Submission to
the House of Commons
Standing Committee on Transportation

Transport Trade & Tourism

A New Agenda for Jobs and Growth

Submitted by
the Greater Vancouver Gateway Council

September 1996

Introduction

The Greater Vancouver Gateway Council comprises senior executives representing the major transportation interests in the Greater Vancouver region who share a common vision that Greater Vancouver becomes the Gateway of choice for North America.

To realize that vision, Council members are pursuing a unified competitiveness agenda focused on;

.... The Gateway concept as a market development tool

.... Enhanced customer service

.... Advocating a taxation and regulation regime more favourable to trade competitiveness

.... Continual improvements in cost competitiveness and efficiencies

The Council's formation was announced jointly with the Minister of Transport in May 1994.

This submission addresses a number of initiatives recommended to the Government of Canada by the Greater Vancouver Gateway Council designed to meet the challenges, and capitalize on the opportunities in front of the Gateway which will:

.... Improve Canada's international trade competitiveness

.... Boost tourism

.... Strengthen links with the Asia Pacific economies

Key Recommendations

The Greater Vancouver Gateway generates 28,000 person years of employment (1995) and pays over $850 million in taxes each year. Compared to British Columbia's most visible resource sectors, Gateway employment ranks closely behind Forestry and Agriculture and exceeds the total employment of mining and fisheries combined. Through expanding Asia Pacific trade, the Gateway has the potential, in terms of jobs and growth, to increase its contributions to the national, regional and local economies by at least 4,900 new jobs and $150 million / yr. in additional taxes over the next decade.

To achieve this growth, the Gateway has to improve its competitiveness, particularly against US Gateways. Transportation taxation and capital recovery costs in Canada, and increasing congestion of existing infrastructure are the main barriers to improving the Gateway's competitiveness. The private sector is doing its utmost to overcome these barriers through; $1.3 billion in new infrastructure investment since the early 1990's; continual productivity improvements; increased investment in training and new technologies; concerted and effective international marketing programs; and the establishment of a common vision for the future of the Gateway.

The Gateway is Canada's main trade route with the Asia Pacific economies and handles 25% of Canada's international maritime trade, including 60 million tonnes of Western Canadian bulk commodities each year. The Government of Canada is an important stakeholder in the Gateway, particularly in view of the fact that the Gateway's cost competitiveness directly affects the price competitiveness of a large segment of Canada's export trade in international markets.

There are six main areas in which the Government can act to improve Canada's trade competitiveness, boost tourism and strengthen links with the Asia Pacific economies. These actions would assist the Gateway to realize its potential to generate jobs and growth and reduce the vulnerability of Canada's export commodities to foreign competition:

Infrastructure Investments: Make investments in a number of specific, public road and rail infrastructure improvements in the Gateway to deal with identified current and future congestion points at the sea ports and airport (see Appendix A)

Infrastructure Financing: Empower ports to finance general improvements, new infrastructure and terminal improvements through specific types of tax exempt bond financing:

General Purpose Revenue Bonds for general port improvements and infrastructure, which would be repaid from general operating revenues and would meet debt service

Harmonization of Departmental Priorities to Improve Competitiveness:

Ensure that the departments of Finance, Revenue, Trade, Tourism and Supply and Services give higher priority to transportation in their own departmental planning and priorities.

Provincial and Municipal Policies and Priorities should Favour Trade and Transportation Competitiveness:

In the interests of Canada's trade competitiveness, the Government's policies and programs should encourage provincial and municipal governments to give higher priority to cargo and international passenger transportation in their policies and priorities regarding;

.... transportation taxation,
.... taxation of land and infrastructure used to support international trade,
.... land use planning,

Noting that urban encroachment on port lands is seen as a serious issue by major shippers and that there are no alternative sites for the Gateway's port facilities.

If undertaken, these initiatives would:

- Allow the Gateway to compete effectively for identified new market opportunities and make even greater contributions to the economy through jobs and growth

- Reduce the vulnerability of Western Canadian bulk exports to foreign competition and protect Canadian jobs

- Reduce the potential for diversion of international cargo from the Gateway to US Pacific Northwest ports and help maintain the Gateway's vital contribution to Canada's employment and economic growth

Contents

Challenges and Opportunities

The Greater Vancouver Gateway (the Gateway) is a key strategic element in Canada's transportation system for international cargo and passenger transportation. It is the system of transportation infrastructure and services which moves international cargo and passengers through the Greater Vancouver region.

The Gateway connects Canada's exporters, importers and tourism industry to international destinations through airlines and shipping companies.

The Gateway has become:

.... Canada's main trade route with the Asia Pacific region

.... An important and expanding node for international air transport

.... A home port for the international cruise ship industry

.... An integral part of the Western Canadian rail and truck transport system

The Gateway handled approximately twenty five percent of Canada's international maritime trade, eleven million air passengers and ninety five million tonnes of cargo in 1994 - these figures are projected to grow continually assuming that the challenges and opportunities facing the Gateway can be addressed effectively.

The Main Challenges Facing the Gateway

Subsidized Competition from US Gateways

Subsidized competition for the Gateway's cargo base from the US Pacific Northwest (PNW) Gateways, such as Seattle / Tacoma / Portland

Tax Competitiveness in Canada

Railway taxation, 54% higher than in the U.S., reduces the competitiveness of Canada's exports and increases the potential for cargo diversions to the U.S.

Negative growth transportation taxation policies and inconsistent transportation regulatory regimes which significantly undermine the Gateway's competitive position

Aviation jet fuel taxes and application of GST on trans-border airfares places Vancouver International Airport at a competitive disadvantage relative to competing US gateways.

Infrastructure

Increasing road congestion as a result of a growing population which will increasingly impact truck container movements and local travel by international tourists

Anticipated growth in rail passenger traffic which has the potential to delay cargo movements if changes to current infrastructure are not made

Policies and Priorities of Governments

Lack of priority for cargo transportation in municipal and provincial government transportation, land use and economic planning.

The requirement for international air passengers from certain countries to obtain visas to transit Canada is a significant impediment to becoming a preferred North American gateway.

