

THE ENTIRE SUPPLY CHAIN UNDER ONE ROOF!
TOUTE LA CHAÎNE LOGISTIQUE SOUS UN MÊME TOIT !



FOREIGN TRADE ZONES AND THE TRANS-PACIFIC PARTNERSHIP – WHAT DO THEY MEAN AND HOW DO THEY BENEFIT YOU?

**ZONES FRANCHES – QU'EST-CE QUE C'EST ?
PEUVENT-ELLES VOUS ÊTRE UTILES ?**

February 17 | 8:30 am – 10:00 am

Speakers / Conférenciers :

Moderator: **Mark Szakonyi**, Executive Editor, Journal of Commerce

Jim Brown, General Manager, JRSB Logistics Consulting Ltd.

Peter Wallis, President and CEO, The Van Horne Institute

Steve Banks, Partner, Triskele Logistics Ltd.

Presented By
Présentée par

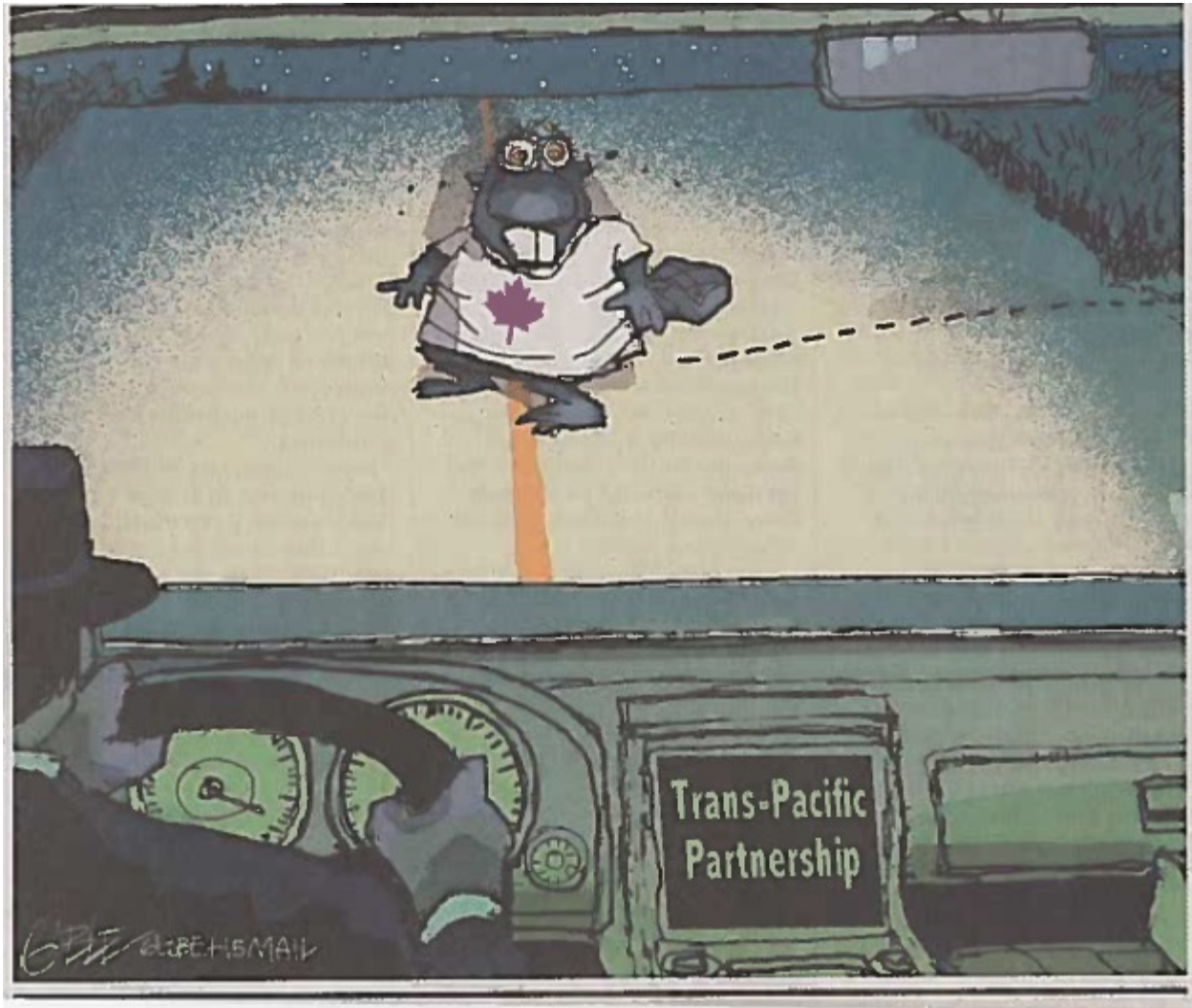
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Background

- Most extensive free trade initiative
- 12 countries representing 40% of global GDP
- Completed October 5, 2015
- Text has been released
- 30 chapters
- 4 annexes
- There is no chapter specifically on transportation
- Transportation is an enabler of commerce and economic growth



- Economic enabler - such is the promise of the TPP.
- TPP eliminates or reduces tariff and non-tariff barriers across substantially all trade in goods and services.
- TPP is intended as a platform for regional economic integration and designed to include additional economies across the Asia Pacific Region
- TPP to eliminate and reduce tariffs on:
 - a) Industrial goods
 - b) Agricultural goods
- TPP designed to create cooperation and capacity-building particularly, in the private sector (SMEs) (Chapter 21).



