

Transportation: The Key to Trade

Canada Transportation Act Review

Transportation Coalition
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Canada needs an efficient and effective transportation network to meet international competition head on and seize the opportunities offered by free trade agreements. This brief responds to the Canada Transportation Act Review and represents the collective thinking of key players in Canada's transportation system-rail, ports, marine and trucking. It situates transportation as a major economic driver with a footprint far greater than its direct and indirect employment effects or its calculated contributions to economic output.

INTRODUCTION

Canada's ability to grow, enhance living standards, and ensure continued prosperity depends on moving products to markets safely, efficiently, and cost effectively. Transportation reliably delivers goods, commodities, and services to markets and people to destinations, and binds together the social and economic fabric of the country. In order to perform efficiently, transportation must be viewed within the context of economic and trade policy. Transportation policy and programs benefit from direction and ingenuity. Future government policies and programs need to focus on modern supply chains and infrastructure, logistics, trade facilitation, and a ready supply of qualified workers. Trade accounts for more than sixty percent of Canada's Gross Domestic Product (GDP) and transportation is critical to its success. But, it is a competitive world. Without an efficient and productive transportation sector supporting that trade, Canada – its economy and the standard of living of its citizens – is vulnerable to competition from other countries.

To Canada's credit, constant attention is paid to changing markets and circumstances. Canada has shown significant innovation in the development of transportation policy, skillfully navigating policy and funding arrangements to public-private partnerships, commercialization and privatization while maintaining and enhancing Canada's unique capacity. Innovative policies have taken root and delivered supply chains that have conquered our geography and launched Canada's reputation as a trading nation. These policy directions now having been set must be reinforced and strengthened. This brief presents a vision and immediate measures to begin the journey towards a new strategy to allow transportation to continue playing the crucial role in international and interprovincial trade.

BACKGROUND

The objective of the Review of the *Canada Transportation Act (CTA)* is to provide an independent assessment of how federal policies and programs can ensure that the transportation system strengthens integration among the regions and on the continent while providing competitive international linkages. The Review Chair's Discussion Paper recognizes that the government's role in transportation has evolved over the last 60 years. The Honourable David Emerson and the Review Advisors ask how Canada should continue to evolve its transportation system to make further gains in productivity and capital investments.

Many transportation-focussed associations and their members have submitted their views to the Review Secretariatⁱ and have in the recent past provided briefs and white papersⁱⁱ on the various elements and aspects of transportation legislation. This submission is informed by a wide range of briefs, current studies and direct association input from within the transportation supply chains. It offers an assessment of the challenges, opportunities and a description of the transportation system of the future. This submission is based on key policy principles for this future system including:

- Safety and security of the public and the environment
- Reliability
- Flexibility
- Predictability
- Efficiency
- Competitiveness
- Results-based regulations and reduction of regulatory burden

Housekeeping reforms of the *CTA* are needed but are not sufficient on their own to meet the challenges ahead. Building on these key principles, what is required is a clear vision to guide federal leadership that establishes and supports transportation's crucial economic role in international and interprovincial trade; identifies, encourages and monitors efficient, effective, reliable, safe, sustainable and commercially-based transportation networks; continues moving forward with commercialization and privatization; and creates the institutional structures to serve the future transportation system.

CONTEXT

Transportation is a complex and technologically sophisticated yet people-based system. Throughout our history, even in pre-Confederation times, transportation and trade & commerce have gone hand in hand and have been central to our economy and society. The federal government has played a crucial leadership role in the development, management and regulation of transportation in all its facets. The Government of Canada over time has held responsibility over ports, railways, roads and airways. Canada's transportation system has steadily expanded the role it plays within the economy and in society. With the growth of trucking since the middle of the last century, it has become far more multi-modal and diverse.

Similarly, regulatory frameworks and ownership regimes have evolved as railways, ports, ships and trucks and airports were increasingly commercialized; as other levels of government developed their share of transportation infrastructure; and, as multi-modal transfer points appeared in the network. Canada's history is characterized by the creation of innovative institutions and built on a tradition of deploying new ideas and resolutely adapting old ways to what works best for the country. The federal government has dissolved institutions when they no longer provided a public policy purpose and created new ones to meet new challenges.

It is clear that transportation is far more than just transportation shippers, carriers and their infrastructure. The supply chain includes a large and growing logistics management industry. Agricultural, energy, manufacturing, resource and service industries all depend on efficient transportation systems for their domestic and international competitive positions. Society has developed commercial expectations and personal mobility requirements in its modern day transportation structure. Regional development strategies and policies value the role that transportation networks, connectivity and the fluidity of systems have in creating economic advantage.

VISION

The long-term vision put forward in this brief for moving and delivering cargo and freight is one of efficient, effective, reliable, safe, sustainable and commercially-based transportation supply chains driven by market forces. The transportation system of tomorrow is innovative and connected to global supply chains that depend on, and recognize and maximize the role of Canadian transportation providers. The federal government must foster and reinforce the relationship between trade policy and transportation. It must introduce policies that remove barriers to efficiency and that enhance capacity to maximise Canada's return from trade agreements.

