

TRANSPORTATION AS AN ECONOMIC GROWTH ENGINE: Challenges, Opportunities and Policy Suggestions

Backgrounder

The BC Progress Board, established by Premier Gordon Campbell in July 2001, is an independent panel of 18 senior business and academic leaders. The Board is tasked with benchmarking BC's economic and social performance over time and relative to other jurisdictions. The Board also provides strategic advice to the Premier and the government on ways to improve the economy and provincial social policy supports.

Transportation is a vital critical factor in the economic growth and development process. It is a wealth creating industry in its own right, but is also of growing importance given British Columbia's location on the western periphery of an increasingly integrated North American economy and with its strategic location between Europe and Asia. British Columbia's transportation systems have experienced rapid growth in their scale and complexity, and financing of transportation improvements – from British Columbia's beginnings – have often involved a mixture of public and private capital and investment.

Over time the role of transportation has evolved in Canada and British Columbia. The role has been – at various stages – infrastructure/facilitator of local and regional growth, as a political tool or “pump primer” for the provincial economy, and as a growth sector in its own right. The fourth stage within British Columbia's grasp is to leverage transportation to position Canada as a global trade powerhouse.

Conceptualizing transportation as an economic growth engine for British Columbia requires an understanding of the rapid increase in global trade over the past decade or so. World trade grew at an annual rate of nearly 5.1 percent during the period 1990-2002, while global production grew by 2.1 percent annually during the same time frame. The volatility of international trade points to the need for a flexible transportation system in British Columbia with the capacity to handle peak demands efficiently. Transportation including warehousing is also an important – and growing – source of employment in British Columbia, accounting for 114,000 jobs in 2003 (or 5.6% of total employment). Transportation also has major environmental impacts and lost time from congestion affects our quality of life. Yet, transportation investments also hold the key to reducing negative environmental impacts and increasing our quality of life.

Security sits atop the global agenda and concerns suffuse international politics and economics, and demands for heightened security at borders pose significant threats to growth in trade and global commerce. British Columbia has a significant opportunity to provide strong security, which will be critical to selling the province's gateway transportation service potential domestically and internationally. Simply put, without the most advanced and secure roads, railways, ports and airports, security procedures in the United States will surely limit the flow of goods and people passing to and from Canada and United States. Going forward, significant investments are required in people, cutting edge information and monitoring technology, and foreign policy capacity to meet the security challenge. (*See Text, pp. 8*)

Railroads are likely to be as important to British Columbia's future as they were to its founding and past. Some measures are needed to improve network capacity and the movement of goods. First, current rail bridge capacity on the Fraser River constrains the flow of traffic and leaves the province vulnerable should the current crossing be damaged. Some form of co-production or an additional rail bridge could ease the bottleneck and reduce the risk of significant disruption. Second, in order for the Port of Prince

Rupert to develop its potential as a container port, tunnel heights will have to be increased to handle double stack container trains. Third, the need for additional rolling stock is apparent. A shortage of rail cars in Canada – especially container cars – constrains the ability of gateway ports to realize their potential. A joint investment, public private partnership, or other cooperative or innovative behaviour could help finance an adequate supply of rail cars. Fourth, additional rail capacity in the Southern Rockies will be required. This need is pressing, and in the medium term both senior orders of government – together with major railway companies – will likely have to make a significant investment to improve rail capacity in the “national interest”. Finally, the railway industry operates within a highly competitive continental business environment. Prevailing tax and regulatory regimes should be brought into line with those in the United States to provide incentives for railways to improve rolling stock and network capacity. (See Text, pp. 8-9; Detailed Policy Suggestions 1-2, pp. 26-27).

British Columbia’s *marine* transportation industry forms the primary cargo lifeline linking the province to international markets. The province has superb deep-sea ports that are: ice free year-round; can handle the largest ships in service today and in the foreseeable future; technologically advanced; closer to Asia than other North American ports; connected to excellent North American-wide rail service; and, capable of significant expansion. Recent provincial government tax reforms have provided ports with much needed relief, but other taxation areas (for example property tax and bunker fuel tax) could usefully be targeted as areas for further reduction to make ports more competitive relative to US counterparts. Better rail and road connectivity is also vital to efficiently serve British Columbia’s ports and shape them as part of an integrated global supply chain. Ensuring access to capital markets for expansion efforts ought to be encouraged, along with considering authority to issue tax-exempt bonds.