- TPP will promote and strengthen open trade and investment environment.
- TPP includes policies designed for nationals of each party to maximize the use of the opportunities created by the Agreement (Chapter 23).
- TPP will explore ways to promote the development and strengthening of supply chains to integrate production, facility trade and reduce the cost of doing business of within the free trade area (Chapter 22).



- TPP will not apply to many transportation services.
- TPP does not apply to air services – domestic and international scheduled or non-scheduled except for:
 - Specialty air services
 - Computer reservation system services
 - Airport operations services
 - Ground handling services(Chapter 10)
- Special air services opened on reciprocal basis
 - Canadian operators will have guaranteed access to 5 markets
 - SAS operators from 5 countries will have access to Canada



Supply Chain Impacts of TPP

- Some of Canada's main exports are “bulk” products.
- Wheat and grain, potash, coal and sulfur move to Vancouver by rail on unit trains that are loaded to move westward and returned, normally empty, to their eastern points of origin.
- Most of the products that are imported into Canada are in marine containers (forty-foot and twenty-foot containers are the most common).



- Containers enter Canada from Asian TPP member nations at either Vancouver or Prince Rupert and moved by rail to the closest intermodal facility.
- With the largest part of Canadian population residing in Southern Ontario and Southern Quebec, most containers travel by rail to Ontario or Quebec for final delivery by truck to destination.
- Manufactured goods from Eastern Canada loaded into containers for shipment from Vancouver to Asian TPP member nations.



- Larger percentage of containers move back empty to be repositioned to their country of origin for another loaded move to North America (or elsewhere).
- With expected increased in imports and exports under TPP, Canada will face an opportunity for more export moves in bulk and containers westward and more loaded import moves in containers from the westcoast ports, eastward.
- More product movement generated by TPP, both east and west in Canada, will be a win-win.

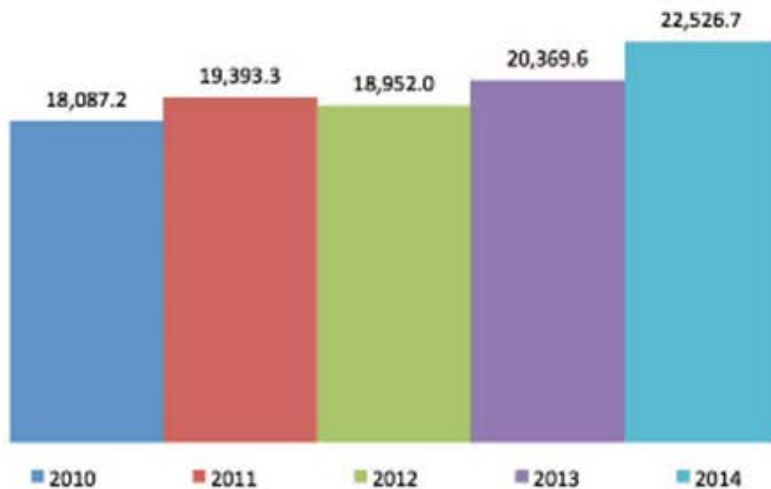


- Overall **capacity** is better utilized and the cost of moving product east to west will experience better rates based on more outbound loads.
- The transportation supply chain will benefit, starting with the western seaports and continuing along the chain of inland ports that have developed in Western Canada.
- A higher volume of imports and exports will also demand greater trucking capacity from the transload locations and intermodal yards.