.... Legislative and policy impediments to the development of a B.C. - oriented cruise market

.... Cross border truck traffic delays, particularly through U.S. customs

.... Increasing costs of government services to Gateway traffic

Opportunities for Growth

However, assuming the Gateway is able to meet the challenges noted, the Council foresees a number of important opportunities for growth in air passenger, air cargo, container cargo, bulk commodity, and cruise passenger traffic through the Gateway.

Among them are the potentials to capitalize on the:

Growth in trans-Pacific air travel; passengers and cargo

Forecast growth in container port demand in North America

Opportunity to capture Canadian destined / originated container traffic currently routed through the US PNW gateway of Seattle / Tacoma

Opportunity to capture Midwestern and Eastern US destined container traffic by routing through Vancouver and Chicago

Projected growth in demand for bulk commodities in the Pacific Rim economies; coal, grains, forest products and others

Opportunity to capture a share of US grain export traffic bound for the Asia Pacific region

Potential to increase market share of North American automobile imports and capture a share of Canadian automobile export cargo

Potential creation of Canadian-based warehousing, assembly and light manufacturing businesses through implementation of revised Foreign Trade Zone regulations enabled through the new Canada Customs Act

Forecast growth in international cruise ship business

Potential development of a B.C. - oriented cruise ship market

Priorities for Transportation

The Minister of Transport announced three priorities for Canada's transportation system in his address to the Transportation Association of Canada on May 31, 1996:

.... Use transportation policies and systems to improve competitiveness in international trade

.... Boost tourism

.... Strengthen links with the Asia Pacific economies

The Gateway Council strongly endorses these priorities for the following reasons:

Asia Pacific Transportation Demand is a Large and Growing Market for the Gateway

Asia Pacific trade dominates the Gateway's marine, foreign trade volumes. It accounted for 75% of export trade value through the Gateway and 88% of import trade value in 1994[i]. The value of exports through the Gateway to the Pacific Rim economies increased at a rate of 8% per year, and imports by 6% per year, between 1990 and 1994 - this growth is projected to continue into the foreseeable future.

America - Asia Pacific passenger volumes are projected to grow from 19.3 million in 1994 to 40.4 million in 2005[ii]. This Trans-Pacific air traffic accounted for 1.4 million passengers through the Gateway in 1994. Maintaining the Gateway's current market share would increase trans-Pacific passenger volumes through the Gateway to 2.9 million by 2005.

By the year 2000, almost 60% of the world's container movements are projected to be handled by Pacific Rim ports[iii]. Container port demand in North America is projected to grow from 17.8 million TEU's in 1992 to 39.4 million in 2010.

The Gateway seaports base of export bulk commodity traffic is approximately 60 million tonnes. These volumes are projected to grow at between 0.5% and 1.9% per year[I]. For example:

Thermal coal demand from the Pacific Rim economies is projected to increase by 50 million tonnes by 2000 and another 50 million tonnes by 2010[iv].

Canadian Wheat Board estimates a 40% increase in board grain export volumes through the West Coast ports, from 16.5 million tonnes in 1993/94 to 23 million tonnes in 2004/5[v].

Increasing beer consumption in China is projected to make it the world's largest beer market by 2000[vi], with the attendant demand for malting barley.

Increasing demands for forest products in the Asia Pacific region.

Improving Trade Competitiveness is Central to the Gateway's Cargo Business

Improving trade competitiveness through transportation policies and systems will ensure that the Gateway is able to maintain its existing cargo business and is in a position to capitalize on the anticipated cargo volume growth in the Asia Pacific region.

Transportation costs account for a large proportion of the delivered price of the Gateway's main export commodity traffic (e.g.; 39%[vii] for coal and up to 25% for lumber). In an increasingly competitive global marketplace, small changes in transportation costs significantly affect the price competitiveness of Canada's export trade.

Rail charges accounted for 45 to 55% of total transportation costs of these commodities, the Gateway, 7 to 15%, and Marine Carriers, who are Gateway customers, between 30 and 40%[viii].

Canadian railways pay much more in taxes each year than they would if US tax rates applied in Canada. A study by the Round Table on the Greater Vancouver Gateway estimated the difference at $225 million in 1991. Changes in fuel and property taxes since then have improved the situation. However, Canada's railways are still at a severe competitive disadvantage - in 1994, the Western provinces collected $213 million in taxes from the railways. For example, the total provincial tax bill on a grain train comprising 112 cars (98 tonnes / car) moving from Manitoba to the Gateway is calculated to be $66,294 / trip[ix].

In addition, the Gateway seaports are at a 15% long term cost disadvantage with subsidized US Pacific Northwest (PNW) seaports, primarily as a result of higher taxation and capital recovery costs. The effect of these competitive disadvantages is to increase the vulnerability of Western Canadian bulk commodities to foreign competition[x]:

.... Coal to competition from the US, Columbia, Indonesia and South Africa
.... Grains to competition from the US, Argentina and Australia
.... Forest Products to competition from the South Eastern US, South America, South East Asia
.... Sulphur to competition from the US, Middle East and Caribbean
.... Metal concentrates to competition from the US and South America
.... Potash to competition from Thailand and Russia

The Coal Association of Canada notes, in its recently released economic impact study, that the coal industry generates over $5.8 billion annually, or nearly 1% of Canada's GNP[xi]. Included in these figures are export earnings from 30 million tonnes of coal shipped to 20 countries and indirect economic activity created through the transport of coal. Loss of a significant proportion of these exports to foreign competition would have a severe effect on Canada's economy and employment.

In addition to increasing the vulnerability of Western Canadian bulk exports to foreign competition, taxation and capital recovery costs in Canada put the Gateway sea ports (Port of Vancouver and Fraser Port) at a competitive disadvantage to competing US Pacific Northwest (PNW) ports. This competitive disadvantage makes a large proportion of Gateway bulk cargo vulnerable to diversion. US PNW ports enjoy a number of financial cost advantages over the Gateway ports which total between $2.50 to $3.00 / tonne on bulk commodities and $40 / container. These advantages include[x];

.... low cost tax exempt bond financing,
.... municipal taxes 2 to 10 times lower,
.... no dividend or special payments by
.... port authorities,
.... no tax on private capital,
.... collection of taxes levied on local property owners:
Seattle, Tacoma and Portland levy taxes totalling approximately US $47 million each year.

