



# Submission to the Canada Transportation Act Review Secretariat on the Canadian Transportation Act Review

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## **Introduction**

The Canadian Chamber of Commerce welcomes the opportunity to provide comment to the Canada Transportation Act Review Secretariat on the current review of the Canadian Transportation Act (CTA).

The timing of this review is particularly important. Recent developments in Canada's transportation sector, including the 2013 bumper crop, the tragic accident in Lac-Mégantic, Quebec the cost competitiveness of Canada's air mode and ongoing concerns regarding supply chain capacity.

Previous comprehensive reviews of the CTA resulted in tangible improvements to Canada's multimodal transportation system. Thanks in part to the work that was done following previous reviews and the enactment of subsequent legislation, Canada's transportation sector is substantially more market-based and competitive. The deregulation and devolution of the 1980s and 1990s led to very real productivity gains. From 1986 to 2008 the productivity of the sector grew by over 30 percent.

While Canada's transportation sector has changed significantly in the past few decades, so too have the dynamics of modern supply chains. Canada is trading more goods with more countries than ever before. Globalization of commerce has led to globalization of supply chains. Supply chains can no longer be considered national entities and any disruption can ripple throughout the global system. An increasing competitive global market place has little tolerance for such disruptions so it is vital that Canada's multimodal transportation sector and logistics system are efficient, predictable, optimized and globally competitive.

The members of the Canadian Chamber of Commerce view this review as a critical opportunity to examine Canada's current system and to chart out a path forward. We would also like to take this opportunity to remind the Secretariat that a review of Canada's transportation sector cannot be done in isolation. Many of the policy challenges preventing the optimization of Canada's transportation sector extend well beyond the scope of a single government department. Rather, the recommendations made by the Secretariat should recognize the integrated nature of our economy and take an all-of-government approach.

This submission outlines some of the key themes that emerged during our consultations with our members over the past few months. We look forward to working with you in 2015 and welcome any questions that you may have regarding the contents of this submission.

## **The Transportation Sector is a Economic Enabler**

Canada has been blessed with a wealth of natural resources and a sprawling geography. With over 45,000 kms of operating railway tracks Canada's railway network is the fifth largest in the world and handles the fourth largest volume of goods globally. Canadian railways also have the lowest freight rates as measured by revenue/revenue ton-mile. Canada is home to more than 300 airports serving over 120 million passengers. Each year, 310 million tonnes of cargo is moved through hundreds of Canadian ports. Trucks move 90 percent of food and consumer products by value. The transportation sector is the backbone of the Canadian economy moving \$1 trillion worth of goods every year and injecting almost \$66 billion in GDP.

Transportation is also a significant contributor to employment in Canada. For example, Canada's railways employ 34,000 people and support an additional 60,000 direct and indirect jobs throughout the supply chain. Across Canada, ports support 250,000 direct and indirect jobs while airports support over 400,000. Trucking and marine transportation services are also vital, employing 300,000 and 93,000 people respectively. As a whole, the transportation sector employs hundreds of thousands of Canadians in all regions of the country.

However, the successful movement of people and goods depends on an efficient, safe, predictable and reliable multimodal transportation network. Furthermore, our close connection with the United States (U.S.) puts us in a good position to be a major entry point for the North American market. In short, Canada has the potential to be a major international transportation hub. To fully leverage this advantage, we need a multimodal transportation sector that is as seamless as possible and where the entirety of the supply chain is able to compete on a global scale.

### ***Recommendation:***

1. Develop a national transportation plan that includes the entirety of Canada's multimodal transportation system. This plan must include strategic investments in trade enabling infrastructure, the proper regulatory and policy environment and be socially and economically sustainable. It must recognize Canada's potential as an international hub and that the Canadian border must function as a piece of the supply chain.

### **Finding Canada's Place in the World**

Canada's economic vitality is trade dependent. Trade accounts for approximately 45 percent of GDP and is responsible for approximately 3.3 million jobs in Canada. The U.S. is Canada's largest trading partner, accounting for \$632 billion

in bilateral goods trade in 2013. Canada's unique relationship with the U.S. and to some extent with Mexico, means that a large portion of Canada's supply networks run north-south.

