

SURFACE TRANSPORTATION ANNUAL REVIEW 2014

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TABLE OF CONTENTS

1	EXECUTIVE SUMMARY	2
2	ECONOMIC & BUSINESS OUTLOOK BRIGHTENS	4
3	PERFORMANCE OF LOGISTICS & TRANSPORT SYSTEM	7
3.1	Price Satisfaction.....	7
3.2	Price Stability Expected in 2014	8
3.3	Service Quality	9
3.4	Will Infrastructure Challenges Prevail & Impede Growth?	13
3.5	Key Destinations Weather Turbulence in Shipping Freight Markets	14
4	LOGISTICS & TRANSPORTATION PRIORITIES	16
5	SURVEY DEMOGRAPHICS	17
6	METHODOLOGY	19

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1 EXECUTIVE SUMMARY

BC Shipping News teamed up with Wave Point Consulting to undertake the first Surface Transportation Annual Review (STAR) Survey. Respondents were asked for their opinions on three topics:

- General economic outlook and business confidence.
- Logistics performance perceptions and assessment of British Columbia-based ports and transportation system.
- Management priorities in regard to logistics, transportation and sustainability initiatives.

This report highlights the STAR survey key findings.

Economic & Business Outlook Brightens For 2014



The majority of STAR survey respondents expected the economy and their firm's business outlook to brighten somewhat in 2014, compared to 2013. As a result, controlling/reducing costs, accessing new markets and increasing sales/orders were the most frequently mentioned management priorities for the forthcoming year.

Green Lights and Warning Indicators For Service Providers

In terms of the performance of the logistics and transportation system serving British Columbia's ports a number of positive indicators emerged. The tables below summarize key survey findings. The mariners and professionals who directly support domestic and international shipping and our key export activities generally received the highest satisfaction ratings for service quality, price and lowest expectations for price increases in the coming year. Shipping lines were cited as being the least frequent source of a major interruption in the supply chain.

POSITIVE INDICATORS				
Price Satisfaction	Price Inflation Expectations (Lowest)	Service Quality Satisfaction	Major Interruptions (Least Frequent)	Infrastructure Quality
Tug & Barge Custom Brokers Trade & Trans Ass Transload Drayage	Shipping Agents Trade & Trans Ass 3PLs Custom Brokers Transload	Harbour Tug Pilotage Tug & Barge Prof/Legal/Ins Trade & Tran Ass	Exports: Ocean Shipping Imports: Ocean Shipping	
Note: lower inflation expectation level rated highest. No infrastructure group ranked above average quality.				

STAR survey respondents generally provided a neutral assessment of logistics and transportation system performance that was neither strongly positive nor negative for many of the sectors that support maritime commerce through British Columbia’s ports. The table below summarizes the results.

NEUTRAL INDICATORS				
Price Satisfaction	Price Inflation Expectations	Service Quality Satisfaction	Major Interruptions	Infrastructure Quality
Prof/Leg/Ins Freight Forwarders Shipping Agents Import Dist Centers Long-haul Truckers Harbour Tug	Import Dist Centers Prof/Leg/Ins Rail Carriers Drayage Tug & Barge Freight Forwarders	Custom Brokers Shipping Agents Long-haul Truckers Freight Forwarders Transload Operators 3PLs	Export: Trucking Marine Terminals Security Imports: Security Trucking Rail	Warehouse & Distribution Facilities Ports & Marine Terminals

Note: price inflation expectations ranked highest to lowest.



A number of cautionary indicators emerged as a result of the analysis of the STAR survey responses. With an increase in business activity anticipated in 2014, shippers will be watching closely to see if the service levels of the railways, drayage companies, port authorities, marine terminals and import distribution centres will keep pace with their requirements. For exporters, the frequency of

major interruptions from their rail carriers is a primary concern. For importers, the performance of the marine terminals operators and the frequency of delays are at the forefront of their minds.

CAUTIONARY INDICATORS				
Price Satisfaction	Price Inflation Expectations (Highest)	Service Quality Satisfaction	Major Interruptions (Most Frequent)	Infrastructure Quality
Rail Carriers Port Authorities 3PLs Marine Terminal Pilotage	Pilotage Port Authorities Long-haul Truckers Marine Terminal Harbour Tug	Rail Carriers Drayage Port Authorities Marine Terminals Import Distribution Centres	Export: Rail Imports: Marine Terminals	Local Trucking Routes Highway Infrastructure Railway Infrastructure

Note: price inflation expectations ranked highest to lowest.

In closing, the STAR survey respondents expressed strong reservations about the quality of the local trucking routes serving British Columbia’s ports. The poor quality of local trucking routes was identified as the most acute infrastructure challenge on the immediate horizon. Most notably, those in the custom-tailored logistics solution, warehouse and distribution, container and the professional services sector gave a very

low ranking to the quality of the local road and highway network serving British Columbia's ports. No doubt that progress on the poor infrastructure quality of local trucking routes would increase the service quality satisfaction rating of some of those sectors where STAR survey respondents issued a note of caution. Traffic congestion to Deltaport will no doubt improve in coming year with the completion of the New South Fraser Perimeter Road (SFPR). The SFPR will also shape the local logistics landscape for years to come. The main areas to benefit are the Tsawwassen First Nation Industrial Lands, the Boundary Bay Airport Lands and the extensive underutilized industrial lands between the river and SFPR.

2 ECONOMIC & BUSINESS OUTLOOK BRIGHTENS

Economic Context

Canada's and British Columbia's economic performance in 2013 was lackluster. The Royal Bank of Canada called the economic expansion "spotty" and reported real GDP growth of 1.5% in British Columbia down from 1.8% and 2.8% in 2012 and 2011 respectively. The Bank of Canada's Business Outlook Survey stated, "businesses reported slower or negative sales growth over the past 12 months" when it was released in October 2013. Yet, by early December 2013, BMO Capital Markets Economics reported that the real GDP growth in Canada had reached 1.7%, the same as the previous year.

Logistics and transportation professionals no doubt felt the gyrations in economic activity last year. BMO Capital Markets Economics reported that export growth increased sharply in the first two quarters of 2013 before diving into negative territory in the third quarter and sustaining a positive rise by year's end. Canada's pattern of import performance mirrored the quarterly cycle of the export sector but at a significantly lower level of growth.

