

**PORT METRO VANCOUVER
GATEWAY INFRASTRUCTURE FEE CONSULTATION**

**Gateway Infrastructure Program Advisory Committee – Meeting 2
February 11, 2010**

Notes from a meeting of the Gateway Infrastructure Program Advisory Committee, February 11, 2010, 1:00-3:00pm, at SFU Harbour Centre, Alan and Margaret Eyre Boardroom, 515 West Hastings Street, Vancouver, BC.

GIPAC: Stephen Brown, Chamber of Shipping of British Columbia
Brad Eshleman, BC Wharf Operators Association
Dave Kushnier (for Phil Hulina), Vancouver Terminal Elevator Association
Roger Larson, Canadian Fertilizer Institute (by phone)
Bernie Magnan, Greater Vancouver Gateway Council
Ian May, Western Canadian Shippers' Coalition
Ken Peacock (for Jock Finlayson), Business Council of British Columbia
Blair (for Don Sorochan), Canadian Association of Importers and Exporters
Craig Williams, Canadian Manufacturers and Exporters
Allen Wright, Coal Association of Canada

Port Metro Vancouver: Judy Kirk, Kirk & Co. Consulting Ltd., Facilitator
Allan Baydala, Chief Financial Officer
Peter Xotta, Vice President, Planning and Development
Scott Galloway, Director, Trade Development
Kirk Zhou, Supervisor, Business Analysis & Decision Support
Naomi Horsford, Community Engagement Specialist
Chris Chok, Kirk & Co. Consulting Ltd., Meeting Recorder

The record notes that the meeting commenced at 1:00 p.m.

KEY THEMES:

- Some GIPAC members were interested in a separate GIF for each trade area (Roberts Bank Rail Corridor, North Shore Trade Area, South Shore Trade Area) so that the GIF amounts paid by each trade area would be more closely tied to the costs of the infrastructure improvements for those areas.
 - Participants requested additional information regarding the Gateway Infrastructure Program projects per trade area.
 - Participants generally agreed with a 25-30 year GIF payback period, reflecting the life of the infrastructure improvements. Some participants suggested that those paying the GIF should consider paying down the principle faster if GIP improvements led to cargo volume increases, and therefore increased revenue. Some participants also said that potential future higher interest rates may increase the benefit of paying the debt off sooner.
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1. Judy Kirk, Facilitator – Welcome and Introductions

C: *Judy Kirk*: Thank you for coming today. Our next meeting is March 2nd and that's at the BCMEA offices, and then the next scheduled meeting is March 26th. I'll remind you of those meetings later, but just to give you a sense of the schedule.

Let's go over the purpose of the meeting, as a reminder. You have an agenda in front of you. The first thing we are going to do is a quick review of the notes, make sure that you're all aware of them, if you have any changes, you can advise me at the end of the meeting. We're going to deal with your question about competitiveness from last meeting – the question came up from two people, but there was consensus from the group that you wanted information about whether the Port had considered the impact of the GIF on competitiveness. Allan will give that information by way of slides and you have the hardcopy of that information in your package. We will then do a very quick review of the four models and within that review, I will ask you for feedback on each of the models. I want to make sure that we at least do one pass of each of the models before we either zero in on one, or start talking about a new one. I want to make sure we're quite deliberate about gathering feedback on each the four models. We will then open up the discussion to include general feedback or other suggestions you might have, which for example, Roger Larson had. I believe Stephen has brought an email which we will look at. Here's the thing though – we have 2 hours today. My belief is that we will have time in the March 2nd meeting to more thoroughly discuss the submission from Roger, and other written feedback that will come from you as members of the committee. I'm not saying that we won't discuss the material that Roger has sent and Stephen has brought; we can do that today. I'm just making sure that if we need a very substantive discussion about what Roger has sent – Roger is on the phone today and he couldn't really participate in a full manner that we would want him to in order to bring that information. I think the process will be better served, and you will be better served, if we use March 2nd to look at all your input instead of doing it piecemeal. If you can think about providing a written submission by March 2nd, completing your feedback form, that would be great. Any questions?

2. Review of GIPAC Meeting 1 Notes – Judy Kirk

The meeting notes were reviewed.

Q: *Judy Kirk*: Are there any questions or comments on the notes?

A: *Craig Williams*: The only thing I would ask – 2 days, I don't get to things within 2 days. My board demands a week...

C: *Judy Kirk*: I think that's fair, we will work much harder to make sure materials are circulated a week in advance. Looking at the March 2nd meeting, we will circulate by February 24th or so in advance of the March 2nd meeting.

Q: *Ian May*: Just to echo that, I'm in the same boat, a week minimum. Reading through them – I didn't realize that they were verbatim.

A: *Judy Kirk:* The notes are virtually verbatim. And I did say that in the first meeting, and I want to make sure that people know, they aren't exactly verbatim, but they are virtually verbatim. We do that to make sure that we capture all your comments, that when we are doing the consultation summary report, that we are not somehow making some judgment about what is valuable from what you're saying. If there is anything you have a concern about, I'm more than happy to take out something. What isn't fair is if you say something one week, and then say something different the next week. It's about tone. We do tape for backup, but it's just in case the computer absolutely blew apart. We just have that as a backup, but we destroy them.

3. GIF and Competitiveness – Allan Baydala

Allan Baydala reviewed a PowerPoint presentation regarding GIF and Competitiveness.

C: *Judy Kirk:* I'd like to ask Allan to do the first part of the presentation. If you would allow Allan to go through it, but there are three places that are very natural to break for questions, and I will ask Allan to break there to deal with questions, so we don't have to wait till the very end.

C: *Allan Baydala:* The back part of this presentation will firmly address the fee compared to other jurisdictions. I thought before we got into that, it would be worthwhile going through what fees we charge, how we charge them and to give you that good solid basis for that comparison. So we'll go through the harbour dues, berthage, wharfage. We also charge, for cruise passengers, a passenger fee. We won't be going into that today. We talked about what the state was with cruise, that they aren't benefitting. At this point, we haven't included any cruise passengers in the models. To complete the picture for revenues, we'll also talk a little bit about rents.

Harbour Dues:

- Guardianship type fee – something for the value of all Port users – security is a good example, safety, cleanliness
- First 5 calls by vessel per year is charged, based on tonnage
- We have environmental incentive base – gold, silver, bronze
- Base is 9.4 cents per ton, and you can pay almost half of that by burning low sulfur fuel
- **Example:** A grain vessel with 50,000 GRT that meets Silver air emission standard would pay \$3,050 harbour dues per visit (50,000 X \$0.061)

Berthage:

- Where the Port recovers the costs of investments in the berth face – dredging and maintenance around the berth.
- Based on the overall length of vessels times the length of stay at the berth.
- **Example:** A breakbulk vessel with 180 metre registered overall length (LOA) that stays at a berth for 60 hours during a regular workweek would pay berthage of \$4,406.40 (180 X 60 X \$0.408)

- The number of hours stayed varies from ship to ship. 60 hours is 2009 average.
- In January, we saw a range of 15 hours to 140 hours, but 60 hours gives an order of magnitude.
- If this was the same ship as the previous example, the ship would pay harbour dues and berthage of almost \$7,500 for those two fees at that point.

Wharfage:

- Directly related to contractual arrangements with the terminals to recover our investments in terminal infrastructure.
- There are a number of wharfage rates depending on the cargo. We used the container example because it's the highest rate. We have different rates for import and export.
- **Example:** A Centerm container vessel carrying 1,000 import laden TEUs, 200 import empty TEUs and 500 export laden TEUs would pay wharfage of \$48,700 (1,000 X \$35.90 + 500 X \$25.60).
- The GIF is about \$1-5 per container and cents per ton, so that puts into perspective what we're talking about.

Rental Revenue:

- Rent is assessed based on fair market value plus a return on PMV's land investments.
- Varies around the Port depending on whether PMV is just a landlord or puts infrastructure on the land.

Q: *Craig Williams:* PMV's operating costs are allocated through the harbour dues, berthage, wharfage?

A: *Allan Baydala:* Harbour dues is a recovery fee for those overhead costs – safety, security. We look at what that total is, and estimate what the tonnage is going to be for the year, and then set our harbour dues rate. We haven't changed that rate since pre-2007.

Q: *Craig Williams:* Your salaries, and so on, are those split across all three? How are those recovered?

A: *Allan Baydala:* We don't do a direct allocation of those costs to those fees.

Q: *Craig Williams:* All this revenue comes in and pays the overhead, being you?

A: *Allan Baydala:* Yes, but we don't have that direct link between the fee and those other costs. So we have \$140 million of revenue and \$100 million of expenses, we make \$40 million and we turn around and reinvest in capital infrastructure.

Q: *Ian May:* The question that my members asked – say you are net \$40 million, the question was why don't you pay for it yourself?

