

Deltaport Container Port Expansion – Terminal 2

A. Introduction and Executive Summary

Deltaport is currently undergoing expansion, adding a third berth which will increase capacity by fifty percent, making this the largest container terminal on Canada's West Coast. Now the Vancouver Port Authority is pushing ahead with plans to add a second terminal which combined will result in more than a three fold increase in capacity.

Because we have so much space in Canada we have a tendency to undervalue it as an asset and to use it up needlessly. Nowhere is this more evident than with the Vancouver Port Authority's expansion plans for Deltaport. It is all too easy to grab more waterlots, foreshore and valuable farm lands adjacent to the port all in the name of expanded trade. It is all very convenient to write off the environment and the quality of life of the surrounding communities.

This report analyzes the Container traffic on the West Coast, takes a look at future scenarios to the year 2020 and demonstrates that Terminal 2 is not needed now and likely never will be, because:

- There is potential port capacity on the BC West Coast of 10.7 mill. TEUs per year, with between 6 – 6.7 mill. TEUs of that capacity at Vancouver area ports. This is more than enough to handle the expected container growth.
- With Terminal 2 there will be significant over capacity.
- Changes are already taking place that are going to impact market demand at Vancouver area ports:
 - Panama Canal expansion
 - Aggressive competition from US ports – whose business is down
 - Potential new ports in Oregon, Mexico and Nicaragua
 - Diversion of Asian traffic through the Suez Canal direct to East Coast ports
 - The opening and future expansion of Prince Rupert's container facility
- The volume of Asian trade handled by West Coast ports may be peaking.

These facts coupled with the huge environmental risks posed by putting in a second container terminal at Roberts Bank mean that Terminal 2 should not be built.

Rather we need some different and creative approaches to servicing Canada's West Coast trading needs. We need smart alternatives to mindless expansion of the Gateway. This report suggests ways in which Vancouver's container capacity can continue to expand in a sensible and sustainable manner.

Put a stop to the Deltaport Container Terminal 2 now. Tell the Vancouver Port Authority to look at smart solutions that will meet Canada's trading needs.

B. The Business Case for Expansion is Flawed

We need to take a step back and look at the overall picture. It makes no business sense to add a second terminal at Deltaport. Why is VPA forecasting huge increases in Asia/Pacific trade – doubling market share and more than tripling volumes - even when the evidence suggest otherwise.

Statements that Deltaport Terminal 2 is required to meet 2020 demand are simply not supported. Consider the facts:

- The BC Government Ports Strategy forecasts a container throughput of between 5 – 7 million containers (TEUs) by 2020. VPA is forecasting 8.8 million TEUs but has never explained where this increased traffic will come from.
- An 8 percent long term growth rate is just not supported by people who know this industry. Even with a 5 percent annual growth rate – still considered optimistic by some – Vancouver Port Authority will handle 4.4 mill TEUs by 2020.
- Without any further expansion beyond the three berths at Deltaport i.e. no Terminal 2, there will be West Coast port capacity of at least 8.8 million TEUs. With productivity and efficiency improvements this could be as high as 10.7 million TEUs.
- Terminal Systems Inc (TSI) three berth Deltaport operation will have surplus capacity for many years to come. The three berth facility will handle up to 2.7 mill. TEUs, with some terminal and rail efficiency improvements.
- Adding a second Terminal at Deltaport will result in over capacity:
 - Close to 60 percent of containers coming to Vancouver are for Eastern Markets. When the expanded Panama Canal opens (2014), permitting larger ships to travel direct to the East Coast, some ships will bypass BC and go straight to East Coast ports. Already some North American traffic from India and South Asia is going via the Suez Canal. In the last few months alone 5 new services to the East Coast have been announced – three via the Panama Canal and 2 via the Suez Canal. This is traffic that might have gone via the West Coast.
 - Container volume growth at US West Coast ports is off sharply from earlier projections – traffic declines to September 2007 are:
 - Los Angeles – down 1.5 percent
 - Long Beach – down 8.5 percent
 - Seattle – down 1.3 percent
 - Tacoma – down 6.1 percent
 - Grand Alliance carriers Hapag-Lloyd, NYK and OOCL have suspended one of their joint weekly transpacific services for about 21 weeks. There is an indication this might be permanent.
 - US ports are fighting any diversion of US traffic going through Canadian ports. Washington State has already visited Washington DC to ask their Government to pass laws such that US traffic must go through a US port.
 - US West Coast ports are expanding and others – e.g. a 2 mill. TEU facility in Oregon, as well as Mexico and Nicaragua – are being looked at. Overall there is going to be excess capacity and more competition between ports on the West Coast for many years to come.

