

# LOCATION CANADA

## The Logistics Advantages North of the U.S. Border

**Canada's infrastructure and logistics advantages are helping its businesses to remain competitive as they increase their share of global trade.**

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National borders mean very little when making location decisions. The logistics community in particular has consistently lived with the reality of the global economy — It is the nature of the business after all! And yet, even we in the location strategy business sometimes forget about the logistics powerhouse we have to the North.

The strength of the Canadian dollar, the stable regulatory environment, and the nation's logistic network all indicate strong development opportunities for companies and investors. Canada has already embraced globalization and international trade, has developed solutions to address fuel and environmental issues, and has built a logistics industry which puts it in enviable stead for attracting business.

Canada has certain natural strengths that commend the nation as an ideal conduit for North American logistics. Canada already has key channels in the North American supply chain with unique development opportunities along the line. Halifax and Prince Rupert have seen increased traffic in both bulk and container volumes, and much of this traffic flows southward into the United States for further production and consumption. The ports of Nova Scotia, Newfoundland, and British Columbia are closer via great circle route (the straight line route around the globe) to their European and Asian trading partners than any American counterpart. The St. Lawrence Seaway also provides an all-water route from Europe to Chicago's doorstep.

Canada has a true integrated rail network running coast to coast, which is run by two national railroads, allowing for the seamless movement of goods across the country without switching carriers. Canadian National's acquisition of the Illinois Central railroad back in 1998 resulted in the only truly continental railroad — one that stretches from Halifax in the east to Prince Rupert in the West and from New Orleans in the South to Canada's Northwest Territories.

Additionally, the country's banking sector was less affected by the crises of the past year, allowing investors and communities more flexibility now. Investors are now watching with interest as cities along the Canadian border develop strategies for increasing their share of global trade.

### **The "Building Canada" Initiative**

To its credit, the Canadian government has traditionally embraced and invested in its logistics strengths. It has had to, given Canada's development on both coasts, several strong metropolitan areas along the St. Lawrence, and development along the Canadian Plains — all separated by great distances. A strong logistics network is essential to national economic success.

In 2007, the federal government announced a full national infrastructure program called "Building Canada," which devoted approximately C\$33 billion to both regional and national transportation networks. The plan included both targeted investment programs and flexible incentives to be spread from 2007 to 2014. Some C\$2.1 billion of this plan

is to be spent specifically on the gateways and borders of the country, enhancing the nation's connections with global ocean trade and with the United States.

Some of the beneficiaries of these initiatives include:

- • National Highway System facilities impacted by increased trade flows
- • Intermodal connectors and facilities
- • International bridges and tunnels
- • Rail/road grade separations
- • Short-line rail
- • Short-sea shipping
- • Intelligent transportation systems

### **Action Along The Water**

As noted before, Canada's ports have geographic advantages allowing for short, direct crossings of the Atlantic and Pacific, as well as all-water routes well into the North American continent through the St. Lawrence Seaway.

Starting in the middle, the Port of Montreal is North America's (and the world's) largest inland port, and is Canada's leading port for containerized shipments. Due to its location on the St. Lawrence and proximity to the U.S. Midwest, the port already processes over 13.3 million tons of containerized cargo annually (2008 figures) spread across four container terminals, an increase of over 13 percent from the previous year. Total tonnage for the port in 2008 was 27 million. And, the port is going through its own strategic improvement plan to increase capacity to 4.5 million TEUs (twenty-foot container equivalent units) by 2020.

Newfoundland and Labrador bring other talents to the logistics game, and specialize in petroleum, carrying responsibility for half of Canada's light crude production, and also serving as the point of entry for most of eastern Canada's imported petroleum.

Halifax, on Nova Scotia's southeastern flank, is Canada's third-largest container port (after Montreal and Vancouver). The overall dip in economic activity has had an impact on the port, and volumes dropped 20 percent from 2007 to 2008. However, given the port's links via the Canadian National Railway to Maine and the remainder of the mainland, this does mean that there is tremendous opportunity for intermodal development.

Vancouver has remained strong and — like Montreal — has continued to invest in container capacity. As with Prince Rupert, the port has excellent great circle routing to Asian ports and has rail access from the Canadian National (CN), the Canadian Pacific (CP), and the Burlington Northern-Santa Fe railroads. Global Container Terminals recently opened their third, \$400 million container berth at Deltaport, British Columbia. With the addition of this new facility, Deltaport's total container-handling capacity is now at 1.8 million TEUs, up 50 percent.

