



Pillar #1: A North American Vision

Introduction

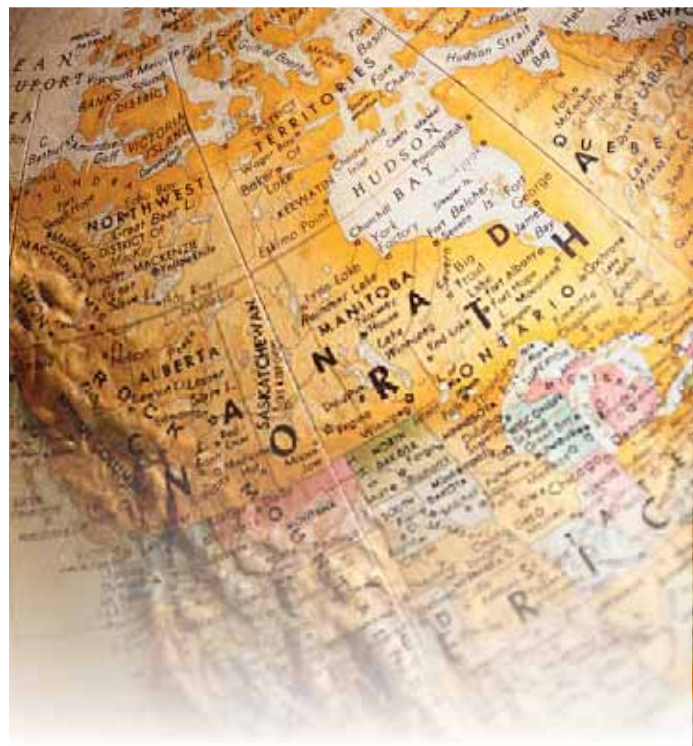
The transportation sector is an economic enabler for the Canadian economy, allowing value-added sectors to develop, to create jobs, and to compete. The government understands the importance of transportation. It has put in place many helpful initiatives and policies over the years, but these efforts are piecemeal and lack a long-term, predictable strategy. Our transportation infrastructure needs major investments while our transportation regulatory environment – that contains wasteful tax and operating constraints and split responsibilities between levels of government – must be updated.

Last year the Canadian Chamber of Commerce and a coalition of 22 business associations prepared a framework for a *National Transportation Strategy*. After broad consultations we determined that to build the safest, most effective and sustainable multimodal transportation system and to make Canada a gateway into North America, the *Strategy* needed to be based on four guiding pillars, which are:

- A North American vision
- A multimodal transportation infrastructure investment strategy
- A competitive regulatory and fiscal environment
- An economically, environmentally, and socially sustainable plan.

The *Strategy* does not need five years to be put together. Rather, we need leadership from our government and practical recommendations for putting the *Strategy* into action.

This report builds on pillar #1, *A North American vision* and gives specific recommendations to the federal government on how to carry out this part of the *Strategy*. Throughout 2009, we will release detailed reports on the other three pillars.



Pillar #1: A North American vision

Given how deeply integrated the Canadian and U.S. economies are, we need to treat the border as part of the supply chain and travel system. If the border works well, it will allow our economies to grow and will support the seven million jobs in the United States and three million in Canada that rely on our partnership¹.

We should view the Canadian transportation sector as a single multimodal network with a vision for a North American transportation system. A North American transportation vision:

- Maintains a secure and trade-efficient border that facilitates the movement of legitimate goods and people
- Puts in place a cooperative framework to efficiently use and enhance current levels of border capacity and integrate our transportation systems

To put in place *A North American vision*, we need to bring together all departments and agencies involved in transportation and border policies at the most senior levels of government. Only then will the border be treated as part of the supply

chain and travel system, rather than as a separate entity. Cabinet-level commitment in both countries is needed to lay out the vision. After the policy has been set, we can begin fully using our current border capacity, expanding border infrastructure, and integrating our transportation systems.

Putting this vision into action meets the mutually-dependent North American goals of security and trade-efficiency while meeting our *National Transportation Strategy's* key objectives of:

- Developing the safest and most effective multimodal transportation system
- Making Canada a competitive gateway for inbound and outbound trade and travel between North America and the rest of the world
- Having an environmentally and socially sustainable transportation system
- Creating a productive partnership with the private sector
- Building on current and past government initiatives



¹ Canadian Embassy to the United States. 2008.

Cabinet-Level Canada-U.S. Border and Transportation Cooperation

To put in place a North American transportation system, we have to take a holistic approach to setting transportation policy, which includes the border. Our vehicle, rail, marine, and air border points play a crucial role in the operations of our transportation system. With approximately \$1.6 billion in daily two-way trade and 300,000 travellers² crossing the border every day, any shock to the border ripples through the entire supply chain and travel system. The impact is magnified in the manufacturing sector where one-third of our two-way trade is the intra-company delivery of input materials.