- Currently Deltaport only sees 4 ships a week. None of the ships calling at Deltaport do a complete on or off load today. They also visit one other port in the US on the same trip. As traffic is diverted directly to Eastern ports some ships may not call at West Coast ports.
 - The volume of Asian trade may be peaking. Current concerns with goods from Asia, which have been recalled or deemed a public hazard, are likely to influence buying patterns. The number of offshore products recalled in North America has doubled. Consumers are more wary of buying inexpensive offshore goods. They are also becoming more aware of the contribution this traffic makes to global warming and as a result are increasingly looking to buy local.
 - The transfer of North American manufacturing to offshore countries with cheap labour has largely been completed. Therefore we will not see the same increases in import traffic in the future.
- Prince Rupert Container Port – with a 500,000 TEU capacity - is now open. One major joint shipping service operates there - others are going to follow and Vancouver area terminals will be impacted. Prince Rupert is in the process of getting approvals for an expansion (we understand the engineering for this expansion is complete) which will take it to 2 mill. TEUs. The port has also announced potential for as much as 4 mill. TEUs per year.
 - Roberts Bank is not a natural harbour and is exposed to severe storms – sometimes it closes during the winter because of high winds. There were about 12 days in the 2006/2007 winter when vessels could not be handled at Deltaport. In fact the Maersk shipping line introduced a temporary surcharge in March of this year on all import cargo via Vancouver and Deltaport ports as a result of berthing delays and extreme weather conditions. These delays are very costly and encourage shipping companies to look for permanent alternatives.

C. An Analysis of West Coast Ports

1. Prince Rupert

Maher Terminals are not investing in this project to operate a small - 0.5 mill TEU - port. One major shipping line has already announced it is switching its traffic and others will follow. This port is now in the process of obtaining approvals for its next expansion phase, which when complete will give it a capacity of 2 mill. TEUs. Many industry experts are suggesting that Prince Rupert makes good business sense as a port to handle Eastern Canadian and US East and Central destined traffic. Already there are plans for distribution hubs and facilities in both Prince George and Edmonton, which will facilitate the port's expansion and provide a means of filling empty containers for the back haul to Asia. CN and the port operator are expressing significant optimism for the potential of this port. CN is upgrading its infrastructure. Even today the northern rail route across the Rockies is significantly better than that out of Vancouver. Annual volumes of 3 – 4 mill. TEUs by 2020 is a realistic expectation for this port. Unlike a few years ago CN rail rates for containers, grains and coal are less for Prince Rupert than Vancouver due to congestion and the difficulty of handling rail movements in the Vancouver area.

2. Fraserport

This port's capacity is 0.6 – 0.8 mill TEUs, following the \$195 million expansion two years ago. Although larger ships cannot use this port, because of the Massey Tunnel depth restrictions, there are still a large number of container ships calling at Vancouver that can navigate the River. Whilst Fraserport lost business in 2006 - CP Ships was purchased and moved their traffic to other Vancouver ports - this port is now taking traffic away from Vancouver and Deltaport. Three shipping lines have diverted their business back to Fraserport. There is solid potential for Fraserport – certainly up to the 0.6 mill TEU level. In addition this port is ideally positioned to handle short sea shipping traffic (barges from Deltaport). As the port amalgamation is completed a merged authority is going to look at its spare capacity overall and as a result Fraserport's volumes will increase.

Port amalgamation is one of the logical outcomes towards maximizing the ability of the Fraser River and its facilities to handle increased volumes of containers. The sooner the Massey Tunnel is replaced, (presumably by a bridge), the sooner the significant potential of the Fraser River and adjacent lands will be realized as a natural transportation corridor for container traffic.

3. Vancouver Harbour

Vanterm and Centerm together now have a capacity of 1.55 mill TEUs. Industry experts knowledgeable of container port operations, and TSI in particular, suggest that productivity improvements are possible at both these terminals such that together they could handle in excess of 2.0 mill TEUs.

4. Lynnterm

Vancouver Port Authority has the intention to convert Lynnterm in two phases and when complete they say it will handle 0.8 mill TEUs. As far as the break-bulk facility at Lynnterm is concerned more and more lumber and wood pulp are now being exported in containers which make it logical to convert Lynnterm into predominantly a container facility.

5. Deltaport

Four ships a week call at Deltaport. In 2006 Deltaport's two berths handled 1.2 mill TEUs. TSI's President, Norman Stark has said that the current port can handle up to 1.4 mill. TEUs. The third berth will add another 0.7 mill. TEUs giving Deltaport a capacity of at least 2.1 million. It is understood that TSI believes that with productivity and operational improvements this port is capable of handling 900,000 TEUs per berth – for a total of 2.7 mill TEUs. It is being done elsewhere in the world - there are berths in Hong Kong today that are handling 1 mill TEUs per year – so why not here?