As pointed out by the Canada West Foundationⁱⁱⁱ in a recent paper, Canadians have benefited from the government's progress in breaking down global trade barriers and expanding and deepening Canada's access to markets. The North American Trade Agreement (NAFTA), Comprehensive Economic Trade Agreement (CETA) with the European Union and Asia-Pacific initiatives and the development of

gateways and corridors into national transportation networks stand as clear examples of best practices. Successful trade negotiations create opportunity, a platform for economic growth and prosperity that can only be turned into reality if there are efficient, effective, reliable, predictable, sustainable and competitive transportation networks and supply chains in place. These can best be achieved by reinforcing and expanding market forces and ensuring that government actions support market-based principles, and competitiveness. Already headed in the right policy direction, the cargo and freight systems want more of a commercial focus with assurances that unique aspects of Canadian transportation are respected. They need from government a clear statement of vision and leadership, not complainant services, dispute resolution and refereeing.

Supporting the vision noted above, the federal government should take effective action to regulate safety, security and accessibility, and contribute to environmental sustainability, and be doing so in a manner that enhances and reinforces competitiveness. Government should only intervene in clear cases of adjudicated system failure; provide essential transportation services where the market cannot provide them; and, when system failure exists, monitor the transportation system to assess performance.

The central theme of this brief is that a strong vision coupled with attendant leadership is needed to drive a national transportation strategy directly supportive of our trade-based economy. Better alignment between trade and transportation policy is the inescapable requirement. This brief examines the relationships between transportation infrastructure, management and regulation for Canada's emerging and changing trade-based economy within our growing and evolving society. It invites the federal government to:

1. Reinforce and expand the evolution of national policies successfully built on the principle that competitive and commercial frameworks generate the appropriate revenues for the private sector to invest back into transportation supply chains.
2. Better recognize transportation's broad economic footprint and crucial importance for ensuring the effective functioning of the economy.
3. Make specific changes to its organizational structure to better support the leadership role needed to ensure that Canada's transportation supply chains work efficiently and competitively to support Canada's trade opportunities and agenda.
4. Facilitate the growth and support of investments in trade critical infrastructure including investments in inter-modal transfer facilities.
5. Reduce regulatory burdens and find more effective ways to ensure greater harmonization and adherence to national standards, particularly within the regulatory environment governing extra provincial trucking.

TRANSPORT POLICY—LEARNING FROM SUCCESS

Canada's reputation as a reliable and efficient trading nation is well earned and is the result of determined effort over many decades, wise decisions and smart investments in major infrastructure, and a long history of governments providing policy support. Canada's transport policy has been

dynamic and evolutionary. It has responded to changing national objectives, opportunities and demands. As demands changed and markets matured and with governments facing many competing spending claims, governments looked increasingly at commercialization and privatization as ways to improve infrastructure and enhance performance. These past policy directions have made Canada one of the world's top performers in spite of our vast geography, cold climate and long distances between population centres.

Our strength stems from past investments in a national railway system, the lower Fraser River, the St. Lawrence Seaway, and the Trans-Canada Highway. Recent initiatives like the Asia-Pacific Gateway and Corridor Initiative (APGCI), the Global Transportation Hub in Regina, and the economic deregulation of the trucking and rail industries speak to the efforts made to respond to rising international demand for our exports and the will to remain competitive as markets change and competition grows stronger. Here are four examples of performance to illustrate the point:

1. Canada's freight railways provide access to national and international markets enabling Canadian businesses to successfully grow and compete in the 21st century. In 2013, the sector moved more than \$280 billion worth of Canadian originated goods and moved roughly half of the country's products that are destined for export (by volume). This performance is directly linked to the evolution of the railway economic regulatory environment—from an era of restrictive regulation to a regime that relies primarily on market and commercial forces. For example, the privatization of CN in the early 1990's and the regulatory freedoms introduced in 1987 and 1996 have spurred investment and competition in the railway industry. Canadian railway industry performance, in terms of rates charged, productivity, profitability, and capital investment, has greatly improved as a result of the policy decisions introduced in 1987 and 1996. More specifically:
 - ✓ Between 1988 and 2013, average freight rates charged, as measured by real revenue per tonne kilometre, have declined by 33 percent.
 - ✓ Railway productivity has grown impressively since 1988. Labour productivity has been strong over the entire period. Noteworthy, also, are the accelerations in fixed plant and fuel productivity since enactment of the CTA.
 - ✓ Since enactment of the CTA and privatization of CN, the Canadian railway industry operating ratio has been generally under 80 percent, well below the average prior to 1996 which exceeded 90 percent.
 - ✓ In line with their improved operating ratios, capital expenditures by Canadian railways on their Canadian operations have increased rapidly since the early 2000s, reaching close to \$2 billion in both 2011 and 2012 or more than \$ 3 billion on their continental networks.
2. The creation of Canadian Port Authorities (CPAs) has resulted in improved management and new investment in ports. The Port of Metro Vancouver has recently invested about \$500 million in new infrastructure. Ports contribute about \$25 billion to Canada's GDP and are responsible for nearly 250,000 direct and indirect jobs in Canada, in addition to the hundreds of thousands of jobs created by the upstream and downstream activities dependent on trade. In 2012, Canada Port Authorities handled over 312 million tonnes of cargo – some 66 percent of Canada's marine imports and exports representing everything from fuel oils, wheat and potash, to ores and containers. Four major CPAs handle almost all of Canada's container trade: Port Metro Vancouver, Prince Rupert, Montreal and Halifax, although each of the eighteen CPAs has its own strategic significance.