Setting *A North American vision* involves bringing together the different border, regulatory, transportation, and infrastructure policies under one roof. While Canada Border Services Agency (CBSA) and Customs and Border Protection (CBP) have the lead on border security and trade flows, other government departments such as the Food and Drug Administration (FDA), the United States Department of Agriculture (USDA), and Canadian Food Inspection Agency (CFIA) are charged with monitoring agriculture-related cargo. In Canada, eleven different departments and agencies have border mandates. Infrastructure and regulatory responsibilities are also split between many government departments and agencies and even amongst different levels of government. These different departments and agencies must come together and work from a common vision.

Security concerns and the piecemeal application of border procedures result in growing costs for crossing our air, land, and marine border-points. The costs include longer wait times, duplicative border programs, added expenses for participating in trusted shipper and traveller programs, and increased inspection times. Delays or costs linked with crossing the border eliminate any gains from just-in-time delivery and integrated manufacturing between our two countries.

Making sure border and transportation policy are aligned is particularly important if we want to market Canada as a gateway to North America. Any advantage of having our marine ports located closer to Asia and Europe than U.S. and Mexican ports is diminished if goods and people are delayed at the Canada-U.S. border for lengthy periods of time. For example, CBSA's new container ventilation policy can hold up a U.S. destined container from China for about two days with a cost of a couple thousand dollars. The same goes for significant line-ups at the border. Suddenly the Canadian gateway location and cost advantages are gone. We need to ensure that individual government policies support the greater vision.

Countless departments and agencies are in charge of the many different pieces of North American transportation policy. The Security and Prosperity Partnership (SPP) brought together trade and security policies, but it did not look at broader transportation policy. We need cabinet-level government officials in both countries working on the border and transportation system. A widespread transportation vision can only emerge once the highest level of officials on both sides of the border are working together.

Recommendation

- With cabinet-level government commitment in both countries, Canada should work with the United States to set a North American transportation vision that brings together border and transportation policy. This should lead to a joint framework for working with the private sector for security, efficient use and enhancement of border capacity, and integration of our transportation systems.

² Canadian Embassy to the United States. 2008.

Using Current Border Capacity

Every infrastructure system has its limits, including Canada-U.S. air, land, and marine border-points. North American supply chains and travel systems will be more efficient if Canadian and U.S. border officials work in tandem to secure the border, putting in place technology at the border to speed up the flow of traffic, and matching border resources with business operating hours.

While our two countries have embraced a risk-management approach to the border, we can make it more secure and efficient by moving processes away from the border that can be done somewhere else. This has already started in Canada and the United States. Our governments have undertaken steps to secure our supply chains and travel systems. Companies and people can go through a thorough application and testing process to be considered trusted shippers and travellers so that when they go to the border, they are expedited across. Border officers can then focus on unknown trade and travel, allowing trusted shippers and travellers to move quickly across the border.

Canada and the United States should be working together to promote these programs, make them cost-effective, and make sure that the benefits to participants are being met. Canada and the United States team up on a number of these programs such as NEXUS and FAST for trusted travellers. Yet other programs, like the U.S. C-TPAT and Canada's PIP have been done separately, forcing a company to apply and pay for two different programs to be a trusted shipper in North America. While progress is being made, we need to move the trusted shipper programs in the direction of NEXUS and FAST. We should also expand trusted shipper programs so that companies regulated by the CFIA, FDA, and USDA can also participate. The more participants that are in these programs, the more secure our supply chains and travel systems will be.

Pre-clearance for cross-border traffic before the border is another good step. In addition to land pre-clearance, where one country sets up inspection facilities on the other side of the border because of infrastructure constraints, inspections can also take place right in company production plants. For example, CFIA inspectors who operate under Memorandum of Understandings with the FDA and USDA are in Canadian processing facilities. They could easily inspect shipments at the plant and pre-clear the goods across the border. Pre-clearance would make the border more secure and ease the flow of trade.

The same can be said for improving our import and export reporting requirements in both countries. Right now multiple government departments use separate systems, either electronic or paper-based, for importers and exporters to report their shipments. Having multiple systems duplicates border procedures and hampers information-sharing between government departments and our two countries. A uniform system will make sure that cross-border trade information is more accurate and easily available to all government departments and agencies. The next logical step would be for Canada and the United States to put in place a fully secure and interoperable customs system to improve risk modelling and border predictability.

