

A Strategy for Unlocking the Halifax Gateway

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There are two halves to the story I want to tell you today. This is a story about globalisation, which is merely shorthand for an incredible “densification” of a whole series of networks that girdle the globe and create huge and growing value for those who are connected to them. But not everybody is connected. With the global network, you must either be a destination in your own right (Chicago, London, Hongkong, Tokyo), or you must be on the route to a destination. We are here to talk about where Halifax and the region we call Atlantica fit into the continental and global network, and the choices that must be made in order to make sure that we are plugged in and on the right routes to the right destinations.

But the place to start is not with Halifax, but on the other side of the world, in Shanghai. As the container traffic and the ships carrying it to Shanghai grew larger, the city became concerned that its container port, on a relatively shallow river, would be inadequate to the task. Therefore, they selected a deepwater site at some offshore islands and began construction of a satellite container port. To connect this facility to the mainland, they built a bridge twice as long as the Confederation bridge to PEI. It is expected that in its first year of operation, it will handle 4-million TEUs, or as much as the PoNYNJ, the largest port on the east coast of North America. As you can see, they expect its size to double

within the year, and they expect that within 10 years it will be handling 20 million TEUs.

What has that to do with us? We in North America are the consumers that are fuelling the phenomenal growth of China and India as well as other emerging economies. The industrial might of China, India and the Asian Tigers is straining to reach us in North America. And both the size of what is happening, and its dependence on massive upgrades in the world’s transportation infrastructure, is perfectly summed up by the story of Shanghai’s port. As you can see, the capacity of North American ports is not keeping up with what is happening in Asia, even when you allow for the massive amount of intra-Asian trade.

So our story today is about the emergence of China and India as the workshops of the world, the mighty wave of manufactures heading from their factories to our consumers, the congestion of the west coast ports under this onslaught, the growth of the giant ships carrying this burgeoning cargo who have reached the point where they can no longer pass through the Panama canal to reach east coast ports from Asia and must instead borrow the Suez Express Route, and our strategic position as a deepwater wharf jutting into the North Atlantic, not merely the closest North American port of call from Europe, Turkey and Asia via the Suez, but also

the closest major east coast port of call from Africa and the major ports of Brazil and Argentina.

It is a great story. But there is much more to the story, as I am sure all of you realise. Everybody is scrambling as hard as they can to capture this same opportunity on both coasts and in all three NAFTA countries.

Let me tell you, for instance, about what the Port of New York/New Jersey is doing. The PoNYNJ looks at the same trade trends I'm outlining here and calculates that if they are to retain their market share, they will need to *double their capacity between 2003 and 2010*. This is no easy task for them. In particular, they have significant constraints on their ability to accommodate post-Panamax ships. Their harbour is too shallow and it has bridges that are too low. But in addition, for example:

They want to increase the land available to them to 2,400 acres (versus the current 680) by reclaiming 600 and acquiring 1,120 acres – no easy feat in NY/NJ, but necessary if the volumes of traffic the Asian trade on post-Panamax ships is to be accommodated. And, the port needs to get its dwell time for containers down from 6 days to two while significantly increasing throughput.

They want to go from moving 84% of their containers out by truck today to only 67% by 2020. Note, though, that even with that shift to rail and barge, the port still forecasts truck trips will more than double from 1.6 million to 3.3 million over the same period. Just for your information, if you unload the entire cargo of one of the behemoths at a single port, even if you put half the containers on trains, you'd still need a line of tractor trailers 20 miles long to haul the rest, which makes for one hell of a long line of traffic out of town.

The estimated cost for this and other measures – a cool \$3.4 billion.

The fact of the matter is, however, that not all of NYNJ's plans will come to fruition, and they will have difficulties accommodating the biggest ships for all the reasons I've mentioned. But the ships

will not come to North America via the Suez unless they can come fully loaded; their economics depend on it. But we are on the way from Europe and Suez to NY, and we have no difficulties accommodating those ships fully loaded. We are thus joined at the hip with NY/NJ in the world trading system.

The same is true for Montreal. Montreal has traditionally been the great competitor of Halifax, for example, as they vied to capture the container trade from Europe. That battle Montreal has won by and large, as the traffic figures show.

But Montreal cannot win the battle for the Asian trade in the giant ships, because the St. Lawrence is too shallow. In the absence of the world's largest student employment project, to dig out the bottom of the St. Lawrence, Montreal, and its wonderful infrastructure endowment of railways, highways and the entrance to the St. Lawrence Seaway, will be cut off from this new opening on the world trading system. The fates of Montreal and Atlantica are intertwined.

In fact, we represent eastern Canada's only opportunity to participate in the post-Panamax trade from Asia. Without us, that trade will bypass Canada and both halves of Atlantica altogether, and head for New York and other US ports to the south. But we have our work cut out for us. And that brings us to the strategy we must pursue here in the region.

