

Prince Rupert's Dream Tied To Canada's Economic Future

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PRINCE RUPERT, B.C. (Dow Jones)--Don Krusel is reviving a 100-year-old dream in which this small northern city becomes a major trading hub. Along the way, he may help resolve a growing problem for Canada's economy.

Krusel plans to transform Prince Rupert's stagnant port into one of Canada's largest intermodal facilities, with direct rail connections to the industrial heartland of North America. Where there are dormant cranes and empty docks, he envisions a steady stream of ocean freighters unloading consumer goods, automobiles, and other merchandise from Asia, then taking on waves of Canadian wheat, potash, iron ore, lumber, pulp and other commodities to feed the ever-expanding demand from China.

So far, he has sold his dream to the British Columbia government, which has committed C\$17.2 million for an initial container facility. He also has the support of Canadian National Railway Co. (CNI), whose tracks serve the port and whose purchase of the B.C. Rail system gave the project impetus. He has one of North America's biggest port developers on board. And he has given the residents of this long-suffering resource-dependent community hope for a more prosperous future.

Perhaps most importantly, he has the solid backing of many stakeholders in Canada's supply chain, who see Krusel's project as key to the country's future.

What he doesn't have is the hundreds of millions of dollars needed to turn his dream into reality. Nevertheless, many believe the project's importance could foster successful public-private partnerships.

"We're not building the Port of Prince Rupert," says Krusel, chief executive of the port authority here. "We're building the midwest express."

It can't come too soon.

Ports across North America are becoming increasingly congested as falling trade barriers boost the flow of goods between regions. Gateways on the west coast especially have been under growing strain to handle the boom in traffic from Asia and many worry that Canada's economic growth could be at risk if the backlogs continue to build.

"There is a lot at stake," says George Kuhn, executive director of the Canadian International Freight Forwarders Association. "This is a competitive issue. In a global economy such as we're in, competitiveness is absolutely fundamental to a country's well-being."

Seen As Ideal Gateway To Asia

Krusel believes Prince Rupert is the ideal gateway to Asia. It's the closest North American port to China along the Great Circle Route, and is the west coast port closest to North Pacific shipping lanes. It has the deepest natural harbor on the continent, and can handle the new generation of larger, heavier ships that cause problems for many other ports and canal systems. It's also directly served by Canadian National, North America's most-efficient railroad, and the track leading to the port boasts the lowest grade across the Rocky Mountains.

Moreover, says Krusel, it's in a remote location with no local market and with little existing infrastructure. "You've got a clean slate. You can create it from scratch," he says.

That's one of the factors which attracted Maher Terminals Inc. of New Jersey, the company that will manage and operate the container facility at the port. It plans to invest millions to

create a state-of-the-art intermodal terminal linking Canadian National's tracks to the immediately adjacent harbor. The first phase contemplates a 400,000 TEU (20-foot equivalent unit) facility by the end of 2006. The second phase, to be completed by 2009, sees total container throughput capacity of 1.2 million TEUs - almost doubling the current capacity of Canada's west coast ports.

"Strategically, Prince Rupert sits in a very, very, important place," says Frans vanRiemsdyk, senior vice-president of sales for Maher, one of the world's largest container-terminal operators. Sailing times between Prince Rupert and China's largest ports are 24-to-60 hours shorter than from other west coast gateways. As well, there is virtually no urban development near the port - at other ports, freight trains vie with transport trucks and residential traffic enroute to the docks.

VanRiemsdyk declined to say how much Maher will invest, but sources suggest it could initially be around C\$50 million.

Business at west coast ports is growing so rapidly, that even the major expansion projects planned at Vancouver and Long Beach won't be enough to keep up, he says. "This is a project that allows us to keep pace with growth," vanRiemsdyk says.

Krusel and other advocates of Prince Rupert say the turnaround time for rail cars and ships arriving at the port could be three to four days faster than at other ports. That makes up for the 180 additional miles the trains will have to travel from the central transportation hub of Edmonton.

"Ships aren't coming here because it's Prince Rupert, but because they can have a seamless transfer to the markets of the midwest," Krusel says.

Could End City's Boom-And-Bust Cycle

That has been the region's dream ever since railway tycoon Charles Hay created the city. The president of the Canadian Grand Trunk Railway hoped to challenge the fledgling Canadian Pacific Railway Ltd. (CP) by building a rail line linking the north coast to Canada's heartland.

But that dream went down with Hay in the Titanic, and since then Prince Rupert has undergone the boom-and-bust cycle typical of resource-based communities. The most recent period has been one of the worst.

Designed by Hay for 50,000 residents, Prince Rupert's population slipped to about 13,000 from 17,000 after the local pulp mill closed two years ago. Its coal terminal is nearly idle and its grain facility - the largest in Canada - can easily handle three times the traffic that normally comes its way.

Jacqueline Boland, analyst at CIBC World Markets, notes that shipping at the port fell to 4 million metric tons in 2003 from 13.1 million tons in 1997. It has 20.5 million tons of capacity.

The proposed container facility could be the start of the city's resurgence. There's talk of Enbridge Inc. (ENB) building a pipeline to the coast from Alberta's oilsands and there's talk about lifting the moratorium on offshore oil and gas development.

Some worry the container terminal may be just more talk. But naysayers have been soothed by Krusel's first success - bringing large cruise ships to Prince Rupert. After forging a partnership with the municipal government, the port authority built a C\$9 million cruise dock that this year attracted 36 luxury ships holding thousands of tourists who flocked to the city's cafes and boutiques. Next year, the city expects 54 cruise ships to dock.

Boland believes Krusel's proposed container facility could add 2-2.5% in additional intermodal revenues for Canadian National. Intermodal transportation represented 19% of Canadian National's revenue in 2003 and is a fast-growing segment of its business, she said in a recent report.

Fadi Chamoun at UBS is also bullish. He believes CN could increase its intermodal volumes by 35-40% if the project is successful in attracting container lines.

Although some analysts suggest the lack of a surrounding urban area will discourage shippers from stopping in Prince Rupert, as it increases their freight costs, proponents say that's no longer a factor.

Chamoun notes that "two-thirds of the 2.5 million containers imported from Asia through Pacific west coast ports end up in the U.S. Midwest." Even with the additional inland travel required, the time gains are significant, he said. Costs should be lower too, given the improved turnaround time for ships and reduced terminal-handling charges. Some of that will be offset by higher inland costs, as rail rates are about 25% more expensive than ocean rates.

Nevertheless, Chamoun says container-handling costs are growing by 5% a year because of the port congestion and most containers sit idle for up to seven days "before reaching their inland destinations."

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