

**BEFORE THE  
FEDERAL MARITIME COMMISSION**

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**DOCKET NO. 11-19**

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**OFFICIAL COMMENTS OF THE GOVERNMENT OF CANADA**

**NOTICE OF INQUIRY – UNITED STATES (US) INLAND CONTAINERIZED CARGO MOVING  
THROUGH CANADIAN AND MEXICAN SEAPORTS**

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Given the importance of presenting a balanced and accurate description of the structure, operation, and economic importance of the Canadian transportation system, the Government of Canada submits the following comments in response to a Notice of Inquiry (NOI) issued by the Federal Maritime Commission (FMC) on November 8, 2011. The FMC is seeking views and information concerning factors that may cause or contribute to the shift of containerized cargo destined for US inland points from US to Canadian or Mexican seaports.

**1. INTRODUCTION**

Canada and the US enjoy a long-standing and mutually-beneficial relationship based on cooperation, shared values, and unprecedented levels of commercial activity. In 2010, merchandise trade between Canada and the US was valued at \$US 488 billion, making it the largest bilateral trading relationship in the world.<sup>1</sup> This extraordinary commercial relationship supports millions of jobs in both countries, and boasts some of the most integrated transportation and supply chain systems in the world.

More recently, the unprecedented expansion and diversification of the Asian marketplace continues to significantly alter global trade patterns and supply chains. This phenomenon presents considerable business opportunities for North American firms, and has yielded steady growth in sea-borne trade, specifically “containerized” trade, between North America and Asia. In turn, governments in Canada, the US, and Mexico have responded to this increase in the volume of container traffic through investments in port, rail, and road infrastructure assets throughout the transportation system. The pending completion of the Panama Canal expansion in 2014 to accommodate much larger container ships has also added another layer of complexity to policy and planning decisions. As a result, notwithstanding the recent economic downturn, North America’s East and West Coast seaports continue to be the focus of intense commercial activity, underscoring their critical role in the operation of our integrated and trade-dependent economies.<sup>2</sup>

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<sup>1</sup> Source: Statistics Canada

<sup>2</sup> Additionally, bulk Canadian and US commodities are often exported through each others’ ports (e.g., US coal from the Powder River basin via British Columbia ports and Canadian lumber and potash via US West Coast ports).

Against this backdrop of burgeoning global commerce and expanding trade and economic ties, Canada and the US have a strong history of collaboration in developing (often jointly) innovative programs and policies to address both countries' shared interests in national security and economic competitiveness. As Prime Minister Harper stated following his December 7, 2011, meeting with President Obama, to announce the *Perimeter Security and Economic Competitiveness Action Plan*, "Canada has no friend among America's enemies. What threatens the security and well-being of the United States threatens the security and well-being of Canada. Nevertheless, measures to deal with criminal and terrorist threats can thicken the border, hindering our efforts to create jobs and growth".<sup>3</sup> Continuing close collaboration between Canada and the US in these areas is aimed at ensuring the security of citizens of both countries without impeding the tremendous bilateral trading relationship, particularly the commercial needs of the many Canada-US time sensitive manufacturing and supply chain networks. As President Obama described the shared challenge upon the release of the *Perimeter Security and Economic Competitiveness Action Plan*, the aim is "to make it easier to conduct the trade and travel that creates jobs ... [and] make it harder for those who would do us harm and threaten our security".<sup>4</sup> This collaboration to build upon the cooperative and multi-layered security programs that Canada and the US have instituted, including off-shore cargo screening procedures, at all major North American seaports, airports, and land border crossings makes Canada-US trade and travel networks among the most secure in the world.

In the context of this NOI, the Government of Canada and its many partners, concerned by the inference that US cargo is somehow being "diverted" through Canadian ports given the deeply integrated North American transportation system, welcome the opportunity to dispel any misconceptions regarding Canadian transportation policies and practices. With a particular emphasis on elements vital to the movement of containerized cargo, this submission provides a description of transportation governance in Canada, our system of independent and financially self-sufficient port authorities, our private railway companies, Canada's approach to public infrastructure investment, as well as our world-class trade security programs. Moreover, the Government of Canada believes that our reliance on market forces to govern the commercial operations of the transportation sector, particularly the movement of containerized cargo, in combination with our natural geographic advantages, make Canada's transportation supply chains a sound business choice for international shippers and other trade-focused companies.

## 2. THE CANADA-US TRADE AND TRANSPORTATION RELATIONSHIP

"The Prime Minister and I are determined not just to sustain this trade but to expand it, to grow it even faster, so we're creating even more jobs and opportunity for our people. Canada is key to achieving my goal of doubling American exports and putting folks back to work."<sup>5</sup> – US President Barack Obama, December 7, 2011