It is imperative that we recall as a starting point that ports are not in competition today. It is rather logistics chains that compete with each other.

In the emerging world trading system, there will be perhaps five east coast North American ports that will serve the post-Panamax trade. World-wide logistics providers will concentrate their efforts on these few gateways. This is not a question of some of these ships going to Halifax, some to the Strait of Canso, others to Belledune and yet others to Saint John. This is a dangerous delusion. If we divide up our efforts and our attention, we will not end up with some kind of fanciful "equitable distribution" of these big ships around the region, we will end up, as the song says, with a whole lot o' nothin'.

The key factors that will make a port a hub for this trade are far more complicated than whether you have the water depth to accommodate them.

Go back to what I said about the competition being not between ports, but logistics chains. You run one of those chains, maybe as a third party provider for WalMart. What is your watchword? It is risk reduction. Every day your shipment is held up is a day longer that your goods are in inventory. Your shipping and your inventory costs rise. If you send your shipment through a port with big bottleneck potential, and the bottleneck gets plugged, you may lose the marketability of your goods altogether. In a just-in-time world no delay is tolerable.

So as this logistics chain manager, you have a mental checklist you go through in deciding how much risk you incur in sending a container to one port vs. another. Some of the factors on that list include: water depth, air draft, class one rail service, competing class one rail service, four-lane highway, good supply of trucks, efficient dockside services, full logistics-customs-processing support, on the great circle route from Europe or Gibraltar, large urban market at the port that will absorb 30% of the shipment, super post-Panamax cranes — the list goes on and on.

In a world where there will only be five Post-Panamax hubs on the east coast, Halifax is the only Atlantic location that gets ticks in most of these boxes, and even it falls short on several. That means we'll have to be very, very good at what we can do.

That doesn't mean that there won't be benefits all around the region. It is just that those benefits won't come from politicians promising a chicken in every pot and a post-Panamax ship in every port. The benefits for the whole region from getting this right will be significant.

Let's talk about those benefits.

A great deal of the region's infrastructure is always precarious because we inhabit a large but sparsely populated area. That means traffic levels are always relatively low compared to capital and upkeep costs. But by bringing the Asian traffic flowing through Atlantic Canada, we

can increase traffic flows to levels far in excess of what our own local population and economic activity could justify. For example, increased traffic flows over the three land corridors connecting the region with the rest of North America will make the case much stronger for investment in improved infrastructure and put existing infrastructure on a much sounder footing.

If we fail to make Atlantica work, traffic volumes will not remain stable, but will almost certainly fall, as the trend to focusing seaborne commerce on a smaller and smaller number of hub ports means that Atlantic Canada will be bypassed altogether by this traffic if we fail to make Halifax a gateway for the northeast of the continent. There are no guarantees we can keep current traffic destined for Montreal, Toronto and Chicago. So the choice is between less or more, not between the status quo and more.

Increased traffic in and out of the region improves economies of scale and will likely result in falling unit costs for freight transport for our own companies trying to reach markets outside the region. More shippers and more traffic means that our fixed costs are shared with more customers. Moreover, the extra traffic will help to balance truckload currently unbalanced by the relative decline of e.g. the forestry industry, and the new origins and final destinations of cargo will help to diversify services operating out of the region, also helping to bring down costs by making more efficient use of our assets.

The back-haul opportunity to Asia: shippers from Asia to North America often have to pay to bring their empty container back to Asia so they can refill it (a phenomenon exacerbated by the shortage of containers). That means that the cost of the return journey is largely paid and local manufacturers can reach the Asian market at exceedingly low transportation costs. If it's true that the Asian economies are going to turn inward and shift from an export-orientation to a domestic development one, they will become major purchasers of our industrial and other goods.

Local transportation projects that have difficulty getting off the ground because of inadequate local traffic may find that the increased Asian

traffic will take them up to levels where the proposed service becomes viable. An example is the proposed roll-on, roll-off (RO-RO) ferry service between Belledune, NB and Corner Brook, NL.

Finally, there are the inland terminal possibilities. It is quite clear that, along the corridors radiating out from the Port of Halifax there will emerge a number of these facilities where containers will be delivered and opened and their contents processed or repackaged and put in trucks or on trains for delivery to their final destination. Dieppe, in Greater Moncton, is already working on an inland port and may serve as a model.

So if I am right about this, that the opportunity for the whole region flows from one port with a plausible chance to become a genuine gateway port of continental and global significance, we have to concentrate our efforts on taking that from a plausible chance to a reality. That means overcoming the region's weaknesses and building on our strengths, and that's what our gateway strategy needs to be about. This is not to say that there are not opportunities for making the region's transportation links work better. These gains, however, will be far easier in a region with healthy continental corridors to buttress and support the local network.