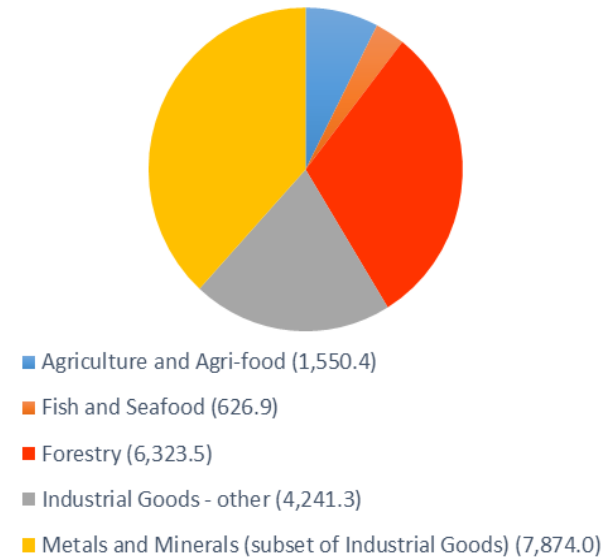


British Columbia Exports

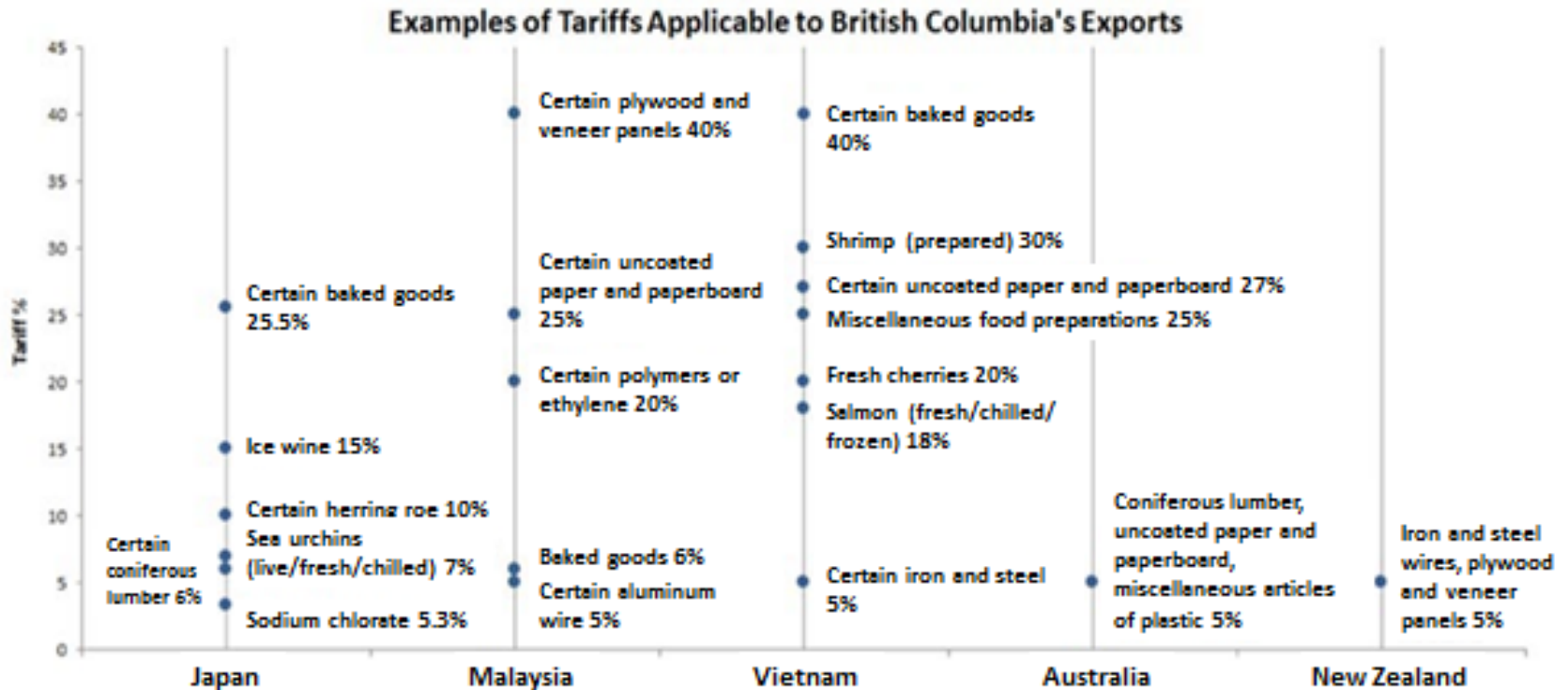
British Columbia Exports to TPP Countries (2010-2014)
(millions of Canadian dollars)



British Columbia Exports to TPP Countries by Sector (2012-2014) (millions of Canadian dollars)



Examples of Tariffs Applicable to British Columbia's Exports

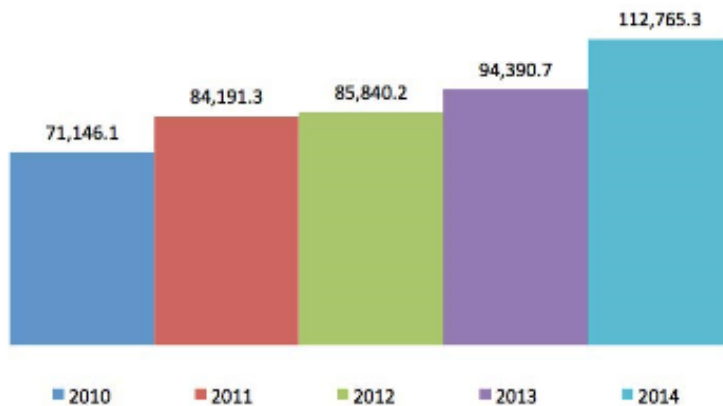


Note: Tariffs in the chart are the maximum tariff applicable to a given product. Tariff examples do not include specific tariffs, which could be higher