Both senior orders of government should review the 1986 joint agreement to create an International Maritime Centre (IMC), and consider expanding federal and provincial tax reforms for offshore shipping lines resident in BC in keeping with similar creative extensions and flexibility the province recently granted to the International Financial Centre (IFC). Lands surrounding ports are critically important to the “provincial and national interest”. The Governments of Canada and British Columbia should consider creating a Ports Land Reserve – similar in concept to the BC Agricultural Land Reserve – to protect waterfront and adjacent lands for future generations from other commercial and non-commercial uses. The existence of five separate port authorities means that potential economies of scale and scope are lost under current governance arrangements. Consideration should be given to establishing one “Pacific Super Port” Authority, beginning with the consolidation of the Vancouver, North Fraser and Fraser Port Authorities and eventually including Nanaimo and Prince Rupert Port Authorities. Over time as port volumes increase, consideration should be given to establishing an inland (or inter-modal) container handling facility – for example, in Prince George, Kamloops and/or the Fraser Valley – given the shortage of lands available near some tidewater ports. (See Text, pp. 10-13; Detailed Policy Suggestions, pp. 28-29.)

British Columbia’s vast expanses require safe, modern *roads* to link its dispersed communities. Over the 1990s, there is evidence that authorities systemically under-invested in British Columbia road maintenance and expansion. In the past several years, the Government of British Columbia has committed significant resources to transportation, but continuous investments will be required to maintain and improve road safety and lessen travel times to move people and goods. As British Columbia nears the second half of the current decade, serious attention should be given to identifying and addressing areas where improvements can have transformational effects. A key strategic consideration should be establishing a workable timeframe for improving – to the greatest extent possible – key segments of east-west and north-south highways to four lanes to “shrink the distance” between major centres and to enhance external market connectivity. Ultimately, BC should benchmark its highway systems against the

visionary US Interstate Highway Network and those of similar sized jurisdictions outside North America to yield useful measures of highway functionality. Inter-modal road links in the Greater Vancouver Regional District, the Capital Region, the Okanagan, Nanaimo and Prince Rupert should be high priorities for federal, provincial and regional authorities. A number of areas are singled out for short to medium term action, including: in the Lower Mainland – Port Mann Bridge and Massey Tunnel twinning, construction of North and South Fraser perimeter roads, consideration of removal of parking from downtown core streets in all municipalities, proceeding expeditiously with the Maple Ridge Fraser crossing, and use of high occupancy vehicle lanes for commercial truck trailer traffic at all times of the day; and, outside the Lower Mainland – incremental improvements to the Trans Canada in the Rockies, and development of a long term plan to four-lane key segments of Highway 97 (Prince George to the Canada-US Border). These should be complemented by dynamic road pricing mechanisms. (*See Text, pp. 12-13; Detailed Policy Suggestions, pp. 28-29*)

While all transportation modes are critical to the smooth functioning of the British Columbia economy, changes to national policy for **airlines and airports** could have particularly transformative effects for British Columbia – and Western Canada – from an economic development and market connectivity point of view. Air policy is almost exclusively within the legislative purview of the federal government. Responsibility resides not only in Transport Canada, but also in Foreign Affairs Canada, International Trade Canada, Citizenship and Immigration, and the Canada Revenue Agency with growing roles played by Canadian Security Intelligence Service and the Ministry of Justice in security matters.

Making progress in advancing Canada’s air connectivity through flexible open skies treaties, along with the need to maintain and enhance the competitive position of Vancouver International Airport Authority (VIAA or YVR) and regional airports as key contributors to the national and provincial economies should be top priorities for federal (and provincial) authorities. The Government of Canada should move quickly to conclude fifth freedom and analogous cargo continuation rights at the recommendation of the VIAA under specified terms and conditions. YVR’s location and experience provide Vancouver with the opportunity to become a dominant North American gateway hub for air passenger and cargo services. Establishing true open skies arrangements with the United States (and Mexico), China, India, Singapore and eventually the European Union should be a priority for the Government of Canada. Attendant to this, real open skies to and from Canada will require coordinating immigration, customs and other federal agencies to make YVR an attractive and welcoming hub. Transport Canada should examine the current rent structure which inhibits YVR from reaching its full potential and acts as a disincentive to further advances in the award-winning airport’s competitive position. VIAA should be allowed greater governance flexibility to leverage YVR’s potential as a national economic development asset.

