Surface Transportation Annual Review results

Optimism with a side of caution

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BC Shipping News teamed up with Wave Point Consulting to conduct the second Surface Transportation Annual Review (STAR) Survey. The results of this timely and informative survey capture the industry's mood with respect to the economic and business outlook for 2015. More importantly, the survey results provide objective industry insights into the performance and challenges of the transportation and logistics sectors that serve Canada's Pacific Gateway and British Columbia's ports.

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Shifting momentum impacts economic outlook

Strengthening U.S. economy enhances 2015 business prospects

By the close of 2014, Nik Nanos, Ottawa-based chairman of Nanos Research Group, was quoted in a *Globe and Mail* article as saying, "a drop in the price of oil, a lower Canadian dollar and a softening view on the value of real estate, were creating an emerging environment that could lead to a tumultuous 2015."

Clearly, rapidly shifting economic momentum will impact the volume of trade through British Columbia's ports and the Asia-Pacific Gateway. STAR survey respondents indicated a number of positive developments for international trade.

Fort-five percent of STAR survey respondents expected the Canadian economy to perform at the same level as 2014 in the upcoming year, however 35 per cent believed that growth would be somewhat more robust. The key drivers of economic optimism were the performance of the U.S. economy which was cited by 63 per cent of the survey respondents, echoing the sentiments of the Conference Board.

Canada's robust free trade agenda in the Asia-Pacific region, while still a work in progress, nevertheless remains important. Half of the respondents expected the fastest growing economies to become a more important driver in global trade, resulting in a positive economic impact for Canada. STAR survey respondents had a decidedly mixed opinion on China's impact on the Canadian economy. While 54 per cent viewed China's economic trajectory as being positive for the Canadian economy, 30 per cent believed it would have a negative impact.

Survey respondents' expectations for revenue growth in 2015 revealed a cautious optimism. The STAR survey revealed that 42 per cent believe their firm's revenue will be somewhat, or significantly improved in 2015.

Gateway logistics and transport system performance

A peer performance rating for service quality

The STAR Survey asked respondents to answer questions related to service

Photo: Dave Roels (www.daveroels.com)

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The harbour tug assist sector received top marks for both service quality and price satisfaction in this year's Surface Transportation Annual Review.

quality; frequency of major interruptions; and their experience with the border clearance processes. Strong trade volumes and at or near-record container traffic flows have placed pressure on service quality. Based on the STAR Survey responses, a peer performance rating is a most suitable descriptor for the overall Service Quality results. A peer performance rating is a neutral assessment of performance and is neither strongly positive or negative.

Yet within this overall service quality ranking, a number of logistics and transportation service providers from the following sectors stood above their peers:

- Harbour tug assist,
- Professional, legal and insurance,
- Trade and transportation associations,
- Tug and barge service,
- Pilotage.

Most notable amongst the group of leading performers was the harbour tug assist sector, which remained in top place in terms of service quality. While there were some minor changes in ranking compared to 2014 survey findings, the leading performers in the industry continued to remain out front.

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Logistics and transportation service providers from the following sectors received a neutral to somewhat satisfied with the service quality ranking from STAR survey respondents:

- Shipping agents,
- Custom brokers,
- Freight forwarders,
- Import distribution centres
- Long-haul truckers,
- 3PLs.

Most prominent from this middle group of performers was the fact that the quality of service received from the import distribution centres improved significantly from the previous year.

While the overall response to the topic of service quality was "peer perform," respondents raised a number of cautionary flags. The logistics and transportation service providers with relatively low service quality ranking were from the following sectors:

- Transload operators,
- Marine terminal operators,
- Port authorities.

As we move forward into 2015, STAR survey respondents will be carefully watching the service quality performance of both the rail and drayage sectors to see if the issues that dogged these sectors will continue in the coming year. While these two sectors are vital to the overall fluidity and logistics performance of the Asia-Pacific gateway, they once again received the lowest relative rankings from survey respondents in terms of service quality with only a somewhat satisfied rating.

STAR survey respondents also expressed some real concerns with the rail and drayage sector in terms of price satisfaction and price inflation expectations.