In addition to the potential negative impacts on Canada's major exports, current transportation tax and capital recovery cost structures increase the vulnerability of the Gateway's cargo business to diversion through subsidized US gateways.

Western Canadian Bulk Exports are Vulnerable to Diversion through U.S. West Coast Gateways

Coal from Alberta and B.C., and zinc imports destined for Montana, through a new deep water port planned at Cherry Point, Wa.

Sulphur through Lower Columbia River terminals

Potash and feed grains through Portland

Automobiles through Portland

Containers through Seattle / Tacoma

Grains, forest products from Southern B.C. and Alberta, and liquid petroleum products through a number of Puget Sound and Columbia River outlets

Such diversions promise significant, negative impacts on employment and taxes paid by the Gateway. From its cargo business alone, the Gateway directly generated more than 13,100 person years of employment in 1994 (seaports, rail and truck components) and paid $361 million in taxes[(xii)].

As noted above, the threat of cargo diversions is being driven in large measure by the higher capital recovery costs in the Gateway seaports and terminals which add between $2.50 and $3.00 / tonne and $40 / container to the total cost of transportation. This is sufficient to cause shippers, who can, to re-route their product through US PNW gateways.

One million tonnes of Saskatchewan potash is already committed to Portland Terminal 5. The impact of this diversion alone is estimated at approximately 100 person years of total employment (direct, indirect and induced) in the Gateway.

Benefits of New Apparoaches by Governments would be Significant

With the adoption and implementation of transportation and transportation taxation policies by all three levels of government aimed at improving the competitiveness of Canada's international trade, the Gateway would be better able to maintain its existing business, and compete more effectively for new business. The economic benefits to Canada would be significant[xiii].
For example, the Gateway Council's studies demonstrate that:

> 3 million tonnes of incremental bulk throughput would generate directly, 120 person years of employment and contribute $2.7 million in incremental corporate tax per year
>
> 150,000 incremental container moves would generate directly, 667 person years of employment and contribute $16.7 million in incremental corporate tax per year
>
> 4.3 million tonnes of incremental grains throughput would generate directly, 258 person years of employment and contribute $6.4 million in incremental corporate tax per year
>
> 100,000 incremental automobile moves would generate directly, 120 person years of employment and contribute $3.0 million in incremental corporate tax per year. For example, North American producers are increasing Canadian made automobile exports to the Asia Pacific region. These units could be shipped through the Gateway rather than US ports.

Boosting Tourism Would Increase International Passenger Volumes and Foster Improved Multi-Modal Connections in the Gateway

The Gateway handled 4.5 million international air passengers and some 600,000 international cruise ship passengers in 1994. Increased international air passenger volumes as a result of increased trans-Pacific travel (from 1.4 million in 1994 to 2.9 million in 2005), and increased international cruise passenger volumes (from 600,000 in 1994 to 970,000 in 2005) will place increasing demands on local infrastructure and multi-modal services.

Meeting these demands will have significant economic benefits for the local, regional and national economies. In 1995, 3.8 million Asia Pacific region and US long haul tourists visited British Columbia spending a total of $1.8 billion. It is estimated that 2.8 million of these visitors chose the port city of Vancouver as their destination[xiv].

Deliberate policies to boost tourism through transportation would necessarily entail improvements to local public infrastructure in the Greater Vancouver region. Such improvements would enhance the Gateway's ability to provide faster, more efficient multi-modal connections for international air and cruise ship passengers. In addition, there are significant opportunities to develop new tourism markets for B.C. - oriented cruises. Capitalizing on these opportunities would not only enhance the Gateway's ability to generate jobs and economic activity but also assist coastal communities in B.C. to develop tourism and cruise related employment. This latter potential is particularly timely in view of the Government's intended devolution of harbours and ports under the new Marine Policy.

Economic Impact of the Gateway

Current Impact (1995)

The Gateway generated directly 28,000 person years of employment in 1994. Including indirect and induced employment impacts, but excluding employment generated as a result of $1.3 billion investment in infrastructure since the early 1990's, and also excluding induced tourism employment. The Gateway's total employment impact was 65,000 person years in 1994. This equates to 1 in 12 jobs in metro-Vancouver.

The Gateway transportation industry paid approximately $856 million in taxes in 1994. By comparison, this sum is sufficient to cover the entire annual operating costs of the Vancouver Hospital system.

Gateway total Economic Output was approximately $8 billion in 1994. Total GDP was $4.2 billion and Wages paid were $2.4 billion[xv].

Infrastructure investments since the early 1990's have totalled some $1.3 billion, including major airport and port expansions necessary to take advantage of the opportunities foreseen.

The Gateway has a major impact on tourism. 4.5 million international air passengers and 600,000 cruise ship passengers transited the Gateway in 1994.

Expanding continental and international services to Vancouver International Airport, and the ability to market Vancouver as a port city to visitors, are important factors influencing continued growth in regional tourism revenues.

Future Impacts - Economic Generation from an Improved Competitive Position

The Gateway's potential to increase business is significant in all sectors. By the year 2005, Gateway bulk commodity throughput could increase by 13.8 million tonnes, container traffic by 376,000 TEU's and trans-Pacific air passengers by up to 3.7 million travellers. If nothing is done by governments to facilitate the Gateway's ability to attract and develop this business, market share of bulk commodity throughput would decline and market shares of container and trans-Pacific air passenger markets would remain static.

Based on the assumption of positive changes in policies, priorities and programs by governments (as recommended in this submission); the Gateway Council estimates that, by the year 2005, up to 2,500 new jobs would be generated at the airport and 2,400 jobs at the sea ports. Increases in taxes paid resulting from these expansions are estimated at $150 million per year. Opportunities for growth; in air cargo business (178,000 tonnes in 1994 to 298,000 in 2005), cruise passenger traffic (600,000 in 1994 to 970,000 in 2005), B.C. - oriented cruise ship markets, other air passenger traffic, and automobile throughput, add to these growth potentials.

