July 17, 2018

Ports Modernization Review Committee

Ministry of Transportation
330 Sparks St
Ottawa, Ontario, Canada K1A 0A6

Re: Ports Modernization Review

Dear Ports Modernization Review Committee

On behalf of the members of the Forest Products Association of Canada, it is my pleasure to submit our views on the modernization of Canada's port system.

Background

The Forest Products Association of Canada (FPAC) is the voice of Canada's pulp, paper, and lumber producers nationally and internationally. Canada's forest products industry is a $69 billion per year industry representing 10% of Canada's manufacturing GDP. The forest products sector operates in over 600 forest-dependent communities, and directly employs 230,000 Canadians. The forest products sector is Canada's third largest manufacturing industry and also its greenest, and we are on-target to contribute over 13% of the Government of Canada's GHG emissions-reduction targets. The forest products sector is the third-largest marine exporting sector in Canada.

Context

Thirty-eight per cent of Canada's total maritime tonnage shipped, and 98% of containers are handled by Canada's four largest port authorities. The port of Vancouver is the port of greatest significance to the forest products sector, and the sector comprises over half of all of its outbound container traffic, and nearly half of all outbound break-bulk cargo. With uncertainty in the outcome of the NAFTA renegotiations and as the forest products sector seeks to diversify its markets, it is critical that Canada's ports be as efficient and cost-competitive as possible. Consistent with the objectives of the Ports Modernization Review, FPAC has prepared the attached submission on behalf of our sector. This submission provides evidence-based recommendations focused on improving Canada's competitiveness.

Conclusion

FPAC welcomes the opportunity to collaborate with the federal government to ensure that any possible changes to Canada's ports structure are beneficial for our members and the Canadian public.

Thank you for your time and consideration of these thoughts and we look forward to close consultation and engagement with the federal government.

Sincerely,

Derek Nighbor
Chief Executive Officer

Submission to the
Review Panel for the
Ports Modernization Review

July 17, 2018

Context

- The Forest Products Association of Canada (FPAC) is the voice of Canada's wood, pulp and paper producers domestically and abroad. Canada's forest products sector is a $69 billion per year industry, producing 10% of Canada's manufacturing GDP. We operate in over 600 forest-dependent communities and directly employ over 230,000 Canadians. The forest products sector is Canada's third largest manufacturing industry, and also its greenest. We are on-target to contribute over 13% of the Government of Canada's Paris Agreement emissions reductions targets. We are also the third-largest marine exporter in Canada.
- Consistent with the objectives of the Ports Modernization Review, we will provide input on how the Government of Canada can best improve Canada's competitiveness by facilitating the movement of goods, and offer recommendations on optimizing the governance of Canada's port infrastructure.
- In this submission, FPAC makes three key recommendations to address the findings of the Canadian Transportation Act Review (CTAR) of particular concern to our membership.

Challenges

- With uncertainty in the future of the NAFTA renegotiations, it is critical as the forest sector seeks to diversify to other export markets that Canada's ports be as efficient and cost-competitive as possible.
- Congestion on land corridors – both road and rail - around the Great Lakes, and in the Lower Mainland of British Columbia is becoming progressively worse. Expansion of short-sea shipping capabilities could significantly ease pressure on road and rail resources around metro areas while reducing greenhouse gas emissions. At present, regulatory conditions discourage this option.
- According to the 2016 *Canada Transportation Act Review Report* (CTAR), port usage tariffs have increased by more than 5% per year for the last fifteen years. Canadian fees are uncompetitive in comparison to those of American ports. Port fees, pilotage, and St. Lawrence Seaway fees accounted for 90% of the total.

1. Introduction

The Canadian forest products industry is on the cutting edge of sustainable growth technologies in a range of fields including renewable energy, biomaterial, and biochemical production. Innovation, and new market development in our traditional sectors as well as a range of new products gives our sector a bright future. The forest sector represents approximately 11.4% of all of Canada's marine exports. As the sector continues to grow and diversify into new products

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and new markets, this share is projected to increase as both gross tonnage, and as a percentage.