Logistics and transportation service providers — frequency of major interruptions *Percentage of respondents citing often and nearly always*	
Export ranking	**Import ranking**
Security (five per cent), Ocean Shipping (13 per cent), Trucking (15 per cent) Marine Terminals (23 per cent), Rail (33 per cent)	Security (seven per cent), Trucking (nine per cent), Ocean Shipping (16 per cent), Marine Terminals (21 per cent), Rail (23 per cent).

Table 1 — frequency of major interruptions.

Frequency of major interruptions

STAR Survey respondents provided a variety of responses to questions related to the frequency of major interruptions. While there was little difference in their experience regarding ranking of interruptions between exports and imports, there was some notable differences between the sources of the interruption for the respective directions of trade.

Table 1 shows that STAR survey respondents indicated that export freight experienced a much higher reported frequency of delay due to trucking than import cargo. However, for both exports and imports, the frequency of major interruptions related to rail and marine terminal issues were the major causes of supply chain delay.

As the largest B.C. port serving the Asia-Pacific Gateway, all eyes will be on PMV's Vancouver Gateway Intermodal Integrated Winter Plan 2014/2015. Shippers will no doubt want to know whether the plan will be sufficient to not only overcome the challenges of the previous year's winter, but will also result in systemic improvements in supply chain fluidity throughout the year.

Commodity shippers that rely on B.C.'s ports will be looking forward to seeing if the rail industry plans to bulk up winter service to deliver the much-needed supply improvements. Failure of the plan to fully address shippers' needs for service quality will place additional pressure on the Canada Transport Review Panel to develop policy recommendations to address concerns, most notably in the rail and container terminal sectors.

A market performance rating for price satisfaction

The STAR Survey responses on price satisfaction can be most appropriately thought of as a market performance rating. A market performance rating is a neutral assessment of performance and is neither strongly positive or negative. They provided the highest rankings for price satisfaction from logistics and transportation service providers from the following sectors:

- Harbour tug assist,
- Trade and transportation associations,
- Shipping agents,
- Long-haul truckers,
- Custom brokers.

A notable achievement amongst the group with the highest rankings in terms of price satisfaction was the harbour tug assist segment of the market. Combined with their top service quality ranking, this segment of the Asia-Pacific Gateway logistic sector stands out as the undisputed leader among STAR survey respondents.

STAR survey respondents rated the logistics and transportation service providers from the following sectors with the lowest level of relative price satisfaction:

- Import distribution centres,
- Port authorities,
- Marine terminal operators,
- Drayage companies,
- Rail carriers.

The lingering impact arsing from the PMV drayage sector work stoppage and the resulting steps to address the issues has resulted in a very significant drop in price satisfaction. While in 2014 the drayage sector was amongst the group of top performers, it has dropped to the bottom group of performers in 2015. Both shippers and truckers remain frustrated with the solutions put forward in the drayage sector. The results of the STAR survey indicate that the Asia-Pacific Gateway may not have arrived at a lasting resolution and all participants will be under continued pressure in 2015 to make the system work for all participants.

Infrastructure quality showing signs of stress

The World Economic Forum's *Global Competitiveness Report 2014-2015* assessed 144 economies, providing insight into the drivers of their productivity and prosperity. Notably, in terms of quality of road infrastructure, Canada ranked 23rd, port infrastructure 21st, and railroad infrastructure 18th. Thus, it is not surprising that STAR Survey respondents generally gave a below-average overall ranking to the infrastructure quality question as it relates to the Asia-Pacific Gateway and B.C.'s ports.

STAR survey respondents expressed strong reservations about the quality of the local trucking routes serving B.C.'s ports. The poor quality of local trucking routes was identified as the most acute infrastructure challenge on the immediate

horizon. While completion of the South Fraser Perimeter Road has no doubt alleviated some congestion for highway freight destined for Deltaport, overall, the quality of highway infrastructure serving Asia-Pacific Gateway freight interests was of concern to STAR survey respondents.

On a brighter note, capital investment in new warehouse and distribution facilities was having an impact. The sector received an above-average ranking in terms of infrastructure quality. Richard Wozny, Principal Site Economics Ltd., observed, "Metro Vancouver's industrial inventory has continued to expand rapidly since 2013 with Richmond, Delta and Surrey being the primary areas where significant new capacity is being built. The South Fraser Perimeter Road has improved the location of large industrial areas on the south side of the river." He further commented, "rapid growth in logistics-related industrial real estate is expected as approximately 100 acres of new industrial lands are required each year just to serve growth at PMV. This demand will expand to 150 acres per year based on status quo growth and over 200 acres per year with T2."