In summary, if the Gateway is able to meet the challenges and capitalize on the opportunities in front of it, direct Gateway jobs generated and taxes paid in the year 2005 are estimated at 32,900 person years employment and $1 billion ($1994) in taxes. ***(Note to reader these figures were achieved in 1999)***

And, if no changes are made in the policies, priorities and programs of three levels of government to facilitate transport, trade and tourism:

1 - Canada will forgo a minimum of 4,900 new jobs and $150 million / year in taxes paid.

2 - Canada will lose Bulk Commodity traffic, jobs will be lost and tax revenues will decline.

Issues and Recommendations Presented

The following recommendations, if acted on, are anticipated to provide the framework within which; Canada's exports will remain competitive in international markets, tourism revenues will continue to grow, the Gateway can compete effectively with U.S. PNW gateways for cargo business, and can capitalize on the opportunities foreseen to increase economic activity, jobs and taxes paid.

A Transportation Infrastructure Investment

A1 - Long Term Economic Payoffs Dictate that Local Cargo Infrastructure Investment Receive Priority from the Government of Canada

Recognising the Government's important focus on the renewal of the national road infrastructure, nevertheless in the Greater Vancouver Gateway there are a number of other infrastructure investment priorities, including:

Road congestion is having an increasingly negative impact on freight transportation and the efficiency of connections for international passengers between modes. In fact, population growth and increasing numbers of private automobiles are already causing very serious delays on all major routes to and from the Gateway. For example Trans Canada Highway traffic is regularly delayed by one to two hours during the morning and afternoon "rush hour" periods. The impact on container traffic for local delivery is to delay movements from the terminals, which could (in less congested circumstances) take place in the afternoon, to the following morning. This negatively impacts terminal storage capacities and local retail trade.

The BC Trucking Association (Gateway Council member organization) has made a number of suggestions to address these concerns, among them being[xvi]:

Establish minimum service level standards for major truck links to trigger action for improvement if service levels drop below those standards

Building High Occupancy Vehicle (HOV) Lanes which may be accessed by truck traffic at all times except "rush hour" periods.

Without rail infrastructure improvements, increasing passenger rail service for east - west commuter travel and north-south Canada / US travel have the potential to disrupt the smooth flow of Western Canadian bulk exports and east - west international container rail traffic. Current rail infrastructure has been installed for the primary purpose of moving cargo to and from the seaport terminals and is sufficient for this purpose. Cargo rail traffic[xvii] into the Burrard Inlet is projected to increase from 370,000 rail carloads in 1994 to 420,000 in 2005. At Fraser Port, cargo rail traffic is forecast to grow from 27,500 rail car loads in 1994 to 46,000 in 2005.

However, further additions of passenger rail traffic (over and above current traffic) to the existing rail cargo infrastructure have the potential to create significant cargo rail traffic delays in the Gateway. Expanded railway infrastructure will be essential to meet a growing demand for passenger traffic and obviate the potential for cargo train delays. Of particular concern is the capacity of the New Westminster rail bridge which is a key strategic link in the movement of Canada's international trade - 25 million tonnes of Canada's export cargo transit the New Westminster rail bridge each year. Concerning the New Westminster rail bridge, a recent study for Transport Canada (British Columbia Freight Transportation System Study) concluded that "the interface between the railways and marine terminals in the Lower Mainland" is a major concern. The study also pointed out the vulnerability of the bridge to catastrophic incident which could put the bridge out of service for a lengthy period - and have serious repercussions on the Gateway's throughput of bulk commodities and on other rail services. Similar conclusions were reached by the Gateway Council's Action Team on Rail / Marine Traffic Coordination[(xviii)].

As pressure increases for waterfront access for tourism and development purposes, the potential for truck congestion is increased. Port terminal related vehicle traffic in the Burrard Inlet is projected to grow from 274,000 vehicles in 1994 to 362,000 in 2005[(xvii)]. The Gateway Council's view is that tourism and truck traffic can co-exist to the benefit of all stakeholders, provided necessary public infrastructure improvements are made to allow and facilitate access for both truck and bus traffic. For example; a planned continuous two lane port road connecting the Burrard Inlet terminals to the Trans Canada Highway and down town Vancouver would greatly improve cargo movements to and from the terminals and enhance tourism.

Recommendation: That the Government of Canada give priority to Gateway cargo infrastructure improvements noted in Appendix A.

A2 Financing Infrastructure

A2.1 Ports and Airports Infrastructure

US gateway's are able to finance new infrastructure through the issuance of tax exempt bonds. This provides a competitive advantage of $1 / tonne over the Gateway's private bulk terminals and $1.30 / tonne over the Gateway's container terminals[x]. The Gateway handles 95 million tonnes of cargo each year.

Recommendations: Port authorities be empowered to issue, on a tax exempt basis:

General Purpose Revenue Bonds for general port improvements and infrastructure, which would be repaid from general operating revenues and would meet debt service coverage criteria necessary to ensure that sufficient operating income is available to repay long term debt on a commercial basis.

Special Obligation Revenue Bonds for specific terminal improvements and repaid by Terminal Operator lessees with no liability to the Port Authority.

Further, that Corporate Lenders be empowered to issue Special Development Bonds which would rely on the existing tax exempt status of intercorporate dividends. This type of bond would be advantageous for terminal operators on private lands or on port authority lands.

A2.2 Highways

Growing population in Greater Vancouver Region is driving the demand for new and improved road infrastructure. Recognising the imbalance between highway tax revenues and highway spending by governments, nevertheless it is understood that new ways of financing such infrastructure may be needed other than relying solely on public monies.

<u>Tax Exempt Bond Financing</u>:

This financing mechanism is used effectively in the U.S. for new infrastructure. This positive growth taxation instrument should be investigated for the possible financing of new highway infrastructure necessary for efficient multi-modal connections and truck traffic in the interests of Canada's trade competitiveness.

A2.3 Rail Passenger Lines

In addition to the potentials for tolls on new passenger rail bridges, financing for new passenger rail infrastructure may benefit from consideration of Special Development Bond Financing. This financing mechanism could be used for the financing of new passenger rail infrastructure and repaid from the rail passenger service operating revenues.