However, in recent years we've seen a huge upswing in the negotiation of new international trade agreements. The plethora of completed and ongoing trade negotiations means that Canada's relationship with the international community is rapidly evolving.

In 2013 and 2014, the government of Canada concluded trade agreements with Chile, Panama, Honduras, South Korea and the European Union (EU). The agreement with the EU in particular is expected to result in significant gains for the Canadian economy which will now have access to an additional 500 million consumers. The current negotiations on the Trans Pacific Partnership (TPP) are even more enticing. The current participants of the TPP negotiations represent a market of 792 million people and a combined GDP of \$28.1 trillion.

Due in part to the new market access granted by these agreements and the surge in the global middle class (expected to reach five billion consumers by 2030) the demand for Canadian commodities is expected to rise. Passenger traffic is also expected to increase. Canada is perfectly positioned to become a global hub for passenger traffic. Toronto Pearson International Airport is already the second busiest airport in North America and is expecting to serve 60 million passengers by 2030.

In the coming decades Canada will be moving more goods and people than ever before. Furthermore, international trade tends to be very agile, making it very difficult to forecast which goods will be needed where. A good example is the sudden spike in demand for frac sand due to the increase of hydraulic fracturing in North America. The traditional sources of North American frac sand (Wisconsin and Texas) are not sufficient and deposits are now being excavated and transported from new areas. To keep pace with this boom, new transportation infrastructure is being developed all across North America. It's clear that Canada needs a transportation network that is adaptable enough to accommodate shifting trade patterns, runs at optimal capacity and is resilient enough to withstand increased demand.

Unfortunately, the capacity of Canada's transportation network remains unbalanced. In some areas of the country, supply chains are strangled by bottlenecks, significantly affecting the ability to move people and goods in a timely manner. In other areas of Canada, the system runs well below capacity.

Canada has a massive geographical footprint, but a proportionally small population. Without a strategic, long-term plan for the movement of people and goods, the country runs a very real risk of falling behind. Fortunately there are some great examples of what can be accomplished with the proper policy, regulatory and fiscal framework.

All over the world small countries are emerging as international trade hubs. This approach allows countries without a sufficiently large population to become major global players. For example, both Amsterdam and Frankfurt have positioned themselves as major global airport hubs.

Canada has had some success in developing competitive transportation systems. The Asia-Pacific Gateway and Corridor Initiative is a perfect example of what can be accomplished with the right strategic direction and cooperation among all of the relevant stakeholders. This initiative recognized that Canada's trade competitiveness depended on strategic planning, targeted infrastructure investments and the adoption of policies designed with a long-term view.

While progress has been made, much more needs to be done to meet the requirements of our expanding trade network. The success of the Asia Pacific Gateway has not yet been replicated by Canada's other gateway initiatives. The prioritization of infrastructure investment, both physical and technological, the reduction of operational setbacks, and improvements to our regulatory framework are all necessary to ensure that Canada's main ports of entry are able to adapt to increasing and shifting flows of people and goods.

To secure a significant share of global logistics and be a competitive gateway for North America, Canadian businesses need to excel in value-added manufacturing, distribution, storage, and transportation. Foreign trade zones encourage businesses to take advantage of these opportunities and expand a country's trade position. The Canadian government has undertaken several helpful initiatives in recent years, including a list of deliverables in the 2013 federal budget. These initiatives are welcome and the federal government should continue to pursue measures to improve existing programs, reduce costs and promote the advantages provided by Canada's foreign trade zone-like policies.

***Recommendations:***

2. Continue to improve and promote the advantages provided by Canada's foreign trade zone-like policies.
3. Undertake a comprehensive examination of the potential demands on Canada's transportation sector over a 20 to 30 year time horizon. This examination should

also include the identification of global best practices for long-term transportation planning and recommendations for the development of similar system in Canada.

## **Building a Prosperous Country**

### *Infrastructure*

A key contributor to the success of the Asia Pacific Gateway was the targeted investments in trade-enabling infrastructure. Enhancements of trade-enabling infrastructure are absolutely vital not only to keep pace with current demand but to ensure that Canada's transportation sector retains high levels of productivity. Shipping companies and airlines are likely to avoid low-productivity terminals to avoid long port layovers or difficult passenger connection experiences.