Technology also plays an important role in securing the border and helping goods and people move across it smoothly. RFID technology installed at border booths coupled with documentation carrying RFID chips has the potential to dramatically decrease border wait-times. For example, it can take a border officer eight seconds to gather documents from passengers in a vehicle and fifteen seconds to process the information³. Multiply this by a thousand border

crossings, it's no surprise there are major wait-times. Secure vicinity RFID technology, which is in NEXUS and FAST cards, and enhanced drivers' licences, will virtually eliminate the processing time. Since the travellers information will appear on the border officer's computer as the vehicle approaches the booth, providing accurate information to our customs officials will expedite cargo and traffic across the border. If everyone had vicinity RFID cards and border booths had the technology, the average wait time at the Peace Arch crossing could be reduced from 65 minutes to 8 minutes. With proximity RFID cards – identification that must be swiped at the border booth like a passport – the average wait-time will be 26 minutes.⁴ The United States has promised to implement RFID technology at 39 crossings, covering 95 percent of all U.S. cross-border traffic. We need Canada to do the same.

Another way to fully use current border capacity is to make sure that air, land, and marine, border-booths and inspection facilities are open during all business hours. While business and cross-border supply chains and travel system operate 24 hours a day, 7 days a week, border services are not staffed to meet that demand. We need to match border operating hours with business operations, including having 24/7 border services at all major crossings.

One way to bring all these ideas together is to put in place a co-managed border modelled after other successful joint Canada-U.S. frameworks like NORAD. A co-managed border would provide uniform border planning that coordinates agency resources, links cross-border infrastructure projects, and actually strengthens port (and between port) security, enforcement practices, and incident responses. We recommend testing this idea at one port of entry or having it co-exist within an existing port – just as NEXUS co-exists within airports. If successful, there is potential to create best practices that could be applied across the 49th parallel.

Working together on border management, using available border technology, and matching border services resources with business operations meets the objectives of our *National Transportation Strategy*. Our supply chains and travel systems will be more secure and our low-risk cargo and travellers will move smoothly across the border. Canada will be a competitive gateway for North America, and transportation's carbon footprint will decrease by reducing congestion and unnecessary idling at the border.

Recommendations

- Canada should work with the United States to move border processes further back in the supply chain and travel system by mutually recognizing each others trusted shipper programs, adopting pre-clearance border processes, and putting in place an interoperable customs system.
- Canada should work with the United States to install technology, such as RFID readers, at all major border crossings to secure and speed up processing.
- Canada should work with the United States to ensure that all border services operations, including those of other government departments, are staffed enough to meet the demands of the private sector. This includes taking on 24/7 border services at all major crossings.
- Canada should work with the United States to launch a co-managed border pilot project at a major port of entry to speed up the movement of low-risk goods and people.

³ Public Border Operators Association. 2007.

⁴ US-VISIT Time Study provided by Can/Am Border Trade Alliance.

Integrating our Transportation Systems

Creating a North American transportation system involves looking at new multimodal transportation options, bringing our separate regulatory frameworks closer together, and exploring other trade in transportation services opportunities.

We can make our transportation system more efficient by increasing the transportation services opportunities available to shippers and travellers. The European Union is expanding its transportation options in the *EU Maritime Transport Area without Borders* action plan. The action plan's goal is to make a barrier-free maritime transportation area so marine transportation can compete with truck, rail, and air for moving goods and people within Europe.

Canada-U.S. trade and travel is dominated by land and air transportation. In some regions shortsea shipping could move cargo in a speedy and environmentally-responsible manner. For example, shortsea shipping could allow shippers to avoid some of the most congested corridors by going across the Great Lakes. Unfortunately, the harbour maintenance tax in the United States, CBP's 24-hour advanced cargo-reporting regulations, and Canada's 25 percent tariff on imported ships, make shortsea shipping unfeasible. Like in the EU, Canada should work with the United States to expand the transportation services opportunities available to shippers and travellers.

Further integration is also needed on the regulatory side where small differences between Canadian and U.S. regulations wreck havoc on our transportation system. For example,

64 jurisdictions in North America regulate the trucking sector. Ballast water regulations differ within the Great Lakes region with eight states adopting different rules. Regulations for screening air baggage in Canada are not even recognized in the United States. Even empty imported shipping-containers are regulated differently in each country. As part of *A North American vision* we need to engage the United States and remove these costly, small differences in our transportation regulatory regimes to make it easier to move goods and people from one area to the next in North America.

