

Critical Issues in Transportation Affecting Canada's Recovery

Canadian International Freight Forwarders Association

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Introduction

The coming election will be an opportunity for the political parties to address the most critical issue in Canada today: our economic recovery from the chaos and losses of the Covid 19 pandemic.

Although many issues deserve the attention of political leaders in this election, meeting our economic challenges with vigorous and effective policies will enable us to confront the many social and environmental issues we face. Alternatively, if Canada does not address the economic challenges effectively, we will be weaker on every issue.

The Covid experience has been unprecedented. No one could have predicted how it evolved in our national life. Some industries were relatively unaffected – some even flourished – but others have been crippled and we will experience the impacts for years to come.

In confronting the economic damage, governments must confront the reality that markets have been distorted and Canadians have lost market share. There is no guarantee that we will win this back unless it is seen as a cooperative national priority.

One critical reality that should inform public policy is this: it is not as much about the ambitious “new” policies and infrastructure, as it is about executing the existing framework with efficiency and excellence. In places where the federal government’s agencies are directly involved in economic activity, it is critical that they execute with very high levels of reliability and timeliness.

This has implications for federal staffing targets as well as complex, time-consuming regulatory processes.

Over the last three decades Canada has relied on market forces to craft the services and prices for transportation. Generally, this has been a successful strategy, one we endorse. With a few exceptions we have also employed a “user pay” approach which has kept system costs away from taxpayers.

However, the Covid 19 epidemic has created completely unprecedented circumstances.

For the next two years the federal government will need to maintain a greater degree of responsiveness to economic developments than it has since deregulation. It must ensure the cost efficiency of the transportation network that affects all industries and travelers.

Customs Services and Border Modernization:

One of the most encouraging developments in recent government decisions was the announcement of a proposed investments in border modernization. We remain very supportive of this concept and eager to see details of its implementation.

Commercial stakeholders currently navigate seven different IT systems for commercial goods movements. The present system has a lack of cohesive strategy, as Canadian importers and exporters regularly struggle with myriad systems and overlapping regulations that impact their businesses on a daily basis.

The solutions – some of which are being tried now – include:

1. Better harmonization of different agencies/departments and mandates, especially of their IT systems.
2. A significant investment in technology to make information available at all posts and to capture data on a system-wide basis,
3. Continued investment in border officers to ensure an adequate and well-trained workforce,
4. Much better transparency will benefit users and the various agencies involved,
5. Investment in the physical infrastructure to facilitate more modern border processes, ie: dedicated lanes for “trusted shippers” who should be segregated from the general population at border crossings.
6. Aggressive implementation of the Single Window Initiative (SWI) will benefit users while maintaining federal information requirements.
7. Move ahead with the implementation of the promised CBSA Assessment and Revenue Management program which was introduced as a program to “provide a modern interface enabling a simplified importation process, thereby increasing visibility and reducing costs for importers.” and which should produce important efficiencies for users as well as government.

Trade Gateways

As our economy recovers and trade volumes climb, there is an opportunity to craft much improved regional strategies to increase the efficiency of our trade corridors. These corridors are a combination of private and public facilities, suggesting the need for increased collaboration among the various participants.

The promise of infrastructure investments by the federal government, individual ports and private facility owners could materially improve Canada’s competitiveness if a clear plan existed. But these investments will be much influenced by an actual strategy in the Canada Trade Gateways.

Armed with better information, port users will be better able to contribute to a modern sectoral strategy for Canada’s national gateways, especially regarding infrastructure investments which will enhance productivity and competitiveness.

Specific Sectors Requiring Attention

While 2020 - 21 has been a stressful year for all modes of transportation, it has been especially destructive for our marine and aviation sectors. Addressing the myriad issues confronting these sectors will require new approaches for the federal government and flexible policies for an indeterminate recovery period.

Marine:

Considering how critical the marine industry is to Canadian trade, it is odd that the sector gets less attention and less support from the federal government than others. This needs to change as this is one of the transportation sectors most disrupted by Covid.

A lack of focus in the federal government could leave Canadians far behind European and American shippers as economic recovery progresses.

The International Federation of Freight Forwarders Associations (FIATA) recently declared: "The maritime supply chain is totally disrupted; it is on its knees. The reliability in terms of transit and frequency is the worst ever, predictability is nonexistent...without any planning certainty, managing the supply chain has become a mission impossible.

The Covid pandemic has overstressed Canada's marine sector, creating significant congestion and unreliability. It has also created the opportunity for price escalation (price gouging, in fact) which is driving up costs borne by Canadian exporters, importers and consumers.

According to Reuters, the average price world-wide to ship a 40-foot container has more than quadrupled from a year ago, to \$8,399 as of July 1. Prices have surged 53.5% since the first week of May.

The congestion problem creates unexpected impacts: it is so severe that shipping interests have been forced to ask for a postponement of environmental measures which they have previously supported, such as the transient killer whale recovery strategy. Unanticipated impacts such as these further our conviction that aggressive measures by the federal authority are called for, and not merely for economic reasons.

An assertive national policy towards the sector is needed to ensure that trade volumes, shipping costs and service levels are brought back to normal to the benefit of the entire nation.

Specific measures:

1 Transparency

A significant problem in marine shipping is the lack of on-time performance. Container ships arrived on-time only 45% of the time, even before Covid 19 struck. Since then, the situation has been more chaotic and unpredictable. Vessels arriving early or late contributes to congestion, lack of reliability and costs.

Requiring consistent data regarding traffic, waiting times, etc. would be a major benefit to shippers, ports, and terminals. Modern technology makes real-time tracking possible.