B - Transportation and Transportation Taxation Policies and the Role of Government

B1 Tax Competitiveness: More Business = More Taxes Paid

The Gateway Council cites the experience of Vancouver International Airport to illustrate how reductions in transportation taxation lead to jobs and growth, and paradoxically, increase tax revenues in the longer term.

When the Vancouver International Airport Authority was first formed, its market research revealed that costs to air carriers were significantly higher at Vancouver than at the U.S. West Coast airports. For example, costs (landing fees, fuel taxes, etc.) For a single 747 flight at Vancouver were $8000 higher than at Los Angeles. For a carrier choosing between operating a new daily service to Vancouver versus a different city, $8000 per day amount to approximately $3 million per year in additional costs. The lack of cost competitiveness was a major hindrance to the development of new overseas air services to Vancouver.

The major cost difference between Vancouver and competing U.S. airports was identified as the aviation fuel taxes levied by the Province of British Columbia. The results of the Authority working with the Province on this issue were that the Authority provided carriers with relief on landing fees, while the Provincial government provided some relief on fuel taxes, leading to an improved (see chart) cost competitive position.

Initially, the Provincial government eliminated the tax on international freighter flights (there were none serving Vancouver at the time). This resulted in an immediate launch of freighter flights to Vancouver by Cathay Pacific, which created 20 direct and 25 indirect and induced jobs. Since then, freighter service to Vancouver has expanded.

In the following year, the Province reduced fuel taxes on passenger flights by 20%. Together with initiatives by the Authority, these tax reductions have been an important factor in attracting new services to the Airport from Asia to Europe.

The new services generate new economic activity and correspondingly increase tax revenues which offset the loss of the fuel tax income.

The Vancouver International Airport Authority experience shows that governments working with the private sector to improve competitiveness does produce results - job creation and growth. This in turn produces a new taxation base to support community services.

The job is not complete, however. The fuel tax in B.C. must be eliminated in its entirety to be on par with the U.S. airports. Federal taxes and charges are also an issue including the charges implicit in the ground lease between Transport Canada and the Federal Government. U.S. airports have no such payments which must be made. More importantly, specific provisions of the ground lease create disincentives to development of new business at the airport.

B1.1 Short term government tax policies = long term decline

The overall impact of short term taxation policies on the competitiveness of Canada's transportation system and international trade are outlined in the Transportation Association of Canada's report titled "Transportation Taxation and Competitiveness," these include:

Reduced competitiveness of Canadian exports in world markets

Diversion of Canadian export cargoes to US gateways and consequent reductions in Canadian tax revenues and employment

Negative impacts on Canadian tourism and retail trade. For example, reduced automobile imports through the Gateway decrease the numbers of trucks available for backhaul of domestic deliveries in Western Canada and increase automobile prices in the region.

Insufficient long term planning and infrastructure investment, resulting in increased operating costs for truck and rail transportation and additional costs added to Canadian exports.

The Gateway Council urges the Government to pursue a competitive taxation strategy which will foster and encourage growth, and will lead to increased business, jobs and taxes paid.

Recommendation: That a Task Force be established by the Minister of Finance to develop, recommend and manage the introduction of changes to Canada's tax laws which will allow the Gateway Council's recommendations on ports and airport infrastructure financing to be implemented.

B2 Canada's Transportation Priorities Must be Incorporated into Canada's Taxation, Trade, Fiscal and Economic Policies and relationships with Municipal governments

Canada's transport priorities include improved trade competitiveness, increased tourism, and strengthened links with the Asia Pacific region. The government's overriding economic goals are jobs and economic growth (Reference; the government's overriding goals; job creation and economic growth, as described in the document titled; "A New Framework for Economic Policy," presented to the House of Commons, Standing Committee on Finance, by the Minister of Finance in October 1994.). It is our view, however, that specific policies and priorities are not in place in any of the departments of Finance, Trade, Tourism, Revenue or Supply and Services which recognise the ability of, or allow, Canada's transportation system to play a more effective role in improving Canada's competitiveness in international trade, boosting tourism and creating jobs and growth.

Recommendation: That the departments of Finance, Revenue, Trade, Tourism and Supply and Services give higher priority to cargo and international passenger transportation in their own policies and programs

B3 Provincial and Municipal Transportation Taxation Priorities

B3.1 Transportation, and economic policies and priorities, of provincial and municipal governments, in many cases do not support the Government of Canada's transportation priorities.

Although significant progress has been made in the reduction of aircraft fuel, railway fuel and property taxation in the Western Region (British Columbia has cut fuel taxes on international air

freighters and passenger aircraft, and reduced railway property taxes, Manitoba has reduced railway fuel taxes year by year and Alberta has recently announced reductions in railway fuel taxes in 1998 and 1999 and reductions in aviation fuel taxes in 1998), transportation tax policies pursued by provincial governments generally focus on transportation as a source of tax revenues, not as a facilitator / engine of economic growth. For example, a recent study by the Canadian Automobile Association indicates that highway revenues in British Columbia alone will exceed spending on highways by $183 million in the 1996 - 97 Fiscal Year(xix).

Other examples include:

Taxes on Canada's national railways significantly reduce the competitiveness of Canada's export commodity trade. Provincial property and fuel taxes are the main contributing factors to this situation, notwithstanding important reductions initiated by B.C. (Property taxes), Alberta and Manitoba (fuel taxes). Current rail fuel taxes(ix) in B.C. are 3 cents/litre, Alberta 9c/l, Saskatchewan 15 c/l and Manitoba 6.3 c/l. Federal Excise tax adds another 4 c/l.

Air carriers in Canada sustain twice the tax burden of US airlines(vii). Commodity taxes (notably fuel taxes) and capital taxes are the major contributors to this situation.

Municipal property taxation on the Gateway terminals are between two and ten times higher than on competing US terminals, adding 60 cents more per tonne to the cost of shipping bulk commodities, and 40 cents more per tonne on shipping containers, through the Gateway than through competing US gateways(I). By contract, U.S. PNW port authorities collect taxes from local property owners. A Transport Canada Study of Public Charges and Financial Assistance to Ports concluded that for every 60 cents paid to governments by the Port of Vancouver, the Port of Seattle receives $1.75.