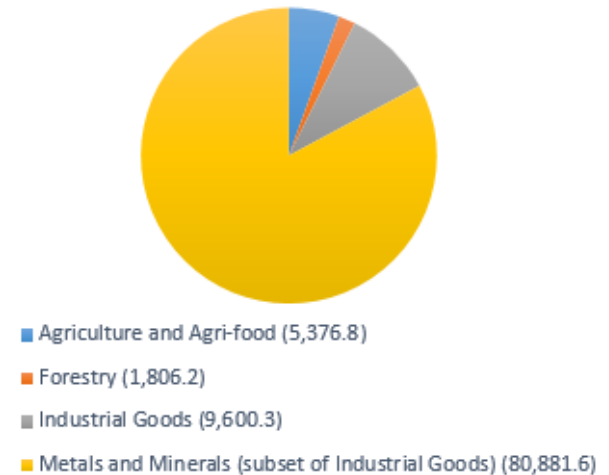


Alberta Exports

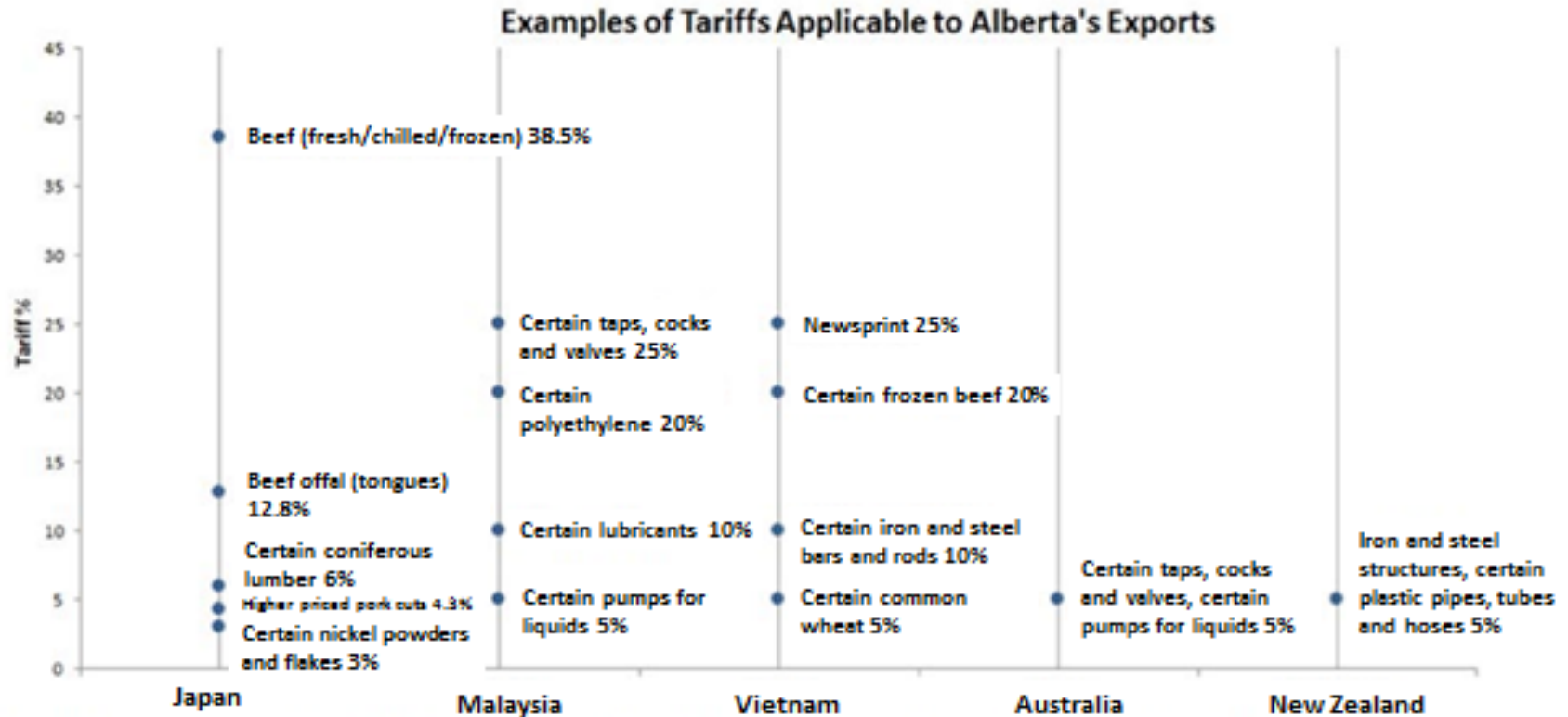
Alberta Exports to TPP Countries (2010-2014) (millions of Canadian dollars)



Alberta Exports to TPP Countries by Sector (2012-2014) (millions of Canadian dollars)



Examples of Tariffs Applicable to Alberta's Exports

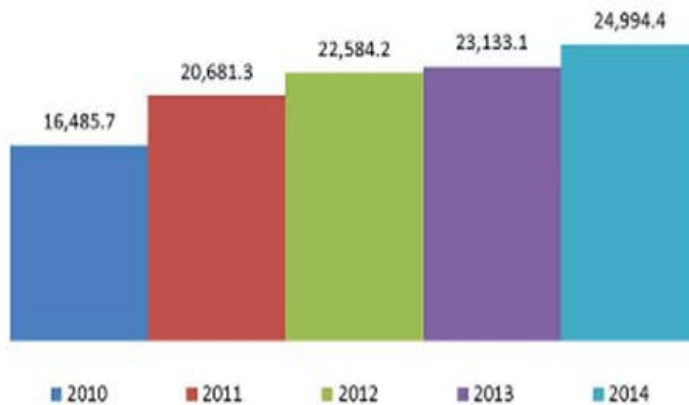


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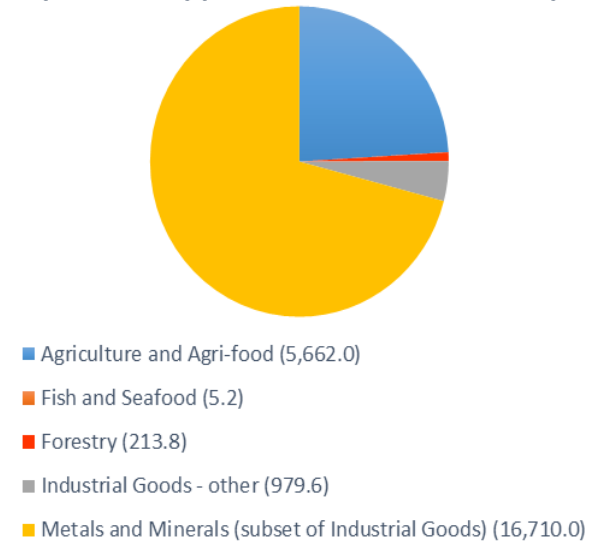


