Recommendations for Canada's Marine Policy from the Greater Vancouver Gateway Council

The Greater Vancouver Gateway Council represents the collective will of the major transportation interests in the Greater Vancouver region to maintain and expand the volume of goods and numbers of passengers moving through the Gateway.

$22 billion of Canada's foreign trade moves through the Gateway's sea ports. Included in this figure is the value of approximately 50 million tonnes of Western Canadian bulk commodity exports.

In the past, the Gateway's bulk commodity business has been largely unchallenged, but changes in the global economy and new competition from US Pacific Northwest ports (US PNW ports) demand urgent, far reaching changes in the way we do business.

The Gateway Council is taking the steps required to meet these challenges, but action by government is also necessary, to ensure that the Gateway maintains its dominant position in handling Canada's Pacific Rim trade into the 21st century.

Action by government is necessary to allow Gateway sea port terminals to compete effectively over the longer term with US PNW ports, which are seeking to capture Canadian export business from the Gateway.

Competitive Position

US Pacific Northwest seaport districts† enjoy a number of competitive advantages.

Term of Financing - 30 Years vs. 10

30 year revenue bond financing terms available for US port terminal expansions, provides long term cost stability; in comparison with the 10 year terms presently available to Gateway port authorities.

Cost of Capital - 6% vs 9 or 12%

US port authorities can and do issue tax-exempt special obligation revenue bonds to finance terminal expansions at 6%. These lower rates flow through to private terminal operators. By comparison, Gateway private terminals pay 12%, public authorities, 9%.

Property Taxation

Gateway terminals pay between 2 and 10 times more in municipal property taxes than their US competitors.

Payments to Shareholder

The Vancouver Port Corporation paid on average $6.5 million a year in dividends between 1986 and 1994 and made special payments, averaging $10 million a year, over the same period.

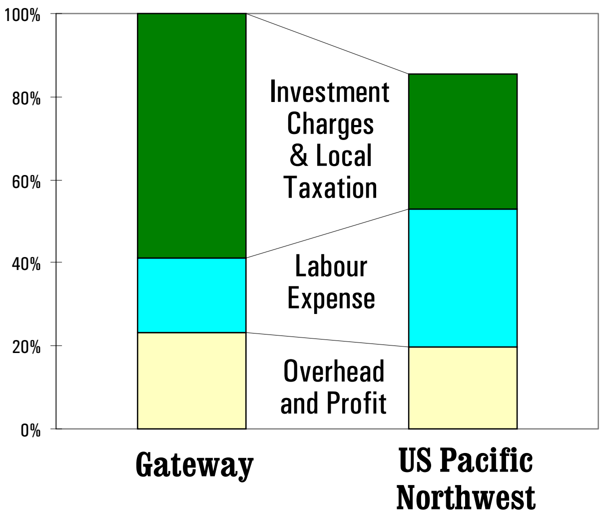
ISTEA Capital Grants

Under the Intermodal Surface Transportation Efficiency Act (ISTEA), the US government provides grants for transportation infrastructure. For example, 20% of the costs of rail access improvements for the Portland Terminal 5 project, are being financed by an ISTEA grant.

Port Authority Tax Revenues

The primary US PNW ports of Seattle, Tacoma and Portland levy taxes totalling approximately US $47 million each year. This significantly reduces port system overhead costs.

Investment Charges and Local Taxation Give US Pacific Northwest Terminals a 3 - 15% Long Term Cost Advantage



Perception of Reliability

The Gateway ports system is perceived to be less reliable than competing US ports.

Corporation Capital Tax

0.3% of private capital in British Columbia.

† Refers to all port districts in the Puget Sound and on the Lower Columbia River System

The Bottom-Line

Investment charges and local taxation differences between marine terminals in the US Pacific Northwest and the Gateway are the main long term threat to the Gateway's competitive position.

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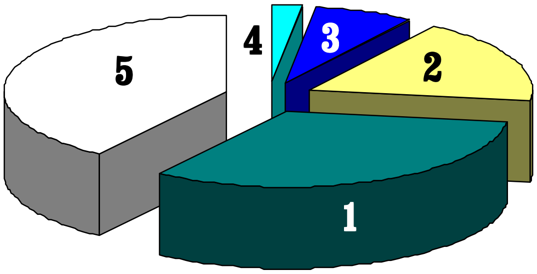
Financial Cost Advantages Enjoyed by US Pacific Northwest Ports

US Pacific Northwest ports enjoy overall investment cost advantages in comparison with the Gateway, through:

1 Low cost tax exempt bond financing
2 Lower municipal taxes
3 No dividend payments by ports
4 No tax on private capital
5 Authority to levy taxes on property owners



Higher costs in the Gateway from these five competitive elements, reduce profit margins and capital available for expansion; this increases requirements for public sector investment in the Gateway ports system.

These competitive financial cost advantages are only partly offset by the lower hourly cost of longshore labour in the Gateway ports.

