Moving the Goods: Transportation of Canada's Natural Resources

Issue

Natural resources are a cornerstone of the Canadian economy and trade. In the past few years the transportation of natural resources has come to the forefront of Canada's policy dialogue. Concerns about safety, potential environment impacts and supply chain constraints are all top of mind for many Canadians. The federal government must take action to ensure that the predictable, safe and efficient transportation of Canada's natural resources is recognized as vital to Canada's global competitiveness.

Background

The safe and efficient movement of Canada's natural resources is quickly becoming one of the most pressing public policy issues in Canada.

The Canadian economy is trade dependent, with exports and imports representing approximately 45% of the country's GDP. Canada has also been blessed with a wealth of natural resources, so much so that they account for more than half of merchandise exports. Canada is the world's largest exporter of newsprint and kraft pulp, has the third largest oil reserve in the world and ranks among the top ten global producers of several essential industrial metals and minerals.

According to Natural Resources Canada, there is approximately \$675 billion worth of investments in natural resources projects that are currently underway or set to launch in the next 10 years. It is clear that Canada's natural resources will be an economic driver for the foreseeable future. But these investments will mean little if Canada remains constrained by an inability to get these resources to market.

Canada has a long history of transporting natural resources. These products traditionally had two primary export destinations—the U.S. and Europe. Today, the U.S. is by far the largest importer of Canadian natural resources. Approximately 98% of Canada's energy exports, 64% of forest product exports and 51% of minerals and metals exports are destined for the U.S. market.

While this bilateral trade relationship has served Canada well, the surge in demand for natural resources in developing countries is a phenomenon that Canada cannot ignore. The global demand for Canada's natural resources products is expected to drastically increase over the next twenty years. The majority of this demand is expected to come from emerging markets. For example, forest products are now the largest Canadian export to China, with shipments to the U.S. having declined by approximately 20 % over the past number of years. Unfortunately, the limited ability to get energy products to market costs the Canadian economy as much as \$50 million a day in lost revenues.

Strategic investments in Canada's trade enabling infrastructure are necessary to ensure that the country's transportation sector is able to keep pace with current and future demand. Unfortunately, infrastructure investments can be costly, are often embroiled in local politics and can face resistance by the general public. In order to overcome these challenges the federal government must show leadership and provide direction for the national best interest.

First, the federal government should establish a plan to better coordinate the different players in the transportation and logistics system around strategic national objectives. Canada's existing transportation infrastructure is a blend of public and private assets which makes planning and coordination among the various stakeholders difficult. Provinces and municipalities are responsible for the majority of public infrastructure in Canada, which lends itself to regional approaches to infrastructure planning and prioritization. While investments in municipal infrastructure are

http://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/files/pdf/10_key_facts_nrcan_e.pdf

¹ Natural Resources Canada, Key Facts and Figures: https://www.nrcan.gc.ca/publications/key-facts/16013#a3

² Natural Resources Canada, Key Facts and Figures:

³ Lindsay, David. "Right Sizing Canada's Transportation System: A 21st Century Policy Challenge."

⁴ The Canadian Chamber of Commerce: \$50 Million a Day http://www.chamber.ca/media/blog/130917-50-Million-a-Day/1309 50 Million a Day.pdf

vital, they must be coupled with strategic investments that factor in the national best interest. To counter the effect of regionalization, the Federal government can play an important role in identifying designated trade corridors of national importance and by facilitating dialogue among the relevant and related stakeholders in those corridors.

Second, while Canada continues to invest in its infrastructure stock, it must also work to address public concerns about the safe transportation of natural resources. This has been most apparent in the energy sector, where resistance to pipeline infrastructure by some aspects of civil society remains strong and complicates the approval process for new projects. In the absence of sufficient pipeline routes, producers have turned to other modes of transportation such as rail. Over the past number of years, the surge in demand for Canadian energy has created commercial opportunities for rail companies. While more expensive than shipment by pipeline, rail companies are adaptable to shifting market demand as their cargo can be shipped virtually anywhere. Canada's rail network is the third largest in the world and is no stranger to the transportation of dangerous goods (including crude and petroleum products). The rail industry has done a good job in responding to the changing demands and numerous loading facilities have been built and new rail tank cars constructed. Yet, the transportation of energy products by rail also faces its share of challenges not the least of which is the growing political and public backlash due to the recent high-profile accidents. A lack of community acceptance for one resource industry can impact others, making an effective process for community consultation across the economy essential.

Finally, Canadians need assurance that our existing transportation safety systems are up to the task, which means implementing smart measures at home and coordinating with our key trading partners abroad. The tragedy of Lac-Megantic called attention to areas where improvements to transportation safety were necessary. Overall, Canadian railways have a very high safety standard, the best in North America, and accidents are rare. Yet, a national risk assessment would provide further assurance that the government and industry are vigilant in identifying and responding to new threats. As our largest trading partner, coordination with the United States (U.S.) is essential. For example, in an attempt to ensure the safe transportation of goods by rail, Canada and the U.S. announced new tank car regulations for flammable liquids. Such bilateral cooperation is vital given the integrated nature of North American transportation.

The challenge will be to ensure that Canada not only has the highest possible transportation safety standards but also that the public is comfortable with these standards. For example, a large marine spill of oil could have devastating impacts on the environment and coastal communities. Fortunately, the risk of such spills remains small. Over the past two decades, the marine industry has greatly improved its safety record. The average volume of oil spilled from oil tankers has decreased by approximately 96% since the 1990s. Such a drastic reduction can partially be attributed to the adoption of new technologies such as double hull and enhanced navigational aid systems. Compulsory pilotage areas and improved training and regulatory standards have also contributed to the overall safety of marine transportation. Today, the risk of a major oil spill in Canadian waters is small. Even with the low risk of a major spill, Canada deserves the world's best spill prevention and response capabilities.

For example, the Marathassa bunker fuel discharge in English Bay B.C. in the spring of 2015 highlighted concerns with Canada's ability to respond to a major spill. Thankfully the spill was relatively small and localized, and the effects minimal. However it did highlight some areas that need to be addressed. Interagency coordination and the ability of the Coast Guard's to manage incident command were all factors that influenced the efficiency of spill response.

Recommendations

That the federal government work with all levels of government and relevant stakeholders to:

- 1. Develop a long-term, strategic plan and defined corridors for Canada's trade enabling infrastructure. This plan should foster close partnership with the private sector, promote cost benefit analyses of investments and aim to position Canada as a world leader in trade infrastructure and logistics.
- Mitigate the inherent risk associated with the efficient movement of resources and related supply chain hazardous materials by harmonizing transportation regulations with the United States and adopting best practices, policies, processes and technologies for HAZMAT-related tracing and emergency response.

- 3. Develop a national risk assessment strategy for Canadian ports to ensure that any shortcomings in existing policies are addressed and adequately communicated to the public.
- 4. Implement recommendations presented by the Tanker Safety Panel, and any relevant recommendations made by the CTA Review Panel that improve transportation safety and response mechanisms.