

Building Atlantica

Starting with a strong, competitive foundation

The global transportation business is a rapidly changing environment, which continuously challenges ports and jurisdictions to provide the appropriate infrastructure to allow for the efficient movement of goods. In order to stay in step with these developments we need to be nimble in order to respond. We must be able to adapt quickly to new processes, new equipment, customer demands and diversification of the business model. This is the challenge facing Canada's ports today.

Fifty years ago this year, the container was introduced as a method of carriage of goods by sea and changed the marine transportation industry forever. The container trade is the fastest growing marine sector today, and coupled with the shift in global manufacturing from North America to Asia, has led to explosive trade growth to and from that part of the world. Container port traffic over the past two decades has grown by more than 750%. Cargo has moved from break-bulk to containerization, which offers a more uniform and cost-effective shipping profile for manufactured and consumer goods.

So with respect to trade, much of what we are hearing about Atlantica so far has been related to container business. Halifax is clearly recognized as the key container gateway in Atlantic Canada, and joins Vancouver and Montreal as one of Canada's established container ports. The growth is expected to continue – increasing by a further 75% over the next ten years.

Today's ports and transportation networks are experiencing significant market pressure to provide the infrastructure to accommodate ever-larger container ships requiring deeper harbours, larger turning basins, and ever-increasing equipment capacity. At the same time, ports cannot overlook the movement of other cargoes in the bulk and break-bulk sectors – which still represent 78% of the global market.

To capitalize on economies of scale, shipping lines are introducing larger and larger ships into service. The mega container ships of the near future will likely find they can only choose from a small group of super-ports capable of handling them. This will present supply chain vulnerabilities due to port, road and rail congestion, human resources management and security considerations.

Mega container ships bring with them mega cargoes. The challenge of moving this volume of containers from and to the ports is significant and the result will be that pressure on rail and road systems connecting ports to inland destinations will continue to intensify. Some transportation experts fear that U.S. port capacity limits are being reached now – with 10 years of growth expected on the horizon. Port gridlock would be economically devastating to the transportation industry, and the domino effect would be far-reaching.

In 2004, 78% of Asia-US trade moved through West Coast ports, and British Columbia is grappling with all of these challenges. East Coast ports, representing an alternative North American point of entry from Asia, via the Suez Canal and the Mediterranean, currently have 22% of the market, and are also experiencing significant growth.

With Halifax emerging as a hub port for mega-container ships, we must learn from B.C.'s experience. We must examine how our region and its diversified transportation network – including niche ports, road and rail services and other supply chain components – can remain competitive and work together to accommodate increases in trade in the face of continued changes to our business landscape.

Ports must be in a position to address fast moving market forces, and an innovative way to approach this is to build strategic alliances and a network of partners. Instead of being all things to all people, individual ports can then focus on what they do best by maximizing existing assets – taking their slice of the pie and leaving the rest to a wide array of regional partners, big and small.

In our own region, one needs to look only so far as the cruise market segment to see this recipe for success in operation. Cruise has become increasingly important to our port here in Saint John. Over the past ten years we have welcomed almost 700,000 passengers to our city, who have together spent more than \$58 million in our community. Ship crews have contributed an estimated \$22 million on top of that. This translates to \$12 million in sales tax and HST for the government.

The cruise market segment represents 9% of our port's business – and we are now the cruise gateway to New Brunswick and the second busiest port of call in Atlantic Canada. It is our goal to continue growing this market. In the near future we hope to surpass 200,000 passengers per year, which would translate into a steady 75 vessel calls. To reach this goal we have partnered with the private sector as well as local and provincial government agencies, with a focus on promoting the Bay of Fundy brand as a cruise destination.

However, attracting cruise business takes more than just cultivating your own port of call as a tourist destination. The best way to attract cruise ships to your waters is to develop your region as a whole. Cruise operators are more likely to bring their business to a collection of attractive ports of call, than they are to a single isolated destination. To that end, the Port of Saint John as an active member of the Atlantic Canada Cruise Association works with other ports and partners in Atlantic Canada and New England to promote the Canada/New England region as a cruise destination.