3. A new non-profit corporation, the St. Lawrence Seaway Management Corporation, was established to manage Canada's side of the Great Lakes - St. Lawrence Seaway in 1998. It has established an infrastructure renewal and upgrading program. The result has been a more vibrant seaway and a more vibrant in-land commercial marine industry. A total of \$7.1 billion is being spent on asset renewal and modernization of vessels, ports and terminals and waterway infrastructure in the Great Lakes-St Lawrence navigation system.^{iv} The St. Lawrence Seaway Management Corporation is actively supporting efforts to obtain new business through the H2O highway initiative. The industry creates 227,000 jobs in the two countries, and produces business revenues of \$35 billion. Additionally, shipping in the region contributes \$4.6 billion in federal, state/province and local taxes every year. The industry also supports the economic health of North America's industrial heartland and a consumer market of more than 100 million people. According to the St. Lawrence Seaway Management Corporation, total cargo shipments reached 34.6 million tonnes for the period from March 25 to November 30, 2014 — up 5 per cent over the same period last year. Seaway management saw the season close ahead of last year by a similar margin.

4. Canada has a unique Canadian flag marine fleet, specifically designed and constructed for its exclusive inland, coastal and Arctic transits, and crewed by highly skilled Canadian mariners with expertise of these waters. This domestic short sea shipping fleet is now witnessing significant renewal following the removal in 2010 by the federal government of the foreign vessel import tariff. Some \$1.4 billion in private investment has been made between 2010 and 2013 by the Canadian flag fleet in vessel capital improvements. Over \$700 million of this investment has been for the purchase of 13 state of the art, new, environmentally efficient vessels. The domestic fleet composes over half of the Seaway traffic and seventy per cent of cross-lake trade on the Great Lakes with not just Canadian but American shippers relying on this fleet to carry iron ore and grain for example. Other investments in environmental technologies such as scrubbers, ship design and innovative fuels are further developing the safe and secure and untapped capacity in Eastern Canadian waterways that can further connect Canada's economic output with global trade flows and alleviate some of the challenges on other parts of Canada's transportation system. A domestic Great Lakes fleet is essential for Canada.

5. Trucks move 90 percent of all consumer products & foodstuffs. The transportation services sector represents 4.2 percent of Canada's GDP, or \$53 billion. For-hire trucking accounts for 31 percent of the sector's share of GDP; the air and rail segments represent 12 percent and 11 percent, respectively, while water transportation represented about 2 percent. Trucking services a wide range of resource industries and reliably delivers product across the continent.
 - ✓ Between 2011 and 2020, the for-hire trucking industry is expected to experience an output increase of 26 percent or from \$17 billion annually to \$21.4 billion in constant dollars.
 - ✓ Trucks move 57 percent (by value) of Canada's trade with the United States, while 17 percent is by rail, 16 percent by pipeline, 6 percent by marine and 5 percent by air.
 - ✓ As a whole, the trucking industry (including for-hire carriers, private carriers, owner-operators and courier firms) generates over \$65 billion in revenues per year, with the for-hire sector accounting for over \$40 billion alone.
 - ✓ There are over 300,000 truck drivers in Canada today, which includes both drivers in the for-hire trucking industry and private trucking activity.
 - ✓ Approximately 180,000 (60 percent) are employed in the for-hire sector of the trucking industry.

- ✓ Nearly 1 percent of the Canadian population and over 1.5 percent of the labour force are truck drivers; it is the second largest occupation for males in the country.
- ✓ For-hire trucking accounts for 278,000 direct jobs and overall provides for almost 480,000 jobs, resulting in \$24 billion in personal income, generating \$4.2 billion in personal income taxes and \$4.1 billion in indirect taxes.
- ✓ The total economic footprint of the for-hire trucking industry was almost \$37 billion in 2011.
- ✓ The economic multiplier effect the trucking industry is also much larger than many other industries.

CHALLENGES and OPPORTUNITIES

There are numerous publications that critique Canada's trade performance and existing infrastructure challenges. The Canadian Chamber of Commerce^v highlighted Canada's lagging performance. The World Economic Forum and the World Bank have also highlighted problems with Canada's trade infrastructure and logistics systems. Similarly, the Organization for Economic Development and Cooperation (OECD) has identified issues with Canada's trade facilitation efforts.

These problems can be summarized as: aging and deteriorating infrastructure, too little new investment in both hard and soft infrastructure, insufficient attention to the competitive implications of cost recovery and regulation, and insufficient resources for trade development and promotion. A review of the literature on these issues underscores that despite placing a clear emphasis on developing trade agreements with multiple countries, the government has yet to place a sufficient focus on transportation-related infrastructure to support the country's trade objectives. For example, Canada has not sorted out the NAFTA issues related to regulatory harmonization for trucking and is perpetuating a commercial disadvantage with the USA. Even the Government's recent budget announcements make little reference to trade-focussed transportation infrastructure. Trade critical transportation infrastructure, both hard and soft, needs to be better defined, assessed and supported as a national priority.