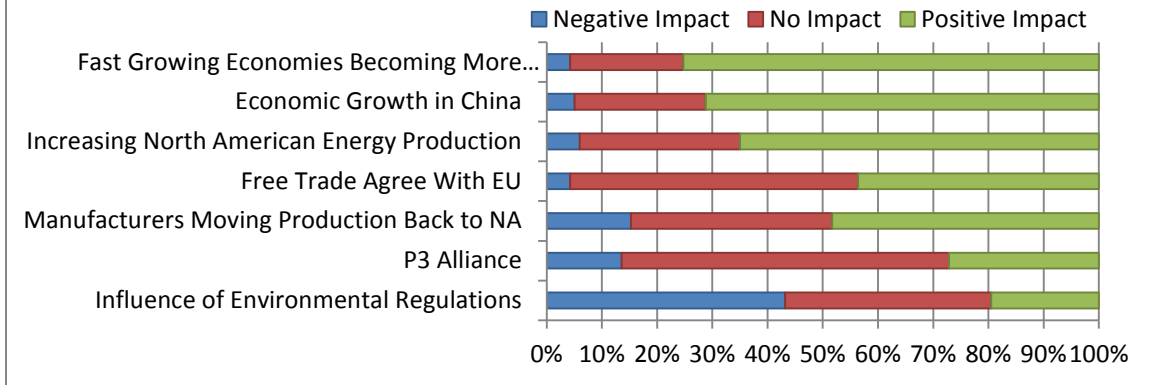
EXPORTERS WILL LEAD THE WAY IN 2014



STAR survey respondents indicated a number of positive developments for international trade. The factors with the highest-ranking positive influence in 2014 were:

- The fast growing economies becoming more important,
- Economic growth in China,
- Increasing North American energy production.

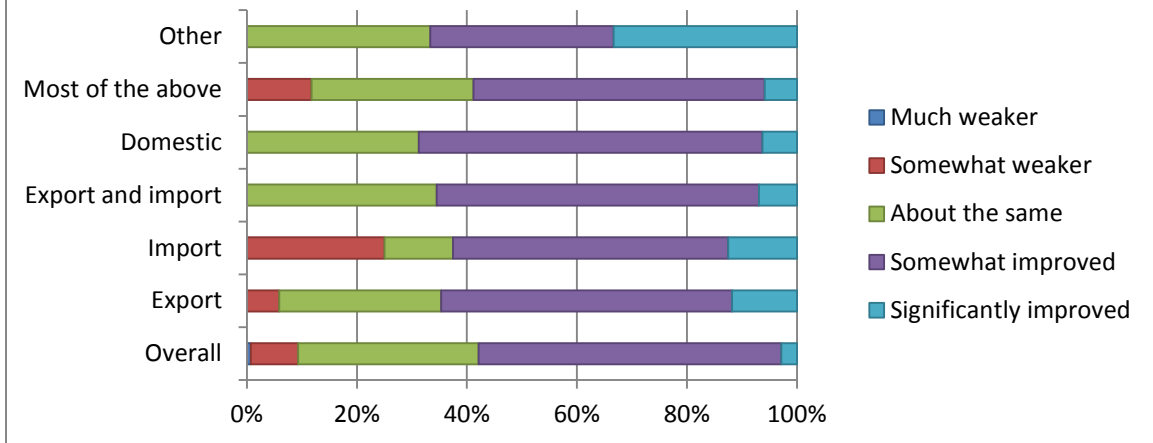
Impact of Trends in Your Organization's Volume of International Trade in 2014



Expectations about Canada’s 2014 economic and business performance continue to brighten. The STAR survey revealed that:

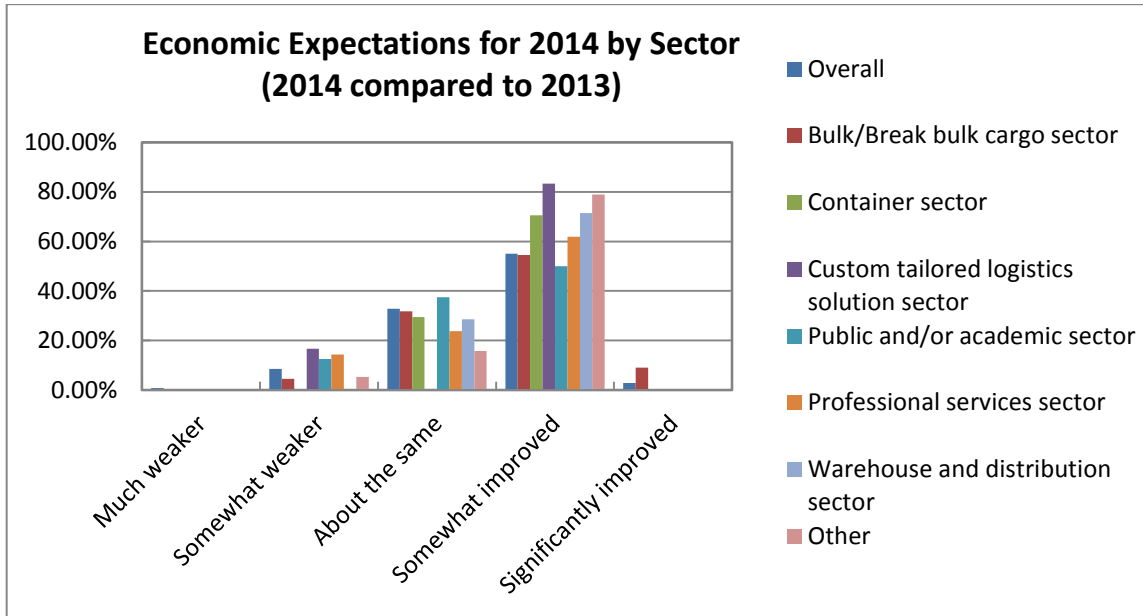
- Over 58% expect Canada’s economy to be somewhat, or significantly improved in 2014. This sentiment was strongest from those involved in providing custom-tailored logistics solutions, the warehouse and container sectors.

2014 Economic Expectations of Respondents By Involvement in Maritime Commerce



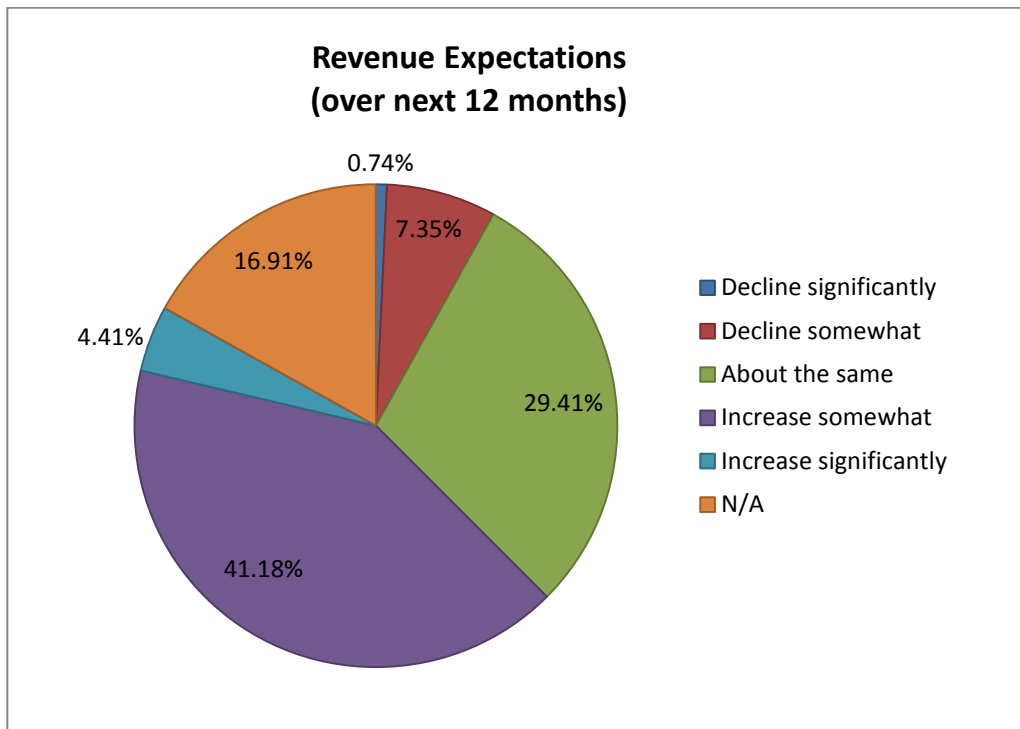
Exporters of goods were decidedly more upbeat about their economic expectations than those involved in either just the import, or domestic sectors of the economy. Figures from Export Development Canada’s (EDC) *Merchandise Export Forecast Overview 2014* would support the optimism found in the STAR survey. Growth expectations for important export commodities shipped through Canada’s Asia Pacific Gateway were strongly positive for most commodities except fertilizers. For example, the growth forecast for forestry, consumer goods and metal, ores and other industrial