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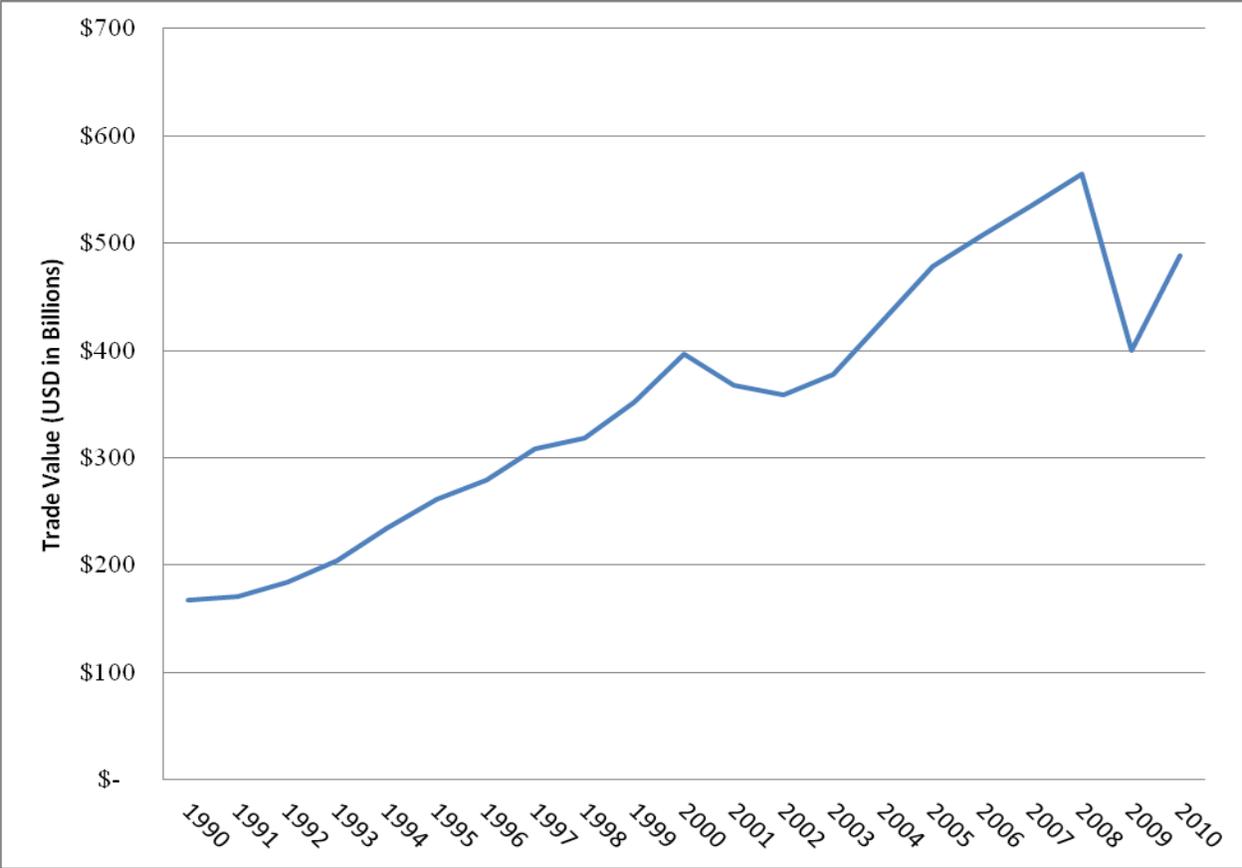
<sup>3</sup> See: <http://www.whitehouse.gov/the-press-office/2011/12/07/statements-president-barack-obama-and-prime-minister-canada-stephen-harp>

<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*

The Canada-US border extends for approximately 8,900 kilometres/5,525 miles (land and water) and is serviced by over 120 land border crossings and 23 international bridges. In 2010, some 28.9 million cars and 5.4 million trucks crossed the shared border,<sup>6</sup> and it is estimated that approximately \$US 1.7 billion worth of goods and services cross each day (over \$US 1 million every minute).<sup>7</sup> With 2010 bilateral merchandise trade valued at just below \$US 500 billion,<sup>8</sup> this commercial relationship is critical to the economic well-being of millions of US and Canadian citizens. The depth and breadth of this relationship is underscored by the fact that approximately eight million US jobs are linked to trade with Canada, while an estimated one in seven Canadian jobs is linked to trade with the US.<sup>9</sup> Put another way, our countries serve as each other's largest export markets – Canada is the leading export market for 36 US states,<sup>10</sup> while the US sold more goods to Canada last year than to China, Japan, the United Kingdom, and Brazil combined.

**Figure 1 – Value of Canada-US Merchandise Trade, 1990-2010**



Source: Statistics Canada and Bank of Canada

<sup>6</sup> See: <http://www.transtats.bts.gov/bordercrossing.aspx>  
<sup>7</sup> Source: Statistics Canada  
<sup>8</sup> Source: Statistics Canada  
<sup>9</sup> See: <http://pm.gc.ca/eng/media.asp?id=4516>  
<sup>10</sup> See: <http://www.international.gc.ca/commerce/facts-infos/usa-2009-eu.aspx?view=d>

While this economic relationship spans more than 140 years, key trade-related milestones have helped to propel the Canada-US economic relationship to new levels, with both Canada and the US having been founding members of the 1947 General Agreement on Tariffs and Trade (GATT)<sup>11</sup> before embarking upon the Canada-US Free Trade Agreement, and the 1994 North American Free Trade Agreement (NAFTA). Since the signing of the NAFTA, the level of Canada-US merchandise trade has more than doubled. This trade framework is also buttressed by a host of other successful commercial arrangements and agreements including, for example, the 2007 Canada-US Open Skies agreement.

### **3. GOVERNANCE OF THE CANADIAN TRANSPORTATION SYSTEM**

Transportation in Canada is a shared responsibility among the federal, provincial, and municipal levels of government. The roles of the federal and provincial governments are defined in the *Constitution Act of 1867*. In general, the federal government has the constitutional authority to oversee international and inter-provincial transportation, while the provincial governments are responsible for intra-provincial transportation. In practical terms, the efficient operation and regulation of Canada's transportation system relies on the close cooperation of all partners (including the private sector) to help ensure safety, efficiency, environmental sustainability, and security.

Historically, the original objectives of federal transportation policy were connecting markets and communities, while provincial and municipal policies focused more on local economic and social needs. However, in the mid-20<sup>th</sup> century, federal transportation policy placed a growing emphasis on marketplace frameworks to promote competition and efficiency while maintaining appropriate levels of safety. From the mid-1980's to the 1990's, the Government of Canada minimized its regulatory oversight of the transportation system and devolved the ownership of many of its transportation assets; policies that enhanced the competitiveness of the sector. With the devolution of key ports, the privatization of railways and air carriers, the productivity of Canada's transportation sector grew 31.3% from 1986 to 2008, compared to -1.5 % for the overall economy.<sup>12</sup>

This combination of federal regulatory and marketplace frameworks and market choice is reflected in the *Canada Transportation Act*, specifically the Act's National Transportation Policy. The Policy enshrines the importance of "competition and market forces" in the provision of "viable and effective transportation services" in Canada:

#### ***NATIONAL TRANSPORTATION POLICY***

##### *Declaration*

*5. It is declared that a competitive, economic and efficient national transportation system that meets the highest practicable safety and security standards and contributes to a sustainable environment and makes the best use of all modes of transportation at the lowest total cost is essential to serve the needs of its users, advance the well-being of Canadians and enable competitiveness and economic growth in both urban and rural areas throughout Canada. Those objectives are most likely to be achieved when:*

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<sup>11</sup> Superseded by the World Trade Organization in 1994.