Collectively these problems affect the transportation supply chains and the customers they serve by adding to the cost of shipping and the efficient delivery of goods to the marketplace. These problems need to be addressed if Canada is to improve its supply chains and competitiveness. Noting that Canadian transportation policy has evolved over time and adapted to changing market circumstances, transportation supply chains presently reflect past decisions by policy-makers. The supply chains would greatly benefit from the further evolution of policy to reflect globalization with its new and expanding trade opportunities being pursued by Canada. The following key challenges and opportunities need to be addressed if Canada is to successfully shift its transportation policy to meet the twenty-first century realities of aggressive global competition.

a) Infrastructure

The World Economic Forum provides an assessment of competitiveness for virtually all countries. One of the fundamental requirements for a competitive economy is infrastructure. In fact, infrastructure is listed as the 2nd most important indicator behind institutions. The Forum has found Canada wanting in relation to our major trading partners. Canada has fallen from the 10th most competitive world economy in 2010-2011 to the 15th most competitive in 2014-15. Canada's infrastructure performance ranks even

worse and is a key factor contributing to Canada’s declining performance. It also helps explain Canada’s lagging trade performance relative to many of our competitors. These results highlight the need for new infrastructure investments to support trade and to ensure effective, reliable and predictable supply chains.

World Economic Forum Global Competitiveness Index -- Canada

| | 2010-2011 | 2014-2015 |
|---------------------------------|-----------|-----------|
| Overall Competitiveness | 10 | 15 |
| Quality of Infrastructure | 13 | 19 |
| Quality of Roads | 17 | 23 |
| Quality of Rail Infrastructure* | 16 | 18 |
| Quality of Port Infrastructure | 14 | 21 |
| Quality of Air Infrastructure | 23 | 16 |

*Includes passenger rail and shortline rail. Freight rail infrastructure not separated.

These findings highlight the significant deterioration of road, highway and port infrastructure.

Air infrastructure has significantly improved in Canada. It can be argued that these findings reflect government policy decisions and the importance of moving to market forces through commercialization and privatization. For example, Airport Authorities have greater financial flexibility than do Port Authorities. Airport Authorities have been able to raise capital and made significant investments. They did not have to rely on public investment and the challenges of seeking public funds. The result can be seen not only improvement in the World Economic Forum Competitiveness Index but more importantly in the clearly visible significant improvement in airports.

Ports, on the other hand, were not provided with similar financial freedom. They are required to seek approvals for capital projects costing more than is allowable in their letters patent, while facing long delays and costly legal fees as well as other challenges because of needed government approvals. This lack of financial flexibility has hindered ports’ ability to finance much-needed infrastructure investments to meet growing trade demands. In a study conducted with Transport Canada, the ACPA found that ports need some \$5 billion in a dedicated infrastructure fund to upgrade, expand or renew their facilities.

Innovative approaches are therefore needed to allow CPAs to generate the revenues necessary for their operations and future growth. The Government should allow the next step to be taken in commercialization to allow the Port Authorities who wish to move in this direction to identify and go forward with commercially-viable, privately-financed infrastructure projects, while yet recognizing there will be exceptional cases of national or regional economic significance or historic underfunding that require special treatment in accordance with clearly established funding criteria. Greater numbers of commercially-viable infrastructure projects would address shortfalls in port infrastructure, improve the efficiency of supply chains, and render Canada’s ports more competitive and responsive to market demands and opportunities.

The availability of world class efficient and productive highway, roads and bridges would directly affect the reliability and predictability of the supply chain, significantly improve competitiveness and attract direct investment. Canada remains one of the few industrialized countries without a national highway

policy. A national highways program should be established to provide long term, predictable, sustained and dedicated funding. A dedicated revenue stream related to the cost of developing a world class national highway system should be established. Fuel taxes, including the federal excise tax on diesel fuel (which currently serves no policy purpose), should be used for this purpose. The use of dedicated fuel taxes (as evidenced by the allocation of a portion of the federal gas tax to municipal infrastructure) would be more acceptable to the public, more efficient than tolls and is consistent with a user pay concept. This approach would also garner much less resistance so long as the revenue stream was directly and preferably legally tied to the national highway. Moreover, the dedicated funds could be used to leverage private participation (e.g. public-private partnerships) and greater provincial participation.

The Government should seek provincial cooperation and participation in a national highway policy. (Federal funds could be used to leverage provincial adherence to national regulatory standards). But if the provinces fail to cooperate or participate then the federal government should be prepared to go it alone. Should this happen, there would exist a strong case for the exercise of federal trade and commerce powers and perhaps spending powers.

Canada's railroads have developed world class east-west and north south networks. They have done this by continuing to invest in response to market forces and opportunities. Canada's Class 1 railroads provide Canada's exporters and importers with service to major cities and transportation hubs in the U.S. and to Canadian ports on both the Atlantic and Pacific oceans while serving Canada's inter-provincial trade. That being said, Canada's ranking has been influenced by government underfunding of passenger and shortline railway infrastructure. More recently, the federal government has modestly invested in VIA Rail and the provinces are reinvesting in their respective commuter railways. However, governments have yet to make targeted investments to support the development of shortline railway infrastructure. There has been much public discussion about the need for infrastructure to develop such resources as the Ring of Fire.

Canada must be ever vigilant of bottlenecks and congestion frustrating the movement of freight and cargo across borders. The Government has acted on the Windsor-Detroit congestion. It is acting in Quebec at Stanstead. Congestion and bottlenecks disrupt and delay the movement of goods through border crossings and at ports and terminals. Border crossing infrastructure has to meet the challenges of expanding and new trade opportunities. Canadians recognize that border crossings are part of Canada's health, safety and security and should be directly funded by Government in order to resolve issues that arise.