A: *Allan Baydala:* Our board is very sensitive to the competitiveness, and so we looked at our profitability. There is very little leakage. About 2% of our gross revenue we have to pay back to the Federal government in a stipend, about \$5 million a year. That's the only leakage out of the pie. We turn around and reinvest all of that profit – say \$40 million – in other infrastructure, and generate a return, which allows us to make those contributions in wharfage and berthage to provide infrastructure around the Port in partnership with the terminals. We're not sitting on a pile of cash. It would be a fair question if we

were sitting on a pile of cash, obviously we would be collecting too much in fees, and we could lower our fees and have less cash. In fact, our borrowings are about \$104 million. We're making that \$40 million, and having to borrow another \$100 million to make investments which we do in consultation with our terminal operators. That all goes into terminals and it's one of the reasons we can upfront the \$167 million in the Gateway Infrastructure Program. So, my answer would be, there is no money. We make \$40 million, but we spend it all on infrastructure.

Q: *Ian May:* What delineates the GIP from other infrastructure programs?

A: *Allan Baydala:* We are not generating return on it directly. When we don't have the cash, we have to go out and borrow the funds. I'm in the middle of the first ever Port bond financing right now, for \$150 million. We have to go borrow the funds to be able to pay the \$167 million dollars for the good of the gateway. And then the GIF is just the repayment of that so we can pay it back to the bank.

Q: *Craig Williams:* I just want to build on what Ian's saying. If you're a private business, and you had to reinvest in infrastructure to stay competitive and offer a good service so that you wouldn't lose your customers, those customers, they're not going to pay for it. The fact is that you can offer the service means they stay with you and you are defending your competitive position. I have that same question. Why is this so different? Why should we use it – one of the problems is that it's almost like a monopoly. It's very difficult for them to go. If someone else could come down the street, then it would be ok. They could vote with their fee.

A: *Allan Baydala:* We are only investing in these projects because we see the benefit to the gateway and to the terminals and to the movement of our cargoes. We'll get additional rail lengths, there are a lot of rail benefits, there are benefits to trucks, a 65%/35% split. This isn't overhead spending. This is spending that ourselves and predominantly terminal operators – I do admit that it was the terminal operators that we were working with in developing the Gateway Infrastructure Program – firmly believed, and signed their names as supporters, that it would improve the throughput and efficiency of the volumes that we were are moving through the gateway.

Q: *Craig Williams:* If I was wearing my business hat, I would say, I'm going to get more revenue, I'm going to reduce my cost per widget that I put through the place, therefore I will take the risk to make these investments, and I'll keep my customers base. But, it just wouldn't fly in private industry. You say well, I have to put in a machine to reduce my costs and you will pay for that machine. I don't see any check and balance. There is no option for the customers. It is like a monopoly, there is no option for the customer to walk, until they make the big decision to go to Seattle or Prince Rupert.

A: *Allan Baydala:* Let's move on to the competitiveness, and show you the numbers. We do believe that these investments have a significant benefit on the throughput through the gateway, and what we were looking at is whether it would have a significant detrimental effect to the competitiveness of those shipping through the gateway. And the answer was no, and I'm hoping to show you that through the next few slides.

Q: *Ian May:* I'm not beating this thing to death, but that's not the point. The point is that if you are increasing your throughput, you're increasing not only your current traffic, but potentially attracting traffic away from LA and other spots on the coast. My question is, why not derive the money from the increased revenues that will result from the increased traffic to Vancouver's more efficient port?

A: *Allan Baydala:* I suspect that the individual terminals will look at it this way. We get a lot of fixed rents. The Port doesn't get a lot of benefit from that volume. I think that's a question for the individual terminals, does this investment make sense for us as individual terminals. And I think the answer was generally yes, and that's why they signed as supporting. There were real advantages because the Federal Government was there with big pots of money, not 17-18 pots of money – they were willing to wrap this up in Roberts Bank, North Shore and South Shore, with one lump sum payment. So we had to get together to capture these funds, and the Port was able to step up and say, ok terminals, some of you have the money. There are very short timelines – this money has to be spent in some cases before 2011 and, in most cases, by 2014 – and we can borrow the funds on behalf of the terminals and put it up front, and we need to find a way to collect it back, and that's why we're here, to find the fairest way of doing that.

Q: *Ian May:* But I hope you get our point, my members, certainly, aren't all deriving benefit from this, certainly not in the same scope as the terminals.

C: *Judy Kirk:* Ian, I have heard the point, that's for sure, and I'm quite sure Allan has too. Chris has it in the record. So Allan, as much as I appreciate you answering the question, I think you have, I'm going to ask you to move on to answering the competitiveness question, and then Ian, we'll come back.

GIF and Competitiveness

C: *Allan Baydala:* We've done the analysis, and we believe that the GIF is low enough to not be detrimental to Port customers. We looked at the numbers, and we also looked at what was happening around North America. The infrastructure type fees are common on the west and east coasts. There is a slide at the back of your package that lists a number of those. So we're not breaking new ground on this. Let's look at it from a container perspective and show you what the GIF does.

Container Fee Comparison

- This shows you what our costs are compared to the other ports, and what our GIF does
- Vancouver is not the lowest in berthage, wharfage, and harbour dues, but is competitive and lower than Tacoma, LA and Long Beach.
- The issue is not to compare what the costs are to the other ports, but show what the GIF does to that position. GIF ranges from \$1.13 to \$4.00, an increase of 0.3% to 1.05%. It raises the cost, but doesn't change PMV's competitive position compared to the other ports.

Breakbulk Fee Comparison

- Squamish is the closest break bulk terminal, but does not have harbour dues
- In our 2014 GIF examples, the lowest is about 9 cents per ton, and the high is 35 cents per ton
- In the high case, GIF is less than 1% increase per metric ton – not a very high increase

Bulk Fee Comparison

- Westshore Terminals example, publically available income fund, they charge \$10.76/MT. That is what would be paid by the cargo owner.
- In our 2014 GIF example, the range is \$0.051 to \$0.155, so an increase of 0.47% to 1.44% increase/MT.

- Q: *Craig Williams:* I think what I saw is that PMV is 10-20% higher than the benchmark low rates. Is that a fair way of presenting it? \$316 to \$382?
- A: *Allan Baydala:* A bit higher than Seattle. But two things – remember, this is just the Port costs, and does not address the rail costs, which are the biggest costs of moving through the gateway to central Canada. The US ports are different because they have taxing authority, so they can generate some additional funds through their counties with their taxing mechanism. We don't have that.
- Q: *Craig Williams:* At the end of the day, this is the box around PMV. If we had a little manufacturer in Ontario or Saskatchewan, he's got Seattle or Vancouver to go through to China. And he can walk, the Vancouver folks probably can't. Everyone else coming from a far, they can do that comparison, and that's not an insignificant difference, 10 or 20%.
- A: *Allan Baydala:* I think the rail difference would more than make that up. Scott, do you have a comment to add?
- A: *Scott Galloway:* Those are Port costs, not necessarily your member's price to move that good. Either the shipping line is passing those costs along, or they are eating some of them. He's not paying those fees, certainly, someone is in the supply chain. To Allan's point, stevedoring terminal, those fees are confidential. Those are market intelligence ballpark figures, but you can see it's a significant portion of the final pull. I think the point is that the rail rate to Toronto might be \$1,500-\$1,700, so in perspective, this isn't the largest cost in the chain.
- A: *Judy Kirk:* Isn't the point here, what you said to the Port is let us know whether you've looked at competitiveness. It seems to me, and my economics degree is pretty darn old, that the important thing is does this GIF change the relative position of the Port? That's really what you want to look at. You might argue about whether enough costs have been captured there, but it's really about whether this fee affects the relative position.
- Q: *Allen Wright:* From a coal perspective, comparing our competitive position to Tacoma or Seattle is absolutely irrelevant. Our competitors are Australia, as an example, and so any additional costs that are added on, unless we can find a way to be more efficient coming through, and I'm still waiting to see how that happens, is we're going to have to eat it. Right now, rail and Port costs are a significant portion of the overall cost per ton on the coal side. I'm not sure if any of this, and I may be wrong, I'm not a transportation expert by any stretch of

the imagination, but it seems that none of this is relevant to me. It's how am I competitive compared to the people I'm competing with in the marketplace. Additional costs are a real concern. You can say it's only 1%, but 1% is significant to a company.

- A: *Judy Kirk*: Ok, so for you, looking at the Australian market would be more relevant.
- C: *Allen Wright*: Yes, it would, and I don't know what their costs are compared to ours, and Australia isn't the only competitor, but it's certainly the biggest one.
- Q: *Brad Eshleman*: It looks like it might be more relevant in some areas rather than others. And what I've found in talking to the terminals is that each terminal looks at it differently, and each cargo interest will look at it differently. It may cause more competitiveness issues for one commodity than another commodity. So it's not homogeneous.
- A: *Judy Kirk*: Sure. In fairness to the Port, you asked whether they had looked at it, and what they are telling you is that they did, and this is how they did it. And what I'm interested in is whether it's satisfactory to you or not, or if you have additional feedback on it. And I look to Bernie and Ken as well, if you think it's a reasonable way to look at competitiveness.
- C: *Bernie Magnan*: As reasonable as any. Where bulk commodities are concerned, part of the problem is that prices are set on the world market, so it's what you can negotiate or what the demand/supply curves are for those particular projects. Certainly, the rail costs and the port costs do play a role, some commodities more than other. I used to import goods from China, and that \$60 difference between Vancouver and Seattle – for western Canada, I would go through Vancouver, it wouldn't make any difference. But going to eastern Canada, the difference would be – it was flooring, and it would be less than a quarter of a cent per square foot, even though you measure your margin in cents per square foot, with that particular product. From a container perspective, I don't think it would make that much difference on a per unit basis. For other products like coal, it could. And this has been put rightly by Allen. Maybe that's something that should be looked at. What are the competitive situations with other bulk products around the world? Not just North America.
- C: *Judy Kirk*: Any other questions on competitiveness before I ask Allan to move on to the last two slides here, and then I want to get very quickly into the feedback for the four models.