2. Goals

FPAC's goals for this Review are to provide advice to support the competitiveness of Canada's economy by improving the performance and reliability of Canada's ports system by:

- Easing congestion around urban port facilities
- Reducing the costs imposed on users of port facilities
- Streamlining the regulatory burden for maritime shipping

3. Strategic Backdrop

Canadian trade volumes as a percentage of GDP surpasses the global average by nearly 10%.[1] Canada has a geographic advantage as a shipping hub between both Atlantic and Pacific Oceans, and Canada's larger ports are critical for access to global markets. The CTAR outlines a number of concerns surrounding Canada's ports system. Our members have raised two of these in consultation with FPAC.

a) The CTAR outlines that user fees for the port system have been increasing by 5% per year (on average) over the last fifteen years. These fees surpass those levied by American ports. FPAC members have expressed concern about both the increase in user fees – and profits (surpassing $100 million per year in some cases)[2] - associated with port services rising profits. These are significant funds removed from the productive sectors of the economy beyond what is required to effectively operate the ports.

b) FPAC members have also expressed concern about congestion around port facilities, and the increasing costs associated with that, and have suggested expanding short-sea shipping options as a means of addressing that congestion. This is in line with the conclusions drawn by the CTAR.

   A number of factors limit the viability of short sea shipping as an alternative in the short term. Included among these are protectionist legislation preventing international competition in coastal shipping, the high relative cost of Canadian fees and crews – partially exacerbated by the lack of domestic shipbuilding capacity, and significant shore-based start-up costs, especially in relation to operations at terminals.

4. Recommendations

Further to the concerns raised by FPAC members, and seeking to address particular issues raised in the CTAR, FPAC makes the following recommendations.

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[1] The World Bank Data

[2] Port of Vancouver, 2016 Financial Report

1) Canada's port authorities are crown corporations operating under the authority of the Ministry of Transport, authorized by the Canada Marine Act. Rising port costs have reduced Canada's competitiveness in the North American transportation market vis-a-vis American ports. We recognize the need for continuing capital investments in Canada's port system, and are satisfied that these investments should be paid for with port authority revenues. With this in mind, **FPAC recommends that the Minister of Transport compel Canada's Port Authorities to operate on a not-for-profit basis,** reducing the cost of international trade for all of Canada's exporters.

2) As outlined in the CTAR report, the effective lack of Canadian shipbuilding capacity coupled with the prohibition on foreign-owned and registered vessels from engaging in domestic operations serves to make short-sea shipping options exceptionally expensive, and difficult to access. At present, many terminals do not have the infrastructure required to utilize short-sea opportunities, and the capital investments required to do so are significant. Without those capital investments, there is unlikely to be terminal uptake in offering short-sea alternatives. At the same time, eliminating the restrictions on foreign-owned or foreign-registered vessels from operating in Canada's coastal trade would maximize the uptake in short-sea shipping options where supporting infrastructure exists.

   With this in mind, **FPAC recommends that the Government of Canada take steps to facilitate short-sea shipping uptake.** In specific:

   a) The operational infrastructure requirements to support short-sea shipping differ from those needed for blue-water shipping. Most port terminals do not have the required infrastructure in place. Few are able or willing to undertake the temporary changes that are required to accommodate a short-sea vessel, which minimizes the availability of short sea options, and maximizes the cost to shippers. Earmarking some of the National Trade Corridors Fund to facilitate the needed capital investments by terminal owners to build permanent short-sea support infrastructure will encourage terminal owners to accept short-sea traffic while reducing the cost for shippers.

   b) As laid out in the CTAR report, the lack of Canadian shipbuilding capacity limits the number of Canadian vessels available for the short-sea trade. At the same time, there is a prohibition on foreign-owned vessels from engaging in domestic short-sea operations without undergoing an "onerous, uncertain, and sometimes lengthy" licensing process. This dramatically reduces the available vessels for the short-sea trade, increases the cost of the vessels available, and limits the profit incentive for terminals to make the needed capital investments to promote the short-sea trade. Repealing section 3(1) of the *Coasting Trade Act* would open the short-sea trade to the highest number of service providers.

3) The Government of Canada recently announced $167 million in funding for three projects led by the Vancouver Fraser Port Authority and CN to improve the rail capacity around the port area. FPAC is encouraged by this announcement, and we believe that the results will be positive. With this in mind, **FPAC recommends further investment from the National Trade Corridors Fund across the supply chain to reduce congestion around all Canadian ports.**

Conclusions

FPAC is asking for three common-sense changes to Canada's port governance structure, and to the *Coasting Trade Act*. We believe these changes will provide the greatest improvement in the overall competitiveness of Canada's trading economy, maximize the benefit to our members, and minimize the costs to the Government of Canada – making these proposals a win-win-win for all involved.