D. The Logical Alternative

1. Maximize the Existing Port Footprints

VPA has been telling us that the current Deltaport can only handle 0.9 mill containers (TEUs) per year, with the third berth adding another 0.45 mill. This is not the case. As the above analysis shows, in 2006 Deltaport handled 1.2 million TEUs. TSI have stated that a three berth operation can handle at least 2.1 mill TEUs and there is potential for each berth to handle 900,000 TEUs. Therefore with three berths Deltaport can handle as many as 2.7 million containers. It would take some changes in operations but it is certainly achievable.

Productivity and efficiency improvements at the two inner harbour ports could have them handling 2.0 mill. TEUs between them. These plus Lynnterm (at 0.80 mill TEUs) and Fraserport (at 0.6 mill. TEUs) would give a Vancouver area potential capacity of at least 6.1 million TEUs per year and perhaps as high as 6.7 mill. TEUs.

2. Make better use of existing infrastructure

Deltaport does not need container storage and rail yards built on valuable farm land adjacent to the port. There are excellent existing facilities on the Fraser River. With some minor changes Deltaport container traffic (or at least a portion) could be routed via existing rail lines up to the CN mainline on the Fraser River where there are existing intermodal yards and plenty of industrial-zoned space – both to build trains for Eastern destinations as well as for local distribution.

Facilities along the Fraser River now store empty containers, unload containers for distribution and load export containers with commodities such as lumber, pulp and specialty grain products. These facilities now serve the entire container industry in the Metro-Vancouver area. Deltaport's current operational problems could be solved by using the existing Fraser River facilities for container storage, handling and distribution. Today TSI is often waiting for trains - their container train backlog is often the equivalent of 10 or more container trains. Instead of being clogged waiting for container trains, TSI could maximize the existing port footprint and handle many more containers. This would also allow some truck traffic to switch to rail, addressing the congestion problems at the Massey Tunnel and along River Road. Finally if the BC Rail Line were then electrified significant reductions in pollution would be possible and the whole system could be operated much more efficiently. Overall Vancouver would end up with a more effective distribution system with fewer delays.

These two initiatives alone will give enough spare capacity that any further expansion at Deltaport can be delayed indefinitely.

E. Environmental and Other Considerations

Whilst not the major focus of this paper, there are severe environmental implications. Roberts Bank is recognized as one of the most valuable ecosystems in Canada. Its back up farmlands are some of the most productive agricultural lands in Canada. Terminal 2 and its associated infrastructure will result in the destruction of over 1000 acres of farmland. Up to 6000 acres of habitat on Roberts Bank will be removed from environmental protection. The end result if Terminal 2 goes ahead - destruction of critical fish habitat and a negative impact upon the marine habitat and fish and wildlife assemblages of Roberts Bank, with irreparable damage to the Pacific Flyway.

Terminal 2 will triple current diesel and other pollution. The deadly particulates – PM¹⁰ and PM^{2.5} - will increase by 16 percent and 10 percent, causing health problems for residents throughout Delta and the Fraser Valley.

There will be huge negative impacts on Delta affecting the quality of life and its livability. The whole Lower Mainland and Fraser Valley will be impacted.

There is no support locally for any further expansion of Deltaport. If the application were to go ahead the environmental review process will be long and very expensive. There will be massive public protests. A proper cumulative impact analysis will be demanded which will support the 1979 study by an expert panel – they concluded that a major port development on Roberts Bank should not take place because its impacts on the Fraser River estuary were too great.

F. Conclusion

In 2006 Vancouver ports handled 2.2 million TEUs. By the year 2020 at a 5 percent annual growth rate (which may even be optimistic given the above scenarios) VPA might be handling 4.4 million TEUs. Even at a 6 percent growth rate they would only handle 5 million TEUS. BC ports will have a combined capacity by 2020 of at least 8.8 million TEUs – and perhaps as high as 10.7 mill. - which is above even the most optimistic container growth forecasts.

At the very minimum there is plenty of time to wait before making any decision to further expand Deltaport:

- Why start a long and costly environmental review process when the need for further Deltaport expansion cannot be justified?
- Why ignore the 1979 expert panel report that concluded that a major port expansion on Roberts Bank should not take place because the potential impacts on the Fraser River Estuary are too great?
- Why risk further destruction of critical wildlife habitat on Roberts Bank?
- Why risk the health of the Fraser River – the greatest salmon river in the world?
- Why pave over valuable farmland with warehousing and storage facilities that will never be needed?
- Why remove valuable farmland from the ALR for roads to service Deltaport?
- Why put in railyards and container handling facilities adjacent to Deltaport and Roberts Bank when there already exists under-used facilities on industrial-zoned land on the Fraser River adjacent to the main rail lines?
- Why risk increased pollution when more environmentally responsible alternatives are available?

Stop Terminal 2 now.