

## Individual Submission to Transport Canada's Ports Modernization Review

By Mary R. Brooks, Professor Emerita, Dalhousie University

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Recent studies of port governance have shown that there is no one right governance model for ports. There has been substantial research in this area for the last 20 years. Summarized in a 2017 review of port reform around the globe, [Brooks, Cullinane & Pallis](#) concluded that there are many models that will work to deliver the best port services in terms of efficiency of operations to facilitate trade, to be effective in delivering the right quality services to port customer and users, and to act in a socially and environmentally responsive way to meet the needs of local communities.

The father of modern port economics, Dr. Richard O. Goss examined Canada's port policy in the early 1980s and his report to the Canadian Transport Commission was held in high regard. He believed that port reform needs to reflect history and geography, the structure of the economy, and the behavioural preferences of local businesses and citizens. In other words, a diversity of objectives, activities and policies, as proposed by Canada in this Port Modernization Review, cannot be optimized using a 'one size fits all' port policy.

Canada's port reform efforts in the 1990s were held to be a model for many countries in the world to follow. There was a set of principles in the 1995 [National Marine Policy](#) that guided a world-leading approach to port governance, by identifying what [types of ports](#) needed to be devolved from federal government management of operations (local and regional ports), what criteria would determine ports that could be commercialized but retained as federal agencies (Canada Port Authority ports, CPAs) and what types needed to be divested or demolished. The policy also identified ports to be retained by virtue of their remoteness and service to Canada's northern communities. This classification of ports was a key element in the port reform program embodied in the [Canada Marine Act of 1998](#). These groupings remain appropriate for Canada today, but it is time to question which ports should continue as CPAs.

The way that the Ports Modernization Review has been structured assumes that those ports that are currently CPAs will stay as members of the club. This implicit assumption should be challenged. Only 6 ports, in the [Discussion Paper](#) accompanying the review, generate 88% of the revenue and 85% of the expenditures. That leaves 12 CPA ports vulnerable to a change of classification.

Why should they continue to be CPAs? The time is ripe to review the typology of ports, and to set more stringent criteria for inclusion in the group of CPAs charged with executing Canada's national port policy. Now is the time for removing CPAs that no longer serve a national strategic purpose; of course they all have a political purpose but that is not a principle relevant in the 21<sup>st</sup> century. A [2017 study](#) by Mary R. Brooks looked at 24 Canadian ports (including the 18 CPAs) of Canada's Top 50 ports and noted the changes faced since the implementation of the [Canada Marine Act](#), 1998 and its subsequent minor revisions in 2008 and 2014. The study identified challenges with the typology, and made recommendations for its review.

In this consultation process to revisit Canada's port policy, the principles proposed are a balance of efficiency, effectiveness and social/environmental responsiveness. What remains to get right is the governance for 'national interest' ports (the CPAs). Currently it is not. As a product of 'commercialization', Canada's CPA ports are inconsistent in their financial, social and environmental performance reporting. Not only should CPAs meet the best governance practice reporting standards of publicly traded companies, but, as federal agencies, they should have to meet the transparency expected of entities responsible to the citizens of Canada and to their local communities. Hybrid organizations like CPAs have two standards to meet. The 2017 Brooks study demonstrated that some CPAs did not pass either test.

In 2015, the Canada Transportation Act Review (CTAR) Panel commissioned a consulting report on port governance options for Canada. [Salgo and Munroe \(2016\)](#) did not provide evidence that a private sector model would provide better governance for Canada's top ports, noting the insufficient empirical work to conclusively demonstrate the link between ownership model and performance. Brooks (2017) reviewed in detail the report, which is no longer available on the CTAR website, and made the following comments:

*They [Salgo and Munroe] also found that commercial discipline tends to result in operational improvements and that the private model has a number of advantages that might be useful for ports in Canada. In the end, they concluded the Canadian model strikes the balance between commercial discipline, on the one hand, and ports as public national strategic infrastructure, on the other. The Institute felt that pushing governance further along the commercialization continuum could provide strategic positioning for ports, and might give them greater flexibility to make capital and operating changes to respond to new technologies and emerging trade patterns. Brooks (2017, p. 168)*

The Port Modernization Review builds on the philosophical, but not evidence-based, conclusions the CTAR Panel made in recommending a more private sector model. That means that substantive gains from reform are more likely to be of the 'continuous improvement' variety.

Some CPAs have done well in growing traffic and serve Canadian trade interests admirably, while others have not. The 2017 Brooks study analyzed growth trajectories for each of the nationally significant ports chosen and found 57% of ports had sustained growth while the remainder had stagnant or a steady loss in traffic. The second group included both CPAs and non-CPA ports, reinforcing the [Brooks, Cullinane & Pallis](#) finding that globally there does not appear to be a relationship between governance model and traffic patterns. The leasing of container terminals to global terminal operators is often touted as the best way to get container terminal efficiency. The example of Savannah (part of Georgia Ports) counters that idea. Savannah is an excellent example of how a publicly operated port can deliver greater efficiency through its own employees rather than through terminal leasing and contracted labour; it has grown at a compound annual growth rate of 11%, while meeting the employment and social needs of its local community. To reiterate: there is no conclusive scientific evidence that the private sector can do better. The key to success is quality management working with a responsive, balanced and expert Board.

