Canadian Manufacturers & Exporters

Manufacturiers et Exportateurs du Canada

GEARING UP FOR GLOBAL GROWTH: WHY CANADA NEEDS A NATIONAL LOGISTICS STRATEGY

Speaking Notes for
Hon. Perrin Beatty
President and CEO
Canadian Manufacturers & Exporters

OOCL Symposium
Toronto, Ontario
May 30, 2007

Please check against delivery

Gearing up for global growth is an issue of utmost importance both for Canadian Manufacturers & Exporters and for Canada's economy as a whole.

In the 21st century, modern logistics is driving economic development around the globe. Canada's history and geography give us a unique opportunity to capitalize on this explosion in global trade, if we can develop a vision of a national logistics strategy.

We should not be surprised that logistics will be vital to our future, because it has always played a critical role in Canada's development. Our territory was explored and mapped by Europeans who sought new trade routes to the Far East and then discovered that they could use our network of waterways to extend the fur trade into the heart of the continent. And British Columbia made a condition of its entry into Canada that the federal government would build the Canadian Pacific Railway to literally bind the northern half of the continent together with steel bands.

Over the years, we have undertaken other ambitious infrastructure programs in the name of nation-building. We created the Canadian Broadcasting Corporation to extend radio signals beyond the large urban centres and into the rural Canada, we worked with the United States to build the St. Lawrence Seaway, we built the Trans-Canada Highway, and we launched the world's first domestic communications satellite. We have undertaken massive hydro-electric projects to light our homes and power our industry, installed modern ports and airline infrastructure, and developed the technology that will allow us to tap remote and challenging supplies of oil and gas. And Canadian businesses, from Nortel to AECL to Research in Motion to Bombardier and our automotive industry, have developed technologies that reflect our life in a country where geography and climate make providing for our everyday comforts, let alone creating a sense of national community, a daunting challenge.

It makes sense that many of our technological successes come from our need to overcome geography. We require modern communications and transportation infrastructures to link a thinly-scattered population spread across the world's second-largest nation.

Our choice is very simple: we can build them or we can buy them. The wise course is to leverage the experience and knowledge necessity forces us to acquire to strengthen Canada's industrial base.

While our geography may challenge us in linking our citizens with one another, we are also very fortunate in our natural inheritance. We border on three great oceans to our north, east and west, and the richest market in the world to our south. And we have an incalculable natural wealth of hydrocarbons, minerals, forests and water. While the most resource-rich countries in the world are often the poorest and least-developed and some of the most technologically advanced jurisdictions, like Hong Kong and Singapore, have few resources other than their geography and the intellect of their citizens, Canada rests on a foundation that includes our location in the world, vast resources and a diverse, educated and motivated population.

The issue for us, still early in the twenty-first century, is both how to face the challenges of a global economy that changes at a breath-taking pace and whether we will fully exploit these remarkable advantages.

Over the last two years, CME has stressed that our children's standard of living depends on improving our economic performance. Report after report, whether the OECD's global ranking or studies released by the C.D. Howe Institute, put us in the middle of the pack and slipping in comparison with other nations.

We can and must do better, but it won't happen by accident. We need a strategy to build a better future.

Increasing our competitiveness means that Canada must become the destination of choice for investment dollars around the globe. We need to train, attract and retain the best-skilled workers in the world, sound government policies and we need a logistics system that is cutting-edge. The recipe for competitiveness has many ingredients, each of them important and all of them interconnected.

We can take an important step by lightening the tax burden on our businesses, but we can't make Canada fully competitive simply by lowering corporate taxes and providing additional investment incentives. We also need to focus on people, to foster leadership, to drive innovation, to adapt to the changing international business climate and to modernise our infrastructure.

Canada's aging infrastructure is both a key priority and a concern as we move forward. Improving this vital tool is key to improving Canadian competitiveness.

You can have the best product in the world, but you will lose in the global marketplace if you cannot be assured that it can get to customers quickly, reliably and at low cost. In the 21st century, if you don't deliver on time, you won't deliver again.

In the words of Transport Minister Lawrence Cannon:

> "When car parts can be manufactured in several different areas of the world and assembled in another, having smooth-running, reliable and integrated transportation options can be the difference between new jobs and job losses."

For too long, we have been spending our infrastructure instead of investing in it. Canada is the only G8 nation without a comprehensive, federal multi-modal investment strategy.

The cost of getting where we need to be will be exceptionally high. Here in Ontario, for example, uncertainty over whether the province will have a secure supply of affordable electricity is already affecting investment. Before a company spends tens of millions of dollars to build a new plant, it wants to know that it will have a secure supply of skilled workers, an efficient transportation system, and secure, affordable energy. Yet, Ontario has allowed its investment in generating electricity fall so far behind that one estimate presented to a recent Ontario Energy Association Annual Conference was that Ontario now needs to invest $25-40 billion in its energy infrastructure.