One important policy consideration in Canada is the blend of public and private infrastructure which makes coordination between stakeholders even more essential. Since provincial and municipal governments are responsible for a large percentage of public infrastructure, the federal government must facilitate the identification and encouragement of investment in projects of national importance.

During the 1980s and 1990s, a large portion of Canada's transportation infrastructure was deregulated and privatized. These changes resulted in dramatic increases in productivity, efficiency and competitiveness. However, even the most efficient forms of infrastructure do not operate in isolation. The efficiency of our trade enabling infrastructure can be negatively affected by disruptions at any point along the system.

For example, even the most modern, best-in-class airports rely on transit connections with surrounding communities. Port operations can be severely constrained if the supporting roads and highway systems are over capacity or in disrepair. This is already a problem in Canada where congestion costs the economy almost \$15 billion per year.

There has been growing recognition of the need for Canada to increase its infrastructure investments. A large portion of Canada's publically-owned infrastructure needs to be completely replaced or is in dire need of repair. Increasing usage due to population growth and environmental stressors will only further contributed to this decay.

Depending on methodology, Canada's infrastructure deficit is estimated anywhere between \$50 billion and \$570 billion. Even with the recent increase in

government funding for infrastructure, the investment needed far outstrips the availability of public funds.

Increased use of innovative funding models, such as public private partnerships, particularly for large-scale projects such as major bridges, highways and roads, will be a key factor for Canada going forward.

Canada not only needs to attract new levels of private investment, but also ensure that public investments are made strategically, effectively and efficiently. A good portion of these strategic investments must be in areas that are economic multipliers such as trade-enabling infrastructure.

A competitive regulatory and policy environment encourages private sector investment in transportation infrastructure. It also ensures a level playing field with countries to which that investment may otherwise flow.

***Recommendations:***

4. Undertake a review of best practices in infrastructure financing that includes the use of innovative fiscal tools.
5. Continue to promote the development of all of Canada's gateways and corridors.
6. Ensure long-term, strategic investment in Canada's major economic hubs, gateways and corridors and public transit systems.
7. Develop a priority-based multimodal transportation infrastructure investment plan that builds on existing policies or funding programs such as the Building Canada Plan and compliments the previous work done through the Gateway and Trade Corridors initiatives. The investment plan should:
  - a. Encourage collaboration and alignment among all relevant stakeholders, including other levels of government; and
  - b. Promote the use of public-private partnerships, wherever appropriate and feasible, to maximize efficiency in maintaining and developing transportation infrastructure.
  - c. Be focused on lowering Canadian producer costs to get goods to market, wherever possible.

*Working Closely with Communities*

As trade-enabling infrastructure expands, so too does the intersection with host communities. Canada's transportation hubs and corridors transect all regions of the country including municipalities. More and more Canadians are living and working in close proximity to transportation activity. Communities that host transportation infrastructure can experience significant benefits in the way of

jobs, municipal tax revenues, spin off economic activity and direct community investments. However there are a number of issues that can arise when communities and transportation activity intersect.

There are increasing concerns in both urban and rural communities regarding safety, noise, vibrations and emissions from transportation activity. For example, the apprehension regarding the number of level crossings located in communities across Canada is growing among both industry and community stakeholders. Despite these increasing concerns, the Canadian Transportation Agency only has the mandate to review the economic impact of new level crossings while safety considerations remain beyond the scope of their analysis.

Transportation service providers, including railways, airports and ports, are working very closely with Canadian communities to identify and adopt solutions. For example, in 2013 the Railway Association of Canada and the Federation of Canadian Municipalities jointly released the *“Guidelines for New Development in Proximity to Railway Operations”* Such proactive initiatives are a positive effort to mitigate conflict between railway operations and community development. However, to date very few municipalities have adopted these guidelines to any great extent.

The situation is similar for Canadian ports that work very closely with their respective communities to minimize the negative impacts of port operations on citizens. This is being accomplished through various means such as investments in innovative noise reduction technologies, emissions management and dust abatement procedures.

Transportation service providers are expending significant resources to ensure the health, safety and quality of life of those living in close proximity to their operations. However, the success of these initiatives requires cooperation from host communities.

