

THE NEED FOR PORT GOVERNANCE MODERNIZATION

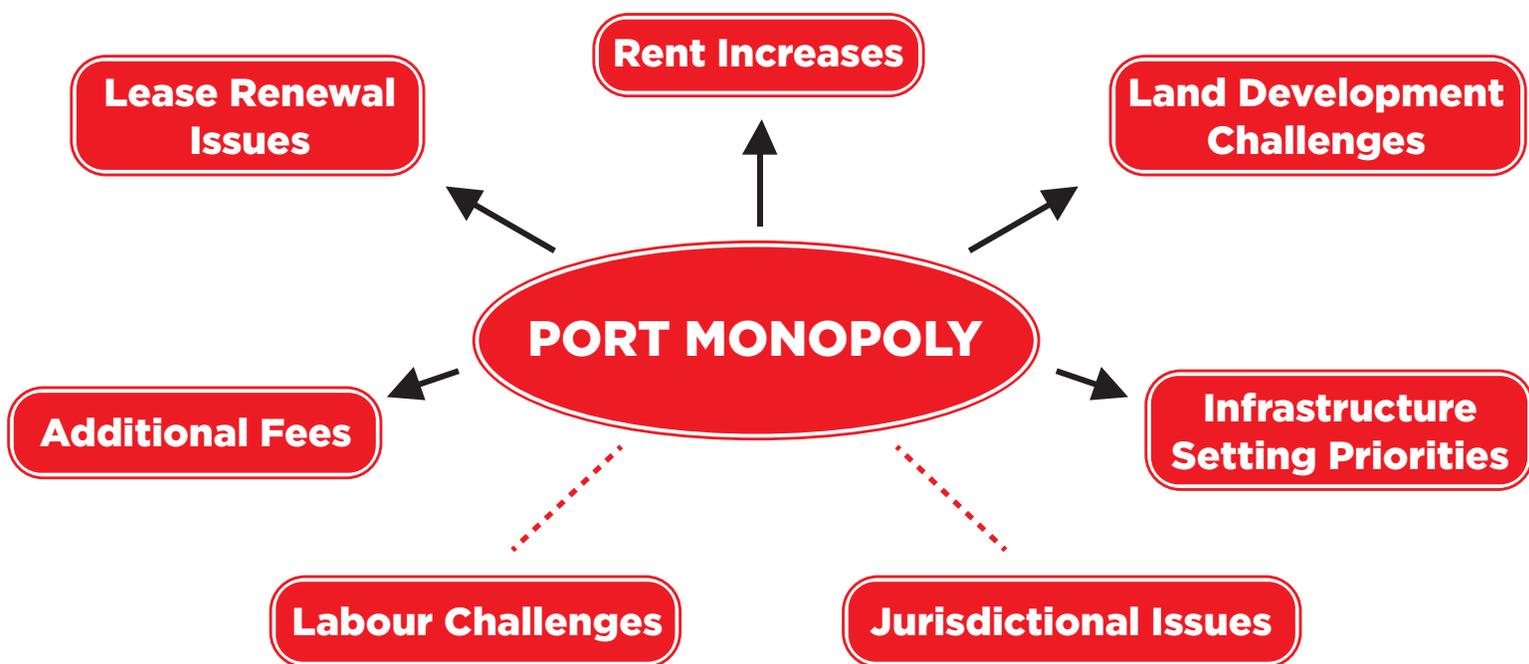
WGEA

Western Grain Elevator Association

Canada's reputation as a producer of top quality grain, oilseeds and pulses is only as good as our ability to get that product to our customers consistently and on time. Port terminal operations, especially the Port of Vancouver, is our major gateway to some of Canada's largest customers in Asia, the Middle East and South America. Canada requires an accountable and demand-driven port oversight system in order to meet its trade opportunities.