	Competitive Element	Gateway Ports	US PNW Ports	Competitive Implications
1	**Financing**			
	Term	10 years or less	30 years or less	Reduces shipper / terminal operator uncertainty about future cost levels
	Cost of Capital and Tax Exemption	9% (Public)† 12% (Private)†† 9% (Public)†	6% all types	Bulk (Public)† $0.50 / tonne Bulk (Private)†† $1.00 / tonne Containers (Public)† $1.30 / tonne
2	**Property Taxes Fees for Service**	Equivalent to: 2% - 4% of assessed value of land and improvements	Equivalent to: 0.25% Oregon 1% Washington of fair market value for lease purposes	Bulk $0.60 / tonne Containers $0.40 / tonne
3	**Payments to shareholder** Vancouver Port Corporation 1986 - 1994	Dividend: $6.5million / year	No payments	$0.11 / tonne foreign cargo
		National Office: $2 million / year	No payments	$0.03 / tonne
		Special payment $10.0 million / year	No payments	$0.16 / tonne
4	**B.C. Corporation Capital Tax**	0.30% of paid up private capital	No Capital Tax	Private Bulk Terminal $0.06/tonne
5	**Revenues from Property Tax Levies in 1994**	No Property Levy	Seattle $35 million Tacoma $6 million Portland $6 million	Reduces Overhead Costs for the US Pacific Northwest Port Systems

† "Public" refers to cases where port infrastructure costs are financed by Port Authorities
†† "Private" refers to cases where port infrastructure is financed through private sector funding

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Recommendations for Canada's Marine Policy

To redress the competitive balance between the Gateway sea ports and their US competitors, the Gateway Council puts forward the following recommendations for inclusion in Canada's Marine policy in three main areas:

- *Expanded Borrowing Powers and Related Lease Agreements*
- *Payment of Municipal Taxes*
- *Payment of Dividends and / or Special Payments by the Vancouver Port Corp.*

Expanded Borrowing Powers and Related Lease Agreements

Specifically, the Gateway Council recommends that:

General Purpose Revenue Bonds
be issued by Port Authorities and repaid from general port operating revenues

Debt Service Coverage Criteria
be developed to ensure that Port Authorities will have sufficient operating income to repay long term debt on a commercial basis

Special Obligation Revenue Bonds
be issued, on a tax exempt basis, by Port Authorities and repaid directly by Terminal Operator lessees with no liability to the Port Authority

Financial Lease Agreements
be structured by Port Authorities where, Terminal Operators guarantee to pay rentals over the term of their leases, sufficient to retire the Special Obligation Revenue Bonds' principal and interest

Ground Lease Agreements
be structured, which set out long term relationships between Port Authorities and Terminal Operator lessees and create business partnerships through negotiated minimum, guaranteed annual rentals, combined with throughput charges on traffic above the minimum guaranteed level.

Payment of Municipal Taxes

The Gateway Council believes that there should be no municipal tax obligations for Port Authorities.

However, in the event that there is a requirement to negotiate appropriate fees for municipal services used, an arbitration mechanism must be included in the enabling legislation in order to resolve any differences about the amounts of such fees.

Payment of Dividends by Port Authorities

The Gateway Council endorses the House of Commons Standing Committee on Transportation (SCOT), Marine Policy recommendation that Port Authorities pay an annual dividend to Canada under an agreed formula which determines both the amount of assessable net income for dividend purposes and the rates of dividend payments.

The Gateway Council emphasises that a clearly defined, agreed formula to determine dividends is of crucial importance to the Gateway's competitive position. The Council recommends that an acceptable formula would involve:

- A sliding scale of dividend percentages
- The base amount of net income for dividend calculation be related to a Port's approved five year budget and its capital reserves

The Gateway Council strongly endorses the SCOT - Marine Policy recommendation to discontinue the practice of Port Authorities making special cash payments to the Government of Canada.

Terminals on Private Lands

The Gateway Council recommends that terminals located on lands not owned or controlled by Port Authorities should qualify for the same competitive benefits which would result from the long term bond financing structures recommended by the Council for terminals located on Port Authority lands. To qualify, it is proposed that such terminals must be engaged in handling Canada's foreign trade and must also meet criteria to be determined on public use and benefit.

The recommendations and other information contained in this brief are supported by detailed information and analysis contained in the Gateway Council's report titled *"Directions for Growth, Report and Recommendations on the Competitive Position of the Greater Vancouver Gateway Sea Ports."*

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The Greater Vancouver Gateway Council

The Gateway Council represents the collective will of the major transportation interests in the Gateway to develop and pursue a unified competitiveness strategy. The formation of the Council was announced May 20, 1994 jointly with the Minister of Transport, Government of Canada.

Board of Directors

The Council comprises a Board of Directors, Resource Members and a membership at large who subscribe to a common vision that Greater Vancouver become the Gateway of choice for North America.

Vision

Greater Vancouver Gateway becomes the Gateway of choice for North America

Mission

Ensure that the Gateway efficiently provides the highest level of customer satisfaction

Strategy

Ensure that the Gateway efficiently provides the highest levels of customer satisfaction by enhancing; Customer Service, Competitiveness and Labour stability. In addition, the Gateway Council will work with governments, regulatory agencies, educators and young people to ensure that the Gateway meets the employment and technological demands of the 21st century.

The Gateway Council Secretariat
Provides administrative and technical support to the Board of Directors and the Council's Action Teams.

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Printed in Canada on Recycled Paper

August 1995