<sup>12</sup> Transport Canada - Productivity time series data: December 2011

*(a) competition and market forces, both within and among the various modes of transportation, are the prime agents in providing viable and effective transportation services;*

*(b) regulation and strategic public intervention are used to achieve economic, safety, security, environmental or social outcomes that cannot be achieved satisfactorily by competition and market forces and do not unduly favour, or reduce the inherent advantages of, any particular mode of transportation;*

*(c) rates and conditions do not constitute an undue obstacle to the movement of traffic within Canada or to the export of goods from Canada;*

*(d) the transportation system is accessible without undue obstacle to the mobility of persons, including persons with disabilities; and*

*(e) governments and the private sector work together for an integrated transportation system.*

*1996, c. 10, s. 5; 2007, c. 19, s. 2 – Canada Transportation Act<sup>13</sup>*

## **Canadian Port Authorities**

### ***Policy and Legislative Framework***

The Government of Canada understands that modern and efficient seaports are essential to the operation of international trade. Through the National Marine Policy, the Government laid out a comprehensive program to change the policy and legislative framework for major elements of the transportation system that were government owned and operated. Under this policy, the federal government withdrew from the direct operation of many marine components, including ports. Key principles underpinning this exercise included the transfer of infrastructure costs to system users and beneficiaries and the commercialization of the management of federal ports.

In 1998, the *Canada Marine Act* set out the spirit and objectives of the National Marine Policy for federal ports. These ports, comprising the National Ports System, would operate under a new business and governance model as Canada Port Authorities (CPAs). A list of current CPAs is included in Annex A.

CPAs are federally incorporated, autonomous, non-share corporations that operate at arm's length from the federal government, who is the sole shareholder. However, there is no directive power under the legislation that allows the federal government to direct or influence the actions of the respective CPAs. They are governed by a board of directors nominated by port user groups and various levels of government to implement "user pay-user say" principles within the port system. They operate according to business principles and have the authority and flexibility to determine strategic direction and make commercial decisions. CPAs are able to set their own fees (e.g., berthage and wharfage), but such fees must be fair and reasonable. CPAs are also responsible for the maintenance of commercial shipping channels and in this regard, finance their own dredging requirements. They also act as landlords, leasing out port operations to private terminal operators.

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<sup>13</sup> See: <http://laws.justice.gc.ca/eng/acts/C-10.4/page-1.html#h-4>

A key feature of CPAs is that by law they must be financially self-sufficient. CPAs finance their operations from their revenues and borrow from commercial banks for capital projects. They do not receive appropriations or funding from the government to meet operating costs or deficits. They do not receive federal government loans or any federal government guarantees of commercial loans. They cannot pledge federal real property as security for any borrowing, and they do not benefit from any interest free loan or bond issue status, nor have taxing powers.

**Figure 2 – Comparison of Canadian Port Authorities (CPAs) and US West Coast Ports – General Funding Characteristics**

Activity	CPAs	California (Los Angeles, Long Beach and Oakland)	Washington (Seattle, Tacoma)	Oregon (Portland)
<b>REVENUES</b>				
Port Operations	Yes	Yes	Yes	Yes
Commercial Borrowings	Yes	Yes	Yes	Yes
Levy of local property taxes	No	No	Yes	Yes
Tax exempt status of bonds issued*	No	No	Yes	Yes
General obligation bonds backed by credit and taxing authority **	No	No	Yes	Yes
Access to government program funding	Yes (since 2008***)	Yes	Yes	Yes
<b>OBLIGATIONS</b>				
Property tax or equivalent paid to local government	Yes	No	No	No
Port remits annual payment to shareholder	Yes	Yes (Long Beach)	No	No
<b>PORT OPERATIONS</b>				
Ongoing government funding for dredging	No	Yes	Yes	Yes

\* Bond holders pay no tax on interest earned – results in lower financing costs for ports.

\*\* Bonds issued at lower rates than Port Revenue Bonds.

\*\*\*Prior to 2008 Amendments to *Canada Marine Act*, CPAs were not eligible for federal government funding. CPAs must demonstrate that they meet all required program criteria in order to access funding.

CPAs remit annually to the federal government a gross revenue charge which has resulted in total payments of over \$CDN 119 million<sup>14</sup> since they were established. As well, CPAs make annual payments to their respective local municipalities. These Payments in Lieu of Taxes (PILT) amounted to approximately \$CDN 16 million in 2010<sup>15</sup>.

<sup>14</sup> See: Transport Canada Annual Reports – 2000 to 2010

<sup>15</sup> See: CPA 2010 Annual Reports

CPAs can receive federal program payments under limited circumstances, specifically for emergencies and contributions in respect of the capital costs of infrastructure, environmental sustainability, and security. CPAs can participate in such funding programs and must meet identical eligibility requirements as other proponents, including the private sector. Thus, CPAs finance capital projects using their own revenues, partner with private sector stakeholders, borrow from a commercial lender, or as noted above, may apply for specific federal programs related to infrastructure, the environment, or security.

CPAs compete on many levels – with each other, with the large number of private operators and other public ports within Canada that together handle more than 45% of Canadian marine tonnage, and also with US and Mexican ports. This robust competition between ports supports both commercial discipline and choice for Canadian and US shippers.