Checks and Balances

Canada's port authorities are legal monopolies with sole decision making power over aspects of strategic importance to Canada's marine gateways and the economies that they serve. Monopolies can in some instances give rise to behavior that simply would not occur if a competitive marketplace existed. As such, governments normally put in place checks and balances to ensure that these tendencies are avoided and that users of the port have adequate recourse to appeal decisions where this imbalance of power may have led to a questionable outcome.



No Reasonable Alternative



For most Canadian bulk grain exports, there are few if any reasonable alternatives to transporting grain to a particular offshore destination. It is not a legitimate argument for a port authority to say that "terminal operators will take business elsewhere if we were acting inappropriately." We also often see monopolies pointing to growth or investments by third parties related to their business as evidence that the monopoly is "doing the right thing." That too is unsubstantiated considering the lack of reasonable alternatives in which to put those investments.

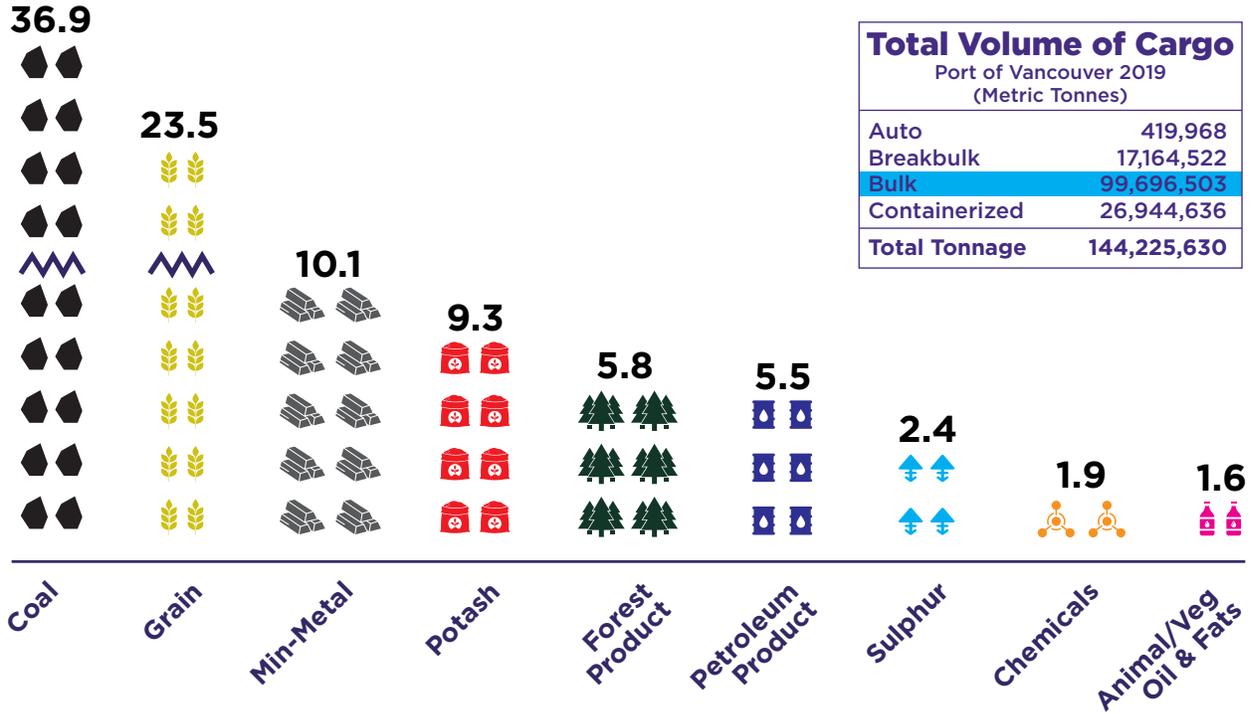
Take for example the Port of Vancouver. The most economically viable option to ship product from Western Canada to major customers in Asia, Middle East, the Americas and Africa is to go through the Port of Vancouver for the vast majority of the bulk commodities being exported. Moreover, terminal operators' business is to handle the commodity through their port terminal operations. Since those facilities are fixed, terminal operators are captive customers of the port authority.