Saskatchewan Exports

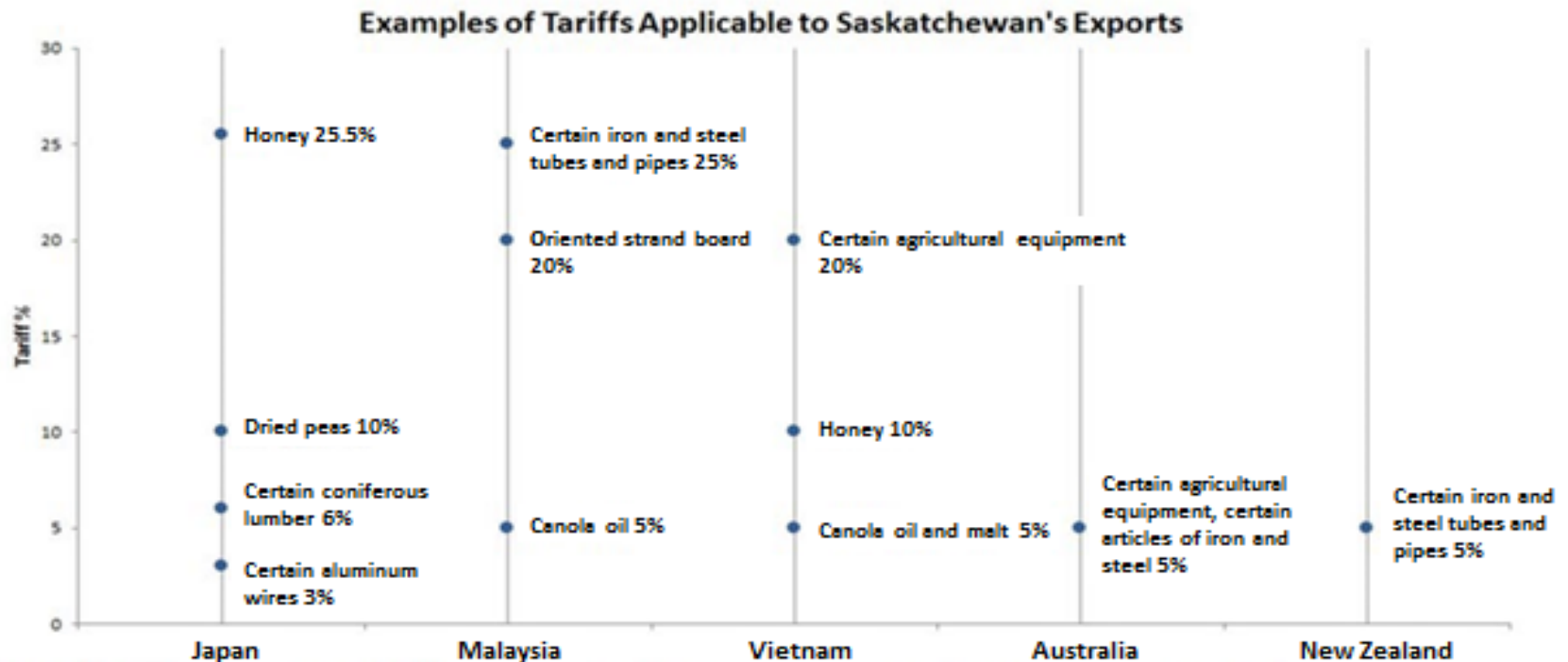
Saskatchewan Exports to TPP Countries (2010-2014) (millions of Canadian dollars)



Saskatchewan Exports to TPP Countries by Sector (2012-2014) (millions of Canadian dollars)



Examples of Tariffs Applicable to Saskatchewan's Exports

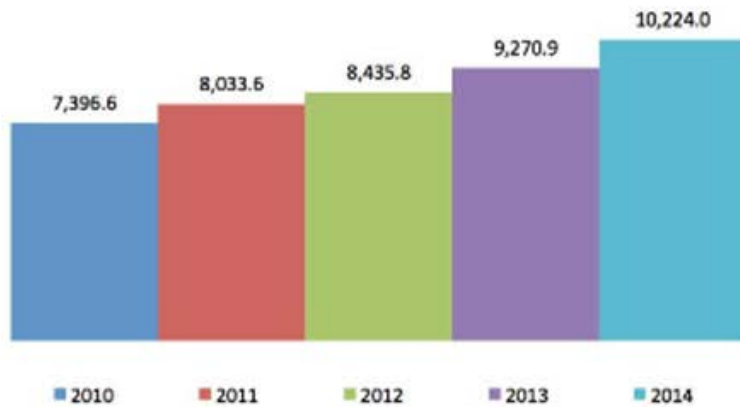


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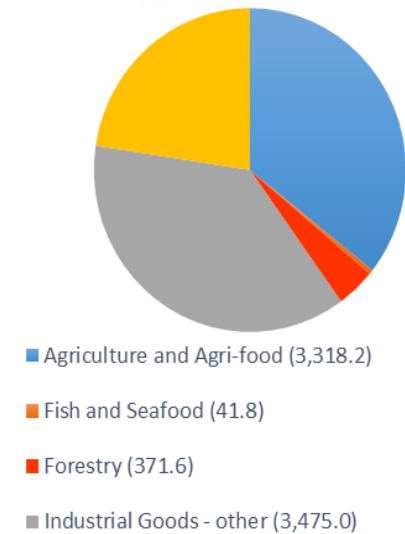