Discussions of Canada's infrastructure deficit have been focused largely on municipal and urban infrastructure problems of transportation and transit, water and wastewater systems, waste management, and community, cultural and social infrastructure. Estimates range from the \$200 billion presented by the Federation of Canadian Municipalities (FCM) to the over \$500 billion estimated by the Canadian Chamber of Commerce. By contrast, there is much less discussion of a critical trade infrastructure gap. Identifying, assessing, and improving critical trade infrastructure should be the Government's top infrastructure priority. Provinces and municipalities play an important role in transportation and their voices should be heard in support of world class trade infrastructure and supply chains. Provinces and municipalities share the benefits of Canada's prosperity, economic growth and productivity.

As we pursue a global trade strategy, the gaps in our trade transportation system are becoming more urgent. Infrastructure investments in highways and bridges, ports, shortline railways, and congested border crossings are needed. Canada has started to define trade critical infrastructure through gateways and corridors, and successful investments in gateways. More needs to be done. Trade-critical infrastructure investments need to be determined in concert with the private sector.

b) Role of the Canadian Transportation Agency (CTA)

The CTA mandate includes economic regulation, dispute resolution and accessibility. Over time, the Agency's responsibilities and respective authorities have expanded for federally regulated air, rail and marine transportation. The CTAR provides an important opportunity to confirm whether the Agency's mandate, role, and services are relevant, effective, and supportive of principles outlined in the National Transportation Policy (NTP).

c) Trade Facilitation

Trade facilitation affects the efficiency and costs of transportation. Trade facilitation policies and measures are aimed at reducing trade costs by improving efficiency and reducing costs in supply chains. The World Trade Organization (WTO) defines trade facilitation as "simplification of trade procedures – activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade". The OECD, in support of the WTO's Working Party on trade facilitation, developed twelve trade facilitation indicators. These indicators mirror the twelve areas recently negotiated in the WTO Agreement on Trade Facilitation. The indicators include information availability, advance rulings, appeal procedures, fees, and charges, documents, automation, procedures, border agency external cooperation and government impartiality. This agreement has been finalized and is currently out for ratification by WTO member countries in the hope of having it ratified by the middle of 2015.

The purpose of the indicators is to help governments improve border procedures, reduce trade costs, boost trade flows, improve supply chain efficiency, and reap greater benefits from international trade. These indicators help identify areas for review and action as well as the potential impact of reforms. In aggregate the OECD analysis found that trade facilitation could result in an average 10 percent reduction in trade costs and almost 14 percent for manufactures. These costs were achieved because of greater efficiency in the supply chain including more effective use of transportation through reduced idle and dwell time.

Canada was found to be best of class on trade-related fees and charges, automation, and governance and impartiality. Canada was above the OECD average on all indicators except border agency cooperation where there is scope for improvement. The study also noted room for improvement in information availability; advance rulings; appeal procedures; procedures to streamline border controls; single window for all required documentation; reciprocity of personnel security clearance and training, such as TWIC/SID reciprocity for Canadian-flag fleet mariners; post-clearance audits, and authorised operators. The OECD^{vi} highlighted a number of specific areas for action. These included reducing the average clearance time which was above the OECD average, publishing the average clearance time in a consistent manner and on a periodic basis for all major customs offices, continue overall simplification of procedures in terms of time, and reducing the issuance time for advance rulings. Canada needs to take advantage of potential coming into force of the WTO Agreement on Trade Facilitation by first

ensuring that we are at the top of the class in trade facilitation and second by working with our trading partners to ensure that they too are as efficient as possible in trade facilitation.

It is recognized that trade facilitation does not fall under the CTA and is the direct responsibility of the Customs Border Services Agency (CBSA) and the Department of Foreign Affairs and Trade Development (DFATD). However, trade facilitation reduces the costs of international trade, makes supply chains more efficient, and improves the efficiency and effectiveness of transportation. This is area where cooperation among Transport Canada, CBSA and DFATD would lead to efficiencies for the benefit of Canadian exporters and importers. It should be noted that not all trade facilitation problems are of Canadian origin. In our NAFTA relationship with the USA, many are created by the USA. For example, the US Environmental Protection Agency with its Vessel General Permit applies regulations for ballast water discharges. Canada needs to constantly review its strategy for dealing with the US government and develop strategies with other governments as trade agreements expand.

d) Regulatory Reform

Transportation is highly regulated. Government carries a responsibility for health, safety, security, accessibility and environmental stewardship. It attempts to achieve these objectives through command and control regulations with government oversight. The impact of regulations on business has been a constant concern to both government and business. Numerous reviews have been undertaken but concerns persist about excessive regulatory burden; efficiency, efficacy, lack of harmonization of provincial regulations, provincial adherence to national standards and cost, inappropriateness and minimal evidence-base. These concerns go to the impact of regulations on competitiveness, paper-burden, and costs of compliance. In many cases regulations can be questioned as they may be antiquated, overtaken by technology or simply ineffective. Regulatory regimes should not be overly burdensome for some modes versus others, particularly where synergies are required.