The federal government should require reporting, monitor, and make available to users, data on productivity and efficiency in Canadian ports.

2 Act immediately to restrict price-gouging behaviour by marine carriers

Emboldened by the chaos in international shipping, carriers have taken the opportunity to impose new charges on shippers with little explanation or justification. Listed prices to ship from China to major ports in Europe and the U.S. West Coast are closer to \$12,000 a container. Some companies say they are being charged \$20,000 for last-minute agreements to get goods onto outbound vessels.

These increased costs impact Canadian business and consumers. Canadian transport and competition authorities should vigorously respond to protect our national interests, as authorities are doing in other jurisdictions.

3 “Canada first” prioritization of cargo through Canadian ports

In the Covid-created chaos affecting supply chains, Canadian port and rail facilities are sometimes so constricted by US-destination cargos that they are squeezing out Canadian shippers. Normal competitive market philosophies are not appropriate for this period of essential rebuilding – Canadian transportation networks are a critical factor of national recovery.

This is a concept which would be implemented in the U.S. without hesitation. Facilities built and financed by Canadians should serve Canadian needs before they are rented out to other countries.

4 Regulatory cooperation with U.S.

Often our national interests conform to those of the U.S., where the regulatory authorities are far more aggressive in defending shippers. The Federal Maritime Commission in the USA and other regulators are investigating pricing and capacity management practices of shipping lines. Recent US inquiries into container imbalances and unfair demurrage charges have not been followed by any Canadian action. Close cooperation between the national governments is critical. A recent Executive Order by the U.S. President suggests new aggressive postures by regulatory agencies which, if not matched by Canada, will produce sharp price differences between Canadian and U.S. markets, with obvious competitive implications.

Aviation

Without a strong federal commitment to a comprehensive aviation recovery plan, both the air sector and Canada’s overall competitiveness face considerable risk.

Air transportation is a critical industry in Canada, enabling the movement of people and cargo, which are often combined in commercial aircraft. On the eve of Covid 19 the sector was accounting for 256,000 direct jobs and contributes \$23.4 billion in direct Gross Domestic Product (GDP).

A characteristic of aviation is high fixed costs which are not sensitive to traffic volumes. Airports must clear snow to allow flights regardless of how many passengers are on the aircraft. This reality is present in all aspects of the aviation system. During the Covid crisis passenger demand collapsed, which had a serious impact on cargo capacity as about 50% of cargo previously traveled in the bellies of passenger flights. Dedicated cargo flights eventually replaced some of this capacity, but at much greater costs.

The catastrophic declines in passenger volume left the sector unable to charge enough users to break even. As a result, carriers, airports and NavCanada were all forced to borrow to maintain operations. This accumulation of debt represents a major threat to aviation’s recovery.

Through the Covid crisis, government support was targeted at workforce retention and retaining essential services. Later the Crown began providing specific aid to individual companies (Air Canada, Air Transat, Sunwing, Porter.) In the recovery phase the support needs to be “agnostic” designed to drive down system costs to the benefit of all users. Ensuring airports and air navigation costs do NOT spike upwards is one of the most important measures the government can enact.

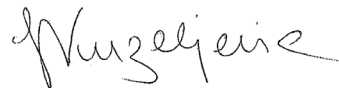
1. Provide financial support for the facilities – airports, air navigation – to ensure their heavy debt obligations do not produce sharply higher fees in the next two years as demand recovers.
2. Benchmark Canadian aviation against U.S. system costs, recognizing the danger of increased traffic diversion to (subsidized) U.S. airports; a particularly serious trend in a “user pay” Canadian system where fixed costs are borne by users regardless of their numbers. Adjusting policies to reflect changes in the air cargo sector.
3. Canada needs a specific strategy for maximizing the contribution made by air cargo to the economy. Some elements:
 - a) Harmonize regulatory requirements where possible to ensure frictionless cargo services and maintain the competitiveness of Canadian services.
 - b) Comply with world standards for security regulations, including permitting canine screening for some cargos.
 - c) Remove the restriction on international flights – currently permitted in only four airports – for dedicated cargo aircraft, with appropriate health measures for aircrew and
4. The indefensible airport rent system.

The Canadian International Freight Forwarders Association (CIFFA) has never supported the concept of airport rent which is simply a thinly veiled tax on users. This policy has forced airports to levy charges far greater than those the government imposed on travelers when it ran the airports itself. Billions of dollars have been extracted from travelers through this hidden tax. Normally “rent” is a payment received by a landlord, but the federal government does not function as such. It provides no upkeep of airport properties and assumes no risks. Canadians are paying their own government for the right to use facilities that they have already paid for as taxpayers. The temporary suspension of airport rent during the crisis should be formalized as a permanent termination of this unjustifiable charge.

At CIFFA, it is our hope that an elected government’s priorities will lie in executing the existing framework with considerable efficiency and excellence. In places where the federal government agencies are directly involved in economic activity, it is critical that they execute with very high levels of reliability and timeliness. This will address the most critical issue in Canada today: our economic recovery from the chaos and losses of the Covid 19 pandemic.



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The Canadian International Freight Forwarders Association (CIFFA) represents some 260 regular member firms from the largest of global multi-national freight forwarding firms to small and medium sized Canadian companies. CIFFA member companies employ tens of thousands of highly skilled international trade and transportation specialists. As a vital component of Canada's global supply chain, member firms of the Canadian International Freight Forwarders Association (CIFFA) facilitate the movement of goods around the world. Freight forwarders provide a vital link in Canada's global supply chains, enhancing export capabilities and assisting in the delivery of competitive solutions to Canada's importing and exporting communities.



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