Here are the challenges we must face up to:

Having only one class-one railway serving the port is a real weakness. CP is not going to show up in Halifax any time soon. That means that we have to have ways to compensate for this weakness. The keys here are improved truck and short sea shipping service.

Trucking means better roads, and that's something where there's lots of work to go around. Both New Brunswick and Quebec have work to do to upgrade relevant highways, perhaps with federal support. These projects, together with border infrastructure improvements are already thoroughly studied. We know what we have to do. No study is required; just action.

Canada needs to get with the programme in the NE CanAm Connections project. The fact of the matter is that while we in the Maritimes seem a bit slow on the uptake, our American neighbours

understand extremely well what is at stake. I'll just say that it continues to scandalise me that the American government is more aware of and anxious to invest in the opportunities that Halifax and Atlantica represents than Ottawa is. It is not too late, but time is marching on.

We need to look at both regulatory and labour issues. For example, if we can make the practical geographic reach of trucks greater, we help to compensate for our rail weakness. The answer here lies in part in understanding that efficiency and driver shortages mean that we need to look at road trains, i.e. more than one trailer per tractor. This requires concerted regulatory action throughout the region.

On the short sea shipping front, remember that this should be the jewel in the transport crown. This involves smaller shuttle ships ferrying containers to regional ports, and there are other potential short-sea shipping connections radiating out from, say, Saint John or the Straits or other suitable locations around the region. Short-sea shipping is environmentally friendly and low cost, but it is constrained by protectionist legislation.

Ottawa needs to work with Washington, not to repeal the Jones Act, which will not happen, but to create a mutually recognised NAFTA flag for short sea shipping under our respective legislation. Americans can be shown that it is in both of our interests that both of our merchant fleets be strong. Any restructuring will be more than compensated by increased business and this will most likely give a new lease on life to the St. Lawrence Seaway.

And while we're at it, can anyone in Ottawa tell me why we still impose a 25% tariff on imported ships of the type that would be the workhorses of the short sea shipping industry when there is no real domestic shipbuilding industry to protect anymore? A recent study of the potential for a short-sea shipping service between Halifax and Hamilton showed the economics essentially foundering on this tariff. But this is depriving us of a new way to invigorate the Seaway in order to protect an industry that doesn't even exist anymore. Finally, we need to re-examine lift fees at the port of Halifax for short-sea shipping to bring them more in line with practices elsewhere.

Let me turn now to the related matters of port legislation and port governance.

The great ports of the world have long ago left behind the old politicised public utility model. We have made modest progress in moving away from this in Canada, but the constraints on ports acting as genuine big businesses are still considerable. The Minister of Transport has too much say in board appointments, when these boards desperately need to bring the most sophisticated business expertise and discipline to bear on their opportunities. The land acquisition and disposal rules are too burdensome. The major ports need not just to be able to borrow against their assets, and to keep all their revenues for reinvestment in their operations, but they need to be able to raise capital privately as well, probably through corporate bonds.

I am convinced that much of the port's expansion needs can be accommodated through private investment, getting the politics out and concentrating attention on the business case. Based on the legislation that died on the order paper in the last parliament, the federal government seems to agree that concentration should be on the 'business case.' However, the proposal for dealing with this was to substitute government grants for government contributions, based on structured projects with valid business cases — valid, that is, in the eyes of bureaucrats and politicians. This was a key point in the (now dead) Bill C-61. If instead we want business cases to be financed by the private sector, this can only come about by repealing limits on commercial borrowing in the Canada Marine Act. We should not have to go cap-in-hand to Ottawa for financing of our opportunities which will too often result in long delays first, and then overinvestment in the wrong things at the wrong time for the wrong reasons afterwards.

Given the strategic advantages of Halifax as I've already outlined them, you'd normally expect the big global carriers to be clamouring for special concessions to operate dedicated container terminals. It is not happening so far, a point we have not devoted nearly enough attention to. We must confront the fact that there have been huge increases in global trade, much of it seaborne. We then have to ask ourselves why this region hasn't experienced the same growth in trade

passing through. Forget Halifax versus Saint John versus the Straits versus some other regional port. The big global carriers aren't focused here, full stop. At least one factor at work here is the need for all our ports (and especially our potential main international gateway port) to become even more like genuine business enterprises than they have so far.

For example, the failure to attract another world-scale terminal operator (with all that that implies for being integrated into the world wide logistics chains I've talked about so much) is closely linked to Halifax's underperformance as a gateway port. Without the capital, bargaining power, and guaranteed business that a dedicated terminal could provide, other stakeholders have neither the incentive nor the ability to provide for gateway infrastructure. A large carrier like Maersk or an industry giant like Hutchison could guarantee to CN full trains (allowing for increased train service) and leverage its market power to negotiate lower freight rates (helping to negate CN's market power which so worries many shippers).