In addition, regulatory regimes should be based on science and the ability to comply. Currently, Canadian flag vessels trading in domestic waters and not having the technology to comply with the *Ballast Water Convention* (to which Canada is a signatory) could potentially shut down or greatly diminish or alter capacity and service. Canada should implement a five-year regulation that allows for the continuing evaluation and development of alternate technologies that will help to protect our unique bi-national waters. This is a possible solution within Canada's obligations under the international *Ballast Water Convention* and it is a sensible approach considering the lack of operationally and economically feasible solutions for domestic vessels.

Command and control regulations tend to thwart innovation and do not always respect individual circumstances. For example, the Maximum Revenue Entitlement Program for grain moved by rail interferes with the market by placing a ceiling on the total revenue to be earned from moving grain by rail in any crop year, based on volume and length of haul. Allowing the movement and cost of grain to be determined by a commercially-oriented and market-driven approach would provide greater assurance that grain is moved efficiently and that the grain supply chain is provided with the right incentives to reinvest in the network. In this case, regulating one element of a complex-multimodal supply chain is counterproductive.

Regulations should be flexible and results-based and, as much as possible, allowing those being regulated to determine how best to achieve the result. This approach to regulation would support innovation and allow business to fit achievement of the desired result to their individual circumstances.

A results-oriented approach would also make regulations easier to understand, enhance compliance, and make it easier for government to monitor performance and take corrective action, even including prescriptive regulation, when and where needed to level the playing field for competition.

In a like manner, technological advancements may have made certain regulations less effective or obsolete in some cases. For example, ships now have highly technical navigation equipment. While pilots continue to be essential in many situations, it is reasonable to ask if they are needed in all situations. While the domestic Canadian-flag fleet provides the training ground for most pilots, the requirement for pilots seems duplicative and excessive. Certification of crew similar to that within the Great Lakes Pilotage Authority is appropriate and safe while the use of pilots for international crew on ocean-going and internationally-flagged vessels would also be the safest and most appropriate solution to finding regulatory balance. The need to find a new balance between traditional assumptions and safety requirements and technology should be examined because they can add significantly to the costs of shipping. Similarly, are navigation aids needed in the same way as when sophisticated navigational equipment was not available? The answer is probably found in the type of users needing the service and public expectations about who should provide such services. The enforcement of truck driver hours of service regulations continues to rely on archaic, costly and inefficient paper-based logging systems when electronic logging devices (ELDs) are already available and the industry supports an ELD mandate. The point is regulations should be regularly reviewed with the industry to determine if they could be made less intrusive and more effective and results focused. Regulations should also be reviewed to determine if they continue to serve a useful purpose. We propose that such a review be conducted with industry and be done regularly.

There is another side to regulation that affects transportation and leads to inefficiencies. This relates to differences across governments when regulating the same thing. In the case of trucking where the federal government has ceded administration of extra-provincial trucking regulation to the provinces, the lack of harmonization is reflected in a hodgepodge of sub-optimal regulations and a regulatory system that is inefficient, ineffective, slow, cumbersome and unresponsive to changes in technology and logistics practices. This adds to cost, disruptions and lost time. By not speaking with one voice, reciprocity with the USA on a host of trucking standards is currently in peril and Canada's position is weakened in harmonization negotiations with the US. Harmonization based on simply adopting US regulations is not always appropriate for Canada. A better way to achieve national harmonization in Canada needs to be found as our national institutions established to deal with these matters are failing Canadians and are increasingly ineffectual. They need revamping.

Regulatory differences among governments also arise in international trade. Regulatory differences can create costs and thwart exports and delay imports. Ballast water regulation on both sides of the border is unresolved and not harmonized, potentially discriminatory towards Canadian-flag vessels while American vessels are exempt. Canada should be preparing now for possible regulatory differences with the E.U. and members of the Trans Pacific Partnership (TPP) to avoid specific regulations serving to increase the costs of trade and delay exports. In a world of stiff competition, countries may look to every possible advantage.

e) Cost Recovery

In the case of public or crown operated elements of the transportation supply chain, cost recovery raises many issues. The government provides services (ice breaking & pilotage) to the transportation industry on a cost recovered basis. Cost recovery makes sense when the users of the service are discrete and

limited. It is a simple and correct way that users pay for the service. The government has accepted the quasi market nature of cost recovery by putting in place measures for greater transparency and holds the view that costs recovered should not exceed the costs of providing the service. But cost recovery has its limitations. First, it provides no incentive to achieve efficiencies nor does it drive investments. Second, in cases where cost recovery revenues replace funds that were previously in a department's budget, the department may become dependent on the cost recovered revenue and may not want to see a reduction in funding. Third, there are examples where costs recovered significantly exceed the cost of providing the service. Last, a question that might be asked is if the government is providing the service on a cost recovered basis, does it need to be the service provider - could it not be put out to open competition? These are important considerations. Cost recovered activities should be reviewed to ensure that the public policy purpose of the activity needs to be performed by government.

f) Labour Shortages

Canada's success as a trading nation is contingent on having a transportation workforce of sufficient quality and size to be able to meet the capacity and service demands of today and the future. Canada's freight transportation sector is facing the challenge of whether or not it will be able to provide the capacity needed to meet demand as interprovincial and international trade expand. Labour shortages would substantially restrict Canada's ability to benefit from trade and limit economic growth and prosperity. Like infrastructure, this challenge requires immediate attention from governments.

