

Asia Pacific Foundation and Port of Halifax Convening

Atlantic Canada and the Asia Pacific Gateway: Interests and Perspectives

The Lord Nelson Hotel, Halifax -- September 14, 2006

Paul Evans laid out the broad vision of the interrelated Asia Pacific Gateways and overlapping municipal/provincial/federal jurisdictions involved:

- The “factory Asia” phenomenon and its implication for global supply chain and production networks;
- The Asia Pacific Gateway is a response to the dynamics in Asian trade and a call for Canada to develop sufficient capacity to adapt to Asia’s development;
- The need to not just “think big,” but “really big” – that we should be developing for future demand, not just current needs;
- The Gateway is a “national strategy,” not simply a Vancouver or a Western Canadian strategy;
- The need to “think comprehensively.” Transport is only the beginning. What goes on in a Gateway is as important as what goes through it.
- Gateway where and to where?: Halifax vs. Atlantic Canada vs. Maritime Canada, plus Gateway to the Pacific, Asia Pacific, the Globe.

The Atlantic Gateway: Looking East to Asia

Charles McMillan, of Schulich School of Business at York University, outlined the opportunity for Atlantic Canada to capture growth of Asian economies like India and China. He suggested that the timing of various regional studies and a national agenda are advantageous for advancing an Atlantic Gateway. The provinces in Atlantic Canada must look regionally and be bold in responding to global trends. The biggest challenge is for the region to understand global logistics, where just-in-time manufacturing mandates timetables measured in minutes. McMillan pointed to examples in Japan and Singapore where the traditional separation of public and private sector in supporting the growth of logistics has largely vanished.

To succeed as a global logistics centre, Atlantic Canada must offer state-of-the-art services that are better than those of its rivals. Although Atlantic Canada is a natural gateway to and from India via the Suez Canal, the region is unknown in global markets. It must sell the region globally. McMillan suggested a baseline cost of \$400 million over 10 years to develop the Atlantic Gateway regionally. There are no immediate obstacles to start marketing the region; however, McMillan identified several requirements: 1) solving a ‘chicken and egg’ problem with the private sector which is unsure whether the region is serious in its Gateway ambitions and competencies, and hence the wisdom of upfront investment in ships and routes; 2) a commitment to deliver reliable services; 3) balancing of imports/exports to address the problem of empty containers; and 4) overcoming ‘silos’ among governments, authorities and private sector that cause costly delays and hamper effectiveness.

Brian Lee Crowley, of the Atlantic Institute for Market Studies, noted the emergence of Asia as a key driving factor of trade through Atlantic Canada. Crowley identified various factors

supporting an Atlantic Gateway to Asia: 1) congestion and capacity constraints at Canada's West Coast; 2) the increasing size of container ships has amplified the importance of the Suez Canal as a vital link between Asia and North America's East Coast. The Panama Canal, the traditional route from Asia to the East Coast, cannot handle ships larger than 4,000 TEU Panamax vessels and expansion of its capacity is slow; 3) Asian trade routes are faster growing than traditional European routes; and 4) the Port of New York, the major East Coast port, is running into capacity constraints, faces heavy dredging costs and delays, and legal and environmental struggles related to infrastructure projects. Crowley noted that Atlantic Canada ports have advantages over the Port of New York and also Montreal. The primary weakness of the Port of Montreal is the shallow depth of the St. Lawrence Seaway, preventing it from serving large ships.

Crowley said that \$1,000 of economic activity is generated per container received. Increased trade links also bring immigration, and new labour and capital opportunities. In spite of the opportunity, however, Crowley noted that "nobody in China knows we are here." He also pointed out that Atlantic Canada faces a different set of conditions compared to Gateway initiatives on the West Coast: 1) extra capacity versus shortage; 2) multiple trade lanes versus one trade lane; and 3) four provincial jurisdictions versus one. Financing further developments is another constraint. Lastly, Crowley explained that ports in Atlantic Canada are not in competition but logistics chains are. Logistics chain planners select ports based on a host of factors of which risk reduction is primary. Common risk factors include reliable rail links, access to large, open markets, harbour depth and customs clearance processes.

Among the points made during discussion:

- The Canadian Manufacturers & Exporters have paid attention to Gateway issues at the national level. Transport Canada is developing a national policy framework and a new gateway and trade corridors initiative. The Nova Scotia government has been looking at national-level Gateway developments to support its regional gateway program.
- The proposed figure of \$400 million over 10 years or \$40 million a year was challenged as too low for funding large infrastructure projects. McMillan clarified that the figure was for immediate infrastructure and not accounting for other aspects of anticipated costs such as tourism and marketing.
- The Port of Halifax is operating routes to and from Asia but there is a continued lack of awareness of the port in Asia. There was consensus that the port is a small player in a game where big players come first. Participants were reminded that competitors are moving fast, and that the region must be clear what it is selling to the global market.
- Balancing of imports and exports remains an issue. Although imports have increased through the Port of Halifax, exports have been declining. There was consensus that both imports and exports drive the viability of a Gateway. Short-sea shipping and containerizing natural resources were suggested as possible balancing measures.
- The 'silos' that exist between governments, authorities and the private sector were cited as hindering implementation. There was consensus that maintaining the status quo is not an option. Crowley stated that the region must act together to first maintain its existing share of trade, and then to develop new volume.