GVRD Transit Tax added over $9 million to trucking costs through the Gateway in 1995(xx).

Recommendation: That the Government of Canada, through its programs and policies, encourage provincial and municipal governments to adopt Canada's transportation priorities in their taxation and transportation policies and programs.

B5 Provincial and Municipal Transportation Planning and Priorities

B5.1 In general, provincial and municipal transportation planning is focussed on private automobile use[xxi].

In the Greater Vancouver Region for example, cargo, intermodal and international passenger transportation are not significant considerations in the Region's transportation and land use planning for the coming decade - notwithstanding the primary goal of the British Columbia government that the provincial transportation system must be capable of moving people and goods effectively, efficiently, safely and reliably.

The implications of current provincial and municipal planning and priorities for the national economy are significant. In the interests of Canada's international trade competitiveness and tourism development, harmonization of priorities and planning among three levels of government is most important. Areas of concern include:

Truck transport regulations on size and weight vary from province to province, which implies that interprovincial truck traffic abides by the regulations of the province which are the least favourable to trade competitiveness. - noting that current infrastructure around Burrard Inlet requires improvements to handle heavier trucks.

Railways pay provincial fuel taxes in each province crossed by their trains, irrespective of whether fuel is purchased or not in any particular province. This adds unnecessary costs to freight transportation and reduces Canada's trade competitiveness.

Municipal land use priorities impede the development of necessary road and rail access for ports cargo transportation. For example, Delta municipal planning has not taken account of anticipated future truck volumes to and from the new Deltaport facility, anticipated to reach 95,000 vehicles in 2005[xvii]. If no action is taken to address increasing road congestion, and anticipated truck volumes in that area, the ability of Deltaport to compete effectively for truck container business will be seriously impaired. Plans for extension to Deltaport Way and construction of an East Ladner Bypass and South Fraser Perimeter Road would mitigate this situation if actioned.

Similar concerns exist about increased air cargo traffic at Vancouver International Airport[xvii]. A new river bridge (Moray Channel) and improved connections between airport and major highway and truck routes are needed to handle forecasted air cargo growth, and connections to Deltaport are needed for the development of sea-air cargo business.

Urban encroachment on the Burrard inlet waterfront is seen by major shippers as a serious longer term threat to the Gateway's international competitiveness[xxii]. Of particular concern is the lack of alternative deep water facilities to replace Burrard Inlet as the Gateway's primary international seaport. The Gateway Council is sympathetic to municipal requirements for short term tax revenues which may be obtained from residential waterfront properties. However, the Council's studies show that these benefits are far outweighed by:

Loss of tax revenues and employment resulting from reduced terminal throughput

Increased traffic congestion and resulting delays of container movements to local retail and wholesale outlets will further negatively impact on retail trade and employment

Recommendation: That the Government of Canada give priority to international cargo and passenger transportation infrastructure funding proposals from local governments.

C - Commercialization of Government Services

With cost recovery programs for government services comes the requirement to ensure that the services meet the needs of users efficiently. This requires more user input than has been the case in most areas and must be based on the principle of "user-pay, user-say."

A current example of this approach is the commercialization of Canada's air navigation system. A non-share capital corporation, NAV CANADA has been created to purchase the air navigation system from the Government of Canada. NAV CANADA's objectives are understood to be; to maintain the highest possible safety standards, respond to new technologies and reduce costs for the aviation community and travelling public. Users of the system are directly represented on the NAV CANADA Board of Directors through the appointment of five of its fifteen member board.

C1 - Criteria for Cost Recovery from Government Services

The Gateway Council supports the following criteria for cost recovery[xxiii] in order to ensure that services are delivered with private sector discipline according to the requirements of the market-place:

Recommendations: Any cost recovery program should:

.... *Have the minimum possible impact on cost competitiveness of Canada's international trade*
.... *Foster a more integrated and affordable national transportation system*
.... *Assist Government departments to gain greater control of their costs*
.... *Be customer oriented and, wherever possible or practicable, should be commercialized*
.... *Ensure that fees are levied only on the users of the services provided*
.... *Promote stronger partnerships between government and industry*
.... *Ensure costs and service fees are related and predictable*
.... *Recognise the diverse regional variations in Canada's transportation economics*

The Gateway Council also notes that the costs of such services have been covered through general taxation. Consequently fees proposed for these services will be essentially an additional tax on transportation.

C2 - Cumulative Impact of Service Charges

In addition to the planned Coast Guard Marine Services fees and dredging costs, it is understood that fees, which will further impact on the Gateway, are also being considered by the departments of; Agriculture, Transport and Environment. It is most important to note that should the cumulative impact lead to cargo diversions, as is expected for the most price sensitive commodities, the fees / unit of cargo will increase. It is also important to note that competing US gateways are in the process of cutting Harbour Maintenance fees on export traffic - the reverse of the Canadian situation. This will significantly, and negatively, impact on the current Gateway competitive position with the US PNW gateways.

Unfortunately, individual departments of government are tending to focus exclusively on their own cost recovery elements. No one department appears to be addressing the cumulative economic impact on the Gateway of cost recovery measures which may be announced by various departments of the Government of Canada.

Recommendation: Transport Canada prepare a report and detailed analysis on the cumulative impact of planned cost recovery measures affecting the Transportation Sector before any such cost measures are implemented.

C3 - Global Markets for Many Canadian Cargoes Are Dynamic and Highly Sensitive to Small Changes in Transportation Costs.

The Gateway handles approximately 60 million tonnes of Western Canadian bulk commodities, a majority of which cargo is subject to the combined effects of price sensitivity and dynamic global markets. These bulk products and other shipments, such as container movements and automobile imports and exports, are subject to diversion. The Gateway Council is very concerned that the impact of marine service fees on Canadian shippers who face these realities be adequately addressed. Any cost recovery program will only serve to compound an already difficult competitive situation in bulk and container business. Of particular concern to the Council is that should such costs become prohibitive, the number of shipping lines calling at the Gateway ports will decline and jobs and taxes paid will decline as a consequence.