The Government of Canada believes that this legislative framework and business model has established a solid foundation for the global competitiveness of Canadian ports, and serves as a model for other countries seeking to improve the operational efficiency of their port facilities. This model continues to provide efficient, competitive transportation choices for shippers.

### ***Competitiveness of Ports***

There are many factors affecting the overall competitiveness of a port. Some relate to natural advantages while others are operational or “man-made”. Natural advantages include the proximity to major markets and established global shipping routes such that goods do not have far to travel to reach their destination, and naturally deep harbours that do not require dredging and can accommodate increasingly large container vessels.

These natural advantages can be enhanced by supporting infrastructure. Among a CPA’s operational advantages are the efficiency and reliability of its operations, the size and state of its infrastructure assets (including multimodal/land-side connections), its ability to access or leverage capital to finance infrastructure investments, and its logistical agility to deal with unforeseen operational challenges that sometimes arise. Thus, it is the combination of both natural and operational advantages offered by Canadian ports that provide international shipping companies with competitive options on which to base business decisions and manage risk.

### ***Private Class 1 Railroads in Canada***

With respect to the operation of private railway companies, the Government of Canada’s role is to provide a regulatory and legislative framework that encourages these enterprises to provide safe, efficient, and effective service and undertake the necessary investments in their networks.

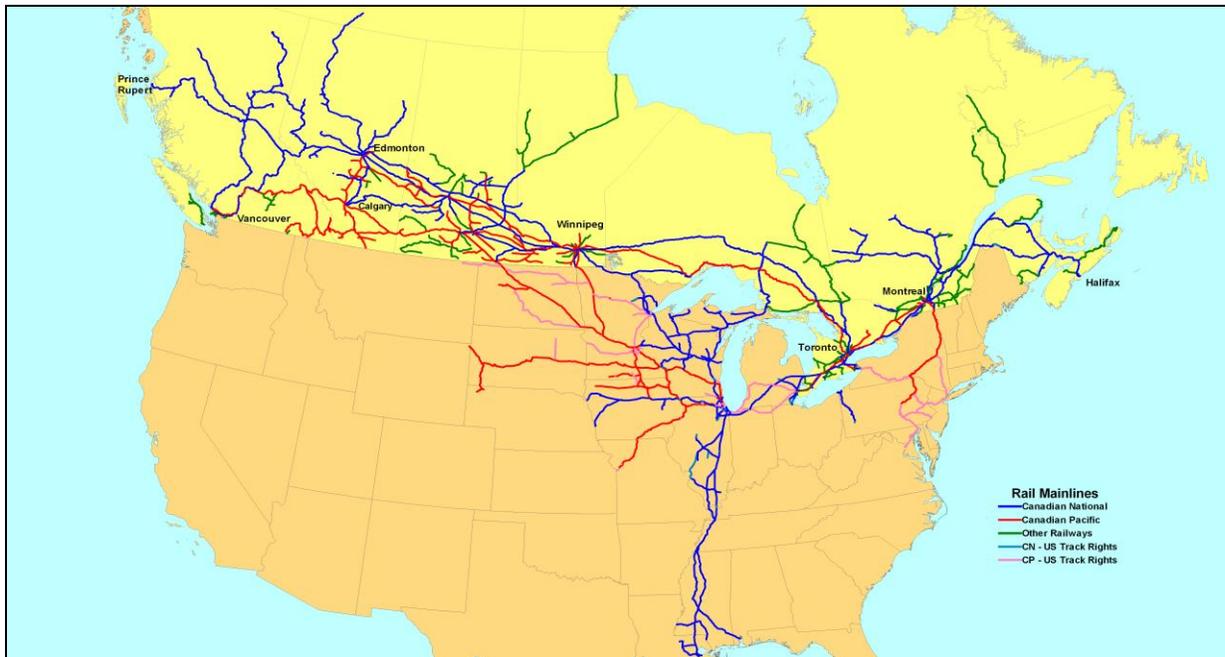
All Class 1 freight railways that operate in Canada, including Canadian National (CN) and Canadian Pacific (CP), are private entities that pursue business opportunities within a highly competitive North American marketplace. It is important to emphasize that rail rates established by both CN and CP, and all other private freight rail companies operating in Canada, are the result of market-based decisions by

private entities. CN and CP are the only North American railways that have extensive networks in both Canada and the US. They are truly North American companies.

These rail companies are responsible for their own financial well-being, the efficiency of their operations, and the development, financing, and maintenance of their large rail networks. In 2011, CN and CP announced capital expenditure plans for their rail networks including investments of \$CDN 1.7 billion and \$CDN 1 billion respectively.<sup>16</sup>

Policies of deregulation and privatization of Canadian railways pursuant to the Government of Canada's National Transportation Policy enabled Canadian railways to pursue business opportunities as private entities within the North American market. As a result of this liberalization of the sector, the railways have seen significant growth, expanding their business throughout Canada and the US to the benefit of both economies. For example, CN acquired Illinois Central railway in 1999 and Wisconsin Central railway in 2001, thereby expanding its network to reach into the southern US to the Gulf Coast. In 2007, CP bought the Dakota, Minnesota and Eastern railway, thereby extending its network into Wyoming and Kansas.

**Figure 3 – Canadian Class 1 and Shortline Railways**



Source: Transport Canada

<sup>16</sup> See: <http://www.cn.ca/documents/Investor-Factbook-current/2011-IFB-People-en.pdf> and <http://www.cpr.ca/en/invest-in-cp/investor-book/Documents/2011-cp-investor-book.pdf>

CN and CP now have extensive operations and infrastructure throughout the US and are important contributors to the economic prosperity and strategic transportation infrastructure of many US states. Taken together, CN and CP have a combined workforce of approximately 38,800, with nearly 30% (roughly 10,900) residing in the US.<sup>17</sup>

In addition, CN and CP operate as fully integrated private entities within North American supply chains, as demonstrated by extensive co-production agreements with US railways. For example, CN currently moves coal from Illinois to Tennessee on Norfolk-Southern railway tracks.