products were 11%, 8% and 5% respectively. The export outlook for fertilizers was expected to drop by 5% in 2014.



REVENUE EXPECTATIONS FOR 2014

Respondent expectations for company revenue growth in 2014 were more modest than they were for the overall economic outlook. Forty-six percent anticipated that their firm’s revenue growth to be somewhat, or significantly improved in the coming year.



STAR Survey respondents in the custom-tailored logistics solutions, warehouse and distribution, and container sectors had the strongest expectations that the economy would improve somewhat in 2014. This optimism is probably well-founded since supporting new sales channels was ranked as the top logistics priority. Not surprisingly then, the same sectors expressed the most optimism that their 2014 sales revenue would increase somewhat, or significantly in 2014.

Revenue expectations in the Bulk/Break bulk cargo sector were about evenly mixed with 51% of the respondents expecting their firm’s revenue to increase somewhat, or significantly, and 18% anticipating revenue to decline somewhat in 2014.

3 PERFORMANCE OF LOGISTICS & TRANSPORT SYSTEM

3.1 Price Satisfaction

A Market Performance Ranking

Based on the STAR Survey responses, a market perform rating is a most apropos descriptor of the Price Satisfaction results. A market perform rating is a neutral assessment of performance and is neither strongly positive, or negative.





Price satisfaction was highest with logistics and transportation service providers from the following sectors:

- Tug and Barge,
- Custom Brokers,
- Trade and Transportation Associations,
- Transload Operators,
- Drayage Companies.

The logistics and transportation service providers with the lowest level of price satisfaction were from the following sectors:

- Rail Carriers,
- Port Authorities,
- 3PLs,
- Marine Terminals,
- Pilotage.

3.2 Price Stability Expected in 2014

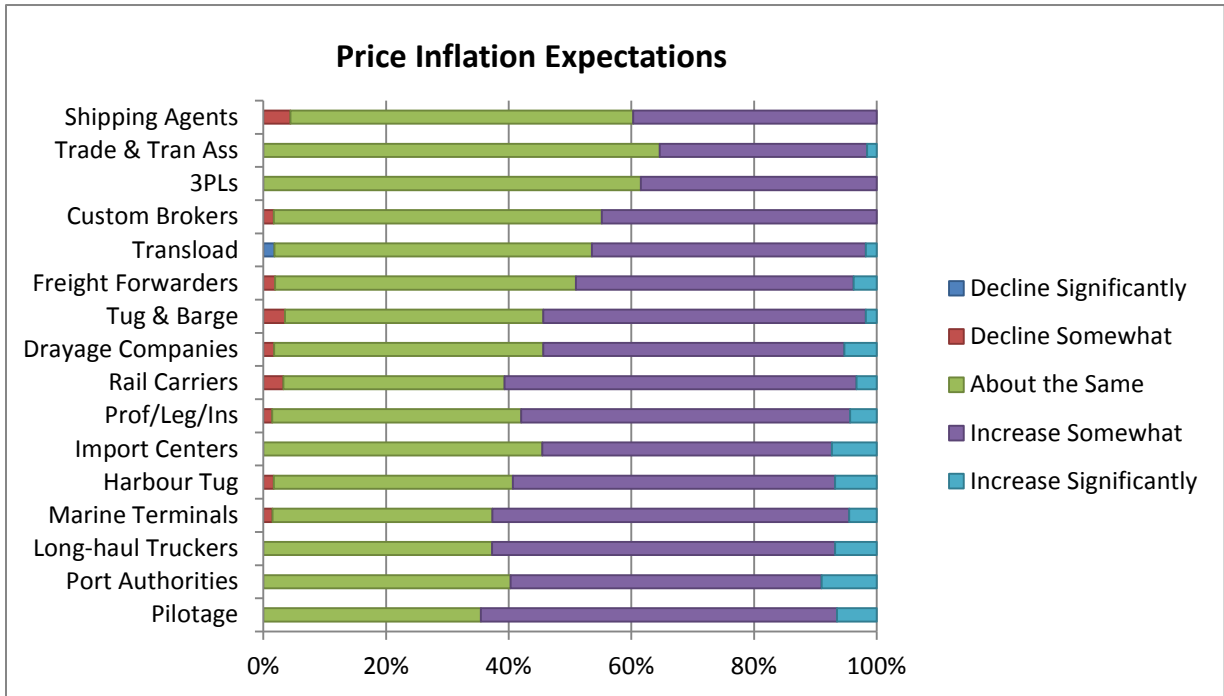
With the economy gaining momentum, the STAR survey asked firms about their expectations for revenue growth and price inflation. The responses indicate that revenue growth expectations are markedly higher for firms involved in exporting products through BC ports compared to those involved only in the import or domestic logistics and transport sectors. Survey respondents expressed a narrow range of opinions about the possibility of price increases. The table below summarizes those logistics services where the STAR survey respondents expected the highest and lowest expected price increases in 2014. Note, however, that the results were expressed in the category that corresponded to “about the same” as last year thus supporting the survey’s earlier finding that revenue growth is also expected to be moderate in 2014.

Respondents identified the following sectors as most likely to increase prices:

- Pilotage,
- Port Authorities,
- Long-haul Truckers,
- Marine Terminals
- Harbour Tug Assist.

The logistics and transportation service providers with the lowest level of price inflation expectations were from the following sectors:

- Shipping Agents,
- Trade and Transportation Associations,
- 3PLs
- Custom Brokers,
- Transload Operators.