Ports throughout this region, together with the St. Lawrence Cruise Association members have benefited from working as a group, and have found success in attracting cruise business to the region as a whole. We each have the same interest in the market, and we're each selling essentially the same product, but together we offer cruise clients a menu of options, the stability of diversity, and a dedication to service.

It's working well, and it's a model that can extend to international shipping and all its vertical markets. In order to reach Atlantica and benefit from it as a group, we need to

build it from the ground up, cooperating to seek efficiencies, coordinate investment, and maximize revenue in all its component parts.

Saint John is known as New Brunswick's "Port City." Our port has played an integral part in this city's history, and we believe it will play an important role in its future. We also have a role to play in Atlantica, being located at the nucleus of the region and only one hour from the nearest Canada-US Border Crossing. We have direct access to highway and excellent rail connections that can provide rapid access to the rest of the Maritime Provinces; connect west to Quebec, Ontario, and beyond; and connect south through New England into the U.S.

With our north-south trading advantage, we are very well positioned to pursue both feeder services and a short sea shipping opportunities. Feeder services may be defined as those feeding cargoes between niche ports and the port of call of major shipping lines. Portland to Halifax is a good example of a feeder service. Short sea shipping is seen as a transportation option that can alleviate increasing highway congestion and environmental concerns regarding diesel emissions related to road and rail transportation.

In 2005, 27.5 million tonnes of cargo was handled through the Port of Saint John, making us the third largest port in the country from a tonnage perspective. Our own particular niche is the bulk and break-bulk cargo sector. While we have capacity to handle containers, our vision is not to be a container super-port. Bulk and break-bulk cargo represents 84% of our business from a revenue perspective. Other revenue streams include the cruise market segment, representing 9% of our business, and container shipping, which represents 7%.

Our strategy is one that builds upon our strengths, and helps our port generate maximum return on investment by:

- Providing real flexibility for bulk shippers
- Growing our container business to match our existing capacity by attracting a variety of smaller clients; and

- Affordably repurposing under-utilized facilities with creative marketing and problem-solving strategies.

It's our goal to see our port continue to be an economic engine for the region. One way to do that is to take our place in the foundation of Atlantica, where the Port of Saint John and all other ports in the Atlantica region can come together to create a diverse collection of service providers that can cooperate to profitably service each facet of the international shipping market, now and into the future.

Our first step here in Saint John is create a Saint John Gateway Council which engages all stakeholders of the transportation system – road, rail, sea and air. From there we can advance to the second step – the formation of an Atlantic Gateway and then finally expand it into an International North-East trade corridor into North America. An Atlantic Gateway would join the Atlantic Canadian provinces together with common regulations, security procedures, cost structures and marketing.

It will require expert partnerships to manage supply chain infrastructure planning and development; cooperatively identify and pursue sustainable business opportunities; create multi-level partnerships designed to identify and capitalize upon investment opportunities, build the economic base of the region as a whole; and seek harmonization of legislation and regulations at the federal, provincial and municipal government levels to help achieve these goals.

Policy makers in Ottawa have identified six considerations for creation of a Gateway.

They are:

- International commerce and trade competitiveness
- Global supply chains
- Policy integration
- Multilevel partnerships
- Productivity gain and
- Communities and regions

The federal government is currently pursuing a Pacific Gateway model, in conjunction with the Greater Vancouver Gateway Council and BC Ports Strategy – a consolidation of the efforts underway to address the massive growth in container cargoes to and from the Far East.

An Atlantic Gateway will strive towards creating a comprehensive transportation corridor that will knit the region together, and connect it to the rest of North America. It will build a brand, and operate as a sales tool, maximizing competitiveness in all aspects of the regional supply chain. It should actively promote its menu of services and build partnerships through participation in trade missions to identified markets of opportunity such as Europe and the Far East. It will seek policy integration in security, land use, taxation, and human resources planning.

The four designated Canada Port Authorities in Atlantic Canada are Halifax, Saint John, St. John's and Belledune. These ports, each of which has a niche, which differs considerably from the other, have the opportunity to drive the Atlantic Gateway concept and set a foundation to expand into an International North-East Trade Corridor. For this to occur, a cooperative and collaborative approach will be required by all parties. A strategic planning exercise would identify synergies, focus investment, and clarify each port's position within the Gateway. A successful example of this exercise is the British Columbia Ports Strategy, announced in March 2005.