Through deregulation and privatization, Canadian railways have achieved impressive efficiency gains over the last two decades. A once financially distressed industry is now financially secure, profitable, and able to invest in the maintenance and expansion of its own infrastructure to better capitalize on the growing demands associated with the movement of containerized cargo. These investments, and the jobs and economic spin-offs they create, have a positive impact in both Canada and the US and facilitate the efficient movement of containerized and bulk cargo throughout North America.

Private investors have noted the successes of Canadian railways subsequent to their being deregulated and privatized, recognizing them as solid investments within the competitive North American marketplace. Indeed, the largest single shareholders in both CN and CP are US-based investors.

The Government of Canada supports ongoing collaborative efforts among stakeholders to improve supply chain efficiency and customer service. Specifically, railways, port authorities, terminal operators, and other stakeholders in the supply chain have signed several collaborative agreements to measure, monitor, and evaluate the performance of various supply chain partners. These agreements are designed to improve scheduling and end-to-end delivery time challenges, the movement of cargo, and to address operational disputes on a proactive basis. Such efforts continue to strengthen intermodal operations to the benefit of North American businesses and consumers.

#### **4. THE IMPORTANCE OF MODERN TRANSPORTATION INFRASTRUCTURE**

“We know that upgrading our nation’s infrastructure is vital to our economy and our future competitiveness. And that’s why the President has laid out a bold new plan for rebuilding and modernizing America’s transportation infrastructure that will bring jobs to our economy now and increase our nation’s growth and productivity over the long-term.”<sup>18</sup> – US Secretary of Transportation Ray LaHood, October 11, 2010

The Government of Canada, like that of the US, has consistently identified the importance of modern and efficient transportation and trade-related infrastructure as essential to building a strong economy and improving the quality of life for its citizens. The most recent example of this commitment is

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<sup>17</sup> See: <http://www.cn.ca/documents/Investor-Factbook-current/2011-IFB-People-en.pdf> and <http://www.cpr.ca/en/invest-in-cp/investor-book/Documents/2011-cp-investor-book.pdf>

<sup>18</sup> See: <http://www.whitehouse.gov/the-press-office/2010/10/11/president-obama-holds-meeting-infrastructure-investment-new-report-shows>

embodied in the \$CDN 33 billion Building Canada Plan,<sup>19</sup> a seven-year (2007-2014) program that has supported infrastructure investments in major highways, urban transportation projects, and key border crossings. This Plan represents the largest Government of Canada investment in infrastructure since World War II.

Similarly, in 2009, the US undertook significant investments in transportation infrastructure as part of the \$US 787 billion *American Recovery and Reinvestment Act*, and its component Transportation Investment Generating Economic Recovery (TIGER) multimodal grant programs. During the second round of TIGER funding, in 2010, \$US 600 million was made available for infrastructure projects in four areas: (i) highways and bridges, (ii) transit, (ii) rail, and (iv) ports. Receiving a total of approximately \$US 95 million, the percentage of funding allocated to US seaports under TIGER II was more than double the amount ports had received during the first round of TIGER funding.<sup>20</sup> Most recently, on December 15, 2011, the US announced the 46 transportation projects that will receive a total of \$511 million from under the third round of the TIGER program, and which include freight, port, and rail expansions. More broadly, Secretary LaHood has been very clear on the importance of port-related investments to US economic competitiveness, and on the Department of Transportation's efforts "to fund ports, to fund roads that lead in and out of ports or fund rail lines that lead in and out of ports, to relieve congestion [and] enhance, really, economic development in a community and create jobs."<sup>21</sup>

Similarly attuned to the competitive challenges of the global trading environment, the emergence of global supply chains as the preeminent business model, and the corresponding growth in containerized trade between Asia and North America, Canada adopted a strategic and collaborative approach to develop and launch the Asia-Pacific Gateway and Trade Corridor Initiative (APGCI) and the National Policy Framework for Strategic Gateways and Trade Corridors.

### ***Asia-Pacific Gateway and Corridor Initiative***

Launched in 2006, the APGCI is an integrated set of investment and policy measures focused on enhancing Canada's strategic trade and transportation infrastructure to better accommodate the increasing trade volumes with the Asia-Pacific Region.<sup>22</sup>

The APGCI consists of strategic transportation infrastructure projects throughout western Canada, specifically to support the region's principal road and intermodal connections, key border crossings, and major Canadian ports. Approximately \$CDN 1.4 billion in federal investments in public infrastructure have been either announced or completed including road/rail grade separations, new and expanded bridges, and the twinning of important sections of the Trans-Canada Highway. Key to the success of many APCGI infrastructure projects has been the Government of Canada's commitment to a systems-based approach to maximize the impacts of investments. By using this approach, some 47 projects have been announced totaling approximately \$CDN 3.5 billion.

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<sup>19</sup> See: <http://www.infrastructure.gc.ca/prog/bcp-pcc-eng.html>

<sup>20</sup> See: <http://www.aapa-ports.org/Press/PRdetail.cfm?itemnumber=17667>

<sup>21</sup> See: <http://www.joc.com/portsterminals/lahood-reconfirms-backing-port-upgrades>

<sup>22</sup> See: <http://www.pacificgateway.gc.ca/apgci.html>

In addition to infrastructure investments, the APGCI has also included extensive public engagement, important regulatory and operational reforms, and extensive analyses of the region's transportation network to better prepare for future transportation and trade pressures. In this regard, the APGCI has been able to build on, and learn from, many previous accomplishments by private-sector stakeholders and provincial and municipal governments.