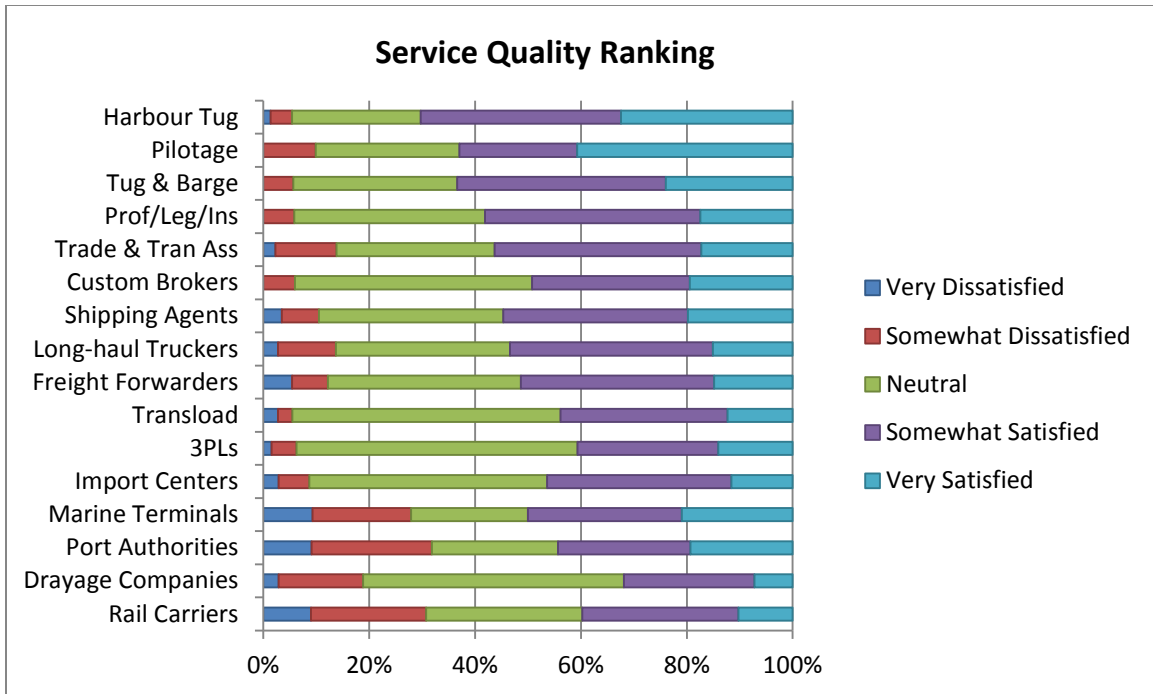
3.3 Service Quality

The STAR Survey asks respondents to answer questions related to service quality, frequency of major interruptions and their experience with the border clearance processes.

A PEER PERFORMANCE RANKING

Based on the STAR Survey responses, a peer perform rating is a most apropos descriptor for the overall Service Quality results. A peer perform rating is a neutral assessment of performance and is neither strongly positive, or negative.





Service quality rankings were highest with logistics and transportation service providers from the following sectors:

- Harbour Tug Assist,
- Pilotage,
- Tug and Barge,
- Professional/Legal/ Insurance,
- Trade & Transportation Associations.



The logistics and transportation service providers with the lowest service quality ranking were from the following sectors:

- Rail Carriers,
- Drayage,
- Port Authorities,
- Marine Terminals
- Import Distribution Centres.

While the overall response to the topic of service quality was “peer perform”, respondents raised a number of cautionary flags. For example, the warehouse and distribution, container and custom-tailored logistics sectors indicated the highest levels

of dissatisfaction with the rail sector. In contrast, the container sector, bulk/break bulk cargo and the warehouse and distribution sectors expressed dissatisfaction with the service quality of drayage companies. Survey respondents who expressed their dissatisfaction with the service quality received from Port Authorities came from a variety of sectors. The public, professional service, container, and bulk/break bulk cargo sectors expressed the strongest dissatisfaction with Port Authorities. For marine terminals, survey respondents from large organizations (over 500 employees) expressed dissatisfaction whereas respondents from small firms (24 to 99 employees) indicated dissatisfaction with drayage companies.

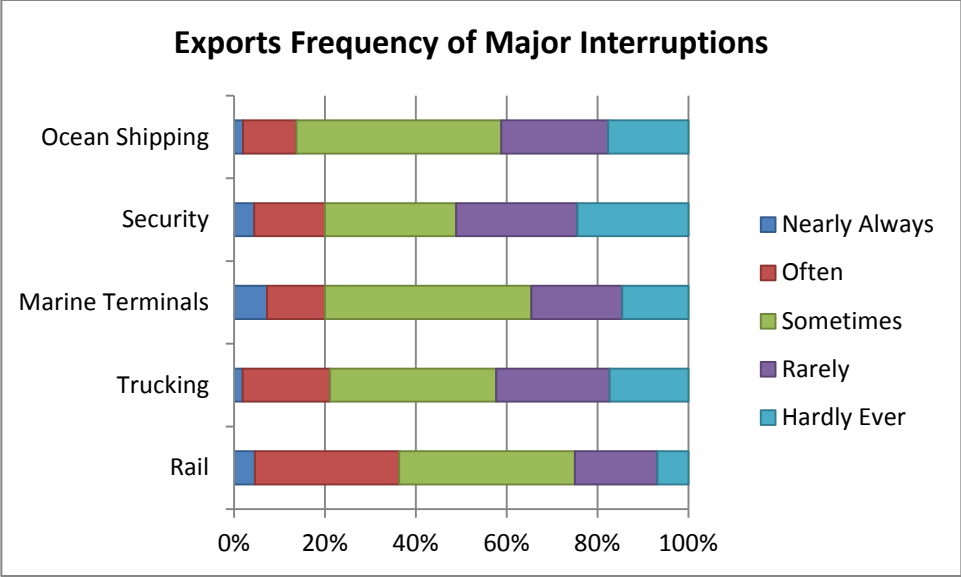
FREQUENCY OF MAJOR INTERRUPTIONS

STAR Survey respondents provided a variety of responses to the questions related to the frequency of major interruptions. While there was little difference in expectations regarding frequency of interruptions between exports and imports there was a marked difference between the sources of the interruption for the respective directions of trade. Most notably, in the export direction it was related to rail carriers and on the import direction it was related to marine terminals. Ocean shipping was cited as the least frequent reason for a major interruption regardless of the direction of trade.

Logistics & Transportation Service Providers	
Frequency of Major Interruptions (Often & Nearly Always)	
Export Ranking	Import Ranking
Rail (18%). Trucking (12%) Marine Terminals (12%), Security (10%), Ocean Shipping (8%).	Marine Terminals (16%), Security (13%), Trucking (11%), Rail (10%), Ocean Shipping (8%).