Controlling costs and safety top logistics priorities

As the economy grows and the pace of trade growth quickens, the market-related logistics and transportation priorities for 2015 have both familiar and new priorities. The rankings indicate that supply chain participants continue to place emphasis on controlling and reducing costs and supporting efforts to access new markets. However, STAR survey respondents indicated that, amongst their top five priorities, was the need to improve labour productivity along with increasing sales/orders and improving quality of logistics and transportation services.

The public, and policy makers, should take heart that safety, environmental, and trade compliance remain the cornerstones of the Asia-Pacific Gateway's supply chain priorities.

Conclusions

While increasing economic and business confidence is a source of good news, the STAR Survey respondents indicated that we would need to remain vigilant in terms of improving system performance if we are to reap the full rewards of increased trade over the longer term.

TRANSPORTATION SURVEY

Strong trade volumes at or near record container traffic flows have placed downward pressure on service quality and price satisfaction, while increasing expectations of higher prices in key logistics service that support trade growth point toward tightening service and infrastructure capacity. The following tables summarize the 2015 results.

Green lights and warning indicators for Gateway logistics and transport service providers

In terms of the performance of the logistics and transportation system serving Canada's Asia-Pacific Gateway and B.C.'s ports, a number of positive indicators emerged (Table 2).

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 B.C.'s ports (Table 3).

A number of cautionary indicators emerged as a result of the analysis of the STAR survey responses. Respondents anticipated an increase in business activity in 2015 and are watching closely to see if the service levels are able keep pace with their requirements (Table 4).

The Canada West Foundation report, *Building on Advantage: Improving Canada's trade infrastructure,* noted, "without the ability to move goods efficiently to and from foreign markets we will suffer. This is not a distant worry. Canada's system for moving goods to market is under strain and may be inadequate to meet growing future global demand." The results of the STAR survey strongly suggest that concerns about transportation infrastructure quality extend well beyond the "grain-by-rail" crises of 2014 and the missed energy export market opportunities that appear on the immediate horizon as we enter 2015.

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POSITIVE INDICATORS				
Service Quality Satisfaction	**Price Satisfaction**	**Price Inflation Expectations**	**Major Interruptions**	**Infrastructure Quality**
• Harbour tug assist • Professional, legal and insurance • Trade and transportation ass'ns • Tug and barge Service • Pilotage	• Harbour tug assist • Trade and transportation ass'ns • Shipping agents • Long-haul truckers • Custom brokers	• 3PLs • Shipping agents • Tug and barge service • Custom brokers • Trade and transportation ass'ns	• Export: • Security • Import: • Security	• Warehouse and distribution facilities
Note: lower inflation expectation level ranked highest.				

Table 2 — Positive indicators.

NEUTRAL INDICATORS				
Service Quality Satisfaction	**Price Satisfaction**	**Price Inflation Expectations**	**Major Interruptions**	**Infrastructure Quality**
• Shipping agents • Custom brokers • Freight forwarders • Import distribution centres • Long-haul truckers • 3PLs	• Professional, legal and insurance • Tug and barge service • 3PLs • Pilotage • Transload operators • Freight forwarders	• Freight forwarders • Pilotage • Transload operators • Harbour tug assist • Import distribution centres	• Export: • Ocean shipping • Trucking • Import: • Ocean shipping • Trucking	• Port and marine terminal • Rail
Note: price inflation expectations ranked highest to lowest.				

Table 3 — Neutral indicators.

CAUTIONARY INDICATORS				
Service Quality Satisfaction	**Price Satisfaction**	**Price Inflation Expectations**	**Major Interruptions**	**Infrastructure Quality**
• Transload operators • Marine terminal operators • Port authorities • Rail carriers • Drayage companies	• Import distribution centres • Port authorities • Marine terminal operators • Drayage companies • Rail carriers	• Long-haul truckers • Port authorities • Marine terminal operators • Rail carriers • Drayage companies	• Export: • Marine terminals • Rail • Import: • Marine terminals • Rail	• Highway • Local trucking routes
Note: price inflation expectations ranked highest to lowest.				

Table 4 — Cautionary indicators.