A harmonized regional strategy will accomplish many things. It will maximize profitability for our ports by conducting a comprehensive analysis of their strengths, weaknesses, opportunities and threats. It will enhance linkages with local, provincial and federal government agencies. It will also allow for the coordination of research initiatives such as traffic tracking, and emphasize a new focus on cooperative business ventures.

Part of this equation is our intermodal network of inland transportation partners. It's one thing to get cargo off a vessel, but it's another challenge altogether to get it to its final

destination and vice-versa. To succeed, there needs to be a seamless and rapid transition between the port and the marketplace. Atlantic Canada's highway system is extensive and we have access to a number of rail carriers. Efficiencies can be generated in this system by working with rail partners to develop complementary operational and marketing strategies, which will give customers competitive rates and a consistently maintained, high quality transportation product.

Huge increases in container traffic represent very heavy volumes on road and rail, and a demand for increasingly large terminal spaces dedicated to assembling and distributing growing cargoes prior to or after shipment by rail or road. The capacity of this network is already being exceeded nation-wide, and this is a real concern to the port and marine transportation industry.

This layer of the Atlantica structure demands ongoing dialogue. A coordinated approach to maintaining and developing our intermodal network is an absolute necessity. A disconnect between ports and inland transportation partners will inevitably result in over or under-utilized infrastructure, missed opportunities and the potential for duplication of investments. And now, the final step - expanding this model into the International Northeast – Reaching Atlantica.

We know that the emergence of cross border regions helps trade. In the ten years leading up to the North American Free Trade Agreement (NAFTA), the compounded growth of Atlantic Canada's average annual trade with its cross-border neighbours was 12%. In the years following NAFTA, that growth rate rose to 17.4%.

Atlantica will require a cross-border partnership with the potential to forge international alliances at all links in the supply chain. These linkages will allow it to offer a varied menu of services, avoid congestion, and limit operational vulnerabilities. It will build political alliances between nations, and work towards harmonizing regulations to allow for profitable short sea shipping options, which will alleviate intermodal congestion.

It will develop strategic marketing plans and goals, and act as an over-arching brand for the region and we're already on our way.

The U.S. is moving towards initiating a \$1 million multi-modal transportation study of a corridor from Atlantic Canada through Maine, New Hampshire, Vermont and northern New York to the Ontario border. Congress has also designated significant funds towards establishing a high priority east-west highway linking St. Stephen/Calais to Watertown, NY, ultimately connecting with the major north-south corridor through Buffalo.

The first priority for Atlantica is to build an international dialogue between government agencies that will result in real political cooperation. This ongoing, multi-disciplinary discussion is intrinsic to Atlantica's success, and will have significant impact on each of its component parts.

For example, international cooperation will have a direct impact on Atlantica's ability to harmonize regulations between nations. The Jones Act in the U.S., and cabotage regulations in Canada hamper the introduction of short sea shipping along the Atlantica coastline. Relaxing these regulations could see this mode of shipping become a powerful weapon in combating diesel emissions and highway congestion.

International security will also demand close governmental cooperation. Ports operating in an international, post 9/11 context need a comprehensive security strategy that provides for the safety of people and cargoes without unduly restricting movement through the supply chain. Atlantica will enable its partners to work together to define a comprehensive set of security standards that can be applied region-wide, allowing for economies of scale in information technology investment and procurement. A uniformly high standard for security will help Atlantica's component parts attract and keep business.

It will certainly be a challenge, and require the commitment of all parties, but I think it's clear that the whole will be greater than the sum of its parts. Just as a mutual fund

protects its investors from risk through the diversity of its holdings, Atlantica offers its component parts strength in numbers. The Atlantica concept can nimbly adapt to changes in the business landscape, such as the move to containerization, by shuffling its deck of service providers and allowing a well-positioned or specialized subset to address the needs of a new business model, leaving the rest to service more traditional market segments. It can also absorb surges in business, like today's Asian trade, by spreading the load over a variety of its component parts, which will reduce the risk for its clients, and allow its members to share the wealth.

We need to continue the dialogue and move the agenda forward – now.