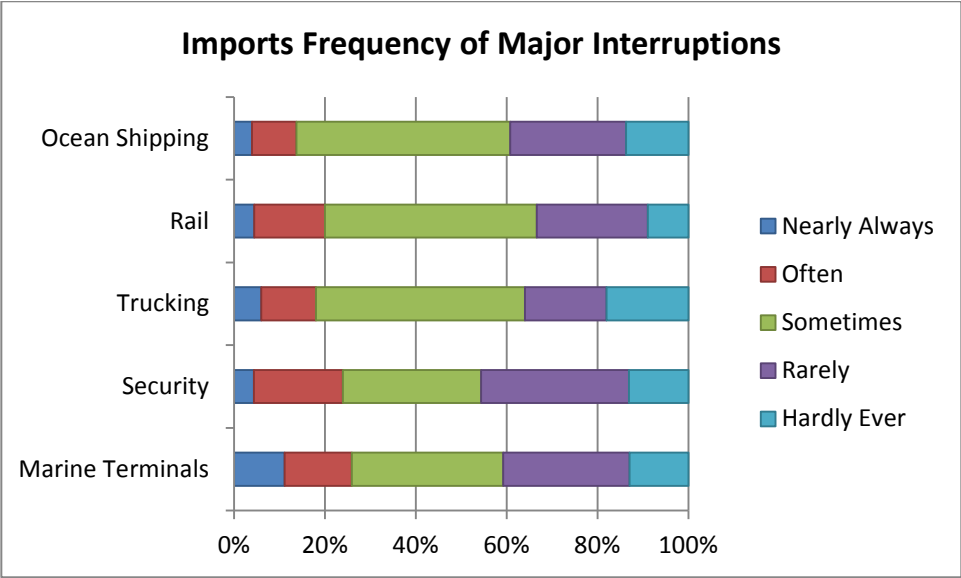
Exports

Survey respondents from the container, bulk/break bulk and the custom-tailored logistics sectors were the groups that had the highest reported export-related incidences of nearly always, often having a major interruption with their rail carrier. This raises the interesting issue of whether the benefits of having Rail Service Agreements have been experienced by those segments of the logistics and transport system. It also raises the question of whether the rail system’s performance will be adequate to meet the anticipated rise in exports in 2014.

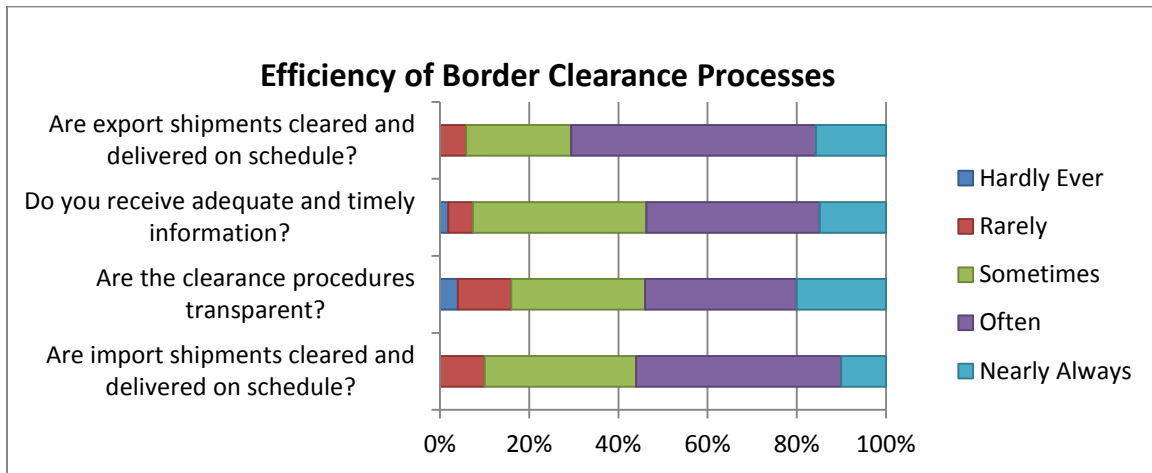


Imports

Survey respondents from the warehouse and distribution, container, and custom-tailored logistics sectors reported the highest incidence of major interruptions (“nearly always”), often having a major interruption with their marine terminal operators. Respondents from the very largest organizations (more than 500 employees) were the least likely to report a major interruption arising from the operation of a marine terminal while those individuals from the smallest firms (under 249 employees) reported the highest incidence of major delays at a marine terminal.



BORDER CLEARANCE PROCESSES – EXPORTS DELAYED LESS THAN IMPORTS

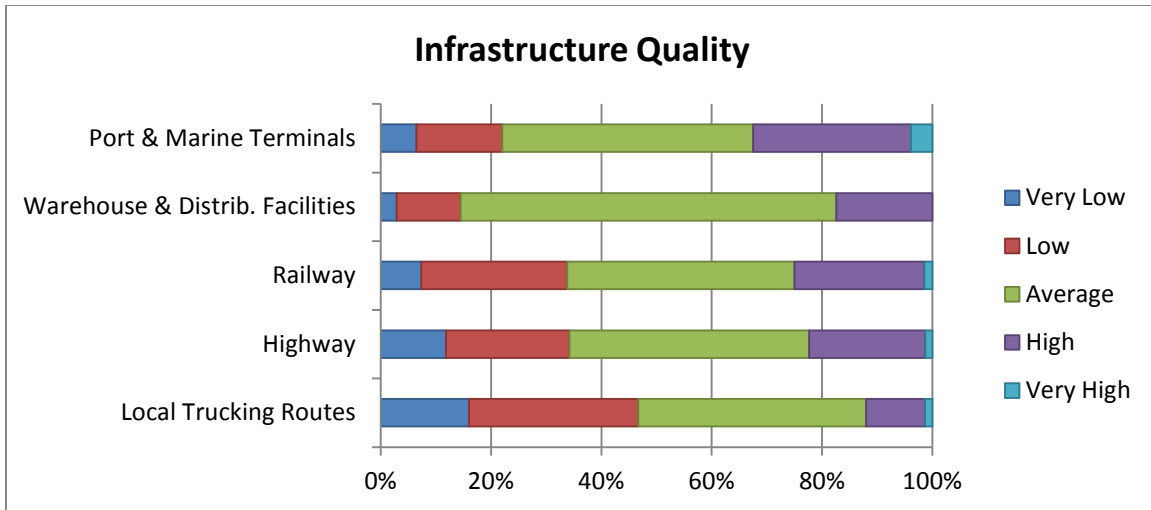


3.4 Will Infrastructure Challenges Prevail & Impede Growth?

STAR Survey respondents gave a below average overall ranking to the infrastructure quality question. Only the port and marine terminal and warehouse and distribution sectors received an average ranking. The local trucking routes, highway and rail infrastructure quality rankings were low. The response raises the important issue of whether these challenges will prevail and thus impede our future growth.

Infrastructure quality ratings reported to the STAR survey are sure to generate debate from those in industry and the public. Capital investments in many parts of British Columbia’s logistics and transportation system have taken place within the context of multi-year Asia-Pacific Gateway initiative. The federal funding allocation for infrastructure investment over the period 2006 to 2018 is over \$1 billion. Projects have included \$274 million for Highway 1 improvements and a new Port Mann Bridge. In addition, the BC provincial government has invested considerable funds. The provincial government invested \$899 million for the recently completed South Fraser Perimeter Road, linking Deltaport to Highway 1, in addition to the federal government’s contribution of \$365 million.

Port and marine terminal infrastructure received a relatively higher quality rating. However, those in the public and academic sectors gave it significantly higher quality ratings than those directly involved in shipping goods through British Columbia’s ports. On the industry side, the custom-tailored logistics solutions, professional services, bulk/break bulk cargo, container and sectors were the respondents who rated BC’s port and marine terminal infrastructure quality as being average.



The poor quality of local trucking routes was identified as the most acute infrastructure challenge on the immediate horizon. Most notably those in the custom-tailored logistics solution, warehouse and distribution, container and the professional services sectors gave a very low ranking to the quality of the local road and highway network serving British Columbia’s ports.