Developments at Vancouver have explicitly involved the First Nations (aboriginal peoples) of the region. In fact, the Tsawwassen First Nation is part of a joint venture for environmentally sensitive development of the port and surrounding lands, including a C\$10 million industrial estate.

All of this existing strength is to be joined by brand new infrastructure on both the Atlantic and Pacific coasts at Melford (in Nova Scotia) and Prince Rupert (in British Columbia).

Prince Rupert began as a bulk terminal decades ago and transitioned to a container port in 2005. As the closest North American port to Asia, travel here significantly cuts transport time, and allows for direct transfer to the CN

railroad. While the recession has cut into the projected growth at the port, expansion is already under way, and capacity will be 2.5 million TEUs annually when completed.

Melford Terminal, located on the Strait of Canso in Nova Scotia, provides similar advantages in the East. Given its extreme eastern location, this planned port will be the closest deepwater terminal to both Europe and the Suez Canal. Construction is expected to begin in early 2010, with operations to commence in 2011. Both Prince Rupert and Melford are evaluating options for freight-related development alongside the port facilities.

### **...And Opportunity Along the Road and Rails**

Canada has significant domestic production and consumption zones as well, and developers such as First Industrial have begun to make investments in Toronto and elsewhere in Ontario and have plans for more. The Toronto-Hamilton-Detroit corridor, historically a major auto-manufacturing axis for the continent, is in the middle of a tremendous upheaval.

That having been said, the distribution industry continues to grow in the greater Toronto area (GTA), even during the downturn. Much of this is due to the activity of third-party logistics companies (3PLs). Up until the downturn, most companies retained full control of their supply chains, including their logistics and warehouse functions. In this cycle, several of these companies have moved these activities to 3PLs and have created increased demand for warehouse and distribution space in the areas surrounding Toronto — right in the middle of the country's largest consumption market.

The CN and CP railroads maintain major intermodal yards northwest of the city at Brampton and Vaughn, respectively. Both have been expanded within the past few years and already have capacity for a combined 1.3 million TEUs annually. According to local real estate professionals, new contracts for space have begun to circulate for the immediate area, a significant change from this point in 2009. While some of this activity is due to an improved economy, the trends appear to follow the continuing volatility in the oil markets. Higher oil prices drive more long-distance activity from truck to rail, enhancing intermodal's appeal.

The area is also experiencing more activity in the green energy sector, particularly in wind and solar. The recently announced partnership between Samsung and the Province of Ontario will result in the construction of wind and solar farms across the province, and logistics parks are jockeying to have their currently vacant areas used temporarily for lay-down of towers and for final assembly before installation.

In addition, the auto industry — particularly that part controlled by GM and Ford — has begun to show some slight resurgence. Some of the manufacturing and distribution facilities vacated last year may soon be re-tooled for new products and will need to draw on the nation's infrastructure and logistics strengths.

The Province of Saskatchewan and the City of Winnipeg, Manitoba, have both announced plans for inland ports within their jurisdictions. Winnipeg's offering — CentrePort Canada — is somewhat further along, having announced its board of directors late in the summer of 2009. This facility could have as much as 20,000 acres of mixed industrial and logistics development, and provides for direct access to two Class I railroads and a major airport in addition to major road access.

While the facility already has direct rail access east and west to ocean ports, the provincial government also has plans to strengthen links to the small port at Churchill on the Hudson Bay, offering other potential connections to Europe. Churchill is already an important grain port for Canadian trade with Europe and provides deep-draft container service for Panamax ships.

Likewise, Calgary and Edmonton, Alberta, have historically been significant road and rail crossroads and have progressively built their intermodal capabilities. The CN railroad doubled its capacity in the late 1990s in Calgary, and also opened a brand new intermodal facility in Edmonton several years later. Both sit astride major national highways as well as both national rail networks. Both are located along a north-south rail corridor as well, which connects with the Burlington Northern Santa Fe at the Montana border.

Even smaller facilities are getting into the game. Ashcroft Terminal — located along both the CP and the CN railroads at the western foot of the Canadian Rockies — is making new investments in infrastructure that will allow for growth in intermodal container traffic to add to its existing bulk transloading business. This important last stop before the climb into the mountains could provide opportunities for load consolidation, transloading, or even full inland port capabilities if the market continues to develop.

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