Trucking, marine, ports and rail have aging workforces and are not attracting sufficient young people into these occupations. For example, the trucking industry is facing a long-term chronic shortage of qualified truck drivers. The Conference Board of Canada has estimated that the gap between the demand and supply for truck drivers – in the for-hire sector alone -- will reach 33,000 drivers by 2020. There is growing concern in the Great Lakes about the availability of skilled mariners. The Canadian flag fleet has a significant and growing shortage of highly experienced and senior mariners and because of the requirement to hire Canadians, are challenged to find certified mariners immediately to fill this gap. While young mariners are graduating from marine colleges, many are taking their highly portable technical skills and going to other industries while those that stay still take 7-10 years of further training and certification to reach the higher ranks. Flexibility of current immigration programs to enable the Canadian fleet to recruit from STCW colleges abroad would assist in filling the gap.

The focus on safety for workers in the transportation sector is unceasing and if anything increasing. Technology has changed the nature of these jobs. Workers need to be tech-savvy and need proper training. It is time for the federal and provincial governments to recognize that freight transportation jobs are skilled jobs. This alone would improve attractiveness of careers in freight transportation, particularly amongst young people who are now more than ever considering jobs in the "recognised trades". It is time for governments to see that training in freight transportation leads to well-paying rewarding jobs requiring skills equivalent to or higher than jobs included in other trades. The federal National Occupational Classification (NOC) for jobs, like truck driving and marine, needs to be upgraded and these classifications included in current immigration and training programs. This is required in order to allow the freight transportation sector access to trained, experienced workers through immigration. Funding for trainees in the freight transportation sector should be on a level playing field with other trades.

g) Technology

Supply chains and logistics are highly sophisticated and technologically complex. Supply chains are global, intricate, and interdependent with the result that technology has become an essential tool for supply chain planning and every other aspect of logistics. Technology, and investments in technology, is the key to supply chain and logistics efficiency, effectiveness and competitiveness. A study conducted by The Aberdeen Group^{vii} - a Boston based consulting firm - found that the most automated companies significantly improved on time delivery and completeness of orders, decreased total landed per unit costs, decreased the frequency of out of stock inventory, and increased the visibility of orders to customers.

Technology provides on-going data and information needed to monitor supply chains, and logistics performance essential to business improvement and growth. As global and domestic supply chains play a larger and larger role in Canada's economy, data and information can be used to better understand the role transportation plays in supporting the Government objectives and the country's trade agenda. Data and information can also be used to address systems failure and identify areas for improvement, including bottlenecks, capacity constraints, border processing and clearance problems etc. It would also help identify where trading partners operations are negatively affecting Canadian exports and imports.

STRATEGIC CONSIDERATIONS FOR THE CHAIR AND ADVISORS

The Review Secretariat may wish to make clear in proposed *CTA* amendments that trade and transport policies are linked. The following should be initiated.

- The principles stated in Declaration 5 of the *Canada Transportation Act* entitled National Transportation Policy (NTP) should be reviewed to confirm their relevancy and alignment with the country's present and future transportation requirements.
- To reflect the priority and urgency for needed direction and coordination across all agencies and departments, a Transportation and Trade Secretariat should be established in the Privy Council Office comprising officials from key departments—Transport Canada, DFATD, Industry Canada, CBSA, Treasury Board Secretariat and Finance Canada—charged with finalizing and overseeing the implementation of the essential actions needed to ensure that Canada maximizes the benefits of trade agreements including efficient, competitive supply chains and critical trade infrastructure. It would also monitor the performance of supply chains and trade critical infrastructure.
- A strategic Trade Investment Fund should be created either by a) carving out needed investment dollars from the Canada Build Fund or b) making new funds available or c) drawing in private funds through Public Private Partnerships or examining the potential of Infrastructure Bank.

With these action steps, the federal government will be positioned to carry out the key role it must play to make Canadian transportation trade competitive and up to the challenge of strong international competition.

Recommendations:

1. The Government's transportation policy should be based on a competitive, efficient, reliable and effective national transportation network supporting interprovincial and international trade, supply chains and the movement of people, characterized by environmental sustainability, accessibility, safety, and physical and cyber security.
2. The principles stated in Declaration 5 of the CTA entitled National Transportation Policy (NTP) need to be reviewed. Annex A suggests possible language for consideration.
3. A preamble should be added to the CTA. This statement would highlight that the Act is in relation to an efficient, effective, reliable and competitive transportation system including trade gateways, corridors, supply chains and infrastructure. The Act is to facilitate leadership, market principles, and effective outcome-based regulatory regimes to enhance health, safety, security, accessibility and contribute to environmental stewardship. By so doing, the Act is to enhance transportation's transcendent role in fostering Canada's economic growth, prosperity and integration among regions.
4. Government policy should support markets with no interference or distortion except in cases of system failure and to ensure, accessibility and safety and security, and contribute to environmental sustainability.
5. The Government should define the trade-critical national transportation network in the context of supply chains and logistics, building on the national gateways and corridors already identified. This includes rail, ports, highways, bridges, and intermodal transfer points.
6. Funding for trade-critical infrastructure projects should be sought, to the maximum extent possible, through innovative funding arrangements including public-private partnerships, commercial funding of trade-enabling port assets based on a clear business case; but recognizing there will be exceptional cases of national or regional economic significance or historic underfunding that requires special treatment in accordance with clearly established funding criteria.
7. The World Bank has ranked Canada's trade logistics system as 12th best in the world. The government should target Canada being in the top 5.
8. Bottlenecks or data-gap issues in Canada's transportation networks need to be identified and addressed in a timely fashion. As global and domestic supply chains play a larger and larger role in Canada's economy, data and information can be used to better understand the role transportation plays in supporting the Government objectives and the country's trade agenda.
9. Regulations should be based on establishing desired results, allowing for flexibility, innovation and recognition of specific circumstances to achieve desired outcomes. Government regulations affect trade competitiveness and need to be reviewed.