Let's look at another example in Ontario: the Windsor-Detroit corridor, which is vital to our two countries' highly-integrated automotive sector. The United States does about as much business over the Ambassador Bridge alone as it does with Japan. Yet the most important crossing in North America was constructed by our grandparents' generation in 1929 and if a terrorist or even a natural disaster were to seriously damage the Ambassador Bridge, it would not only take the bridge out of commission, but also cut off three of the Great Lakes, denying access to the St. Lawrence Seaway for cities like Chicago, Milwaukee and Thunder Bay.

If everyone – federal, provincial, state and municipal governments in both countries – cooperates and the project to build another crossing stays on schedule, the soonest that it will be opened will be 2013. Imagine any two other countries in the world that would leave their economic security so vulnerable for so long. It simply defies comprehension!

I don't have to tell you that Canada's prosperity depends on its manufacturing and trade success.

Trade and transportation go hand in hand in creating our nation's wealth. Having the right infrastructure to move Canadian goods and services across North America and around the world is crucial in today's world of growing global markets and competition. CME believes that manufacturers, shippers, transportation, telecommunications and logistics companies, together with all levels of government, urgently need to develop an integrated logistics strategy that will enable Canada to become the preferred point of entry and exit for trade between North America and the growing Asian market.

To be successful, we need much more than a series of disconnected government projects. Instead, we require a national logistics strategy that will integrate many aspects: shipping, ports and airports, as well as rail and road transportation, along with warehousing facilities, telecommunications and border security.

Canada has done well as a trading country over the past several years. Last year Canada exported a record-breaking $516 billion in goods and services, up 5.2 percent from 2004.

But I can also tell you that it is also a time of challenge and change for manufacturers and exporters.

Manufacturing has evolved a long way from its days of smokestack industries, mass production and heavy machinery. Industry's future is one of global customers, global supply chains as well as business networks, and the potential to source from the best companies, the best technologies, and the best skills not just from around the continent, but also from around the world.

Canadian manufacturers face enormous challenges that include the emergence of China as an industrial powerhouse, increased international competition in markets that we have long dominated at the same time as the strong Canadian dollar takes away our competitive advantage, and new and growing demands that threaten to overload our infrastructure.

Consider our trade with our largest customer. As you know, the overwhelming majority of Canada's exports head to the United States, and much of our trade is within companies operating on both sides of the border. Yet, as a result of Americans' concern over their physical security, the 49th parallel is becoming thicker, stickier and more costly. The effect upon our highly-integrated North American manufacturing sector is severe. For example, the North American car you drive may have crossed the border seven or eight times, attracting delays and compliance costs each time. The Coalition for Secure and Trade Efficient Borders, which I chair, has made a rough calculation that these multiple crossings may add as much as $800 to the cost of the vehicle. In contrast, a Korean or European car entering the continent encounters these delays and costs only once. Because of our failure to find a better way to manage our border, we place North America's manufacturing base at a significant disadvantage.

Our exports to the United States also face other challenges. Canadian exporters have already lost 16 percent of their share of the U.S. import market to competitors from China and other emerging economies. In fact, International Trade Minister Emerson predicts that China will soon overtake Canada as the Americans' top supplier.

China has now grown into a global industrial and manufacturing powerhouse. Its exports are now eight times as large as ten years ago. In 2003, China's exports amounted to $US 380 billion. That gave China 6 percent of the global export market as compared to three point nine per cent only three years earlier.

China is now Canada's third largest trading partner and Canada is China's10th. In 2005, our two-way trade totalled over $8 billion. That's fifty times as high as in 1970 and, by 2020, China is expected to account for 60% of all Asian-North American trade. Canadians can see the evidence of that growing trade simply by looking in any store.

Today, the largest US-based importers from China include Wal-Mart, Target, Home Depot and Sears. In fact, between 1990 and 2005, US merchandise trade with China increased by 1,339 per cent.

In CME’s 2006 annual Management Issues Survey, we asked Canada’s manufacturers and exporters how they see themselves in the global market, and specifically how they viewed China.

Forty-two per cent of respondents saw China’s greatest business opportunity as a source of low cost imports, and 27 percent saw it as an export market.

China is now an integral part of manufacturers’ global supply chains. It’s a manufacturing hub for the rest of the world, but also a major source of demand for high-end, more capital intensive products and technologies.

According to our survey, 26 percent see China's greatest opportunity for Canadian business as its part of the global supply chain strategy.

These results confirm what we heard when CME held the largest public consultation in history on the future of Canadian industry, called *Manufacturing 20/20.* The more than 3,000 manufacturers who participated told us that today their industry is increasingly integrated in international markets and global supply chains.

Many of the companies highlighted the need for a national logistics strategy. They believe that government and business must put in place the infrastructure and logistics system that will enable Canada to become the preferred point of entry and exit for trade between North American and the growing Asian market.

Drawing upon the results of these consultations, we published *A Call to Action*, our vision of where we need to go from here. One of the critical success factors we identified was the need to ensure that Canada's transportation infrastructure can meet the requirements of manufacturing.