Manitoba Exports

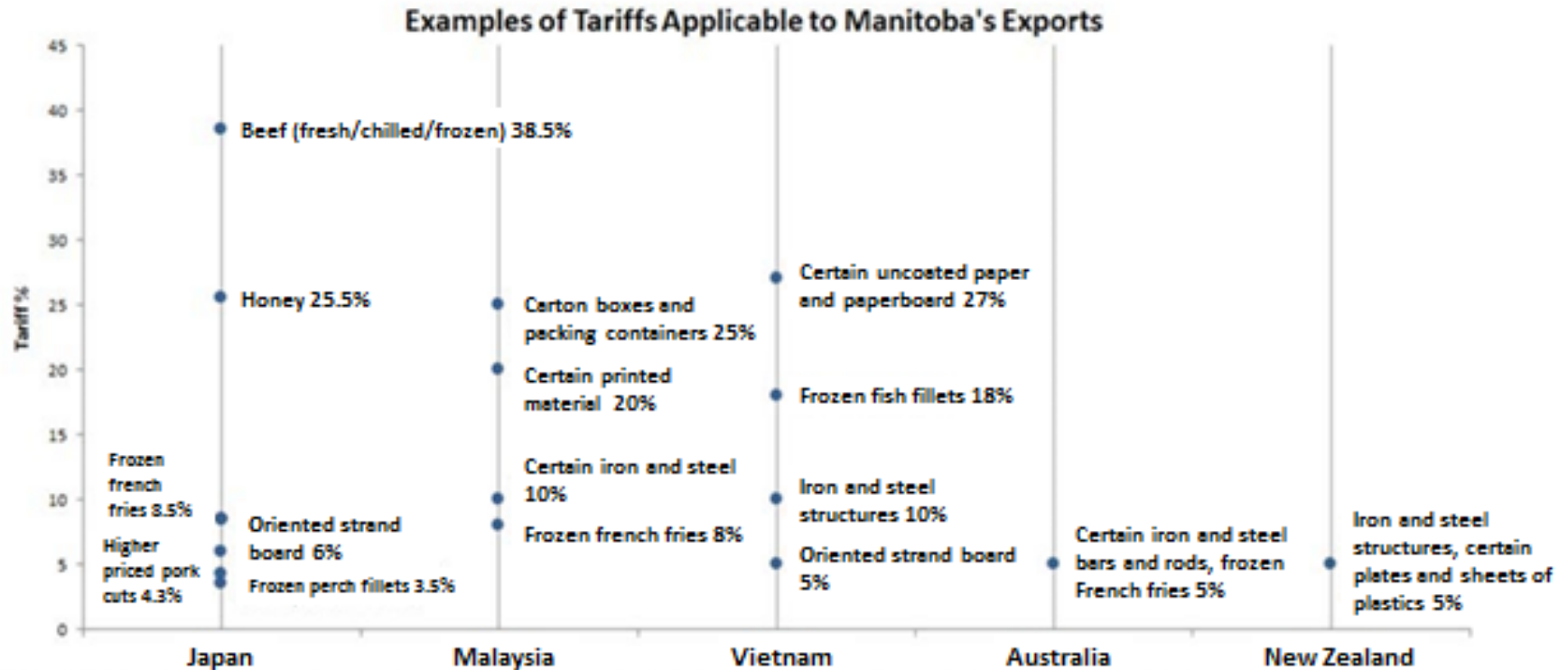
Manitoba Exports to TPP Countries (2010-2014)
(millions of Canadian dollars)



Manitoba Exports to TPP Countries by Sector (2012-2014)
(millions of Canadian dollars)



Examples of Tariffs Applicable to Manitoba's Exports



Note: Tariffs in the chart are the maximum tariff applicable to a given product. Tariff examples do not include specific tariffs, which could be higher