A 2017 research paper, [Casting Off: How Ottawa Can Maximize the Value of Canada's Major Ports and Benefit Taxpayers](#), published by the C.D. Howe Institute identifies that the current CPA model already has significant private sector participation, and that the efficiency gains envisioned by Richard Goss have been achieved. The author, Steven Robins, proposes that monetizing the value of Canada's CPA port assets (land and the revenue streams generated by CPAs) would fund other infrastructure needed by Canadians. There was no discussion about port policy as serving trade objectives in the C.D. Howe study.

The 2017 Brooks study also found that community-reporting standards for CPAs were, to be blunt, inadequate. Seven of 18 CPAs in 2016 produced stakeholder reports that were poorly prepared (undated, or gave no indication of reporting frequency, without common themes year over year). This indicates a casual approach to stakeholder engagement is taken by a minority of CPAs, and suggests that firmer government guidelines are needed in setting reporting expectations. Brooks (2017, p. 168) concluded:

*it appears that about half of Canada's CPAs have not adopted good governance principles as would be expected under private equity circumstances. This suggests that even if the government were ready to confer greater autonomy and seek to encourage private sector equity participation in port activities, many CPAs are simply not ready to embrace private sector standards.*

Canada's CPA ports need a better governance framework, as it is their governance that needs modernization not their operations. At one end of the governance continuum is the total privatization of ports, as has happened in the UK. In Australia, the government has embarked on a strategy of asset recycling, ignoring the trade interests that Canada needs to serve well. At Port Botany (Sydney) and Melbourne, the ports meet a shareholder-mandated

agenda. Shareholders are looking for profitability and efficiency of operations. That is not the Canadian way. According to the objectives of the Port Modernization Review, Canada wants not just efficient trade gateways, but also ports that are responsible to their local communities in terms of social and environmental activities. This implies a public-private relationship that draws the best from both the public sector and the private sector.

In 1983, Richard Goss argued that the primary purpose of a port is to ensure trade interests are served. This is still clearly the first principle for the Government of Canada, and it should be. It is important to recognize that Canada has done an exemplary, albeit slow, job of divesting itself of port assets not necessary to serving the national public interest. Now it is time to focus on those assets that are in the public interest, and adjust their governance to meet the best private sector practices in terms of financial reporting and decision-making, and the best public sector practices in terms of social and environmental responsiveness. That two-pronged goal could give Canadians the best ports in the world.

If ports are not serving key trade corridor interests and diverse cargoes, then it would be best that they be encouraged to leave the CPA club. On the other hand, non-CPA ports in Canada should continue to be able to apply for CPA status, should they find it advantageous. That way, those who are enthusiastic and passionate about serving their customers and seizing opportunities for international gateway business will be encouraged, while those who are complacent will still be able to serve and be accountable to their local communities.

As it stands now, there is too much 'politics' in ports. For Canadian ports to be best in class, the Minister of Transport needs to relinquish some measure of control over port boards, particularly with respect to board appointments. It is time to realign incentives, return to principles-based port policies, and not to reward those who are opaque on their environmental performance and stakeholder engagement. The objectives set by the Government of Canada reflect Canadian values. Rather than view port assets as cash generators for government, the objectives the government has identified as fundamental in this review should be supported by an appropriate hybrid governance model for ports with best-in-class governance reporting.

In summary, Canada is not a densely-populated country or one with a large enough population to have the luxury of poorly allocating resources or making generational mistakes. It is not large enough for 18 CPAs. There is not adequate evidence to conclude that privatization is better, or will meet the Government's objectives. The Port Modernization Review should lead to greater clarity of port purpose, less political control through Board appointments, and better reporting standards for the citizens of Canada.

## References

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## About Mary R. Brooks

Dr. Mary R. Brooks is Professor Emerita at Dalhousie University, Halifax, Canada. In the last decade, she has chaired two International Transport Forum roundtables—*Port Investment and Container Shipping Markets* in Santiago Chile 2013 and *Seaport Competition and Hinterland Connections* in Paris in 2008, and attended as a rapporteur or participant four other OECD events. For the Council of Canadian Academies, she chaired the panel reporting on *The Value of Commercial Marine Shipping in Canada*, released May 2017. She is the founder and past chair of the Port Performance Research Network, a network of more than 60 scholars interested in port governance and port performance issues. She is also a founding member of the International Association of Maritime Economists, now in its 26<sup>th</sup> year. She has authored and published more than 25 books and technical reports, more than 25 book chapters, and more than 75 articles in peer-reviewed scholarly journals. In September 2018, she received the Onassis Prize in Shipping 2018, in recognition of 'her outstanding contribution to the study of shipping.'

## Contact

Dr. Mary R. Brooks

Professor Emerita, Rowe School of Business, Dalhousie University

Laureate, Onassis Prize in Shipping 2018

Email: [m.brooks@dal.ca](mailto:m.brooks@dal.ca)