Transportation and Global Supply Chain Management

Michael Cormier, of the Port of Halifax, discussed how developments in Asia are impacting Canadian ports on both coasts. He noted that Asian countries are gradually moving up the value chain in manufacturing. This has had the effect of moving lower value manufacturing from China to southwest Asia. This locates growing export sources closer to Halifax via the Suez Canal than Vancouver via the Pacific Ocean. Despite the former route's longer distance in nautical miles, Cormier said the fastest way is not necessarily the shortest distance. For Canada, the Asia Pacific market is accessible through both the Pacific and Atlantic Ocean.

Paul Waite, of CN, pointed out that Atlantic Canada remains Canada's gateway to Europe, however, growth in India has generated interest in Asian routes. CN has increased promotion of the Port of Halifax because of its extra capacity and transload opportunities. Waite noted that importers have different objectives in port selection: some for risk mitigation or diversification while others consider regional market access. Waite said there should be enough containers for West and East Coast ports even considering the extra capacity that will come online at Prince Rupert. Developments in China point to the progress and magnitude of growth. There are 18-19 intermodal terminals coming into service in China in the next 2-3 years, and 100 new berths coming online soon. Waite also referred to increased demand for point-to-point delivery with precise timing to support efficient supply chains.

Manny Calandrino, of Consolidated Fastfrate, said his company currently operates transload facilities in Vancouver and Halifax. He noted there is demand for transload capacity and distribution right across Canada. Calandrino reviewed several methods of sorting which occur at transload facilities, such as sorting by warehouse and province. Calandrino said his company has previously successfully worked with the Port of Halifax and with major retailers collectively to attract shipping lines to call at the port. He felt that there are growth prospects for transloading business on both West and East Coasts.

Among the points made during discussion:

- There was interest in the potential to market special value-added technology and concepts in Asia. Waite said China's Minister of Railways has asked for his advice on how to downsize the Ministry from one million employees. There is also opportunity to train Chinese officials on intermodal systems.
- Empty containers remain a problem for operators. It was suggested that some bulk items could be placed in containers to use these 'empties.' Waite pointed out that there is little cost difference between moving empty and loaded containers. Some operators have priced import containers higher to compensate for empty containers on the export-bound trip. There are also problems with weight constraints not being harmonized in North America and between provinces.
- Marketing the region to freight forwarders and target markets needs attention. There was concern that ports are not marketing in Asia in their local languages. Many Asians also have little idea where Prince Rupert and Halifax are located. There was consensus that marketing efforts must package the region's offering attractively to potential Asian clients.
- The division of Atlantic Canada into four provincial jurisdictions makes regional or national Gateway development weak and uneven. This fragmented regulatory environment

creates significant inter-provincial barriers. There was consensus that there must be a consistent vision among the leaders of the four provinces.

Atlantic Canada and the Asia Pacific Gateway

Angus MacIsaac, Nova Scotia's Minister of Transportation and Public Works, said his first priority after becoming Minister was the Gateway initiative for the province. He expressed the province's interest in capitalizing on global trading opportunities and said the Ministry recently hired a consultant to identify opportunities. The initiative has a current annual budget of \$250,000 with the initial focus on bringing the Ministry up-to-speed on Gateway issues. The government has also assigned David Oxner, a senior government official, to be the province's leader on the gateway initiative. The Minister said the concept is bigger than Nova Scotia alone can promote -- it is better approached in a regional context. In fact, the concept is not confined to the region, and that interaction at the national-level is needed. MacIsaac expressed his strong support for allowing the private sector to become as competitive as possible. He also said he was determined to remove competitive 'silos' from government and encourage government and the private sector to move forward together. Upon taking on the Gateway initiative, MacIsaac said that he visited Canada's West Coast and saw both opportunities and challenges. He reiterated the need to cooperate, capture opportunities and be as competitive as possible. At present, MacIsaac said that the focus is still on identifying the questions and understanding the background. Consultants have been asked to develop a strategy and action plan to assist the province. The strategy will identify the types and amount of traffic, evaluate capacity and articulate the province's roles and responsibilities in a mainly private sector lead initiative.