Turning to regional airports, British Columbia benefits from a diverse set of local, regional, and international airports. Consolidation and differentiation within the airline industry is placing pressures on regional airports to consolidate as well. With the devolution of airports to local authorities there have been significant successes as well as difficulties. BC airport mergers should be explored through pooled financing and entrepreneurial tactics to provide better scale and service. This includes efforts to create mechanisms (policies, incentives, transition grants) to link, integrate and finance BC airports economically and effectively, including where necessary downsizing and/or closures with a view to improving air service to merged entities and their service areas. In short, local airports in some areas must become more strategic and cooperative. Federal authorities should reduce YVR rent (as noted previously) or consider directly, or indirectly, recycling revenues to meet infrastructure requirements of smaller BC regional airports. Provincial aviation fuel tax relief should be also considered to provide airports with a competitive edge. (*See Text, pp. 13-19; Detailed Policy Suggestions, pp. 29-31*).

Public and urban transportation is the lifeblood of economic and social activity for major urban economies: the Greater Vancouver Regional District, the Capital Region and other larger centres (Kelowna, Nanaimo, Prince George and Kamloops). Providing efficient urban transportation is vital to sustain and enhance quality of life and the environment, which is also important for attracting and retaining knowledge workers who increasingly are the mainstay of our global economy. Urban transportation is also essential for moving goods – directly through better roads allowing for inter-modal connections between ports, airports, and rail yards, and indirectly because good public transportation reduces road congestion and makes goods movement more efficient.

Intelligent Transportation Systems (ITS), Transportation Supply Management (TSM) and Transportation Demand Management (TDM) should be deployed to the greatest extent possible by regional, provincial and federal transportation agencies. Finding viable alternatives to single occupancy vehicles is vital especially in “peak times” (rush hours). Effective “dynamic road pricing” (peak pricing, tolls) and other traffic demand management mechanisms can make transit more attractive, reduce environmental impacts of transportation, and generally improve efficiency. One recent innovation – the U-Pass at Lower Mainland universities – is worth examining for broader application. The U-Pass is a “non-exclusive” pass which students pay as part of their tuition, and has reduced the volume of vehicles considerably during average in-session days. Consideration should be given to a similar program for commuters and large employers as part of annual tax assessments to encourage less single occupancy vehicle use and to reward frequent users with significantly lower rates. As another potential “load shifting” measure, TransLink is encouraged to continue to explore the viability of shifting a portion of commuter load onto ferries, particularly within the Burrard Inlet but also in other areas. Further load shifting to “short-sea” ferries for goods movement should also be explored, particularly within the GVRD. Marine rights-of-way are inexpensive and flexible, and reduced road congestion can create valuable clusters of urban activities around terminals thereby reducing sprawl. One other traffic demand management technique worth exploring is utilization of existing high occupancy vehicle (HOV) lanes as express lanes for trailer truck traffic at night and, perhaps, all times of the day to ease goods movement and improve inter-modal logistics.

Public transportation investments should be integrated with new land use and density powers for regional transportation authorities in order to maximize the benefits of these investments and to create more compact urban forms around stations, ferry terminals, sky-train stations and bus stops that, in turn, provide passengers (and a revenue base) for public transportation. Important “provincial and national interest” considerations within the Greater Vancouver Regional District argue in favour of streamlining GVTA (TransLink) and regional transportation agency governance so they are proper regional fiduciaries. Board members should be appointed by the provincial government, with a minority of elected representatives, and be granted clear regional transportation and related land use, taxing and borrowing/spending powers. A hybrid of the existing Vancouver International Airport Authority and Vancouver Port Authority models should be considered as a model. Consideration should be given to providing the Greater Vancouver Gateway Council with a formal advisory mandate, along with establishing a national transportation and logistics centre in British Columbia. Provincial and local governments face major fiscal constraints that hamper building needed urban infrastructure. Diverse P3 models with proven track records elsewhere can help provide the capital, but significant public investments will also be required. (*See Text, pp.23-24; Detailed Policy Suggestions, pp. 30-31*).