GIF and Competitiveness – Conclusion Slide

- We did look at this, and we concluded that it did not change the competitive position of the Port – we got some additional feedback today.
- These projects are being done because they benefit the supply chain. As a community, we wouldn't be going forward with these projects if we didn't feel there was a real benefit that would increase our throughput or efficiency.

4. Review of GIF Models – Allan Baydala

Q: *Judy Kirk:* What I've asked Allan to do is briefly summarize each of the four models, and I want to pause and get your feedback on each model.

GIF Models

Model 1 – Value

- All models are based on volume
 - Model 1 uses the relative values of commodities that stakeholders ship through the gateway
 - Column one values were taken from Intervistas study in 2008, don't get hung up on the individual numbers, but rather look at the model
 - Model is based on the relative values of the commodities. It's a computer calculation that uses a factor through all rates that when multiplied by volume, gives us the recovery of the \$4 million in 2011 and \$11.5 million in 2014
- Q: *Brad Eshleman:* We didn't have any one who favoured this one. Two major issues – one being the fluctuation in values, and changes from year to year, make it very complex. And there is no real linkage to transportation benefit, to transporting the goods.
- A: *Allan Baydala:* Looking at fairness was paramount in each model. We felt this was fair because the improvements in the gateway gave you a revenue opportunity that would be based somewhat on the value of your cargos. And so that's the linkage there.
- C: *Brad Eshleman:* When you look at pricing of transporting something, it's not always related to the value of your goods.
- A: *Allan Baydala:* I understand that, and that's how this one differs from the next three.
- Q: *Dave Kushnier:* One of our members was very concerned, particularly when you get to 2014, by their handle, they would be paying 40+% of that. They felt that there should be some evidence that shows that they would get a benefit. For example, if a company spends \$400,000 on an upgrade, they do it because they are going to see, and they can put their hands on something that says that their benefit is x dollars. Their position was being outside even the perimeter of the security of the gates, they don't get anything out of it. And they don't think that's a fair way to do it. Each terminal, or each customer, should be able to see what the benefit is, and see what portion they should pay. And if they are going to pay 40+%, they should see a bigger chunk of the value of the projects, but they don't see it at all.
- C: *Judy Kirk:* What you're saying, is your members, or you, don't like this because your membership would be paying proportionately more, and you want to see a more direct link to the benefit.
- C: *Dave Kushnier:* Yeah, the comment is, you're getting charged with the same brush, but the benefit isn't all the same to everybody. Some don't get any benefit, and didn't want to sign on in the beginning. But in any case, just don't think that this is a fair model to use. It's hard for him to go back to his Board of

Directors, is what he's saying, and say, yes, we're going to spend this. What's the value? We're not going to see any.

- C: *Ian May*: Ditto, ditto, ditto. It's a big deal for our members. I mentioned this at our last meeting – having tried to make a formula like this work, just because your goods are worth more, doesn't mean that you net more. When you say that, you're really talking about the net value in your company in that one. And again, they are fluctuations are over. We all landed on what's the benefit to us? Because that's how we do business. What are we getting out of it? Hard to tell someone they are going to get benefit out of an overpass going into Boundary Bay airport.
- C: *Craig Williams*: Couple of points. The manufacturers are very much against a value based one. The logic of it – the trucks are going down the road and wearing the road out, that's the way it should be paid. It's tough to quantify the benefit, but at least how you use the asset, it doesn't relate to the value of the good in the truck. Second thing is, as we're trying to grow the economy in this province so that we're not entirely dependent on the big resources, we have to start getting the value added chain. This would be a disincentive to that.
- C: *Bernie Magnan*: What was said, I have a slightly different take. Another issue is volume. A ton of lumber takes up more than a ton of coal because of density and other things, so that's another thing that can come into play as well. Model 1 does not take that into account. I also agree that fluctuation of the value, because a lot of is denominated in US dollars, and exchange rate with the Canadian dollar, that too plays a role. A third thing that I would say is that I recognize that people are looking for a direct benefit from the investment, but I think we have to look at the bigger picture – that if we can provide some sort of adjustment that helps removes impediments that are preventing goods from moving more freely, then although that might not be a direct benefit, there is an indirect benefit, and that should be taken into consideration and looked at somewhat more holistically for the project.
- C: *Craig Williams*: At the end of the day, despite what we were saying earlier, this is a cost recovery mechanism for this infrastructure, and this infrastructure will depreciate by its use. This doesn't fit in that.
- C: *Judy Kirk*: Other comments? Allan, do you want to respond to anything else that came up?
- A: *Allan Baydala*: Just to bring us back to the fundamental philosophy, that is if you moved a ton of diamonds, you should pay more than someone who is moving a ton of coal. That's fundamental to this. It does not go to wear and tear and usage in that regard. So there is a value component to it, that's fundamental to this model.

An email from Roger Larson, Canadian Fertilizer Institute, was distributed, and is attached to these meeting notes.

- C: *Judy Kirk*: The feedback on page 2 of CFI's letter says that Model 1 has some merit but requires further discussion. The rest of the input from the other models from CFI is that the other models have less merit. We will discuss this letter, and other feedback from all of you, at the March 2nd meeting. I just

- wanted to put it in the record for this meeting. Roger, is that a fair representation? The overall summary? Would you like to add something?
- C: *Roger Larson:* Yes, it is a fair representation. I would like to flag that we also indicated that without more work, it could be a hornet's nest.
- C: *Judy Kirk:* Because of the commodity fluctuation, is that correct?
- C: *Roger Larson:* And the complexity of defining 5-digit STTC codes, and the definition of what's a product. I mean, is it grain or is it wheat? Is canola the same as wheat?
- A: *Allan Baydala:* It's worth pointing out, though, that this model, in 2014, has the highest charge of all the models for containers, for TEUs. It is also the low end, of 2.6 cents per ton.
- Q: *Ian May:* A question for you, Allan. You said that someone who ships a truckload of diamonds should pay more than someone who ships a truckload of coal. What's the thinking behind that?
- A: *Allan Baydala:* That if out of this infrastructure, if they get an additional railcar of diamonds through, the additional railcar of diamonds is worth more, has more value, greater benefit. If we're trying to match paying to benefits, the guy who gets the railcar of diamonds benefits more than the guy who gets an extra railcar of coal.
- C: *Ian May:* Not necessarily. Where's your margin? It's all about margins.
- A: *Bernie Magnan:* Everyone goes on margins. You can't make that assumption. You could have less margin on ton of diamonds than you could on a ton of coal. We don't know the margins.
- A: *Allan Baydala:* Fair comment.
- A: *Judy Kirk:* So the assumption that additional revenue drives a greater potential for profit generation is being questioned, because of margin fluctuations.
- C: *Stephen Brown:* I think that it's important to appreciate that freight rates are partially driven by the value of the goods.
- C: *Ian May:* Only because we deal with monopolies.
- A: *Stephen Brown:* No, it's a reality.
- C: *Ian May:* It's their equipment too.
- A: *Stephen Brown:* It's strongly tied to the value of the goods. That's why you pay \$2,000 for a container going west and \$5,000 for a container going east.

Model 2 – Tonnage

- This model is very simple, and works off straight tonnage
 - Uses cargo (bulk, break bulk) and container (TEU) tonnage
 - Converts TEU to tons with a factor of 9.5
 - In 2011, divide \$4 million by total tonnage to get the rate per ton, and then to get rate per TEU, multiply that rate by factor of 9.5.
 - In 2014, divide \$11.5 million by total tonnage to get rate per ton, and convert to calculate rate per TEU
- C: *Ian May:* I liked what Roger said – I'm going to defer to him. I think he nailed it.
- C: *Judy Kirk:* Roger, maybe you could summarize your key points on Model 2?
- C: *Roger Larson:* We thought that barring 3 and 4, it probably was the worst possible model. It assumes that the only basis for measuring the value of

infrastructure is tonnage, as opposed to commercial value, profitability, all the other economic measures we use in society before we invest dollars into a project. Profitability is hard to get at, but Model 1, but as someone else pointed out, dollar value is not a measure of profitability. Number 2 goes about it the extreme opposite way, and I think that Ian May said it very well last time, relating it to feather shippers.

- C: *Allen Wright*: I agree with the points made by Roger.
- C: *Judy Kirk*: Other comments? Anyone comfortable with this model?
- C: *Stephen Brown*: Yes.
- C: *Judy Kirk*: Stephen, can you expand on that?
- C: *Stephen Brown*: I have the correspondence that I shared with you, I can go through that.