Ocean Vessel Travel Times – Advantage for Canadian Ports

Ocean Vessel Travel Times – Advantage for Canadian Ports

- Tokyo, Japan to Long Beach, CA

- 8992 km – 14 days & 10 hours

• Tokyo, Japan to Oakland, CA

- 8425 km – 13 days & 12 hours

• Tokyo, Japan to Portland, OR

- 7983 km – 12 days & 19 hours

• Tokyo, Japan to Vancouver, BC

- 7775 km – 12 days & 11 hours

• Tokyo, Japan to Prince Rupert, BC

- 7044 km – 11 days & 7 hours

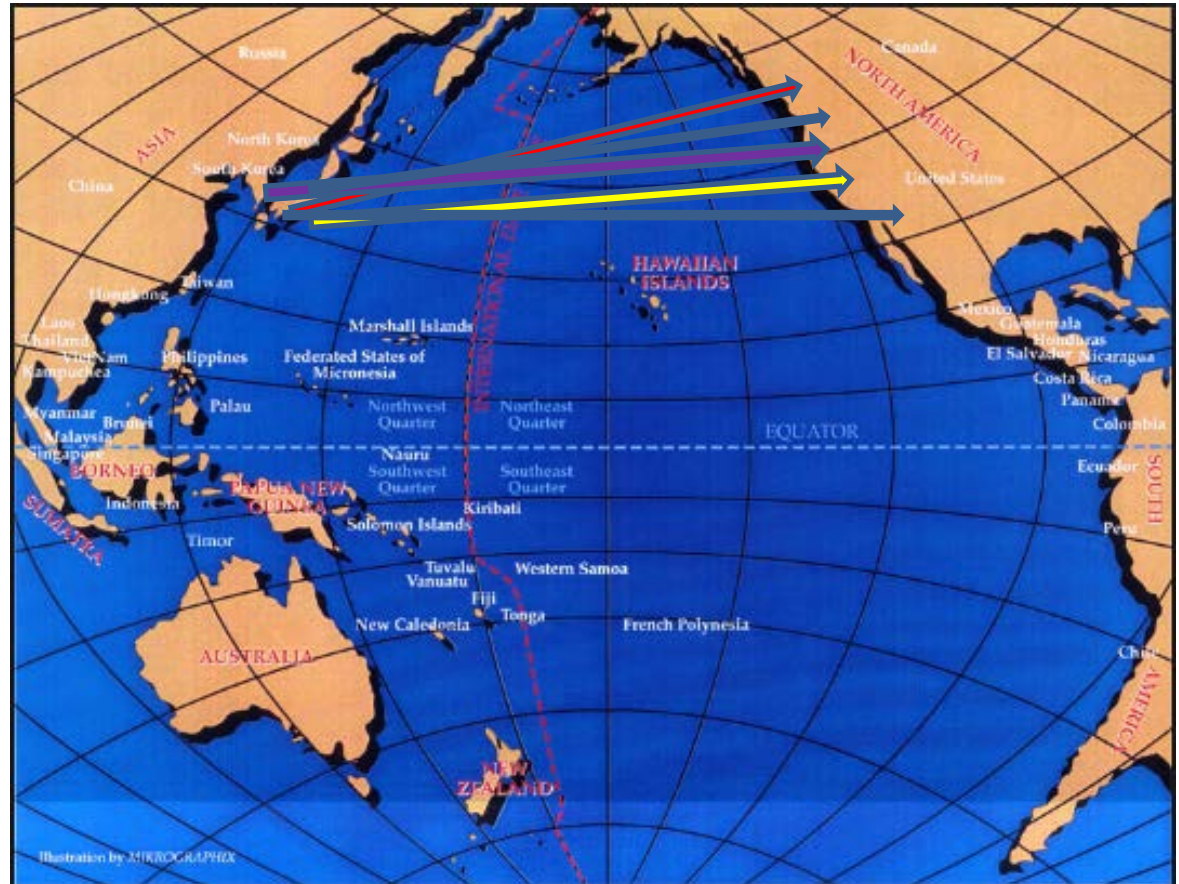
Time savings from Hai Phong (Vietnam's largest port) is also about 2-3 days advantage for Prince Rupert and Vancouver over Long Beach, CA.

The advantage for Long Beach, CA over each of the western Canadian ports is no more than 24 hours (19.5 days vs. 20.5 days) from both Australia and New Zealand.

Canada does not have an advantage over the US for ports from Mexico, Peru and Chile (ranges from 1-3.5 days better for US ports).

Ocean vessel transit information gathered from:

<https://www.searates.com/reference/portdistance/?B=513&E=20628&>



Estimates of Growth for Select Commodities into TPP Markets

- Tariff reductions will occur over a 9-15 year period
- Fully implemented commodity growth estimates (all are approximates):
- Pork – 30% - Asian partners and potentially Chile and Peru
- Beef – 50% - Asian partners
- Wheat – 20% - Asian partners; 10% South America
- Potash – 10% - U.S.A., Asian partners



Potential Increase in Railcar Capacity to Meet the New Export Demand Arising out of TPP for Specific Commodities

- Pork – 512 refrigerated twenty-foot containers
- 110 railcars
- Beef – 220 – 300 refrigerated twenty-foot containers – 75 railcars
- Wheat – 725 railcars
- Potash – 1000+ railcars

Pork

	2014	
	Revenue	Tonnes
Japan	\$ 951,397,000.00	199829
Chile	\$ 40,256,000.00	13260
Singapore	\$ 7,895,000.00	2707
*Vietnam	\$ 4,980,000.00	**1640
*Malaysia	\$ 2,580,000.00	**850
Total	\$ 1,007,108,000.00	218286

* Based on 2013 number

** Based on average price of \$3035.90 (Chile Prices)

<http://www.canadapork.com/en/industry-information/canadian-pork-exports>

**http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/can/show/0203/2013/

	Future	
	Revenue	Tonnes
Japan	\$ 1,236,816,100.00	259777.7
Chile	\$ 52,332,800.00	17238
Singapore	\$ 10,263,500.00	3519.1
*Vietnam	\$ 6,472,533.33	2132
*Malaysia	\$ 3,354,666.67	1105
Total	\$ 1,309,239,600.00	283771.8

- Pork is estimated to grow by 30% to Japan and the other Asian nations of Vietnam, Malaysia and Singapore (and potentially Chile and Peru as well).
- Based on about 17,500 kg (17.5 tonnes) per 20 foot container (containers loaded in Trochu, AB by Sunterra), this increase of ~65486 tonnes of exports to just these 5 nations is about 3742 additional reefer loads. *Assuming* that it takes about 50 days to cycle back to origin after traveling to Vancouver/Prince Rupert and then on a vessel to destination and then back, this would lead to an additional 512 reefers required to move this product.