Recommendation: Cost recovery fee schedules must take into consideration the potential impacts on shippers whose cargoes are facing increasingly severe competition from other global suppliers, or whose cargoes are vulnerable to diversion through U.S. ports. Further, any such fees must be set at rates which will <u>not</u> have significant impacts on cargo competitiveness <u>or</u> cause cargo to be diverted through US ports.

C4 - The Impact of Service Fees is Not Limited to Existing Business

The Council's studies have shown that, with a more favourable competitive situation vis-a-vis the US Pacific Northwest seaports, net benefits to Canada through incremental annual corporate tax, resulting from expanded Gateway activity, would outweigh costs by a factor of seven to one[(xiii)].

Clearly, each incremental cost increase will diminish the Gateway's ability to generate new wealth and new employment, in addition to the negative impact on the competitiveness of Canada's exports.

Recommendation: That a report on the economic impact on the ability of Canadian industry and the Gateway to compete for new business be prepared and reviewed by the Transportation Industry, including the Gateway Council, before service fees are introduced.

D Foreign Trade Zone Development

The new Canada Customs Act (Bill C-102) was a significant development. Its provisions set the foundations for the development of new Canadian logistics and distribution businesses Canada. Being on the great circle routes from Europe and Asia to the U.S., occupies the ideal geographic location for overseas businesses to establish their logistics/distribution/resupply centres for servicing the North American economies. However, these activities have largely located in the United States, due to difficulties in moving goods into and out of Canada. The process had been paperwork intensive and required prepayment of duties and taxes which would eventually be refunded.

The new Act effectively replaces a paperwork intensive system with an electronic audit driven system, greatly reducing overhead costs of logistics firms, and it allows a greater number of cases when duty and tax deferral is possible, improving cash flows for overseas corporation using Canadian facilities.

However, the power of the new Act is being held back by a few unnecessary regulations. These regulations are out of synch with modern logistical systems for moving goods from production to consumer. Repealing or revising these regulations would pose no threat to Canada's strategic interest while completing the reforms necessary to induce relocation of logistics activities to Canadian communities.

D1 - Intermodal sufferance

Currently, separate warehouse facilities are required for goods arriving in Canada by air, by sea and by road. Modern logistical systems use all modes of transport and a single facility needs to be able to handle all shipments for a client.

Recommendations:
We propose revising the regulation to use a single sufferance warehouse and bond for all modes at the same facility (i.e., all modes can clear and be handled under the same bond - presently two separate facilities are required, needlessly adding cost and transportation time);

Overland Marine Procedure from U.S. Ports. Presently, a Canadian sufferance warehouse can be used for handling/clearance of containers arriving only from a Canadian port. We propose that a Canadian sufferance warehouse also be authorized to handle goods arriving from U.S. ports using the 9000 carrier code.

For example, many shipping lines use Seattle as their first port of entry. Waiting for the ship to make its way to Vancouver results in delay in getting goods into a Canadian distribution facility — a delay which much of the market will not tolerate. By allowing containers arriving from a US Port to proceed directly to a Canadian sufferance facility we create Canadian distribution centre jobs. Eventually, the building of Canadian distribution centres will create the critical mass necessary for the shipping lines to use Canada as the first Port of Call. Canada is closer to Asia and Europe than any US ports, but our lack of critical mass in the distribution business encourages ocean carriers to pay the extra expense and travel to US ports for first unloading.

D2 Bonded Warehouse Operator Able to Enter and Move-In-transit Goods Through Their Facility.

Customs brokers are needed when goods enter Canada. The purpose of this is to ensure that proper payments to Revenue Canada are made. Moving goods in-transit (through Canada but not into Canada) currently require a Customs Broker, even though no payments to Revenue Canada are made. Customs Brokers are intended for clearing goods into Canada.

Recommendations:
Bonded warehouse operators, who are responsible for moving goods through (not into) Canada, should be allowed to issue their own "B3 Type 10s, Type 13s, Type 21s, Type 30s" and other paperwork not requiring payment to Revenue Canada on behalf of another party. This reduces costs and increases the attractiveness of locating distribution centre jobs in Canada.

D3 Lower the Surety Bond Requirement for Bonded Warehouse Operators.

At present, a bond must be posted that would cover 100% of the deferred duties and taxes at the peak time of the year. This is needlessly onerous and gives inducements to Canadian distribution businesses to turn away peak (e.g., Christmas season) business. Surety bonds cost money, which in turn is charged to customers who may then decide that moving goods through the U.S. rather than Canada makes more sense.

Recommendation
A more realistic level for surety bonds is five to ten percent of the total value of deferred goods and taxes in the bonded environment. These levels would still protect the Crown from reasonable loss of revenues.

D4 Allow Full Warrantee Servicing and Other Repair in a Bonded Warehouse.

If a Canadian manufacturer wants to service goods sold into NAFTA or other international markets, quite often they will turn to servicing those goods in that foreign country because it is easier from a regulatory viewpoint.

Recommendation:
It would be preferable from a Canadian jobs creation point of view to allow the servicing in a bonded Canadian distribution facility where the damaged goods can enter duty and tax free, be serviced with Canadian labour, then returned to the US or other market.

D5 Allow Manipulation of Goods Within a Bonded Warehouse.

Presently, manipulation is not allowed in a bonded warehouse. Manipulation would allow an activity such as lifting a few key caps off a keyboard and replacing them with new keycaps, such as an upside question mark which is needed in Latin America. The Minister may, by issuing a regulation, allow manipulation in a bonded warehouse.

Manipulation is allowed in a duties relief facility under the new legislation, but may become subject to GST taxation. This can be so onerous that overseas firms will often choose to locate their distribution centres in the U.S.

Recommendations:
A customs regulatory change to allow manipulation in a Canadian bonded warehouse would achieve Canada's distribution centre job creation goals, while not requiring any changes to the GST regulations.