One notable policy-related achievement was the successful amalgamation of British Columbia's three Lower Mainland port authorities into a single organization, Port Metro Vancouver, in early 2008. This strategic amalgamation of port facilities reduced operational overhead and improved the efficiency of the new, integrated authority. From a private sector perspective, dealing with a single administrative apparatus also makes the Port a more attractive option for international and domestic shipping companies looking to access the North American marketplace.

### ***National Policy Framework for Strategic Gateways and Trade Corridors***

Following the launch of the APGCI, the Government of Canada also released the *National Policy Framework for Strategic Gateways and Trade Corridors* in 2007. The *Framework* was developed to enhance the global competitiveness of the Canadian economy by providing focus and direction for the development of additional gateway initiatives.

With this goal in mind, any gateway or corridor strategy advanced under the *Framework* would serve to enhance the multimodal integration of major transportation systems, as well as their efficiency, safety, security, and sustainability. The *Framework* and the strategies it would support could also be tailored to geographic, trade, and transportation opportunities in different regions of Canada. Like the APGCI, the *Framework* emphasized the importance of rigorous analysis and long-term planning, and partnerships among governments and between the public and private sectors.

As was intended, the *Framework* helped to underpin the development of Canada's Continental and Atlantic Gateways and also served to guide investment decisions under the \$CDN 2.1 billion Gateways and Border Crossings Fund, a component of the Building Canada Plan.

These policy initiatives and their targeted infrastructure investments have helped many businesses to harness the economic potential of increased trade between North America and Asia. Canada's approach has not only garnered the attention of many in the Asian business community, it has also been cited by US government officials and US ports (including the Executive Director of the Port of Los Angeles) as an example of sound and strategic public policy to be emulated.

"I think what the Canadians have done is a best practice that we can learn from. The way they came together and really unified the national and provincial governments to support port development is a best practice."<sup>23</sup>

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<sup>23</sup> See: [http://www.americanshipper.com/Main/News/Knatz\\_US\\_at\\_fault\\_for\\_Canada\\_diversion\\_47410.aspx?taxonomy](http://www.americanshipper.com/Main/News/Knatz_US_at_fault_for_Canada_diversion_47410.aspx?taxonomy)

Recognized for these successes, Canada has been open and transparent about its strategic approach to gateways development and willing to share its best practices worldwide, welcoming in particular the opportunity to collaborate with the US to further enhance the competitive advantage of the North American platform.

## **5. ROBUST AND INTEGRATED SECURITY:**

Both Canada and the US have devoted considerable resources to develop and strengthen the transportation and trade security programs that make our supply-chains, seaports, airports, and border crossings among the most secure and efficient in the world. Building on such key milestones as the Shared Border Accord, this cooperative relationship was most recently enhanced with the December 7, 2011 release of the *Perimeter Security and Economic Competitiveness Action Plan* by President Obama and Prime Minister Harper, the latest example of the shared commitment to prosperity and security. Presently, all containerized marine cargo arriving in Canada, regardless of its ultimate destination, is reported to the Canada Border Services Agency (CBSA) prior to being loaded at a foreign port. The CBSA risk assesses 100% of all marine containers in order to identify potentially high risk shipments. In addition to these risk assessments, all containers also transit radiation portals immediately after unloading from vessels. Container Examination Facilities are also used for more intensive secondary examinations of high risk shipments.

Risk-based, automated targeting against carrier and cargo information transmitted 24 hours prior to loading at a foreign port is conducted to detect high-risk shipments. CBSA officers receive Advanced Commercial Information (ACI) (e.g., electronic pre-arrival and pre-load information) that provides the right information at the right time to identify possible security threats before the goods arrive in Canada. Mandatory electronic transmission of primary and secondary cargo and conveyance information from marine carriers has been in place since April 2004.

From a rail perspective, 100% of all rail-borne maritime shipping containers that enter the US from Canada undergo scanning through a Vehicles and Cargo Inspection System (VACIS) at the land border point of entry, a process that provides customs officers with a radiographic image of the interior of each container/railcar. It is this combination of off-shore screening, rigorous scanning, and regular detailed examinations of high-risk containers that provides a thorough and efficient container security apparatus for the integrated North American marketplace.

The successful history of Canada-US security cooperation provides the foundation for the forward looking collaboration charted out in the *Perimeter Security and Economic Competitiveness Action Plan*, which includes several initiatives designed to enhance security and accelerate the legitimate flow of people, goods, and services. For example, the Plan calls for the development of, “ ... a harmonized approach to screening inbound cargo arriving from offshore that will result in increased security and the expedited movement of secure cargo across the Canada-United States border, under the principle of cleared once, accepted twice.”<sup>24</sup>

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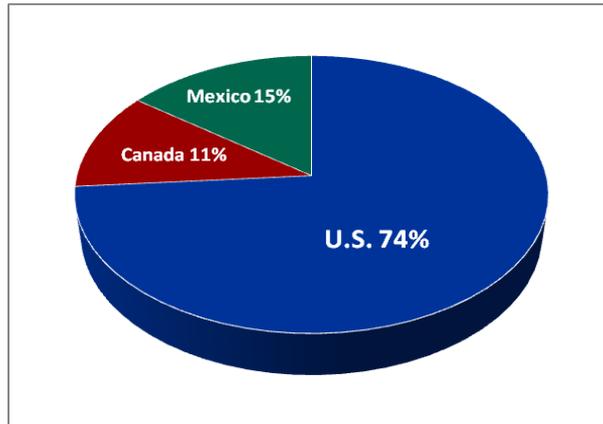
<sup>24</sup> See: [http://www.borderactionplan-plandactionfrontalier.gc.ca/psec-scep/bap\\_report-paf\\_rapport-dec2011.aspx?view=d](http://www.borderactionplan-plandactionfrontalier.gc.ca/psec-scep/bap_report-paf_rapport-dec2011.aspx?view=d)

## 6. THE NORTH AMERICAN SHIPPING CONTAINER MARKET

As noted throughout this submission, the Government of Canada has emphasized that the steady growth of Asian markets has yielded many economic opportunities for North America business, including for North America’s ports. Between 2000 and 2010, for example, East and West Coast container ports in Canada, Mexico, and the US experienced average annual growth rates of 5%, 11%, and 3% respectively. Additional details are located in Annex B.