Unless industry is made aware of proposed developments or activities, a proper assessment of potential impacts from transportation activity cannot be made and proper mitigation measures put into place. New developments or activities on land near transportation operations should be done in close consultation with the transportation services providers.

***Recommendations:***

8. Regarding the review of new level crossings, Transport Canada should be given the mandate to consider both the economic and safety aspects of new crossings.

- The responsibility for approving these crossings should also be given to the Minister of Transport.
9. Provide leadership in raising public awareness of the importance of transportation in relation to the quality of life enjoyed by all Canadians and sustainability of Canada's economy.
  10. Take a leadership role in coordinating related stakeholders, including other levels of government in order to address community impacts and environmental concerns.

### *Engaging Canadians*

One of the most important challenges facing the Canadian transportation sector in the years ahead relates to the need to increase awareness and interest among Canadians of the benefits of transportation industries. As touched on above, community support for and understanding of the importance of transportation operations is vital. So too is interest in transportation services as a viable career choice.

Almost every sector of the Canadian economy faces a serious demographic challenge. Low birth rates and an aging population mean the Canadian workforce is shrinking. Furthermore, there continues to be a mismatch between the qualifications of young Canadian graduates and the needs of the job market. Access to qualified labor is one of the most critical challenges facing Canadian businesses. This is especially true for the Canadian transportation sector which has often been viewed as a less desirable career choice. In reality, careers in the transportation sector can be high-paying and rewarding. For example, the total average annual compensation per employee in the rail sector in 2009 was \$82,883.

Unfortunately the labour shortage is reaching critical levels. For example, 26 percent of existing truck drivers are over the age of 55 and the industry continues to have difficulty attracting younger workers. According to the Conference Board of Canada, for-hire driver shortages are expected to reach 33,000 by 2020.

The situation is similar for other areas of the transportation sector. While industry can do its part to promote their individual sectors as a valuable option for those entering the workforce, the federal government also has an important role to play.

The development of an immigration system that facilitates access to labour is badly needed in Canada. We are not the only country facing a labour shortage and if our immigration system is not properly designed, our productivity will lag.

Employers need access to skilled workers. When not enough Canadians are available for certain positions due to labour shortages or skills gaps, foreign nationals are a valuable option. Until June 2014, the Temporary Foreign Worker Program (TFWP) and the Provincial Nominee Program were the most popular ways to bring foreign workers into low, medium or high-skilled occupations. However, the new restrictions on the TFWP will severely affect the ability of the business sector to address its labour shortages.

Recommendations:

11. Work with the provinces and territories to develop education programs that produce skilled people to meet the needs of the transportation infrastructure sector.
12. Ensure that Canada's immigration policies and programs are designed to accommodate the needs of Canada's labour market.

*Regulatory Coherence*

Since transportation service providers often move between cities, provinces and countries, they bear the blunt of the cost of minor regulatory differences across jurisdictions.

In order to succeed in an increasingly competitive global environment, Canada must have a national, non-discriminatory, transparent, predictable and cost-effective regulatory system. Our regulatory regime must also be fully compatible with global standards, especially those of our closest trading partners.

Unfortunately regulatory coherence remains a major challenge for the transportation sector and red tape reduction should be one of the highest priorities. Even within Canada, minor differences between the provinces cost the Canadian economy billions of dollars.

For example, the rules for ethanol-enhanced gasoline are different across the provinces, meaning that different batches have to be mixed for each jurisdiction. Similarly, the National Safety Code for trucks contains 16 safety standards yet not a single one of these standards is enforced in a similar manner by the provinces.

For smaller businesses the costs of ensuring compliance with the various regulatory regimes is very onerous. Wherever possible, efforts should be made to remove redundancies such as multiple permitting requirements across provinces.

### ***Recommendations:***

13. Continue to work on the red tape reduction initiative and the elimination of unnecessary regulatory differences between the provinces.
14. Ensure that Canada's regulatory framework is predictable, transparent and timely.
15. Ensure that all new regulations affecting the transportation sector are based on science and include an analysis of potential economic impacts.
16. Develop a national, non-discriminatory and market-based regulatory and fiscal environment that fosters competition in the transportation system. This system must recognize the multimodal nature of the transportation system and the distinct advantages and competitive situations of each mode of transportation.