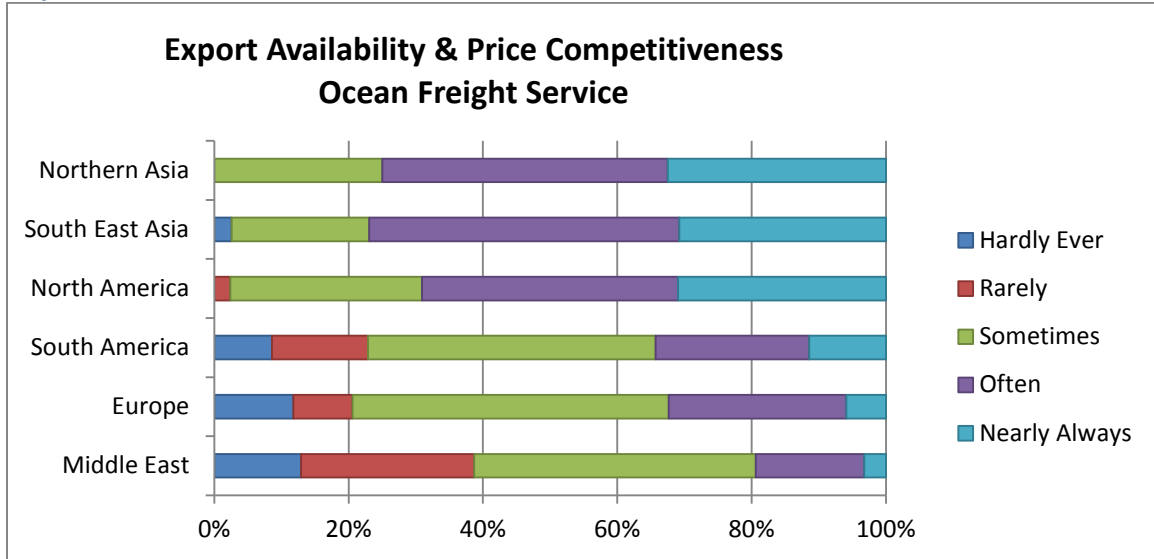
3.5 Key Destinations Weather Turbulence in Shipping Freight Markets

The United Nations Conference on Trade and Development’s (UNCTAD) *Review of Maritime Transport 2013* made a number of observations about issues impacting the availability and price competitiveness of shipping services. The UNCTAD report noted that “the maritime sector continues to experience relatively low and volatile freight rates in its various segments because of surplus capacity in the global fleet generated by the severe downturn in trade in the wake of the 2008 economic and financial crisis. The steady delivery of new build vessels into an already over-supplied market, coupled with a weak economy, has kept rates under heavy pressure. Carriers tried to apply various strategies to remedy the situation, in particular by reducing bunker consumption. The trend of maximizing fleet efficiency, slow steaming, postponing new building deliveries, scrapping and idling some ships and new service alliances in the container sector”.

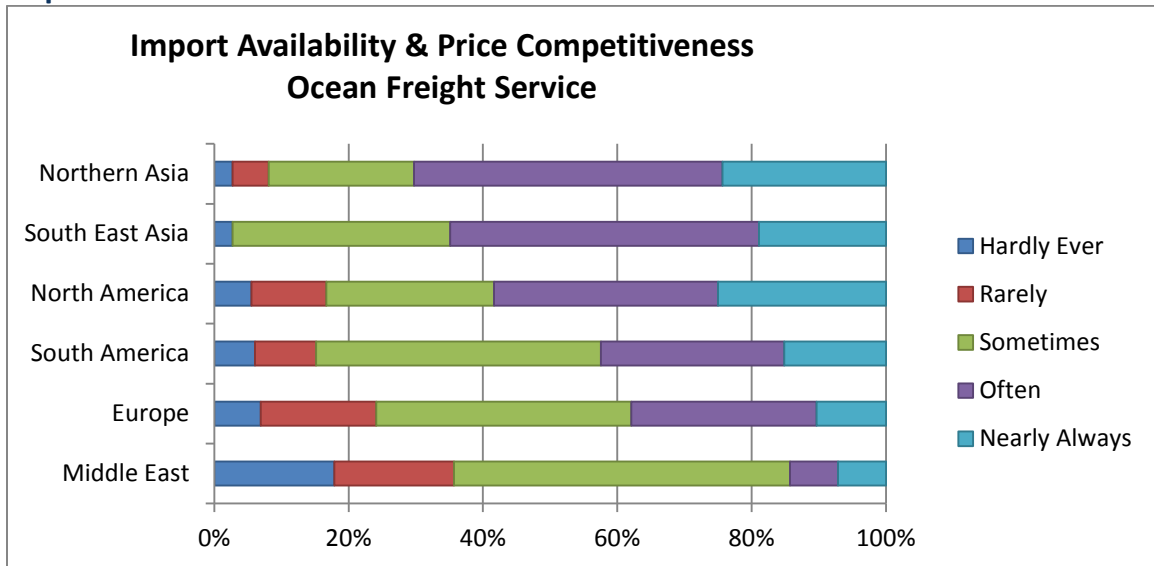
Within this industry context the STAR Survey asked respondents to assess the availability and service frequency of competitively priced ocean transportation and logistics services for both export and import shipments through a British Columbia port.

The premise behind the question is that shippers require a number of service attributes from their maritime transport carrier if they are to have sustained success in an international market. For example, ocean-shipping services may be available but are too expensive would receive a lower ranking that competitively priced shipping service frequently available. The results below clearly indicate that key international trade destinations and origins (Northern Asia, South East Asia, and North America) have weathered the turbulence in shipping freight markets.

Exports



Imports



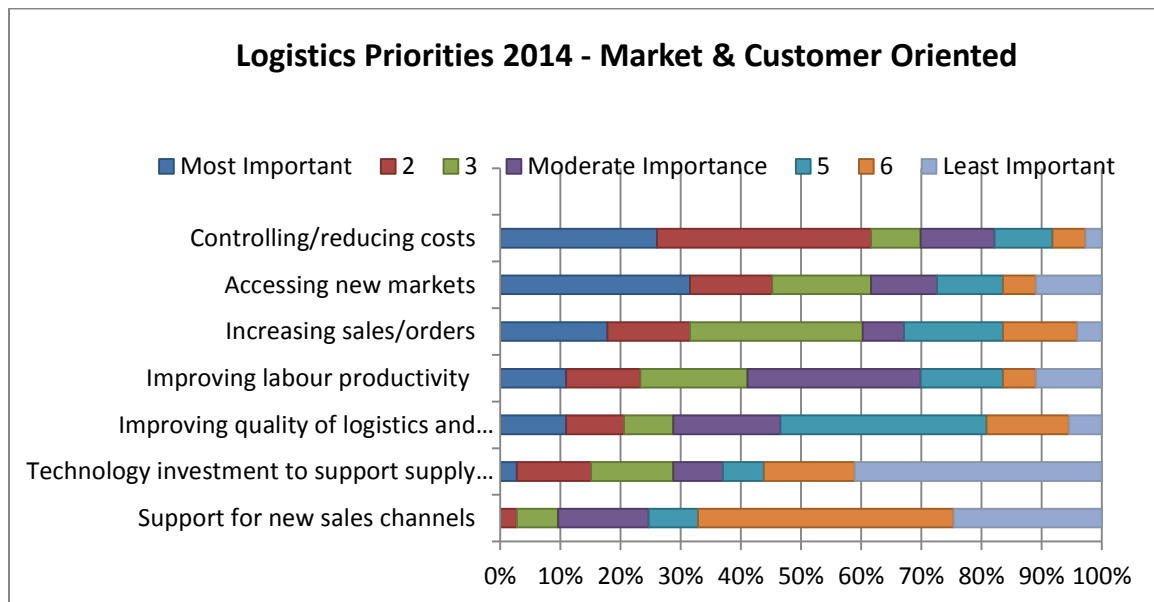
STAR Survey respondents indicated a lower relative level of availability and service frequency of competitively priced ocean transportation to/from South America, Europe and the Middle East for both exports and imports through British Columbia's ports. While we can applaud the federal government's renewed commitment to securing new international trade deals, those involved in maritime commerce on the Pacific Coast would be well advised to monitor the federal government's progress on the commitments contained in *Canada's Global Markets Action Plan* that was released in early December 2013. Progress on the Trans Pacific Partnership and free trade agreements in geographic regions where shipping service availability and price competitiveness is most frequent will deliver the largest growth prospects for British Columbia's ports.