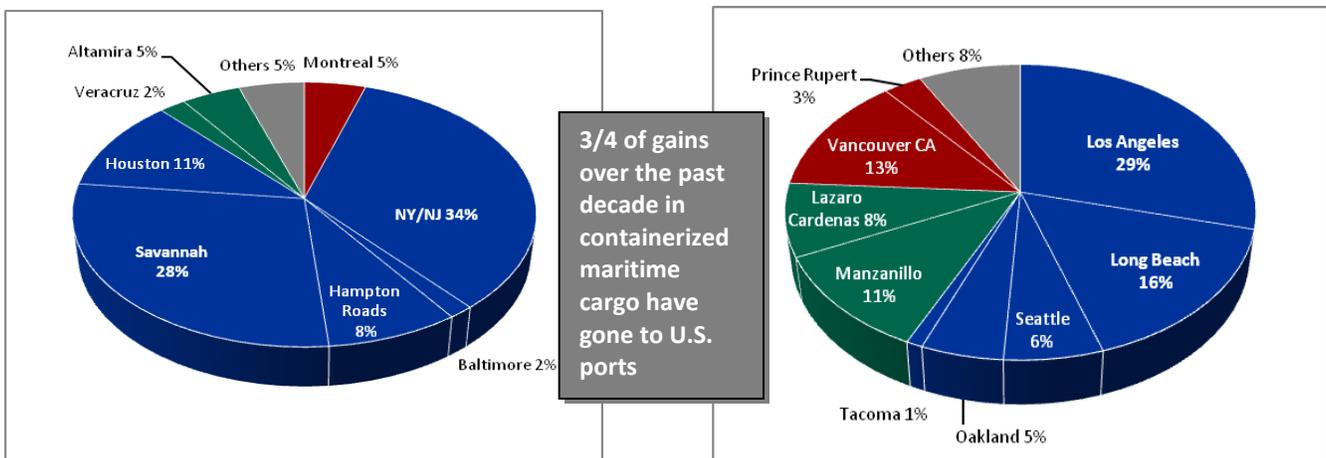
While this growth in containerized trade has impacted all three countries, the vast majority (74%) of containerized maritime cargo gained by North American ports over the last decade, was captured by US ports (*Figure 4*). This is not unexpected given the relative size of the US market, which is five times that of Canada and Mexico combined. Looking more closely at the West Coast, given it is of particular interest to this NOI, California ports alone captured nearly half of all containerized cargo gained over the past decade (*Figure 5*). On the East and Gulf coasts, US ports accounted for more than 80% of all gains.

**Figure 4 - Distribution of Containerized Cargo Gains by Country, 2000-2010 (TEU)**



Source: AAPA and CPAs; see Annex B

**Figure 5 - Distribution of Containerized Cargo Gains among East (including Gulf) and West Coast Ports By percentage of TEUs 2000-2010**



Source: AAPA and CPAs; See Annex B

Contrary to any assertion that Canada is experiencing a “diversion” of US cargo to its ports, the level of US containerized cargo imports via Canadian ports as a share of total US port traffic remains marginal, averaging less than 2.5% over the past decade. Meanwhile, Canadian imports transiting through US ports represent a higher proportion of Canada’s domestic cargo; at least 3 times the average of US cargo moving through Canadian ports. Simply put, US ports handle a substantially higher percentage of Canada-bound containerized cargo than Canadian ports handle US-bound cargo. Additional details are included in Annex C.

The fact remains that Canadian and US ports have been, and remain, key players in an integrated North American marketplace. To varying degrees, our seaports handle a portion of each others’ containerized cargo (inbound and outbound) and, as such, provide trade-oriented North American businesses and international shipping companies with a host of options to diversify their supply chains, minimize risk, avoid congestion, and achieve the most efficient and effective path to their desired marketplace.

## **7. SUMMARY**

With this submission, the Government of Canada has:

- provided a fact-based overview of Canada’s transportation system;
- described some of the economic linkages that underpin the most successful bilateral trading relationship in the world;
- emphasized the importance of strategic and collaborative infrastructure planning and investment programs;
- highlighted the different governance and financing characteristics of Canadian and US ports;
- provided an accurate description of the movement of containerized cargo throughout the integrated North American marketplace based on robust and independent data; and
- stressed the importance of market-based business practices to the development and application of transportation and trade policy.

The Government of Canada supports safe, secure, efficient, and environmentally responsible supply chains on both sides of our shared border and respectfully recommends that the facts presented in this submission be reflected in the Federal Maritime Commission’s Final Report.

**ANNEX A**  
**Canadian Port Authorities**

Belledune Port Authority (New Brunswick)

Halifax Port Authority (Nova Scotia)

Hamilton Port Authority (Ontario)

Montreal Port Authority (Québec)

Nanaimo Port Authority (British Columbia)

Port Alberni Port Authority (British Columbia)

Prince Rupert Port Authority (British Columbia)

Quebec Port Authority (Québec)

Saint John Port Authority (New Brunswick)

St. John's Port Authority (Newfoundland and Labrador)

Saguenay Port Authority (Québec)

Sept-Îles Port Authority (Québec)

Toronto Port Authority (Ontario)

Trois-Rivières Port Authority (Québec)

Thunder Bay Port Authority (Ontario)

Vancouver Fraser Port Authority – operating as Port Metro Vancouver (British Columbia)

Windsor Port Authority (Ontario)