Efficiently using transportation labour and capital will benefit North American shippers and travellers. Cabotage restrictions control the type of transportation movements that can be made within each country. Foreign truck drivers must depart the United States with the same trailer they entered with and cannot reposition empty trailers to where most needed. The same rules apply in Canada. We believe that these rules should be changed to allow empty trailers to be repositioned in the same country so that trucking companies can best manage the movement of their assets. In fact, we should take this one step further and look to get rid of cabotage restrictions in the trucking sector in the long-term.

Professors Richard Beilock and Barry Prentice recommend allowing cabotage in a pilot project, with a sunset clause, using Alberta, Saskatchewan, Manitoba, Minnesota, North and South Dakota, Montana, and Idaho. Cabotage would allow trucking companies, burdened with chronic skills shortages, to use their labour and capital in the most efficient way. Having drivers

move empty trailers across the border is costly. Easing cabotage restrictions would reduce the likelihood of drivers moving empty backhaul loads. Backhaul rates would increase as a result of more demand and fronthaul prices would decrease because the risk of empty backhauls would be reduced. In addition to the obvious economic benefits, removing trucks with empty trailers from the road helps the environment by reducing greenhouse gas emissions.⁵

Integrating our transportation systems meets the objectives of our *National Transportation Strategy*. Shortsea shipping and easing cabotage restrictions in the trucking sector will make our intermodal transportation system more efficient and environmentally sustainable. Goods and people will be able to flow more smoothly between Canada and the United States, a key condition for being a competitive gateway to North America.

Recommendations

- Canada should work with the United States to eliminate regulatory barriers barring shortsea shipping.
- Canada should work with the United States to eliminate regulatory differences in our transportation systems. Areas begging for further cooperation are trucking regulations, ballast water provisions, air baggage screening, and the movement of empty imported containers.
- Canada should work with the United States to put in place a pilot project in the Prairie region to test cabotage in the North American trucking sector.

Expanding Border Infrastructure

A North American transportation system needs infrastructure that can handle the growing demands being put on it by shippers and travellers. As a result of our shared border, neither country can develop border infrastructure on its own. After all, you cannot build half a bridge between Windsor and Detroit. You need both countries working together to build border infrastructure. Because of our integrated economies, border infrastructure development should be a priority coming out of the cabinet-level cooperative transportation framework.

The first step is for Canada and the United States to agree to set a North American transportation vision and then to lay out an infrastructure plan with joint funding on priority projects. This is not a new idea. Arizona and Sonora have already established a joint-infrastructure plan. The *2015 Border Infrastructure Plan* is a seven-year initiative that supports full cross-border coordination on all projects to improve the ports of entry between the United States and Mexico.

After putting in place a joint border infrastructure plan, we should work with the United States on making long-term investment commitments through our separate budget and authorization procedures. Our investments should focus on major Canada-U.S. land, air, and marine border points. Some priority projects include a new Windsor-Detroit crossing, a new Detroit river rail tunnel to handle double-stacked containers

⁵ Beilock, Richard & Prentice, Barry E. 2007. "A Single North American Trucking Market Experiment: The Open Prairies Proposal". North American Transportation Competitiveness Research Council.

and auto-max railcars, a second bridge between Fort Erie, Ontario and Buffalo, New York, and an extension of the trusted shipper and traveller lanes at major border crossings to make them more accessible.

Launching a Canada-U.S. border infrastructure plan allows us to strategically expand our border infrastructure. Traffic will flow more smoothly, decreasing emissions from idling vehicles. People and goods will be able to move smoothly across the border, making our supply chains and travel systems more efficient while giving a needed boost to cross-border tourism, which is key for Canada to be a competitive gateway to North America. In addition, investing in infrastructure projects creates jobs. Approximately 35,000 jobs are created per billion dollars invested in infrastructure⁶.

Recommendations

- As part of a cabinet-level commitment for a North American transportation system, Canada and the United States should put in place a long-term border infrastructure plan to coordinate infrastructure projects. Some priority projects include:
 - Investment in infrastructures at Canada-U.S. border crossings where warranted by commercial and passenger travel demand
 - A new Windsor-Detroit crossing
 - A new Detroit river rail tunnel to handle double-stacked containers and auto-max railcars
 - A second bridge between Fort Erie, Ontario and Buffalo, New York.
 - An extension of trusted shipper and traveller lanes at key border crossings between Canada and the United States.

Recommendations

• Cabinet-Level Canada-U.S. Border and Transportation Cooperation

With cabinet-level government commitment in both countries, Canada should work with the United States to set a North American transportation vision that brings together border and transportation policy. This should lead to a joint framework for working with the private sector for security, efficient use and enhancement of border capacity, and integration of our transportation systems.

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⁶ North American Centre for Transborder Studies. 2009. "North America Next: A Report to President Obama on Building Sustainable Security and Competitiveness". Arizona State University.

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