4 LOGISTICS & TRANSPORTATION PRIORITIES

The Fall 2013 EDC Trade Confidence Index report found that firms were continuing to diversify their markets. The most significant new market destinations reported by companies included China, the US, Australia, the UK, Mexico, India and Brazil. STAR Survey respondents ranked their 2014 most important logistics and transportation challenges related to market and business conditions as well as those related to regulatory, safety, security and environmental issues. With economic and business confidence rising, it is encouraging that those involved and using Canada's Asia-Pacific Gateway are embarking on initiatives to control costs and access new markets.

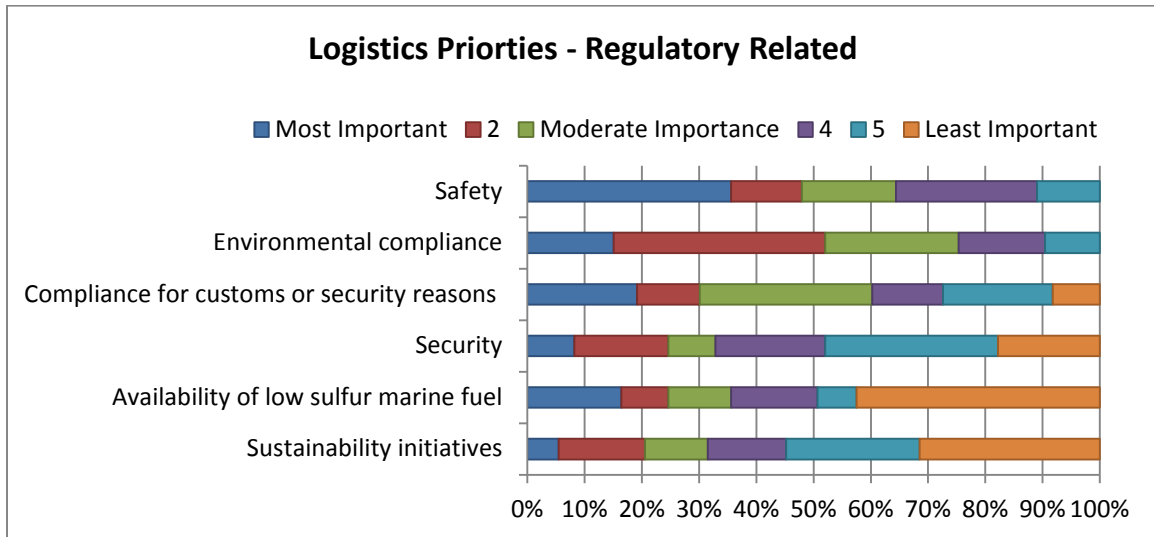
Market Related Ranking

- Controlling/reducing costs,
- Accessing new markets,
- Increasing sales/order.



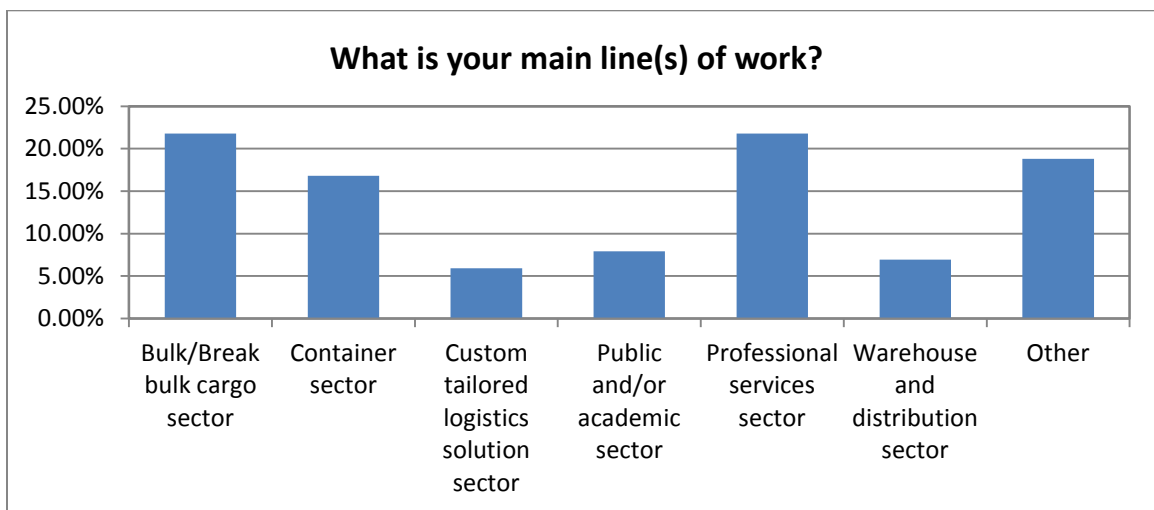
Regulatory Related Ranking

- Safety,
- Environmental compliance,
- Compliance for customs or security reasons.

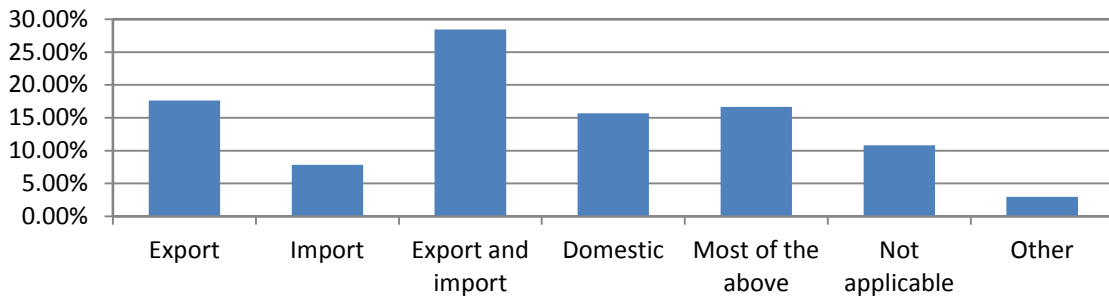


Corporate safety and environmental compliance initiatives are also a focus of 2014 management priorities for those using BC's ports.