Just as important is the reduction of regulatory differences with our trading partners. For example, Canada and the U.S. enjoy the benefits accrued from a highly integrated market. However, the efficiency created by this integration is undermined by minor and often completely unnecessary differences in regulatory policy.

As a result of shared land and waterways, transportation regulations in the U.S. impact Canada's transportation sector and competitiveness as a North American gateway. Changes to regulations and emissions standards at both the national and local level in the U.S. create a patchwork of regulations could unintentionally cripple domestic shipping in Canada. For example, the U.S. Environmental Protection (EPA) agency has put forward new rules for ballast water treatment systems on vessels traversing through U.S. waters in the Great Lakes-St. Lawrence. While the EPA is offering exemptions for certain vessels these exemptions primarily only apply to U.S. ships, thereby putting Canadian operators at severe competitive disadvantage.

Differences in services fees and diesel fuel taxes also put U.S. carriers at competitive advantage over Canadian transportation services providers. In addition differences in truck size and weight regulations across provincial and national boundaries reduce transportation efficiency and effectiveness. A more coordinated approach to regulatory policy across jurisdictions would create efficiencies, reduce costs and improve the overall competitiveness of the Canadian economy.

In an effort to provide greater regulatory alignment, Prime Minister Harper and President Obama launched the Canada-United States Regulatory Cooperation Council (RCC) in 2011. While progress to date has been slow, industry on both sides of the border is strongly supportive of this initiative. Some examples where further progress can be made include: mutual recognition of security clearance programs for transportation workers; and a unified approach to safety, security and environmental standards for the marine and air transport sectors.

*Recommendations:*

17. That the federal government work with the provinces and territories to reduce regulatory barriers between Canadian jurisdictions.
18. Work with the U.S. to adopt a unified approach to reporting requirements, safety, security and environmental standards for the transportation sector. Any new regulations should not be designed to favor one industry, sector or region over another.
19. Continue to work with the U.S. government to fully implement the existing RCC work plans and to improve stakeholder consultation mechanisms.
20. Work with the U.S. government and other relevant government departments and agencies to develop a long-term, institutionalized mechanism for regulatory cooperation.
21. Since many sub-national regulatory powers have a direct impact on North American businesses, any efforts to create a more permanent regulatory cooperation mechanism should be flexible enough to eventually include participation by sub-national regulatory entities.
22. Work with the U.S. government to develop a joint system to notify stakeholders and the general public of potential regulations. This system should include sufficient advance notice for proposed regulations and provide a mechanism for stakeholder input.

In terms of our other international trade relationships, Canada should take a more active role at the various international regulatory bodies (such as the International Maritime Organization) to ensure that any regulations adopted at the international level are well suited for the uniquely Canadian environment.

*A Supporting Policy Framework*

Deregulation and devolution greatly enhanced the productivity of Canada's transportation sector which has lowered the cost of, and improved, transportation services. However, some industry stakeholders are very concerned by increased government intervention in some sectors of the Canadian economy.

2014 was an especially difficult year for the transportation of goods across Canada. While the membership of the Canadian Chamber of Commerce appreciates that the federal government was attempting to respond to these challenges, the intervention regarding the transportation of grain in Western Canada was a very concerning move.

For three decades Canada has relied on competition and market forces to determine the level of service, level of investment and prices of our transportation network. These policies have served well. Direct government action similar to what occurred earlier this year through the enactment of Bill C-30 *“An Act to amend the Canada Grain Act and the Canada Transportation Act and to provide for other measures”* has little place in an open market such as Canada’s. Dictating how much of a commodity must be shipped does little more than benefit one community of shippers at the cost of others. The Canadian economy relies on the movement of more than one commodity and government interventions of this nature are not helpful in the long-run.

The solutions to Canada’s transportation related challenges cannot be solved by a simple order of government but rather through the adoption of the appropriate policy and regulatory framework. What is needed is close cooperation with all relevant stakeholders to identify the longer-term, market-based solutions. Any attempts to improve the system must keep in mind the entire supply chain and continue to support a market-based approach.

In an open economy, direct government interventions should only be done when there is undisputed evidence of market failure. The government should instead create an environment that is conducive to competition between modes of transportation and between domestic and international carriers. Supply chains services compete on their distinct advantages without government interference. One area where the federal government can be helpful is by bringing all relevant stakeholders together to identify and promote policies that are in the national best interest or that encourage innovation.