Beef

	2014	
	Revenue	Tonnes
USA	\$1329.5 M	299581
Mexico	\$151.2 M	34056
Japan	\$103.3 M	23263
Rest of World	\$324.0 M	73100
Total	\$1908.0 M	~430,000

- Using the same assumption of 17,500 kg (17.5 tonnes) per 20 foot container), Japan would have had ~1330 20 foot equivalent containers exported from Canada in 2014. If they are going to double this volume, they are going to need an additional 182 reefers available assuming a 50 day cycle time.
- Canada is also looking to increase volumes to both Malaysia and Vietnam where the numbers currently are not that high. Assuming they grow at a similar pace to Japan, an additional 20-100 reefers will be required to cover this additional volume.

Wheat

	2014/15 season (Aug to July)		Potential Growth	
	Tonnes	%	Tonnes	
USA	3164200	negligible	3164200	
Mexico	2576200	negligible	2576200	
Peru	1105000	10	1215500	
Chile	511500	10	562650	
Vietnam	252900	20	303480	
Malaysia	197400	20	236880	
Japan	4048200	20	4857840	
Total TPP Nations	11855400		12916750	

- Based on the projected volume increase of ~20% to the Asian countries and ~10% to South American countries, we would have an additional 10,600 railcar loads required to move the additional volume (this is based on an average of 100 tonnes per railcar and provided the yearly crop is large enough for this volume of wheat to be grown and shipped).
- This additional volume would require about 725 additional railcars to account for the incremental volume (based on an average cycle time of 25 days to the move the wheat from the prairies to the ports – this cycle time is likely too high so the amount of additional cars is also too high but this is a worst case scenario).

Potash

Here are some numbers for TPP nations receiving export potash from Canada in 2013:

	2013 Revenue
USA	\$3130 M
Malaysia	\$286 M
Japan	\$85.1 M
Vietnam	\$73.5 M
Australia	\$49.2 M
Mexico	\$24.1 M
Peru	\$7.1 M
Rest of World	\$2585 M
Total	\$6240 M

- With TPP nations importing around \$3.7 B in potash and other fertilizers (the US makes up for 80-85% of TPP exports and about 50% of Canada's total exports), any growth will lead to significant numbers.
- When K+S Aktiengesellschaft (the newest player in the Canadian Potash market) starts production in 2016, there will be a natural growth to overall exports from Canada. Assuming this is 10% of volumes and 2013 prices averaged around \$350 per tonne, that would mean ~ 17.8 M tonnes of product. With an average of ~100 tonnes per railcar load, that would mean that there were about 178,000 carloads in 2013.
- Assuming K+S ramps up to 3M tonnes by 2018, that will mean that there will be an additional 30,000 carloads on the railways (heading both south to the US and to the ports – mostly to Vancouver and Prince Rupert).
- It should be assumed that there will be some softening of exports from some of the existing exports from Canpotex as K+S would not be all incremental exports but it is safe to assume that they could easily increase exports by half of their projected volume, leading to an additional 15,000 carloads of traffic.
- This could put a strain on the railways depending on the mix (US vs. export to ports) especially since they are signed to a deal with CP, which can currently only get to the Port of Vancouver.

Is Our Transportation Infrastructure Capable of Handling the Increased Demand?

- Can the existing road and rail network support the increased demand for exports?
- Transportation System Capacity Study.
- Our estimates show the rail system, particularly to Port Metro Vancouver, will be stressed by the increased export and import opportunities.
- Rail challenges for additional capacity through the mountains.
- Road transportation challenge – extra road capacity on TransCanada and other routes to the westcoast.

Potential Solutions to Infrastructure Deficit

- Additional road infrastructure will ultimately be paid by taxpayer who will benefit from increased capacity.
- Canadian railways have demonstrated their ability to squeeze greater efficiencies out of their systems between Alberta and the westcoast ports.
- There is increasing opportunity for inland ports to support increased velocity through Canada's westcoast seaports
- Railroads invest 20% on average of revenues in capital projects.
- Railways understand the need to invest in infrastructure to create fluidity that will, in turn, resolve the issue of chokepoints.
- Competition between the railroads will also motivate their investment in infrastructure to respond to the economic opportunity created by the TPP.



Conclusion

- With all trade agreements, there will be winners and some potential losers.
- The Agreement will be interpreted in many different ways.
- The Government of Canada, which has inherited this Agreement from the previous government, will carry out extensive consultations as to the advisability of ratifying this Agreement.
- The final word goes to Perrin Beatty, President and CEO of the Canadian Chamber of Commerce when he suggests that the key question isn't "*Why should we ratify this Agreement?*", but rather "*Where will we be if we walk away?*"