Major Sectors That Rely on the Pacific Gateway

The Port of Vancouver is home to 29 terminal operations serving 10 sectors of the Canadian economy that can be categorized into 5 key shipping segments: Bulk, Break Bulk, Container, Auto, and Cruise¹. Bulk operations are by far the largest category where coal and grain products alone accounted for 62% of all bulk shipments (grain alone is 25% of all bulk shipments.) The top five bulk commodities (Coal, Grain, Min-Metal, Potash, and Forest Products) represented 88% of all bulk exports. Break Bulk is dominated by forest products and min-metal, the two sectors combined represent 79% of outgoing Break Bulk tonnage. Total container shipments were 26.9 MMT (vs Total Bulk Grain of 23.4 MMT). Interestingly, grain products represented 28% of all outbound container tonnage.

¹All statistics quoted above from 2019 per Port of Vancouver published data: <https://www.portvancouver.com/wp-content/uploads/2020/03/Statistics-overview-2017-to-2019.pdf>

Total Bulk Products Through Port of Vancouver: 2019 = 99.7 MMT (Millions of Tonnes)



Port of Vancouver Critical to Western Economy

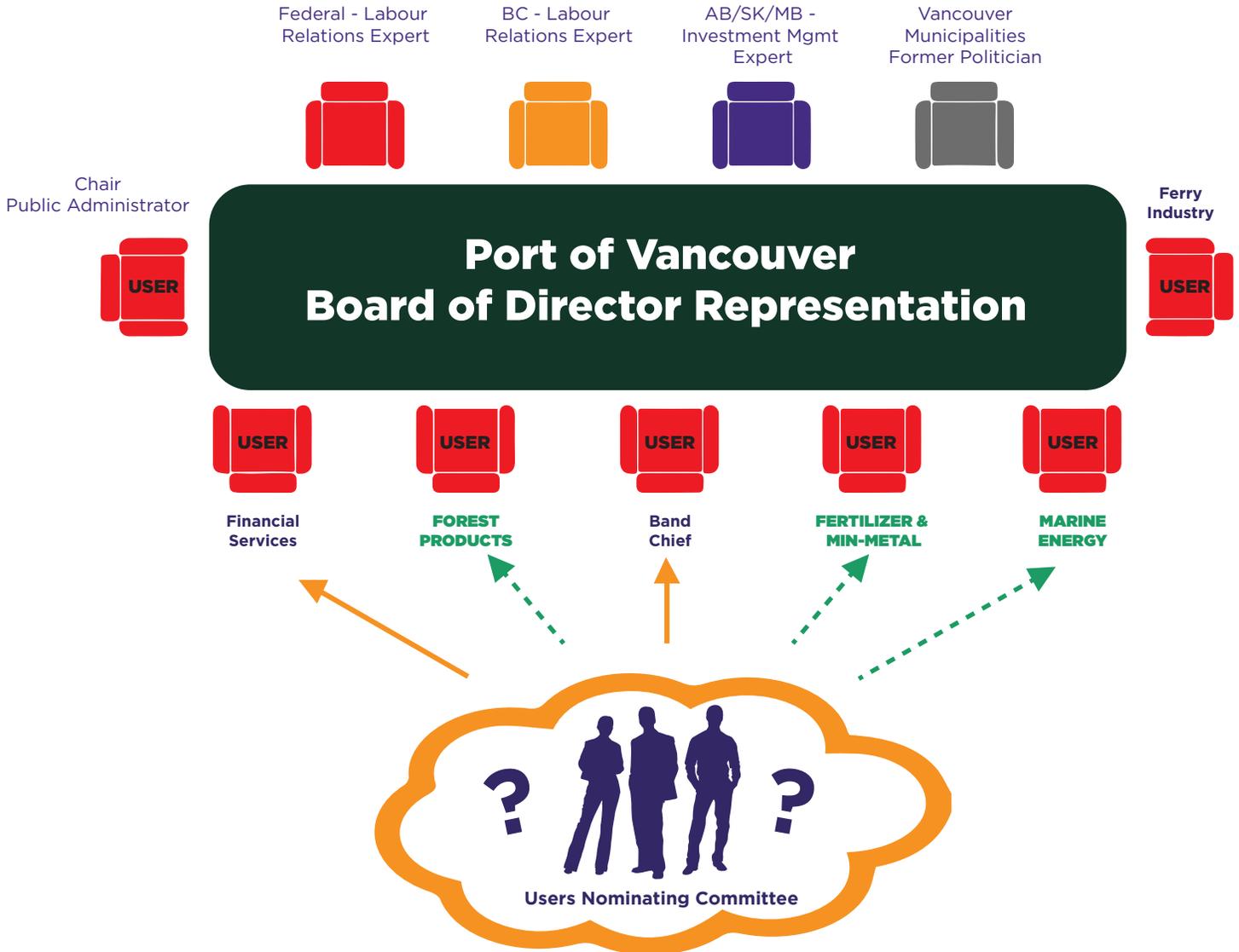
The vast majority of products shipped through the Port of Vancouver originate from the 4 western provinces. It cannot be overstated how important the Pacific Gateway is to the Western Canadian economy. Put simply, the Port of Vancouver is a critical entity for western provinces and the success of all of their largest export oriented sectors. The map below depicts key commodity flows from British Columbia, Alberta, Saskatchewan and Manitoba.