Canada’s aviation sector in particular is in need of further examination. High taxes and fees continue to undermine the cost competitiveness of Canada’s aviation industry. For example, the Air Travelers Security Charge (ATSC) is designed to help recover the costs of additional security measures following the 9/11 attacks. Unfortunately, not only are the revenues generated by the ATSC not tied to a specific security costs, they have doubled in recent years. Also of concern is the fact that the federal government continues to collect airport rent despite that the amount of the rent now exceeds the original value of the assets that were transferred over to airport authorities. These costs result in increased landing fees and higher airline ticket and cargo prices.

While Canada continues to rank very highly in terms of airport infrastructure, it ranks 136<sup>th</sup> out of 140 in terms of ticket taxes and airport charges. According to the Conference Board of Canada, improvements to Canadian air policy could

attract 2 million additional passengers to Canadian airports, and inject over \$1 billion into Canadian GDP.

The Canadian Chamber of Commerce does not believe that the federal government has a complete picture of the cost factors that continue to constrain Canadian aviation. As a result, no coherent strategy exists to improve the cost competitiveness of the sector.

***Recommendations:***

23. Immediately examine the cost structure of government imposed fees on the airlines and airports in Canada with the goal of reducing costs for the aviation sector.
24. Acknowledge that security is an issue of national importance and assume funding of these activities through general tax revenue.
25. Facilitate the development of Canada as an international hub by adopting supporting policies, such as the simplification of visa requirements and reciprocity of visa requirements for countries with which Canada has an air access agreement.

Canada's transportation sector continues to be highly innovative and is constantly seeking to adopt practices or technologies to optimize operations. The federal government must continue to support such innovation through rapid approval of new technologies or by providing incentives for early adopters. For example, the current use of Automated Border Clearance kiosks at certain Canadian airports was made possible by close cooperation between industry and government officials. These kiosks not only improve passenger experiences by dramatically reducing wait times, they also allow customs officials to allocate resources more effectively.

***Recommendations:***

26. Work with industry to ensure that government policies and regulations facilitate and promote the adoption of innovative technologies and practices.

Ongoing efforts to improve customs and border procedures remain a top priority. Cross border transactions continue to add billions of dollars to the costs of doing business and Canada's customs and security apparatus remains unfriendly to trade. Staffing of security personnel is a major concern at many ports of entry in Canada, and Canadian customs procedures are in dire need of modernization.

The joint Canada-U.S. Beyond the Borders Action Plan was initially seen as a very positive step in the right direction. Unfortunately, three years after the

initial announcement, the benefits to the trade community remain minimal. Many of the trade enabling aspects of the action plan have yet to come to fruition and progress on the outstanding items remains far too slow. Due to the integrated nature of North American markets, the Canada-U.S. border must be viewed as another piece of the supply chain. All efforts should be made to improve the efficiency of customs and border operations.

***Recommendations:***

27. The Canadian government must work closely with the U.S. government to fully implement the Beyond the Borders Action Plan and develop the next wave of border improvement measures.
28. Ensure that staffing and training of security personnel at ports of entry are given priority.
29. Continue to work with the international community, especially through international trade agreements, to harmonize customs procedures.

Finally, the federal government should improve the collection and sharing of data for the transportation sector. Currently, data collection and information sharing across the supply chain is patchwork. Without adequate information regarding incoming shipments, shippers have difficulties ensuring optimal use of their resources. For example, Canadian railways must be aware of expected customer needs so that they can accommodate demands. Greater predictability throughout the supply chain will drive cost competitiveness and efficiency. There is a need to harmonize data sets and to improve the sharing of information throughout the whole supply chain.

**Recommendation:**

30. Undertake an examination of global best practices of information sharing and develop recommendations specifically tailored for Canada.

**Conclusion**

The Canadian Chamber of Commerce once again would like to thank you for the opportunity to provide comment on the current CTA Review. Our members regard this review as a vital step in the ongoing evolution of Canada's multimodal transportation sector. We look forward to working with the secretariat throughout the course of 2015 and would be delighted to provide any further information as required by the panel.

