural gas transportation fuels is reduced pollution. Transport-related GHG emissions would drop 0.4%/yr in over the next five years in the base case2. Replacing 25 PJ/yr of diesel with natural gas would reduce annual provincial GHG emissions from transport by about 2.9%3.

A second compelling reason is substantial price advantage. Over the last few years greatly increased availability has lowered the cost. Supply expansion has led to North America having the greatest cost differential. The price per diesel litre equivalent of natural gas is half the price of oil-based fuels4. Major forecasts of future fossil fuel prices predict a continual widening of this gap between petroleum and natural gas, which strongly suggests that the natural gas price swings of the past are far less likely in the future, while diesel costs will remain under pressure.

The Conference Board of Canada estimates that the greater the displacement of diesel in heavy duty transportation by natural gas, the greater the proportionate effect on overall natural gas consumption, resulting in progressively lower costs5.

Indirect benefits include supporting the dynamic clean technology sector, which has experienced rapid growth and creates skilled and well-paying jobs. A key B.C. company in the natural gas transportation business is Westport Innovations. Their natural gas engines represent nearly 50% of new purchases in the United States for vocational/refuse trucks, and nearly 40% of Southern California's transit bus.

To clarify, the net benefit to the economy would come from the reduced cost of natural gas fuel as compared to diesel. This reduced transportation cost will in turn lower the cost of goods and services for businesses, providing broad economic benefits to Canadians. Transforming the entire target market could be worth as much as $4.5 billion/year to the B.C. economy6, or an increase in provincial GDP by over 2% alone. These savings are net of the losses in the petroleum sector of the economy. It would also result in a 6% reduction in heavy-duty transport GHG emissions7. The Conference Board of Canada's summary of cost and emissions benefits predicted a NPV savings of $158,043 over ten years per heavy-duty truck using natural gas over diesel8.

While the benefits of this fuel transition are clear, some critical barriers to widespread adoption may be overcome with constructive policy changes. One substantial barrier is the lack of natural gas refueling stations and infrastructure. To support development, private and public entities alike are working together to keep pace with rising demand. In 2010, Natural Resources Canada developed a Roadmap for the deployment of natural gas in transportation, with the help of the natural gas vehicle industry9. A key

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2 Projected reduction 100kt co_2e: (100/24,587kt (total transport emissions)) * 100kt = 0.4% reduction | Projected reductions from:
3 (25PJ/3.5PJ (from 3-4PJ reduction for 100kt GHG reduction)) * 100kt = 714.29kt reduction; (100/24,587kt) * 714.29kt = 2.9% reduction
4 Azzarello, S. (2014, February 11). Energy Price Spread: Natural Gas Vs. Crude Oil In The U.S. Retrieved from Seeking Alpha: http://seekingalpha.com/article/2012281-energy-price-spread-natural-gas-vs-crude-oil-in-the-u-s
5 The Conference Board of Canada. (2012). Cheap Enough? Making the Switch From Diesel Fuel to Natural Gas.
6 Consolidated Management Consultants. (2013). Transformation of Transportation Markets from Diesel & Gasoline to Natural Gas Policy for BC. Vancouver.
7 (52.1PJ/3.5PJ (see [6])) * 100kt = 1488.57kt reduction; (100/24,587kt) * 1488.57kt = 6% reduction
8 The Conference Board of Canada. (2012). Cheap Enough? Making the Switch From Diesel Fuel to Natural Gas.
9 Natural Gas Use in Transportation Roundtable. (2010). Natural Gas Use in the Canadian Transportation Sector.

recommendation was that “coordinated investments are needed to ensure that the development of key corridor infrastructure is consistent with projected demand, strategically located to support end-users, and installed in a timely manner across jurisdictions.” Put simply, a string of properly spaced fuel stations is essential to natural gas adoption in long distance trucking.

Another key issue is the fact that the industry is still rather new and technological innovations are occurring rapidly. This is especially true for on-board fuel storage, as new tank and pump systems are required to achieve the travel range of diesel-fuelled trucks. Similarly, advances are occurring in the refueling of compressed natural gas tanks that will allow for a quicker refueling process. While technological innovation is a positive thing, permitting and regulating new technologies can take time. The government can encourage rather than hinder the development of natural gas for transportation by adding resources to accelerate and by streamlining their regulatory process.

The Chamber recommends the federal government, working with provincial governments, continue to develop natural gas transportation policy with the objective of more rapidly transforming the heavy-duty trucking, marine and rail transport markets.

CONCLUSION

Canada's national transportation system is not only complex, but highly inter-connected. This inter-connectedness extends beyond own domestic transportation to the many global supply chains circling the world. How Canada connects to these transportation channels impact the Canadian economy.

B.C., as Canada's only Pacific province, is well positioned to be not only Canada's but North America's gateway to the Asia-Pacific. We have seen the power of collaboration and leveraging taxpayer dollars for needed infrastructure through the Asia-Pacific Gateway and Corridor Initiative. We have seen great stride in labour stability at our B.C. ports when the longshoremen signed an 8 year agreement. We have a transportation system that is the envy of many countries, but there is more we can do.

The Chamber has highlighted 5 areas of focus that our network feel will make our national transportation better for Canadians and Canadian business alike. Our members recognize that transportation is multi-modal. For our transportation system to function efficiently, it takes road, rail, marine and air modes to operate as one. The Chamber feels more can be done to build on the success we have had.

While the Chamber tries to tackle difficult issues, such as the aviation competitiveness or rail service capacity, we are mindful of the many competing interests in our national transportation system. The policies and positions put forward by the BC Chamber look to advance a path forward to the benefit of the Canadian economy.

The solution begins with all stakeholders from all transportation modes coming to the table to work with the federal government to develop policies and make investments in our national transportation system as a whole that will spur economic growth.

Canada is a free market, exporting nation. Our airports and air carriers, our marine ports and their terminal operators, our trucking industry and the many other players in our transportation system can all compete and succeed on the international level. Canada can be a transportation gateway, but the federal government needs to re-focus its national transportation policy to allow for more liberalized air transport agreements, especially in the emerging Asia-Pacific markets, further labour stability at our ports and continued investment in our Asia-Pacific Gateway infrastructure. As the federal government looks to renew the Canada Transportation Act and other related transportation acts, there are many opportunities to enhance all modes of transportation that will help business succeed, provide well-paying jobs for Canadians, and increase tax dollars for government. The BC Chamber looks forward to working with the government and all stakeholders to make our transportation system even better.

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