Manufacturers and exporters say that, in today’s economy, the biggest challenges in maintaining an efficient and effective supply chain are forecasting demand and ensuring timely deliveries.

You can have the best product in the world but you will lose in the global marketplace if you cannot be assured that it can get to customers quickly, reliably and at low cost.

Ultimately, supply chains are only as good as the infrastructure that supports them. It means that our domestic manufacturers need secure and affordable supplies of energy, capital and labour, as well as modern systems of transportation and communications. We need ports that can handle the growing fleets of the world’s largest container ships, warehouses to store goods, coordinated and up-to-date railway and road systems that can move these products from the coastal ports to key markets across the continent, and an efficient and secure border infrastructure.

That is not happening now. More than 40 percent of our members report experiencing delays at the U.S. border from congested highways and bridges that can't handle the traffic**.** They also complain about traffic-clogged roads in and out of the country's major cities.

And the demands of moving goods and products can only increase.

Nothing better reflects the size and the demand of the new global supply chain and the economic surge it brings than the tidal wave of containers we see in ports across this country. It is estimated that as many as 300 million of these containers crisscross the world's oceans, rail lines and roads. In just fifty years, these boxes have changed how nations' economies work and reminded us that transportation capacity is a key economic driver.

For example, in 2003, 1.8 million containers arrived in British Columbia's ports. By 2020, this figure is expected to reach five to seven million containers, representing an estimated $10.5 billion dollars for the Canadian economy.

And many Canadian economists have predicted that Canada's overseas trade could double or even triple by the year 2020. Given existing trends, we will have to reach this challenging goal to maintain, let alone increase our level of prosperity.

I want to applaud the federal government's progress on the Pacific Gateway Initiative, including the recent $510 million investment announcement. The commitment to border transportation and Pacific Gateway infrastructure improvements is very encouraging.

The plans to expand the ports of Vancouver and Prince Rupert and to improve railway lines and roads will help not only B.C. companies, but also businesses throughout Canada to grow and to expand the export of their products into the Asia-Pacific region.

The Pacific Gateway has been compared to the St. Lawrence Seaway in its potential impact for our country.

I couldn't agree more. The Pacific Gateway Initiative is not simply about handling traffic on our West Coast. It needs to be part of a coherent and integrated strategy to ensure that the nation’s and the world’s products can be moved across the country into key markets like Montreal, Toronto, Chicago and the American heartland.

We need concerted strategies among governments, transportation authorities, shippers and shipping companies for Canada to develop a world-class logistics and trade facilitation infrastructure and profit from growing trade volumes between North America and Asia.

Currently, 10 percent of trade between North America and Asian markets comes through Canada. CME believes Canadian business and governments should aim to handle one-third of all trade between North America and Asia by 2020. Yes, that is ambitious, but we will not become a global leader in trade unless we set ambitious goals.

Right now, imports of manufactured goods from China vastly outstrip North American exports to the Chinese market. But this trade imbalance means that there are ships returning to China from the west coast ports with empty containers that can be used by Canadian shippers at favourable costs.

With the nation's railway companies already working to improve services and facilities to move goods out of the Ports of Vancouver and Prince Rupert, we will also have to upgrade the infrastructure and distribution centers to move more goods into these ports.

The Pacific Gateway Initiative is an important start, but even more needs to be done to make Canada the logistics hub of North America, and to help Canadian manufacturers and exporters benefit from new trading patterns and infrastructure.

Just as we can leverage our West Coast ports through a Pacific Gateway Strategy, we also need to use our infrastructure in the rest of the country, including the Great Lakes, and the ports of Montréal and Halifax. The Port of Halifax, for example is the second-largest natural harbour in the world, has deep water, is ice-free, and sits on the Great Circle navigation route. We also need to strengthen and leverage our trucking, air, energy and telecommunications infrastructures to make Canada more competitive.

Many elements of the infrastructure mosaic are already in place. Now we need a strategy to bring the various elements together. It's time to decide between competing demands for scarce tax dollars, to develop more productive labour relations, to attract massive new private investment, to improve our border with the US, and to ensure our economy has the energy and the skills it needs to grow.

A national logistics strategy is vital to enhancing Canadian competitiveness – that's common sense. Now we must bring that vision into focus and act to implement it. Our future depends on it just as much as we needed a bold and forward-looking vision to build Canada in Sir John A. Macdonald's day.

We need a high speed, high-tech, and high capacity logistics network stretching across this country and seamlessly interconnected with trade corridors in the United States and Mexico.

Our harbours can make us the first point of contact for superships from Asia, but we need strategic investments so our ports, railways, highways, and borders can handle growing trade volumes. We need to leverage our logistics advantage to attract more industry and build a modern trade services infrastructure. All that is possible, but it has to begin with a vision – a national logistics strategy – to align both public and private investors behind making Canada the logistics hub of North America.

As you participate in the rest of today's events, there is really only one essential question: Are we ready to do what it takes for Canada to be a leader in the new global economy?

The ship is about to set sail. We urgently need to decide whether we will be on it or are content to be left behind.

-30-