An email from Stephen Brown, BC Chamber of Shipping, was distributed, and is attached to these meeting notes.

- C: *Allan Baydala*: While he's doing that, I will point out where this GIF rate comes out. It is significantly lower on the container side and higher on the tonnage side for everything else compared to Model 1. But it tends to fall in between the tonnage and the TEU rates presented in Models 3 and 4.
- C: *Stephen Brown*: To paraphrase what I wrote in the email, giving this some thought. Three parameters, keep it simple, transparent and ensure fairness. Going forward, if we are trying to collect \$4 million a year, I agree entirely with the comments on Model 1, it's very complicated. You have to consider who's actually paying for the GIF. Is it going to be the person controlling the cargo? Is it going to be some other entity? Who's actually going to pay for the GIF? I think that's important. In bulk, it's usually free in, shipper pays the cost of loading. Break bulk, it could be either way, it could be free in, or on liner terms. And containers, every time, they're paid for by the shipping line. So, right from the get go you have different parties that are actually responsible for the cost of handling the cargo. What I looked at here was is if we're trying to raise these kinds of numbers, on average, you would need on average 5 cents a ton for bulk. This is if you're trying to raise \$4-5 million a year, and that is going to depend on what amortization period you are looking at. Break bulk would also be about 5 cents a ton, and containers, given the comparison of volume or weight versus a ton of break bulk, would be about 10 times that, which is about 50 cents. So 50 cents on containers, 5 cents on bulk, 5 cents on break bulk. If you take a Panamax, that's about \$350 on a Panamax if you look at 5 cents a ton. If you look at the 2009 statistics, that's roughly, using the Port statistics, that's generally what you would raise on that. When I look at all the other costs involved compared then this, to get into a really complicated structure to work this out, it doesn't seem to fit. Commodity prices and freight rates are changing so much. To tie anything to commodity prices and freight rate seems to be a little difficult. In terms of wear and tear on the infrastructure, lower weight cargo, more cars, higher weight cargo, less cars. How do you actually break that up and make sense of it? Anyway, it's a discussion point, and I feel quite strongly that this does make a lot of sense when you're talking about the

numbers, how much we're actually talking about compared to other costs, and compared to fairness.

C: *Judy Kirk*: Other comments and questions?

Q: *Craig Williams*: I think I asked you this last time – Model 1 is problematic – philosophically, which one accounts for the wear and tear on the infrastructure? 2, 3 or 4?

C: *Judy Kirk*: I think what I heard you say is, you want to understand, between Models 2, 3 and 4, which one better deals with the wear and tear on the infrastructure?

Q: *Craig Williams*: Cost recovery, that's what we're doing. Which one is costing us more, or is reflecting that? I know you tried to explain it.

A: *Allan Baydala*: From a wear and tear perspective – I'm not an engineer, I'm an accountant – but if we went down that road, we would certainly do some more research to nail that down. The models that were presented, the fundamentals, are that the greater the tonnage, the greater the impact and wear and tear. I think Stephen made the point that also factored into that is the frequency, and that's kind of Model 4. Model 4 looks at the frequency, not just the straight tonnage. Models 3 and 4, compared to 2, looked at differences in wear and tear between rail and truck. So each model is getting more complicated. I'm unclear right now on whether 3 or 4, is it tonnage or is it units. I think that they are both valid proxies for the recovery of the fee.

C: *Judy Kirk*: In terms of that frequency issue you were mentioning.

Model 3 – Mode and Tonnage

- 3 and 4 are very similar, refinements of Model 2
- Rather than just using tonnage, look at rail and truck moving product through the gateway. There are projects that improve rail and others that improve truck. For these 17, we came up with a 65% rail benefit and 35% truck benefit.
- That's fundamental – we want to allocate the cost of what we collect annually on that 65%/35% basis.
- In 2011, we know that we need to collect \$2.663 million from rail and \$1.456 million from truck.
- Now calculate how this is split between cargo and container – take the breakdown of total tonnage by rail and truck, and containers by rail and truck, convert TEU to tonnage by multiplying by 9.5.
- Cargo by rail is 84% and TEUs by rail is 16%, so we use that to divide the dollars – same calculation done by truck.
- In 2014, the rate would be 11.9 cents for rail for cargo, and 35 cents for truck for cargo. And for TEUs, it would be \$1.127 for rail per TEU, and \$3.320 for truck per TEU.

Q: *Craig Williams*: When you say projects benefits by mode, that's projects costs by mode, is that correct?

C: *Allan Baydala*: No, benefits. And that was looking at, how does an overpass or realignment on the North Shore, that gives us additional rail track, that sort of thing. So what is the benefit? Do we get benefits to movements by rail or movements by truck?

- Q: *Craig Williams:* And the way you capture that is that wear and tear, the depreciation of the cost of that investment.
- C: *Judy Kirk:* Is it dollars spent, Allan?
- C: *Allan Baydala:* Yes it is. Yes, you're right, it's the costs of the projects that benefit rail, and the cost of the projects that benefit truck.
- Q: *Ken Peacock:* So something like the grade separation for rail, did you give that to truck? Or did you give that to rail for benefit?
- C: *Kirk Zhou:* I did a lot of the behind the scene calculations. For this truck and rail benefits, we asked our engineering department to look at the different projects, and what they do to the transportation modes and they gave us an approximated estimated benefits. I can't remember for the specific trade areas.
- Q: *Ken Peacock:* It's a specific question, but you could make the case that the grade separation benefits the traffic more than it does the rail, right?
- A: *Allan Baydala:* If this was the model that was selected, there would be additional work done and consultation done on just that point.
- C: *Craig Williams:* If you go back to who's wearing it out, it's the rail that is wearing it out.
- Q: *Brad Eshleman:* In just looking at. If I take the North Shore, for example, and look at this 65/35 split, I would suggest that even if there are overpasses going in all over the North Shore, there isn't any truck traffic that is going into any of the terminals on the North Shore that is benefitting from that. There isn't any truck traffic. There is virtually no benefit to truck traffic on the North Shore. There are no overpasses into our container terminal either.
- A: *Allan Baydala:* I think that's probably the case, I didn't bring the details of that split with me, the list of all the projects and the rail/truck benefit. We could certainly show that to you, but at this point, you would just be arguing whether they were the right numbers, and not looking at the models.
- C: *Brad Eshleman:* Yeah, I get that. I guess where this is going is that I've gotten comments back that ask whether it should be looking at globally or by trade area, and that's a comment that has come back to me.
- C: *Judy Kirk:* And what do you think?
- C: *Brad Eshleman:* I guess based on the number of comments I got, it is trade area. Because that directly relates the benefit to each area.
- Q: *Ian May:* What does trade area mean?
- C: *Brad Eshleman:* North Shore Trade Area, South Shore Trade Area and Roberts Bank.
- C: *Judy Kirk:* And it's actually quite specifically articulated out in the discussion paper.
- C: *Brad Eshleman:* Each trade area was involved in their own trade area, they weren't involved in the others. North Shore wasn't involved in Roberts Bank, and South Shore wasn't involved in North Shore. When you start talking to some of the terminals on the North Shore, you get those kinds of questions, why are we paying for terminals at Roberts Bank?
- C: *Ian May:* I got that too, exact same.
- C: *Judy Kirk:* Any other questions on Model 3?
- C: *Ken Peacock:* Some of the questions probably pre-empted the discussion a little by getting to the nitty gritty. The general question is, do people like the general

approach, and I'm not in a position to say, because I haven't consulted. So some of the people who are in the shipping and rail business, is this approach better? Worse? So throwing the question back to the group.

- C: *Judy Kirk*: I think this is important, because gentlemen, as you, on behalf of your members, consider this between now and the end of March, remember that that there is that next round of consultation directly with stakeholders. And I think that what Ken has brought up, is that it is probably valuable for you to ask your members, generally, in terms of approach, does one or another of these models work, or some kind of hybrid. If that's the case, what tweaking or modification to the one that you think makes sense needs to occur. I don't think it's helpful to think that there is somehow a complete model sitting in front of you here. I was persuaded, in agreeing to chair this committee, that the Port is genuinely looking for input to improve the models. They aren't looking for you to approve the GIF, as I said in the first meeting. But what they are looking for input that allows them to implement something that has the best possible structure given competing interests, and other features that are good. I won't go on more than that, but Ken triggered for me that you might want to look at the higher level first, and then if that's what you think generally will work, how do we fine tune it to work even better.
- C: *Bernie Magnan*: The overarching view, the 40,000 ft, is what is going to make PMV work best for all of us. It may require some shippers to invest some money in an area that they are not directly involved in, but at the same time, for the greater good of the Port, and its effectiveness, and its ability to grow down the road, you have to consider that.
- C: *Stephen Brown*: I think that's a very important point that's been made there. I look out at the anchorage, and I see hundreds of thousands, millions of dollars being paid in moorage. The only tool that we only have to deal with this, we can't control the weather, unfortunately. The only other tool we have is to encourage the infrastructure. When I look at those hundreds of thousands or millions of dollars being paid in moorage, year after year after year and I look at this \$350 for a Panamax, we're talking about comparatively small amounts of money here. But it's the only way that we can try and reduce those moorage bills, which a lot of my colleagues are faced with and have no way to address except to pay up. I feel that we have to look at what is the downside of this, is it positive, is it negative? I feel it's so important to be positive, compared to some of the bills you guys are paying today, I don't know how you sustain that.
- C: *Ian May*: I can tell you our guys not only compete externally, but also between themselves. The business of area based and usage based approach to this would definitely appeal to them. I understand and appreciate, and I think they will too, that there is a percentage of this that is throughput based, and if it relieves congestion, then hallelujah. But they are going to be casting their hoary looks on the benefit to them and what flows back to them. There's no moving them off that. They are built to take care of the half a percentage point and they are built to take care of their own. So it will be a tough sell saying that this is good for mankind sort of thing.
- C: *Dave Kushnier*: As individual companies, we are always looking to improve. We don't get a forum like this to ask people to help us improve our plant. Our plant

is going to invest in excess \$30 million so we can prevent merge costs so we can unload railcars faster, cycling back, and grow the business, that's on us. Then when I go back, and my members go back to their boards and say, besides that, even though it's not a big cost, nowhere near what we're talking about with \$30 million, we're going to have to do this to help the rest of the Port. Ok, what do we get out of it? It's for the betterment of the Port. Dave, shut up. That's what will happen. When we go back, we have to show a real touchable, tangible benefit. And our guys are struggling with that, and none of these models seem to show...