Who's in Control of Canada's Trade?

Port Governance and its Impact on The National Economy: A Grain Perspective

The WGEA is very concerned by the lack of representation on the Port of Vancouver's Board of Directors for the economic regions and sectors that rely on the gateway. The Port's governance framework provides for 7 Board seats for "Users" to be appointed by the federal Minister of Transport upon recommendation of a "User Nominating Committee". However, a combination of factors have led to a very concerning situation where only four of the ten sectors representing the 29 terminal operations can be said to have a voice at the table.



While 7 of the 8 federal appointees are to be nominated by the so-called "Users Nominating Committee" the reality is it is not at all representative of the operators of the 29 port terminals in the VFPA which fall under 10 broad sectors of the economy.

Terminal Operators - 29 Port Terminals in 10 Major Sectors



Time to Clean Up Port Governance

“Complete the Ports Modernization Review with an aim to update governance structures that promote investment in Canadian ports.”

-November 2019, Prime Minister Justin Trudeau’s Mandate Letter to Transport Minister Marc Garneau

While port governance reform has been identified as a priority under the 2016-17 Transportation Act Review, the Port Modernization Review, and ultimately by the Prime Minister, no changes have been made to address the obvious deficiencies. It is time for government to act.

Here’s How it Can Be Done:

- [1]** Adequate Recourse to Users to Challenge and Appeal Port Authority Decisions
- [2]** Address Conflicts of Interest that Arise in Port Management’s Role as Developer and Regulator/Administrator
- [3]** Make Director Appointment rules accountable:
 - i) overhaul nominating committee membership to reflect actual users,
 - ii) remove outside interference with Nominating Committee decision making,
 - iii) allow people who actively work in industry to sit on the Board, and
 - iv) redesign appointments to adequately reflect provincial economies who rely on the port.
- [4]** Ensure port authorities are actively representing federal government jurisdiction on regulatory issues.

“I think there is inadequate governance in relation to deployment of capital, there’s inadequate governance when it comes to making sure that there is a recourse to a regulator where there is abuse of monopoly power ... frankly I wouldn’t give them any more access to money until you clean that up.”

-The Honourable David Emerson, Chair, Canada Transportation Act Review at a 2017 Senate Standing Committee on Transportation Hearing



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