Manipulation should be defined as "handle or treat skilfully" and "change for one's own purpose or advantage" (definition taken from the dictionary) where the "one" should be defined as the Canadian job market. These are commonly accepted definitions that would greatly enhance the ability of bonded warehouses to position Canada as the key link between NAFTA and the international marketplace.

D6 Rewrite of "D Memorandums" in Lay Language.

As more and more shippers are dealing directly with carriers (instead of through brokers/forwarders), paperwork errors are increasing.

Recommendation:
The "D Memorandums" should be rewritten in simple English to help reduce reporting errors. An excellent example is the very well done pamphlet written for people wanting to clear goods into Canada themselves.

APPENDIX - A

INFRASTRUCTURE IMPROVEMENTS

Specific Infrastructure Requirements

With reference to the pictorial maps on the next page, the following infrastructure improvements are necessary to address current congestion and future traffic volumes:

New Westminster (Fraser Port)

Fixed span rail bridge to augment or replace existing New Westminster Rail Bridge

Highway improvements along River Road to the South Fraser Terminals

Richmond (Airport)

Fixed span bridge over the Moray Channel

Improved highway connections between Sea Island and major highway and truck routes

Highway connections to Deltaport

Vancouver (Port of Vancouver)

Continuous two lane port road connecting Burrard Inlet terminals to the Trans Canada highway and downtown Vancouver

Improved connections between downtown Vancouver (cruise terminals) and airport (short term HOV lanes and no parking zones on major routes and longer term, new passenger rail links

Roberts Bank (Port of Vancouver)

Extension to Deltaport Way

Construction of East Ladner Bypass and South Perimeter road

APPENDIX - B

INFORMATION SOURCES

The following reports and documents were used in the development of this submission. The numbers listed against each document correspond to those used in the text of the submission to indicate the sources of information presented:

(i) Directions for Growth - Report on the Competitive Position of the Greater Vancouver Gateway Seaports, Gateway Council, August 1995

(ii) Air Access Forum II, Gateway Council, May 1996

(iii) Integrated Logistics Management for Asia Pacific Growth, Prof. M.W. Tretheway, University of British Columbia, March 1996

(iv) Presentation to the 1994 Port of Vancouver Stakeholders Conference, D.O. Downing, President, Coal Association of Canada, May 1994

(v) Market Outlook for Board Grains, Presentation to the WESTAC "Grain Transportation and Handling in 2005" Search Conference, Dr. Brain Oleson, Executive Director, Planning and Communications, Canadian Wheat Board, March 1995

(vi) Presentation to the 1994 Port of Vancouver Stakeholders Conference, H.T. Richardson, President, James Richardson & Sons Ltd., May 1994

(vii) Transportation, Tax and Competitiveness, Transportation Association of Canada report

(viii) Why Canada's Rail Taxes Need Overhauling, Round Table on the Greater Vancouver Gateway, December 1991

(ix) The Economic Impact of Provincial Railway Taxes in Western Canada, Organization for Western Economic Cooperation, March 1996

(x) Recommendations for Canada's Marine Policy, Gateway Council, August 1995

(xi) The Economic Impact of Coal in Canada, Coal Association of Canada, August 1996

(xii) Economic Impact Overview of the Greater Vancouver Gateway, Gateway Council, May 1996

(xiii) Benefits and Costs of Competitive Marine Terminals, Supplement to Recommendations for Canada's Marine Policy, Gateway Council, October 1995

(xiv) Tourism Vancouver, 1995 Visitors (Statistics) and Tourism B.C., Overnight Revenue and Visitor Volumes in British Columbia 1995

(xv) The Economic Impact of the Greater Vancouver Gateway, Lisa Erbe and Michael W. Tretheway, Centre for Transportation Studies, University of British Columbia, 1996

(xvi) British Columbia Trucking Association Position Paper on Lower Mainland Infrastructure Development

(xvii) British Columbia Freight Transportation System Study, Transport Canada, April 1996

(xviii) Report of the Rail / Marine Traffic Coordination Action Team, Gateway Council

(xix) B.C. Automobile Association data reported in Vancouver Province, August 21 1996

(xx) B.C. Trucking Association

(xxi) A Long Range Transportation Plan for Greater Vancouver - Transportation 2021, joint project of Greater Vancouver Regional District (GVRD) and Province of British Columbia, September 1993, and Livable Region Strategic Plan, Adopted by GVRD, January 26, 1996 and Deemed to be a Regional Growth Strategy by the Minister of Municipal Affairs, February 10, 1996, and published April 1996

(xxii) 1994 Port of Vancouver Stakeholders Conference Report

(xxiii) Coast Guard Cost Recovery, A Better Solution from the Western Marine Community, 1995

ACKNOWLEDGEMENTS

This submission was prepared through a collaboration of the Gateway Council's membership under the direction of the Executive Committee and guidance of the Project Steering Committee. Members contributing to the development of the text include:

Mr. G. Skura, B.C. Terminal Elevator Operators Association
Mr. P. Landry, B.C. Trucking Association
Mr. W. Stoilen, B.C. Wharf Operators Association
Mr. K. Grayston, Canadian Airlines International
Mr. P. Johnson, Canadian National Railways
Mr. K. Dingwall, Canadian Pacific Railway
Mr. J. Nicol, Chamber of Shipping of British Columbia

Executive Committee Members:
Capt. N. Stark, Vancouver Port Corporation - Chair, Gateway Council
Mr. R. Wilds, B.C. Maritime Employers Association - Vice-Chair, Gateway Council
Mr. R. Pearce, Fraser River Harbour Commission - Treasurer, Gateway Council

Project Steering Committee Members:
Mr. E. Kargl, Fraser River Harbour Commission
Mr. G. Bruno, Vancouver International Airport Authority
Mr. D. McKay, Vancouver Port Corporation

The Greater Vancouver Gateway Council also gratefully acknowledges the special contributions of the following organizations and individuals:

Mr. D. MacMartin, Canadian Pacific Railway
Organization for Western Economic Cooperation
Tourism Vancouver
Dr. M. Tretheway, Vancouver International Airport Authority
Mr. K. Little, Vancouver Port Corporation
Mr. D. Alsop, Vancouver Wharves