10. Regulations should be reviewed in light of changing technology and should not act as a disincentive to infrastructure investment.
11. The Government should continue to strengthen its efforts to resolve regulatory differences with its trading partners. Such differences serve as barriers to trade; they create costs, thwart exports, and delay imports. In the case of trucking reciprocity with the USA, a host of trucking standards are currently in peril because Canada has failed to act with one voice. Canadian flag vessels trading in domestic waters and not having the technology to comply with the *Ballast Water Convention* could potentially be shut down or greatly diminish or alter capacity and service. Canada should implement a five-year regulation that allows for the continuing evaluation and possible development of alternate technologies.
12. Extra-provincial trucking regulation was ceded by the federal government to the provinces. It is time for the federal government to take direct action with the provinces to redress this situation either through cooperation or through re-establishing its role in regulating extra-provincial trucking.
13. The Government should establish trade critical infrastructure as the federal government's infrastructure spending priority. It should support the use of innovative funding instruments to the maximum extent possible to ensure world class trade critical infrastructure. This priority, crucial for Canada's trade and economic success, should take precedence over calls by other levels of government for limited federal government infrastructure resources. Other levels of government should also look to private sector funding with appropriate links to revenue streams. Should access to private capital be a problem, the Government in cooperation with the provinces, should examine alternative funding mechanisms including greater use of public-private partnerships and the idea of an Infrastructure Bank.
14. Government should review the role of the Canadian Transportation Agency.
15. The Government should insure that trade facilitation actions are strengthened to support trade and competitiveness. Canada should ratify the new WTO Agreement on Trade Facilitation.
16. Government should not intervene to disrupt functioning markets. Government intervention to favour one type of shipment over others affects reliability and imposes a cost on shipments negatively affected. It sends a signal of unreliability and unsustainable preference for one class of shipper at the cost of all others.
17. The government should review any move towards cost recovery activities to ensure that they are not generating revenue in excess of the cost of the service; and that their public policy purpose continue to require that these service be provided by government.
18. The Government should upgrade the National Occupational Classification, work with the industry to address skills shortages, and provide access to grants and loans available to other recognized trades to support training in the freight transportation industry.

19. Government support for innovations in soft technology is important. The Government should provide greater tax incentives for investments in technology. It should also support innovative research and development in the freight transportation industry.
20. A Trade and Transportation Secretariat should be established in PCO to ensure an effective transport policy that takes into account essential relationships among the transportation freight industry, supply chains, and trade facilitation actions needed to ensure efficient interprovincial and international trade.
21. Given the economic and social importance of trade, the Government should remember that it has tools in cases of blockages to the establishment of a competitive national transport and trade system. In such cases, the federal government's constitutional trade and commerce powers would meet the tests established by the Supreme Court of Canada, including those applied in the most recent securities regulation decision.

ⁱ RAC, ACPA, CMC, ACT, CSA are among the associations presenting briefs to the Review Secretariat.

ⁱⁱ The ACPA presented a white paper in December 2012 entitled: Strengthening the Canada Port Authorities – Key Enablers of Canadian Trade in response to Transport Canada’s Marine Policy Review

ⁱⁱⁱ Canada West Foundation: Improving Canada’s Trade Infrastructure November 2014 page 06.

^{iv} Infrastructure Investment Survey of the Great Lakes and St Lawrence Seaway System, January 2015, Martin Associates

^v Canadian Chamber of Commerce Report entitled: Turning It Around: How to Restore Canada’s Trade Success, May 2014

^{vi} OECD Trade Policy Paper No. 118, 2011 Trade Facilitation Indicators: The Impact on Trade Costs

^{vii} Aberdeen Group, Benefits of Automating Global Trade Functions 11/3/2014

Annex A

Thought on updating Part 5 CTA

National Transportation Policy

Declaration

It is declared that the national transportation system is to serve Canadians by transporting goods, services and people in support of international and interprovincial trade to foster economic growth and to foster the integration of regions by being competitive, economic and efficient and meeting the highest standards of safety and security while contributing to environmental sustainability. These objectives are most likely to be achieved when:

- a) Competition and market forces, both within and among the various modes of transportation (rail, air, trucking and marine) are the prime forces in providing viable and effective transportation services.
- b) Cost effective transportation services serve supply chains delivering goods and services to Canadian and foreign markets.
- c) Regulation and strategic public intervention are used to achieve safety, security, environmental and social outcomes and to address market failures, are focused on results that cannot be achieved by market forces and competition, do not unduly favour, or reduce the inherent advantages of any particular mode of transportation, and do not compromise competitiveness.
- d) Rates and conditions represent a competitive advantage for Canada in the movement of traffic within Canada and in the export of goods and services from Canada.
- e) The transportation system is accessible without undue obstacle to the mobility of persons including persons with disabilities.
- f) Governments and the private sector work together for an integrated transportation system, recognizing the need for transportation to be integrated with supply chains.

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