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Developing the Atlantic Gateway: A Discussion of the Key Issues

Can the Port of Halifax become Canada's Atlantic gateway to the world? APEC's recently released report, *The Changing Global Economy: The Implications and Opportunities for Transportation in Atlantic Canada*, identified a major opportunity for the Port of Halifax to play a greater role as a Canadian gateway, particularly for containerized imports from Asia destined for markets in Central Canada and the U.S. Midwest.¹

APEC invited two transportation experts to share their insights and perspectives on the key issues that need to be tackled: Who should take the lead in developing the Atlantic gateway and how can the private sector in Central Canada be convinced of the business case for using the port? What is the appropriate role for government and what regulatory issues need to be dealt with? How much time does the region have and what is the biggest obstacle to developing the gateway?

Dr. Mary R. Brooks is the William A. Black Chair of Commerce and Professor of Marketing and Transportation at Dalhousie University and an internationally recognized authority on marine transportation. **Mr. Peter Vuillemot** is responsible for Training and Development with the Atlantic Institute of Logistics and Transportation, based in Dieppe, New Brunswick and has extensive experience in addressing Atlantic transportation issues as the former Executive Director of the Atlantic Provinces Transportation Commission.

APEC: What is the main opportunity for the Atlantic gateway?

Mary: Container traffic is the current, big investment opportunity for Atlantic Canada.

Peter: Import container traffic is the main opportunity for the Atlantic gateway. A significant portion of the projected increase in global trade and global supply chain activity will be consumer goods and component parts which tend to move in containers. Halifax is well suited to compete for that traffic.

APEC: How would you characterize the main benefits and significance of the Atlantic gateway?

Mary: Stevedoring jobs are not all that is at stake. Around ports develop support activities, like transload centres and logistics service operations. A port is an engine for economic development. Rotterdam has proven that clusters develop at gateway ports.

¹ The report is available on APEC's website at www.apec-econ.ca.

Peter: The main benefits of the development of the Atlantic gateway are the potential direct economic benefits that would result from the increased import/export container traffic initially through the Port of Halifax. These include the direct employment and economic benefits associated with handling and transporting of the increased traffic along with the economic impact associated with investment in new and expanded facilities and services. Other more indirect benefits will come from the opportunity for regional firms to better access global markets through the enhanced shipping services offered through the Port of Halifax. There are also national benefits to having an east coast supply chain gateway to global markets that will balance and support the western gateway.

APEC: What are the opportunities for other Atlantic ports?

Mary: As the United States continues to import energy, the role for the Strait of Canso and Saint John as energy transshipment ports will also grow. Short sea shipping is also an opportunity that requires a new regulatory environment and that could mean growth for both Saint John and Halifax.

Peter: Global trade of petroleum products and LNG are projected to increase. Saint John and the Strait of Canso are well suited to participate in that trade. The Strait of Canso is also well positioned to develop as a container port in future, should the gateway container traffic increase to exceed the capacity of the Port of Halifax. Saint John has strength in accommodating trade to and from the Caribbean and South America and can expect to increase its activity as trade with those regions expands.

APEC: Who should take the lead in developing the Atlantic gateway?

Mary: I have always been an ardent support of private-sector led initiatives. That said, this is a difficult question because the primary cargo interests are not located in the region. This means that there is a role for government in facilitating the exploration of the opportunity, prompting interest in the use of the existing Halifax facilities, and supporting further development of port-related activities.

Peter: The development of the Atlantic gateway should be led by the primary stakeholders: the Port of Halifax, terminal operators and transportation service providers that have a direct involvement in the movement of import/export container traffic through the gateway. These primary stakeholders could be organized as a project group under the Greater Halifax Partnership. This group should be focused on the task of attracting increased levels of import/export container traffic to the Atlantic gateway. It would, by necessity, involve other stakeholders in its activities, but the lead group should remain fairly small and business lead.

APEC: How can the Atlantic region, and the Port of Halifax specifically, develop the Atlantic gateway when the key shippers and importers are based in Central Canada and the U.S. Midwest?

Mary: The key message for companies in the centre of the country is that Halifax provides a definite alternative to West Coast ports, and that Halifax is interested in

servicing the traffic they have. Security issues have brought home to large shippers the importance of route diversification. There is a very real risk these days of intentional disruption to normal trade patterns. Shippers are well-advised to make sure that they do not have all their eggs in one port basket.

Peter: The Atlantic gateway will succeed by providing services that meet the expectations and requirements of global supply chain managers. These include supply chain reliability, supply chain visibility, cost competitiveness, supply chain security and compliance with trade requirements of the various countries involved. The Atlantic gateway will have to convince potential customers that it can provide the required level of service at competitive cost. It will also have to convince prospective customers that it has the necessary plans and resources, including human resources, to continue to provide an acceptable level of service, without interruption or disruption, as throughput increases. The key is to convince the marketplace the Atlantic gateway is capable of providing the required level of service, has the necessary plans in place and the financial resources to support infrastructure growth as traffic levels increase.

APEC: What is the appropriate role for governments, federal and provincial, in developing the Atlantic gateway?