- C: *Judy Kirk*: You guys know that I have no horse in this race. You talk about the direct costs, and you know in the discussion paper, the approach that has been taken there is that it's very hard to quantify the direct costs with any precision. We're not avoiding that. And this is for me, in thinking about writing the final report, are you saying then, that by trade area would give you more comfort because it was a more direct link to cost?
- C: *Dave Kushnier*: I think that by trade area would, but I think our group would really like to see, this is what is being constructed on the South Shore, and really here is what the benefit is to you. We've talked about the railroads making improvements, but they aren't here to say, oh yes, once you sign on, we are going to add track, or add this, and that's where it's going to come from. Nobody has ever said that. There has been a lot of speculation that there would be added track on the south shore or this or that. I was sent here by our group to find out whether someone can tell us what the true direct benefit would be.
- C: *Roger Larson*: I agree with the comment on the concern about direct measurable benefit. And I don't think we're ready to accept the idea that there is no way to measure direct benefit or arrive at some conclusion for that. In the case of our terminal, we feel we could clearly identify the projects that are a direct benefit and come up with a formula to arrive at a reasonable cost sharing agreement on that. I also wanted to come back to someone's comment on wear and tear. And we should talk about a different way to calculating wear and tear and allocate the cost on that. And I think that was the direction we were trying to go when we put together the fifth model that is in our letter.
- C: *Judy Kirk*: What's your feedback on Model 3?
- A: *Roger Larson*: Didn't like it.
- C: *Brad Eshleman*: I'm in an interesting position because I have people all over the map here in all the terminals. I have some terminals that are cargo interests, so they have more direct benefits. I have some terminals that are cargo interests that have zero benefit. I have some terminals that have quasi-cargo interests that feel they weren't consulted in part of it. I have some terminals that favour Model 3. I will probably be giving you feedback that is all over the map, because I have diverse interests and they are all somewhat different. I'll preface it on that. I did have a couple who favoured this model, but I also have a couple that didn't think they should be paying anything.
- C: *Judy Kirk*: I would ask you to put that in your written submission that you delineate your feedback in that nature. It's the other thing I wanted to point out. The importance of this process, with the pre-consultation interviews, and

now consulting with you, and then consulting with stakeholders, is very important, given what Brad has just said.

- C: *Brad Eshleman*: Splitting by trade area was probably a more common one.
- Q: *Ian May*: Support?
- C: *Brad Eshleman*: Yes.
- C: *Bernie Magnan*: Two things I would put on the table for consideration. One is that we're all talking about what it's going to cost me. One of the things that we're not talking about right now is the avoided cost. In other words, the costs that could be there in the future, but because we're putting in the infrastructure, we no longer have the addition moorage or having to transfer it twice or whatever. That's one element to be really cognizant of. The other one is, at the end of the day, not everyone is going to be happy. That we all have to look at it, and some may have to bite their tongue really hard in agreeing with this. Others it will be a lot easier to do so. But we have to look at the bigger picture, because if we don't, we could have very opposing camps, and have something that is not workable, or does not help anyone in the end.
- C: *Judy Kirk*: To that point, I appropriate for me to remind the group that when you look back at the Terms of Reference or in the pre-consultation interviews, I was very clear that the Port is not looking for consensus from this group. What the Port is looking for is feedback, and very good feedback, and I think they are getting that. There are competing interests in this room, clearly, and consensus is not something that is a goal. But what is a goal is to get really good feedback based on thorough review of these models.
- C: *Bernie Magnan*: Another thing that came to mind is that although you might be using a bulk terminal in one trade area today, in 10 years, you may be using a bulk terminal in another area that would benefit from this. That too has to be taken into account. Not just what is there today, but if you expand your volume or your change terminals, what does that do to the model.

Model 4 – Rail Footage and Truck Units

- This is very similar to Model 3, uses the 65%/35% rail truck split, but instead of tonnage being moved, look at units – rail footage and truck units
 - Looks at unit movements across infrastructure improvements
 - In 2014, cargo rates are 8.8 cents for rail and 27 cents for truck, and TEUs are \$2.67 by rail and \$3.60 by truck
- C: *Roger Larson*: We did not think that this improved anything over Models 2 and 3. In summary, all four models fall short of the objective of ensuring that all who benefit are included, that there is some way of identifying the direct benefit to the user, that it approximates a fair allocation of wear and tear by the user by some appropriate formula. We didn't think that Model 4 helped either.
- C: *Judy Kirk*: I guess the key question for me is, if Models 3 and 4 are to be taken seriously, do you have any preference for 3 or 4, and if so, why?
- A: *Craig Williams*: Model 3 sort of rings more logically to me in terms of the wear and tear issue. User pay.
- C: *Judy Kirk*: Because of weight and number? Because weight seems to make more sense?

- C: *Craig Williams:* Weight is what wears the road out, and frequency. If there is some way that you can collapse the two. At some point it becomes very complicated. Putting my accounting hat on, this other issue of trade area is very important. Those costs should be divided by trade area, and then whichever Model, 3 or 4, is the best option. They are just so far above Model 1.
- C: *Judy Kirk:* What I hear you saying is, and correct me if my summary is wrong, is that it's more important for the Port to deal with allocation by trade area, and then if they did, then a modification on Model 3 to deal with weight, and somehow frequency, would get closer to something you think would make sense.
- C: *Craig Williams:* Whatever equates most closely to wear and tear.
- C: *Ian May:* It seems to me that Model 3, when you're talking about weights, equates more to frequency. You've got a fixed container, and if it's going to move x number of tons, it's going to take y trips to do it. The frequency is built into the tonnage.
- A: *Allan Baydala:* I think less so on the bulk side where you have different sizes of rail cars and different densities.
- C: *Ian May:* Depends on what product you're shipping.
- C: *Judy Kirk:* What you're saying is that there is an element of frequency in there?
- C: *Ian May:* Yes, certainly.
- Q: *Brad Eshleman:* What's the differentiation of weights on the rail cars for the bulk products? Is there a large differentiation between grain and sulfur?
- Q: *Bernie Magnan:* Lumber and coal. To my mind, there would be a lot more tonnage in a car load of coal. You have the same size car in terms of length, but you have a lot more tonnage of coal in that car than you would have lumber.
- C: They are a hundred tons, so they are the same.
- C: *Brad Eshleman:* I can probably comment on that, we're not getting very many lumber cars in.
- C: *Judy Kirk:* Other comments and questions on Model 4? What I'm hearing is that there is not resounding thumping on the desk for Model 4, you're thinking that Model 3 might be a little better, but I'll wait to get your feedback forms.
- Q: *Ken Peacock:* What's already tracked by the Port? Just tonnage?
- A: *Kirk Zhou:* Right now for TEUs, we are tracking the number of TEUs moved by truck and rail. For cargo, we are not tracking the information by rail or truck split. If we decided to go with Models 3 or 4, we would have to get that from the terminals.

Collection

- C: *Judy Kirk:* I would like to get some feedback on a couple of other things. I would like to get some feedback from you about the term, right now it is 30 years, and I would like to get what some of your initial thinking is, whether it should be 3 years or less, and get some rationale from you. I would also like to get some initial feedback from you on the notion of collection and evaluation. We don't have to have a lot of discussion about that right now, but I do want you to start thinking about it so that we can have a more thorough discussion about that at the next meeting. And then to put out the challenge to you for the next meeting to provide us with some sort of written submission, whether that's by email,

letter or brief paper. We will commit to sharing that with the group. And I will facilitate a discussion around that. What Chris and I will do is create a table, so that everyone can look quite simply at a table with bullets with your feedback on these models, or an alternative model. I just wanted to foreshadow that so you can be thinking about that as you provide your feedback. But before I go there, what is your thinking or feedback on the term of the GIF?