Among the points made during discussion:

- There is a sense of urgency in getting Gateway policies in place as there are many competitors who are moving bolder and faster. The window of opportunity for Atlantic Canada will not be open for long. Karen Oldfield suggested that 2013 is the latest date to capture a share of the market as by then the expanded Panama Canal is expected to be able to handle the larger ships that the Suez Canal serves now. There was no consensus on a target year; many participants felt 2013 is too late. MacIsaac conceded that time is working against the region. He said he has made the Gateway initiative a priority and will expedite the resolution of issues as soon as possible.

Exports and the Gateway: Asian Opportunities

J.P. Deveau, of Acadian Seaplants Ltd., provided an outline of the company's export business and identified some of the difficulties faced by a small exporter. Acadian Seaplants has annual revenue of about \$30 million and employs over 300 people. The company exports to 70 countries, with India as its second-largest market. As a small exporter (175 TEU to Asia annually), it has met difficulties in getting containers and space on vessels. Deveau said in one instance it took 45 days to get a booking. He said that his customers want reliable delivery which so far has been difficult to achieve using Atlantic Canada ports. In the past, Deveau experimented with trucking products to the Port of New York for shipping, and also with sending products by rail to Vancouver for shipping out. Deveau said his situation echoes that of numerous SMEs in the export business.

Among the points made during discussion:

- Supply chain efficiencies are an important part of gateways. Most shipping lines are reluctant to ship small orders. Recently, Clearwater Seafoods moved its entire supply chain distribution from Atlantic Canada to the southern US.
- The viability of air cargo for small exporters was raised. Deveau stated that air cargo is 8-9 times more expensive than shipping. It was also mentioned that regulatory hurdles such as cabotage limit air cargo options.

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Human Dimensions of Gateway: Education, Tourism, Arts and Culture

Paul Evans, of APF Canada, provided an overview of human dimensions in relation to the Gateway. Evans emphasized the transformative effects of Gateway on human flows. This links to issues of immigration, cultural industries, tourism and education. These are the broader 'fuzzy' dimension that can possibly go in many directions, Evans said. Skills training, for example, for tourism and trucking operators are essential aspects of making gateways work. Evans encouraged participants to engage in creative thinking of gateways beyond simply ports and infrastructure.

Paul Doucet, of Nova Scotia Business Inc, explained how the agency has thought expansively beyond freight to try to capitalize on opportunities in technology, education and people. The province sits at the edges of the Internet fibre optics map because of the Hibernia Atlantic digital gateway. Doucet pointed out that the province is an education engine with 11 degree-granting institutions with competencies in information technology and geomatics that bodes well with a knowledge-based economy. Doucet said the agency is seeking to attract international supply chain and logistics firms to the province.

Al Norman, of Atlantic Educational International Inc., said that New Brunswick relied on building educational exchanges to establish bridges for future idea exchange and economic relationships with China. There are currently four schools in China teaching the New Brunswick curriculum to 3,000 students. Some 300 of these Chinese students come to Canada for university studies. Norman emphasized the importance of the relationships with officials established through education exchanges. These relationships have come to improve business activities. There are currently 50 New Brunswick-based businesses in China.

Among the points made during discussion:

- Supply chain and logistics training in Atlantic Canada need attention. Dalhousie, University of New Brunswick and Saint Mary's offer programs on transportation, planning and operations. However, intellectual resources are very dispersed due to the small market and wide geography. There is a trend for interested students to go outside Atlantic Canada to specialize in these areas but few return after graduation. Quebec's vibrant logistics community was in part due to success in government subsidies toward training.
- International students, mostly Chinese, in Atlantic Canada do not stay when they graduate. Some manage to stay on for work in Toronto and Vancouver but the majority return home. It was noted that there is a lack of support group to help foreign students acclimatize. Also, the vibrant opportunities in China, especially for finance students, offer better prospects.

Concluding Remarks

- The definition of Gateway and the adjective used remains an ongoing question. Is it a Gateway to Europe, Asia or ...?
- A unified approach is key, considering the many variations of gateway initiatives at the local, regional and national levels. There is not yet a consensus about location or scope.
- Gateways and corridors are complementary and must be married together when discussing trade policies.
- The focus has been on containers. At some point, focus should expand to passenger, air cargo and cruise traffic from the perspective of gateways.
- The Atlantic Gateway must be better than its rivals for the region to be successful. Staying merely on par is insufficient.
- Atlantic Canada is not too far behind in meeting global logistics standards, but competitors are learning simultaneously as well. However, the region cannot stay behind.
- Focus in the discussion was on transport infrastructure and much less on cultural industries, service exports, local value added. There was little on the human dimension or how, for example, research, exchanges and student recruitment in the universities can connect to Gateway. There is an acute problem of silos within the university world and that separates research and design from the private sector.
- Atlantic Canada has a special interest in India.