**ANNEX B**

**North American Container Port Traffic (Total TEUs handled), 2000-2010**

<i>Total TEUs</i>		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>TOTAL North America</b>		<b>50,782,956</b>	<b>44,580,159</b>	<b>50,864,698</b>	<b>52,672,531</b>	<b>51,514,235</b>	<b>48,638,156</b>	<b>44,761,228</b>	<b>41,154,074</b>	<b>37,576,056</b>	<b>34,912,862</b>	<b>34,654,136</b>
<b>U.S.</b>	US East Coast	17,264,506	15,566,205	17,684,200	17,942,603	17,490,972	16,783,183	15,406,352	14,401,682	13,621,445	13,009,212	13,042,455
	US Gulf Coast	2,815,388	2,646,587	2,545,995	2,531,517	2,239,123	2,174,416	2,068,671	1,837,957	1,717,916	1,703,104	1,687,577
	US West Coast	22,203,507	19,315,038	22,597,611	24,533,899	24,682,917	23,010,812	21,141,221	19,358,043	17,372,510	15,951,496	15,658,231
	<b>TOTAL US</b>	<b>42,283,401</b>	<b>37,527,830</b>	<b>42,827,806</b>	<b>45,008,019</b>	<b>44,413,012</b>	<b>41,968,411</b>	<b>38,616,244</b>	<b>35,597,682</b>	<b>32,711,871</b>	<b>30,663,812</b>	<b>30,388,263</b>
<b>Mexico</b>	Mex West Coast	2,475,818	1,849,219	2,078,789	1,830,387	1,564,193	1,098,638	929,411	774,687	704,950	505,996	477,045
	Mex Gulf Coast	1,228,947	1,029,137	1,237,453	1,232,055	1,112,581	1,034,838	974,434	910,680	859,591	852,666	838,523
	<b>TOTAL MEXICO</b>	<b>3,704,765</b>	<b>2,878,356</b>	<b>3,316,242</b>	<b>3,062,442</b>	<b>2,676,774</b>	<b>2,133,476</b>	<b>1,903,845</b>	<b>1,685,367</b>	<b>1,564,541</b>	<b>1,358,662</b>	<b>1,315,568</b>
<b>Canada</b>	Can East Coast	1,937,115	1,756,288	2,046,666	2,089,845	2,027,782	2,023,201	1,941,067	1,826,947	1,740,882	1,693,246	1,720,285
	Can West Coast	2,857,675	2,417,685	2,673,984	2,512,225	2,396,667	2,513,068	2,300,072	2,044,078	1,558,762	1,197,142	1,230,020
	<b>TOTAL CANADA</b>	<b>4,794,790</b>	<b>4,173,973</b>	<b>4,720,650</b>	<b>4,602,070</b>	<b>4,424,449</b>	<b>4,536,269</b>	<b>4,241,139</b>	<b>3,871,025</b>	<b>3,299,644</b>	<b>2,890,388</b>	<b>2,950,305</b>
<b>Port Totals</b>	Halifax	435,461	344,811	387,347	490,072	530,722	550,462	525,553	541,650	524,336	541,640	548,404
	Montreal	1,331,351	1,247,690	1,473,914	1,363,021	1,288,910	1,254,560	1,226,296	1,108,837	1,054,603	989,427	1,014,148
	Saint John	46,303	44,382	49,240	46,574	44,556	49,950	48,700	45,638	37,868	47,558	48,274
	St. John's	124,000	119,405	118,020	117,599	118,008	110,995	102,493	99,543	98,324	94,897	90,489
	Toronto	N/A	N/A	18,145	72,579	45,586	57,234	38,025	31,279	25,751	19,724	18,970
	Vancouver	2,514,309	2,152,462	2,492,107	2,495,522	2,396,667	2,513,068	2,300,072	2,044,078	1,558,762	1,197,142	1,230,020
	Prince Rupert	343,366	265,223	181,877	16,703	0	0	0	0	0	0	0

Source for US and Mexican Ports: AAPA

Source for Canadian Ports: CPAs

**ANNEX C**

**CANADA-US CROSS BORDER CONTAINERIZED CARGO IMPORTS – 2000-2010**

	<b>US COUNTRY TOTAL - IMPORTS (TEU)</b>				<b>CANADA COUNTRY TOTAL (IMPORTS)</b>		
	Total US Laden Imports- All Ports*	Total US Laden Imports <i>via Canada</i>	% Share		Total Canadian Laden Imports - All Ports*	Total Canadian Import Laden <i>via US</i>	% Share
2010	17,223,279	425,264	2.5%	2010	2,241,342	137,372	6.1%
2009	15,013,760	313,585	2.1%	2009	1,895,013	128,825	6.8%
2008	17,672,857	382,986	2.2%	2008	2,212,179	149,580	6.8%
2007	18,998,718	321,716	1.7%	2007	2,153,563	150,086	7.0%
2006	19,136,788	354,803	1.9%	2006	2,103,192	145,064	6.9%
2005	17,926,945	379,904	2.1%	2005	2,053,263	214,494	10.4%
2004	16,370,993	388,349	2.4%	2004	1,880,439	174,509	9.3%
2003	14,617,927	407,020	2.8%	2003	1,702,207	137,256	8.1%
2002	13,441,489	397,644	3.0%	2002	1,581,849	149,392	9.4%
2001	11,763,798	335,752	2.9%	2001	1,319,614	136,222	10.3%
2000	11,619,531	366,432	3.2%	2000	1,307,863	141,132	10.8%

**Source: Canadian Port Authorities and PIERS**

\*Includes all import/export laden TEUs entering /exiting the US through *both* US and Canadian ports. PIERS data only captures foreign containerized trade; it does not capture domestic movements (e.g., domestic trans-shipments) and cross-border trans-load movements. Based on this approach, *carrier haulage* is well covered (from the cargo origin/destination fields on the B/L), but *merchant haulage* is only partially captured. In the case where cargo origin or destination is not Canada on the B/L, it is captured by assuming that if the shipper/consignee address is listed as being in Canada, the cargo is taken to be destined to/originating from Canada.