- C: *Brad Eshleman*: 30 years is ok. I didn't really get much feedback on the term.
- C: *Judy Kirk*: One of the principles of this is that you would have the payback period match the life of the asset and therefore, those who are benefiting over the term of the asset are also paying. There are other arguments that say the sooner you pay it off the better.
- C: *Stephen Brown*: In other similar projects that we've been involved in, we took the view that we would rather pay down a little quicker, reduce our interest payments. Of course, we don't know what kind of interest levels we are going to be looking at over the next few years. I think 25-30 years would make a lot of sense with a project of this dimension. Not being an accountant, I don't know what accounting advantages there may or not be by reducing. But it will tie in with what level of interest we're paying.
- C: *Dave Kushnier*: I agree with Stephen. We can start off with a concept of 25-30 years, but should something happen with the economy, have a chance to revisit it...
- C: *Judy Kirk*: So review it on a 5 year interval, depending on what change.
- C: *Ian May*: We didn't have any discussion on the term, but that makes sense to me.
- C: *Craig Williams*: I think the timeframe for writing off the asset... I was wondering whether some of these improvements, the benefits Allan was referring to, if they are supposed to accrue, whether there was some way of setting aside some money, from these benefits, to help pay it down quicker.
- C: *Judy Kirk*: So you're saying, if the Port receives more revenue as a result of these improvements, if they are able to isolate that, that they would set up some sort of fund in addition to the GIF, or in concert with the GIF.
- A: *Allan Baydala*: That's not what he said. Judy put the Port into his mouth. And when Craig said that, I immediately thought of the terminals.
- C: *Craig Williams*: I quite naively don't understand the difference. I just see this big black box of the Port and terminals, and there are going to be benefits realized. And it seems to me that users are going to pay for it, someone is going to be benefiting. We have costs of projects, and supposedly benefits. If there is money to be made from that, we don't do this because it makes us feel good, we do it because people are going to profit from it. The risk is being pushed back on the users, and so if something comes out of it, the Port or terminals or whoever, there should be a kitty to help pay it down quicker.
- C: *Allan Baydala*: The majority of the Port's agreements with terminals do not include additional revenue for additional volume, so the Port is not getting revenue from that.
- C: *Ken Peacock*: I think there are a few principles that should guide the whole thought process. These are public sector long lived assets, so 30 years makes sense in my mind. You're in highly uncertain territory to guess what interest

rates are going to be like – I would almost take that whole discussion off the table, and focus on stability for the users of the system, what they can expect to pay in the future. In the email, there is a thought that you may have higher volumes than anticipated in the future. So this thing could generate more revenue if it's done on a per unit basis, than anticipated. And if so, then people need to turn their mind to, do you want to keep the 30 year target in mind and reduce the fee?

- C: *Judy Kirk*: I want Allan to address this, because the notion is that it's cost recovery, there isn't a notion of increasing revenue.
- A: *Allan Baydala*: The thought is that we would look at the volumes every year, and if the volumes went up, we would reduce the rate. But I suppose, though, the industry, our stakeholders, could say, our volumes are doing well, we have some money, don't reduce the rate, keep it in a pot for a rainy day. If that's what you're saying, that's not something we've considered.
- C: *Brad Eshleman*: One of the benefits that all this is supposed to do is increase capacity to increase volume, and so perhaps if there is increased volume that puts increased dollars in the pot, that can be put against the principle, instead of being given back the next year. If you have more volume, you're doing better, so pay it off.
- C: *Ken Peacock*: That's going to be maintenance, and perhaps need for additional infrastructure, so yes, it's a cost recovery, but perhaps you might want to think before quickly giving the money back to another 10 or 20 years out as you get towards the end of the project.
- C: *Bernie Magnan*: A couple of things. If you're mortgaging your house, and you mortgage for 25-30 years, you're paying a lot more interest than if you're mortgaging for 15 years. Because after 15 years, net present value of the payments really is negligible. I would start thinking in those terms. Second point I would make is I like the idea of 5 year reviews. Like a mortgage, set it at a 5 year term, consistent. If there is extra revenue that comes in, it goes towards the principle, gets rid of it later. And then you set the rate for 5 years, which gives you stability in what you're paying. If it fluctuates every year, that's no good. That said, if you have a down year like we do this year, the Port collects less money, and you have a negative balance, but if the revenue improves, and it should, then over 5 years it should balance out, and you would have additional money that you could put towards the balance.
- C: *Allen Wright*: I haven't talked to my membership about this issue specifically. Whether we get more revenues or less revenues, I'm concerned about cost. Typically, government programs are cost plus. I worry about whether we have a say, in whether costs are going up, and I worry about this more than I worry about the other side.
- C: *Judy Kirk*: Are you talking about the cost of projects?
- C: *Allen Wright*: Yes. I'm more interested in Roberts Bank because that's where most of our stuff goes through. I've seen too many government projects that are budgeted at \$50 million, and then they come in at \$60 million or \$70 million, and we're going to have to pay for that.
- C: *Judy Kirk*: What you're saying is that if the Port is telling us you're going to raise \$167 million, you want to know that's what it is, not \$185 or \$200 million.

- C: *Allen Wright:* Exactly.
- C: *Peter Xotta:* This is not to downplay the point, but as it relates to the Roberts Bank Rail Corridor, those contributions of \$50 million are fixed, and any cost overruns are to the delivery agency, which the Port is not. So that number is capped.
- C: *Judy Kirk:* In the discussion paper, there is some discussion there about project management, as I recall, around this notion.
- C: *Bernie Magnan:* Having lived on the avails of being a project manager, there are two things that can drive you off the rails. One is having proper planning up front. And the second is defining your must haves and your nice-to-haves – just putting in what you need to make it work. If you want to put add ons in, that's for consideration after. Once you've done that planning, the likelihood of your going over budget, if you manage it properly, is decreased by 90%. It's in the upfront 20% of the time, but it's 80% of the game right there.
- C: *Judy Kirk:* Any more questions or comments on the term?

Collection

- C: *Judy Kirk:* The other feature that we have said we were going to discuss with you is collection. You can provide more comments in your feedback form and submissions, but do you have any comments?
- C: *Stephen Brown:* As I've mentioned in my memo, I think it should be collected in tandem with wharfage – but broken out so that for a group such as this, it's extremely transparent how much is being collected on the behalf of the GIF. So that we can actually see how much is collected and how much is being paid down and how much is in the kitty. And I also mentioned in my memo, around the term, that as volumes go up, particularly containers, you will collect more money, so the opportunity is there to pay down more principle or reduce the fee.
- C: *Roger Larson:* We did mention it briefly, but it relates to our view that you first have to get the model right, and then may be the collection model would be more easy to explain.
- C: *Judy Kirk:* Sure, I think that what you're prepared to do is when you attend the next meeting, is talk about the model you think might work and the collection as well.
- C: *Roger Larson:* Yes.
- C: *Brad Eshleman:* I think I'll say again that I got mixed comments. Harbour dues was one, cargo was another method, but we didn't specifically debate or discuss collection.
- C: *Judy Kirk:* I'm hoping that you will get feedback on this. If it's not important to you, please don't let me make it important. I'm really wanting to make sure that you're consulted on the issues relative to the GIF that are important to you.
- C: *Brad Eshleman:* Collection is important. I did get comments from people on it, but they were mixed. They had different opinions.
- C: *Craig Williams:* I don't understand all the cost collection systems around the Port, but it should be simple, like HST is going to simplify things.
- C: *Judy Kirk:* The whole idea of bringing a fairness, effectiveness and efficiency filter to this, having the Port turn their mind to, is the model effective? Does it

collect the money required? Is it fair? And of course there is judgment in there. And then on the efficiency side, it's the simpler the better, ease of collection and that you don't have avoidance.

C: *Bernie Magnan*: I would add one more, transparency. FEET – fairness, efficiency, effectiveness and transparency.

General Discussion

C: *Judy Kirk*: Are there any other general comments?

C: *Brad Eshleman*: I guess if you have a terminal that is not in any of these trade areas, what is the Port's feeling on that?

A: *Allan Baydala*: The way these models work right now, goes back to, if you benefit you pay. If their volumes are outside the trade areas, then they are excluded. So as I mentioned, the volumes are Roberts Bank, North Shore, South Shore volumes.

C: *Brad Eshleman*: Oh ok.

C: *Bernie Magnan*: My question that arises from that is, what's to prevent someone from someone saying ok, I'm going to pay extra money going through this trade area, can I not change to somewhere else...

A: *Allan Baydala*: Theoretically, yes. But on the other hand, those outside the trade area might want to come in because of the beneficial infrastructure being built in these areas.

C: *Judy Kirk*: We are, are we not, talking about the Fraser River Trade Area? Of the major trade areas, that's the one that's not in here right now. The fact is, there are infrastructure plans, although not finalized or agreed to in their entirety, and the thought is that there would be a GIF that would apply to the Fraser, just not yet.

Q: *Brad Eshleman*: What about Pacific Coast Terminals? We might as well talk specifically. What about Pacific Coast Terminal in Port Moody?

C: *Peter Xotta*: They were included in the South Shore Trade Area in the analysis.

Q: *Brad Eshleman*: But they wouldn't be affected by anything, because they aren't in that trade area.