Mary: In addition to my comments above, I believe that governments at all levels must take seriously their roles in ensuring public benefits are realized. Marine transportation offers an alternative to road transport that is more environmentally-friendly as well as cost competitive. The development of short sea shipping, for which East Coast ports like Halifax and Saint John are well positioned, will not happen as long as cost is the primary consideration by shippers. We currently have no means of incorporating social costs into the route decision equation, and air pollution reduction and road congestion mitigation are important areas for government-led involvement.

Peter: There are several roles for the federal and provincial governments. Most importantly, the federal government must ensure that the regulatory and governance structures in place for the marine and rail modes allow for efficient operation, do not impose burdensome costs and do not constitute an impediment to the future development of the gateway. The federal government must also ensure that the appropriate safety and environmental regulations are in place to protect workers, the public and the environment without acting as a regulatory burden on market entry and exit.

In terms of the provision of infrastructure, the federal government has a role in providing funding, particularly in relation to infrastructure that it owns or controls. The level of funding will depend upon the need in relation to specific projects. The federal government also has a role to ensure that appropriate access to private funding is available to support infrastructure projects.

Similarly, the provincial government has a role in the provision of funding for infrastructure projects under its jurisdiction, and in ensuring that the regulatory environment for the modes under its control is not a barrier to the development of the gateway. The provincial government also has a role in ensuring that the general business

climate is attractive to investment and is supportive of the development of business services and facilities that contribute to gateway activity.

APEC: What are the most important regulatory and governance issues that need to be addressed if the Atlantic gateway is to be successful?

Mary: The *Canada Marine Act* continues to hamstring port capital investment. The Government of Canada needs to repair this legislation with respect to borrowing limits in particular. This has been on my policy agenda since before the 2001 *Vision and Balance* report of the Canada Transportation Act Review Panel, and it is time for government to address the issue.

Peter: In terms of the current gateway opportunity, the most important regulatory and governance issue is port governance and restrictions on the port's ability to access financial markets for expansion and projects related to the development of the gateway. In today's competitive global market, Canadian ports must have quick access to sufficient capital to fund necessary infrastructure to accommodate gateway traffic. Beyond the governance and financial issues, there is a long list of operational and market access regulations which need to be updated or removed to reflect the nature of current competitive global business practices (including regulations in the *Canada Transportation Act*, the *Coasting Trade Act* and the *Canada Marine Act*).

APEC: How much time do we have to develop the Atlantic gateway?

Mary: The Panama Canal locks project to handle larger vessels is due for completion in 2013, but the window of opportunity is much narrower. If route network changes are not well established before this, they won't happen after. We can decide we want to play in this playground, or we can give this economic opportunity to U.S. and Canadian West Coast ports. By 2010, many U.S. East Coast ports will have made the investments they need to make to take advantage of the opportunity; then Suez traffic to Ontario markets could just as easily use the Port of New York/New Jersey or Norfolk, and we will wonder why Canadians decided to not to take our ball to the playground but to just watch the game from the living-room window.

Peter: The Atlantic gateway is competing for global supply chain traffic that is destined for Central Canadian and Midwest U.S. markets. Other North American ports are competing for the same traffic, specifically Prince Rupert and several East Coast U.S. ports such as New York/New Jersey, Norfolk and Savannah. Historically, these U.S. East Coast ports have had weak rail service to the U.S. Midwest. However, several major, multi-billion dollar rail and port projects are now underway to provide better rail access from U.S. East Coast ports to the interior. Once those projects are complete, Halifax will lose a significant portion of its competitive advantage to those markets. We need to begin the branding and marketing of the gateway immediately, and quickly put in place the plans and financing for any infrastructure improvements necessary to accommodate the increased traffic.

APEC: What do you see as the greatest obstacle to developing the Atlantic gateway?

Mary: There is a perception within government departments and amongst politicians that Halifax has plenty of spare capacity and that there is no need to invest in the Port until it is closer to capacity. This perception is troubling and needs to be addressed if Halifax is to grow. If a major carrier alliance decided to change its network today, and off-load all its boxes at Halifax, the existing capacity is not sufficient to handle the volume increase. There is certainly room to expand the existing facilities at Halifax but this additional capacity cannot be built quickly. Waiting for the demand to materialize, for the Port to grow significantly beyond its current level of activity, means waiting too long to act. Transportation infrastructure investment is always a ‘chicken or egg’ problem; investment is made in anticipation of growth. If we delay, these opportunities will go elsewhere.

Peter: There are many obstacles to developing the Atlantic gateway including a lack of understanding of what the Atlantic gateway is and what the real opportunity is, time, competition, political and bureaucratic indifference, no focused goals and objectives, great expectations and funding constraints. However, the inability within Atlantic Canada to gather the necessary human and financial resources to pursue the opportunity in a business-like and timely manner is, in my opinion, the greatest obstacle. Traditionally, within this region we underestimate the effort and resources required to pursue global opportunities and are unable to overcome local differences that hinder our ability to be successful regionally, nationally and globally.