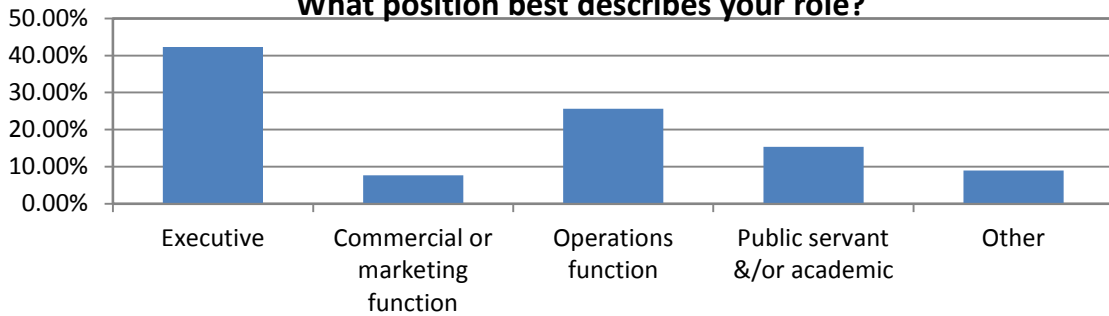
5 SURVEY DEMOGRAPHICS



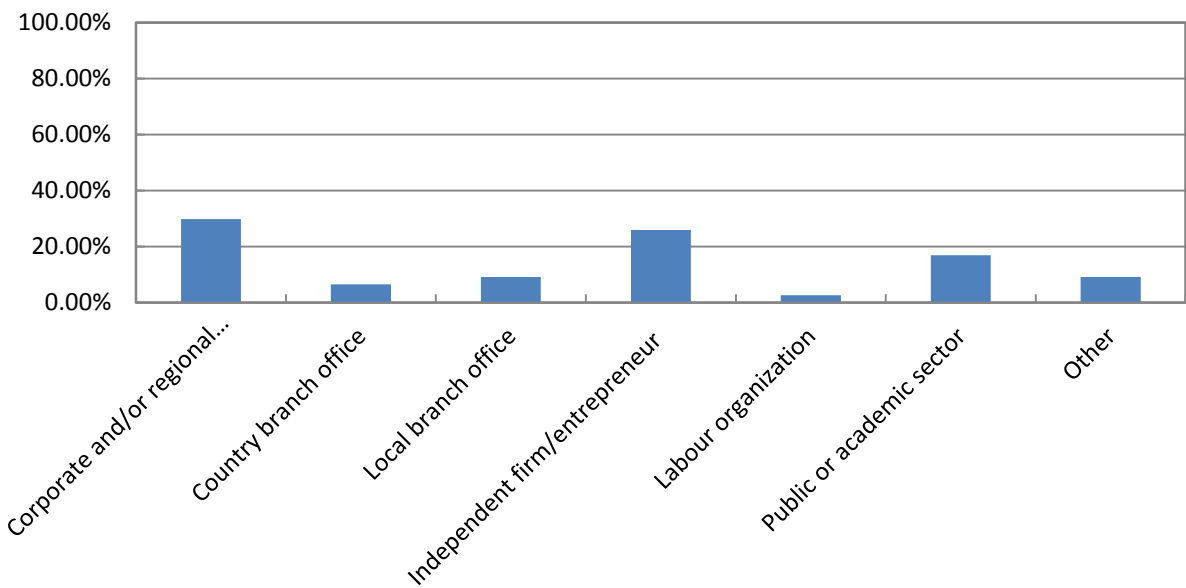
What direction of trade and/or transport do you primarily deal with?

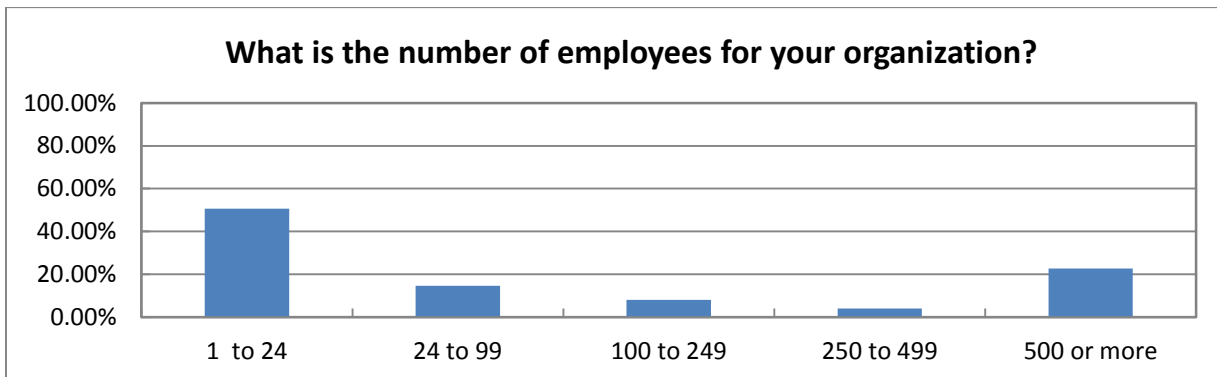


What position best describes your role?



What type of organization do you work for?





6 METHODOLOGY

This report was published in January 2014. Information contained in the **Surface Transportation Annual Review (STAR) Survey** was obtained during the period November 22 to December 30, 2013 using the confidential web-based tool QuestionPro. As of December 31, 2013, we received responses from 180 individuals from seven countries: with the vast majority of responses coming from Canada. Note: Due to the wide variety of questions asked and voluntary nature of the study, the response level to individual questions is less than the total number of respondents.

The intent of the STAR Survey was to conduct exploratory research. Survey response was based on non-probability sampling techniques. E-mail invitations were sent to subscribers of *BC Shipping News* (those with e-mail addresses) and industry contacts of both Wave Point Consulting Ltd and Davies Transportation Consulting Inc. Members of the Chamber of Shipping of British Columbia and the Western Transportation Advisory Council received an electronic message raising awareness of the STAR survey from their respective organizations. Members of the Canada China Business Council with an interest in transportation also received a message from their organization informing them of the survey and requesting their participation.

Social media tools such as Twitter and LinkedIn groups were used to reach a broader audience with a direct interest in the performance of Canada's Asia-Pacific Gateway and British Columbia ports. In addition, a web-based invitation was posted on the *BC Shipping News* web site and the Wave Point Consulting blog Shipping Matters. As a result, 562 of people viewed the survey.

To help place the 2014 STAR survey results in context, information was gleaned from other sources and is specifically cited in the report. Unless otherwise noted, data in this report comes from the 2014 STAR survey.

Questions or comments regarding the research should be directed to Darryl Anderson, Managing Director Wave Point Consulting at the e-mail address wavepoint@shaw.ca