C: *Peter Xotta*: Our argument would be that the rail improvements that are part of the South Shore were intended to benefit the entire corridor, not just those in Burrard Inlet, but those in that trade lane.

Q: *Brad Eshleman*: Does their cargo flow through there? Doesn't it go the other way?

C: *Peter Xotta*: I think this is part of the broader question of benefit. The analysis that we've done around clearing out congestion in the South Shore, we would say that benefits the trade corridor. We take the point that PCT might have another view of that.

C: *Ian May*: I think the trade area idea will have traction, certainly with our group. The reason is because it's the cost benefit side of things that we've talked about here today. My question is there more information available to us about what's actually taking place in those areas so that our guys can make an assessment about the value of it, the worth of it to them?

- C: *Judy Kirk:* So when you see the discussion guide and you see the amount of money being invested and the projects identified, what you're looking for is additional information about those projects?
- C: *Ian May:* Yes, I am
- C: *Judy Kirk:* And is that something that the Port can provide?
- A: *Peter Xotta:* Yes.
- C: *Judy Kirk:* Here's the thing. It's now February 11th, and our next meeting is March 2nd, so my feeling would be, we have to get that information out within a week. So you've got 2 weeks, Ian, or a little less than that. You've asked us to commit to getting you information a week before the meeting, and I will ask the same of you. What that means is, you have to have your input to us a week in advance, by February 24th or so.
- C: *Ian May:* That can't happen. Logistically, what you've described can't happen.
- C: *Judy Kirk:* Ok, that's why we have a meeting on March 26th. I'm not going to let you off the hook for March 2nd, or we'll waste our time. You should at least provide some kind of initial feedback for that meeting on some of these key issues. The Port will provide the information that you have asked for around trade areas, and we will send it to you, knowing that it may take two meetings. It may take March 2nd and March 26th to get through it. But March 26th is our last meeting before going out to the direct consultation, because we have to do the direct consultation in the 6 weeks of April and first two weeks of May, and then write our report, have the Port consider it, and then move forward to a decision. Just like you don't have a lot of play room, we don't have a lot of play room to get this done by June.
- C: *Ken Peacock:* At the risk of opening up complexity, and I recognize that there are an infinite number of possibilities you can have, it seems to be that at some point, you're going to be pushing towards a hybrid of value versus weight. Is it worthwhile for the Port to crunch something like that? The other advantage of that is that it gives you a lot more flexibility to say you're going to weight to generate 70% of your revenue on a weight basis and 30% on a volume basis. It gives you more flexibility to sell this thing when you get out to public consultation. I just throw it to the Port that it might be worth doing something like that up front.
- A: *Judy Kirk:* It's a very good piece of input. I think that could make a lot of sense for the March 26th meeting. We've had some very good discussion here today. We've had some good written input from Roger and Stephen. I'm looking from some written input from you, not just your comments here, and I want to make sure that we can look at all of that prior to the Port doing a hybrid. But I would agree Ken, that by March 26th, that starts to make sense.
- C: *Stephen Brown:* I think it is great discussion. When we get trade area specific, I think that's good, but we can't lose sight of the fact that an improvement anywhere in the Port has benefit for the whole Port. We're sharing common rail to get cargo to the Port and common roads. In terms of tonnage, in my view, there is no simpler way of defining wear and tear in how much tonnage you're putting over a rail or road. To go into a very major argument of what is wear and tear – the measure of wear and tear is how much tonnage you put through it. That is why I think Model 2 answers that question. In terms of commodities,

there are commodities that don't use infrastructure at all, like the logs. I don't think you should take them out, but don't lose sight of it. Logs are still loaded from water, for those who are not familiar with that product. Again, having heard all these arguments, Model 2, despite the fact that it hasn't been welcomed by all, I still firmly believe answers the question.

5. Conclusions and Next Steps

- A: *Allan Baydala*: There has been a fair bit of discussion about whether we could apply this by trade area. I just want to say that we have looked at it. There are some benefits, but there are some problems as well. Take for example, if you are in Model 3 or 4, where you have 4 different fees. If you had it by trade area, we would be introducing 12 new fees, and I don't think I would run into anyone who would think that's a good idea. It may seem attractive, but just before we get wedded to that, just know that it has some attraction but it has some real problems on each other. Just leave you with that.
- C: *Ian May*: I didn't know we were going to turn into an advocacy moment here of our favourite model, but this is all work that goes on behind the scenes. You work out those costs, and then the fee gets charged in a simplistic way. I don't even envision that you even charging four fees.

GIPAC members were reminded that the next meeting is March 2, 2010, 1pm-3pm at the BCMEA offices, 349 Railway Avenue, Vancouver.

The meeting ended at 3:00pm.



CANADIAN FERTILIZER INSTITUTE
INSTITUT CANADIEN DES ENGRAIS

Roger L. Larson
President

February 9, 2010

Port Metro Vancouver – GIPAC Consultation
100 The Pointe, 999 Canada Place
Vancouver, B.C. Canada V6C 3T4
ATTENTION: Ms. Judy Kirk
Kirk & Co.

CONFIDENTIAL

Re: CFI Brief on Port Metro Vancouver Gateway Infrastructure Fee

Ms. Kirk:

Port Metro Vancouver (the Port) has established a Gateway Infrastructure Program Advisory Committee (Committee) to assist and advise it in establishing a “*Gateway Infrastructure Fee*” (“GIF”), intended to enable the Port to recoup its portion of the total costs associated with a number of infrastructure improvements to be undertaken within the Port trade area by March 31, 2014. Total costs of these infrastructure improvements are currently set at \$676 million and the Port’s portion of the total costs has been set at \$167 million with the intention that they be recouped from Port users. The GIF will be established as the method by which the Port recovers its contribution on behalf of its industry stakeholders. This fee is intended to be applied through a mechanism that we understand is legally required to be both “fair and equitable” to Port users.

The purpose of this brief is to provide you with our initial views and suggestions with respect to the proposed methodology for establishing the GIF.

At the conclusion of the first meeting of the Advisory Committee on January 21, 2010 you stated that you would encourage all Committee members, and particularly those who will not be able to attend the next meeting of the Committee on February 11 in person, to provide feedback and advice to you directly in advance of the next meeting regarding the fee structure and implementation features such as collection and the term of the fee.. As Tom Maville advised, neither he nor I will be able to participate in person at the February 11 meeting. We are accordingly providing you with our written comments regarding this matter.

At the outset I would state that CFI is pleased to be a member of this important Committee, to participate in the discussions, and to be an active player in the decision-making process that will take place between now and June. There are four major elements to the fee program, which this Committee is being asked to address, as follows:

- Fee Structure – how should the fee be structured?
- Fee Collection Mechanism – how should the fee be collected?
- Fee Term – what should the term of the fee collection period be – 30 year Debt repayment term or shorter term?
- Fee Structure Annual Evaluation – Once the fee structure is implemented it will need to be measured, assessed and evaluated on an on-going basis – at what periods?

Our comments and position with respect to each of these elements are as follows:

Principles

First, we need to agree to some basic principles relating to the inclusion of specific infrastructure projects, the allocation of costs among industries and other Port users, the life of the fund, and the scope of future infrastructure projects that can be added. The CFI believes these principles to be:

1. GIF recovery should be based on the commercial value of only the parts of the infrastructure projects which can be directly linked to shipper commercial benefits;
2. Bulk shippers should not pay a disproportionately greater share of the GIF, that is, the maximum that should be allocated to bulk industries is their percentage of total Port vessel movements;
3. The life of the GIF recovery should be fixed to the currently approved projects and end with the recovery of the approved costs; and
4. No future infrastructure projects should be added without the agreement of the GIF payers.

This discussion should be concluded and applied to the four models presented, so the Committee members can understand the implications for the differing fee schedules.

Parameters for the Fee Structure

If Port users are to be asked to ultimately agree on a GIF that will be applicable to everyone impacted by the infrastructure improvements, then it will be crucial that the fee structure be designed in a manner that does not disproportionately financially impact any one user group (whether positively or negatively) and whether that be the bulk sector, container sector or other users of the Port. We have discussed this issue with our members and have agreed on a number of basic parameters, which we believe should set the foundation for the GIF.

These include:

- The GIF should be established in a fair and equitable manner such that no single Port user is either excused from the fee or disproportionately impacted by the amount of the fee.
- The GIF should be established as a 'flat' fee per unit of measurement, and;
- The GIF should be established in a manner that is simple and easy to implement, administer and monitor.

We have examined the four GIF models described in the discussion paper that was circulated on January 22, 2010 and have the following concerns:

Model #1: This GIF model is based on the value of the goods. This model may, in our view, have some merit but requires further study. Our major concerns with this GIF model are that:

- (1) that it will ultimately involve the definition of a multitude of commodities in order to make it comprehensive (It is presently restricted to 23 broad commodity groups which would have to be extended considerably probably to the 5 digit STCC level to make it indicative of all commodity users),
- (2) it is complex in nature (involves values that are very fluid), and
- (3) it will require extensive on-going maintenance, administration and monitoring which will require considerable resources at a cost to users (and by users who are not all defined at this time) to make it economically feasible and workable. It was pointed out at the January 22 meeting that trying to establish the appropriate level of commodity description and associated values for all of the products handled at the Port under this model will be a "*hornets' nest*". In order for this model to be effective, it would be necessary to revisit the commodity values at regular on-going periods.