Here Halifax is in sharp contrast to several Mexican ports (Ensenada, Veracruz, Lazaro Cárdenas, and Manzanillo) which have capitalized more successfully on the same advantages that Halifax possesses (a deep water port, lowered delivery time by avoiding congested US ports) with vastly different results. In these ports, Hutchison's market power has resulted in dedicated terminals with well supplied rail lines. In one such dramatic success, Kansas City Southern launched in June a daily inter-modal service connecting Lazaro Cardenas to Laredo, Texas, Jackson, Mississippi, and Atlanta, Georgia.

The port of Lazaro Cardenas was able to attract foreign investment by its aggressive marketing efforts. In Halifax, only a dedicated and decisive business leadership working in a framework where government has ceased to be a roadblock can produce similar results. The port legislation that died on the order paper in the last parliament was a step in the right direction, but didn't go nearly far enough.

Such a real business leadership would look at the recent inland port study that said that the threshold for building an inland port is 750,000

TEUs, and recommended holding off until that level was attained. But imagine that tomorrow one weekly 4,000 TEU ship (not even post-Panamax) that has cargo headed inland, say from India, switches from LA to Halifax and hey, presto, we are at 750,000 TEU already. Ditto if Wal-Mart decides to shift even a relatively small share of traffic to Halifax from the west coast. If we are serious about capturing this traffic, we need to demonstrate it. Incremental increases in traffic today may look like yesterday's quantum leap. We have to adjust our thinking accordingly.

Let's buy the land now, and design a network of inland ports that can support the road trains I've described, thus rapidly spreading the benefits of Atlantica's widely throughout the region. Let's develop the depth and breadth of our logistics community, through the creation of a logistics park so that we have in one place the incredible range of high value services that go to support a major gateway in the world trading system. What we have now is rudimentary at best.

Another advantage of such a business-like approach is that if ports raise most of their capital privately, each port within the region will be subject to market discipline in its plans. Instead of using an artificial political gateway strategy to boost their bargaining power, each port's plans would have to stand or fall on the business case they could make to investors. This can only come about if free investment is allowed in ports.

Currently, the Canada Marine Act/letters patent impose an arbitrary commercial borrowing limit on port authorities. The rationale is poor for limiting commercial borrowing below levels what the market will support. Both the Canada Marine Act Review (2003) and the recently killed Bill C-61 recommended "streamlining the approval process to increase borrowing limits." That's really not good enough. In order to make investments proportional to the strength of the business case of the port, borrowing restrictions must be removed.

Finally, we need to raise the profile of the region and its gateway. Part of that will come from a more business-oriented approach at the port, including among terminal operators, and no doubt there is more that governments can do in

their promotion effort, especially given the huge resources that US governments seem to be willing to sink into the promotion of their ports. If International Trade Minister David Emerson is serious about his project of diversifying our trade to the emerging Asian trade giants, this is part of what he needs to do.

So to recap, Russell asked me to come and make some suggestions to you about what to say when politicians ask you what you want. Let me review the list:

- The quality of relevant highways in the region needs to be improved, along with border infrastructure and procedures. We know what needs to be done, and indeed some of it is already being done, such as the improvements at Calais-St. Stephen. No study is required; just action.
- Canada needs to get with the programme in the NE CanAm Connections project.
- We need to look at both regulatory (e.g. harmonized regulations permitting road trains) and labour issues (such as improving the supply of qualified specialized workers).
- NAFTA flag for short sea shipping, removal of the 25% tariff on imported ships and a new lift fee structure for short sea shipping in Halifax
- Give our ports the freedom and accountability they need to act on the business case for expansion, including removing the barriers to raising private capital
- Genuine business leadership for the Port of Halifax and a strong collaboration across all transport-related sectors of the economy, and a much more extensive joint marketing effort for the port in major growth markets such as India, China, the Asian Tigers, Turkey and elsewhere.
- Acquire land for an inland terminal and move ahead on planning on layout, etc. Ditto for a logistics park, which might easily be integrated into a major industrial park such as Burnside

- Wal-Mart has already started to look at Halifax as a place to bring Chinese merchandise currently going to the west coast. We need to put together a high-level team from the business community here to put together a plan to get Wal-Mart to decide on Halifax.



Other AIMS publications of interest:

[*Atlantica and Trends in World Trade*](#) by Brian Lee Crowley and Stephen Kymlicka

[*Shipping Out: The Development of a Gateway Hub at the Port of Halifax*](#) by James Frost

[*Characteristics of Tomorrow's Successful Port*](#) by Professor Michael Ircha

[*Atlantica: Are we mature enough to open our window on the world?*](#) by Brian Lee Crowley

[*NAFTA and Short Sea Shipping Routes*](#) by Mary R. Brooks