In addition, the use of this model would be restricted to only commodity shippers and receivers as the model excludes non-commodity users such as the cruise lines and pleasure boat operators, which move no products per se through the Port, except people. Having said that, we are of the view that this model is nonetheless worthy of further study and examination – but it must be simplified, made considerably less difficult to administer and monitor and, in addition, somehow be extended to non-commodity users in order to be made both economically and practically feasible.

Model # 2: This GIF model is a purely commodity tonnage-based GIF model. Bulk products including potash, sulphur and other resource-based goods comprise a disproportionately large portion of the total

goods handled through the Port (over 75%) by weight and volume and these users – CFI members included amongst them – will most certainly be called upon to carry a disproportionately greater share of the total fees collected under this model. As Mr. May of the Western Canada Shippers Coalition eloquently stated at the January 22 meeting, assessing fees solely on the basis of tonnage would be equivalent to allowing the “feather shippers” to essentially “get off free of charge”. This model is unacceptable and warrants no further consideration. CFI will adamantly oppose any fee model developed exclusively along tonnage lines.

Model #3: This GIF model is based on cargo weight, by rail or truck. This model determines the percentage of cargo and container tonnage per mode – 84%/16% for rail and 28%/72% for truck. The GIF costs for the year are then allocated to each mode using the 65%/35% rail/truck benefit split and then allocated to cargo and container. We must assume that the allocated amounts to cargo and container referred to will be based on weight and volume as opposed to the value of cargo and containers. We do not support this model because, similar to Model #2, it will place a disproportionate amount of total GIF charges on bulk shippers and will fail to reflect the real commercial value of the goods moved through the Port on a unit-of-weight-value basis.

Furthermore, as with all of the models described in the discussion paper, Model #3 fails to capture the non-tonnage users of the Port who, to one degree or another, will most certainly also benefit from the infrastructure improvements.

Model #4: This GIF model is based on rail footage and truck lengths. The GIF is based on number of rail or truck units required to move cargo. This model uses the relative rail footage (62%/38%) and truck units (21%/79%) as the method of allocating the annual rail and truck GIF charge between cargo and container.

This model fails to take into account the different types of trucks and railcars, the unit weight of goods carried in the trucks and railcars and the value of the goods being carried. Furthermore, as with all of the models described in the discussion paper, Model #4 also fails to capture the non-tonnage users of the Port who, to one degree or another, will most certainly also benefit from the infrastructure improvements. We believe, subject to further analysis, that this model would place a disproportionately greater share of the total infrastructure improvement costs on bulk shippers. Accordingly, subject to some further study and analysis, CFI is inclined not to support this model either.

Eligibility for Inclusion of Costs under the GIF

We strongly advocate that the GIF calculations should be limited to the commercial value of the infrastructure improvement, that is, the value that would be placed on the capital work in the private sector, as opposed to by the government. This will help ensure that these projects must be executed carefully and diligently, paying meticulous attention to the end cost and ‘bottom line’, and that any extraneous portions of infrastructure projects will be excluded.

Fee Collection Mechanism

CFI requests that the mechanism put in place to collect the GIF fee must be transparent, administratively efficient, timely and structured in a manner that ensures that the fees collected from any particular user group can be linked back to the infrastructure costs associated with facilities used by that group.

For example, fees assessed to potash shippers should be tied directly to the costs associated with the infrastructure improvements on the North Shore where all of the Vancouver-bound potash is delivered and handled (\$59 million industry contribution for the six projects to be pre-funded by the Port according to the Draft Consultation Discussion Paper dated January 19, 2010). Similarly, fees assessed to sulphur shippers should be apportioned in a similar manner, pro-rated (based on volume) and tied directly to the costs associated with infrastructure improvements on both the North and South Shore. Simply stated, we do not wish to cross-subsidize other users of the Port who, because of model design or the collection mechanism, end up paying a GIF which falls disproportionately short relative to the value they receive from the infrastructure improvements

compared to other users in the same area. We similarly believe that the Port should not have the arbitrary right to add projects to the fund.

We agree with the three broadly defined port GIF areas set out in the discussion paper (*Roberts Bank Trade Corridor, North Shore Trade Area and South Shore Trade Area*), and propose that the fees ultimately collected from a specific Port user be tied directly to the infrastructure improvement costs defined in the specific area within which the user has Port facilities and/or uses Port services.

Fee Term

We would suggest that various GIF pay-back periods and cost of capital utilized should be examined carefully by the Committee but the total term over which the GIF is to be collected should not be longer than “commercially” necessary, but in no event longer than 30 years.

Fee Structure Annual Monitoring and Evaluation

Regardless of the fee structure ultimately implemented, it will be imperative that the structure be monitored and audited preferably by an outside neutral body (such as an independent firm of chartered accountants), evaluated and adjusted as required on an on-going basis. This will be particularly important if the fee structure is user-value based. We recommend that the evaluation be transparent and simple in approach, such as:

- Amount of fees collected
- Amount of capital improvement cost still owed
- Projected date when improvement cost paid in full

Proposed GIF Model

We propose that the only fair and reasonable way in which to implement this fee is to assess the GIF directly on all vessels that arrive and depart the Port. There are at two straightforward steps to put this principle into place:

GRT/ NRT-Based Fee Structure

Structure the GIF on the basis of the GRT (gross registered tonnage) or the NRT (net registered tonnage) of the vessel. Under this proposal every vessel calling the Port (both arriving and departing), will be assessed the fee, including container liners, bulk and break-bulk liners and cruise ships. We envisage this model to be structured with a fee schedule computed in a graded fashion relative to the GRT or NRT of the vessel.

Berthage-Based Fee Collection

A methodology for collection of the GIF would be to assess the fee on the basis of berthage similar to the fees that are currently charged at the Port. We believe that this methodology would be easy to apply, administer and monitor and would be fair and equitable to the extent that fees would ultimately be allocated and charged back by the vessel operators to the actual users of the Port as the operators see fit.

Conclusion

We appreciate the opportunity to provide you with our comments and suggestions and we look forward to continued discussions and dialogue on this important matter.

Yours truly,



Roger Larson

Stephen Brown

From: Stephen Brown
Sent: Tuesday, February 02, 2010 12:34 PM
To: 'judykirk@kirkandco.ca'; Chris Chok
Subject: GIPAC CONSIDERATIONS

Dear Judy and Chris

I wanted to share a few thoughts with you ahead of our next meeting February 11.

I suggest there are some important principals to be considered:

- Keep it simple
- Provide transparency
- Ensure fairness

With this in mind, if we are to base our calculations on amortization of \$167,000,000 over 30 years, it seems that PMV is looking to start out in 2011 by collecting approximately \$4m/year. Inevitably as cargo volumes increase, so too will revenue assuming the fee is not revised downwards.

In reviewing Model 1, as we have clearly seen in the past 3 years, significant fluctuations in commodity prices and freight rates are that such tying the GIF to either of these will require constant monitoring and revision. Considering the relatively small fees to be collected I would therefore suggest that Model 1 is unrealistically complex. Likewise, my thoughts are the same for Models 3 and 4.

I therefore advocate Model 2 but here we should not lose sight of who pays for throughput and handling costs:

- Bulk handling is invariably loaded on "free in" terms i.e. shipper pays all costs.
- Break bulk can be loaded / discharged "free in/out" but is generally handled on some form of "liner" terms.
- Containers are invariably handled for carrier (shipping line) account.

Some may therefore argue that a GIF should be applied consistently but the fact is it will need to be applied to what we might term the "controlling party".

Having reviewed the options and reviewed the numbers my suggestion is as follows:

Bulk \$0.05 / metric ton
Break bulk \$0.05 / metric ton
Containers \$0.50 / loaded TEU

Having looked at the 2009 throughput statistics this would generate:

Bulk 55m tons x \$0.05 = \$2.75 m
B.bulk 15m tons x \$0.05 = \$0.75 m
Containers 2.5m x \$0.50 = \$1.25 m

Total \$4.75 m

The rationale for the multiple of 10:1 between containers and a ton of break bulk is an average TEU weight of around 10 tons. I would also comment that whilst the annual fee collection is slightly higher than envisaged by PMV, everyone is

cognizant of the benefits of reducing the time of loan amortization. A similar consideration will come into play with an expected increase in throughput volumes and consequently also GIF revenue.

The one sector here that might argue against inclusion and "seek a break" is export raw logs on account of the fact that all are loaded direct from water at Fraser Surrey Dock and are therefore independent of supporting shore side infrastructure. Even so, it might be argued that management of the Fraser River itself comes into play but we should not lose sight of the potential for "discussion".

So far as collection of the GIF is concerned, perhaps the cleanest approach is to collect in tandem with wharfage on cargo but account for as a line item in port revenues. This will I believe provide for the necessary level of transparency.

Please revert should there be any questions ahead of Feb 11 and I look forward to hearing the views of others.

brgds
Stephen

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