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CP building dual-coast deep-water port network

Mark Szakonyi, Executive Editor | Nov 25, 2020 9:20AM EST

Canadian Pacific Railway is taking on some of Maersk's Canada business, upping the railroad's presence in Vancouver, and is confident that it will help attract a new container service to Saint John, New Brunswick, next year now that it has deep-water port access on the east coast.

The winning of some Maersk's business, sweetened by an agreement to provide transloading space in the constrained Vancouver market, and its development of a Saint John rail service, are the next phase of CP's international intermodal strategy. CEO Keith Creel told investors on Oct. 20 he was confident the railroad would help attract a container service to Saint John in 2021, and the carrier would use more of its acreage to gain business like it's doing via its pact with Maersk at the largest Canadian container port. CP will begin handling the first Maersk ship at Vancouver in December.

CP has made no secret of its ambition to claw some of the container line volume away from its larger rival Canadian National Railway, and thanks to improvements in service and competitive pricing, ushered in by former CEO E. Hunter Harrison and current chief CEO Keith Creel, it has had some success. Over the last two years, CP has gained Yang Ming's Canada business and secured the bulk of the then-newly formed Ocean Network Express (ONE) before the majority of the latter shifted to Canadian National Railway early this year, as reflected by ONE's Feb. 7 change of rail provider notice. CP also has a long-term contract with Hapag-Lloyd, the dominant container line serving Canadian market.

A new (for CP) deep-water eastern gateway

With a network connecting to seven North American container ports compared to CP's three, CN has a natural geographic advantage to secure container lines' business. CN solely services Prince Rupert and Halifax, both gateways for US origin and destination cargoes. Prince Rupert is undergoing an expansion that will boost its annual capacity of 1.6 million TEU, up from the current 1.35 million TEU. And CN told investors on Oct. 22 it will at least double rail capacity from Halifax to Chicago within the next several years. Lastly, CN with Hutchison Ports and the Quebec Port Authority will open a C$775 million ($590 million) container terminal in Quebec in spring 2024 to target the greater Toronto and US market.

Until November 2019, CP's only east coast port access was through Montreal, which is the second-largest port but can only handle ships with capacities of about 5,000 TEU, due to draft limitations on the Saint Lawrence River. That changed when the railroad bought Central Maine & Quebec Railway Canada a year ago, spurring what will be a total investment of C$90 over a three-year period.

"Saint John is going to be interesting. I am feeling really good about bringing a steamship line directly to CP into that terminal in 2021," Creel said. With CN providing the only routing alternative though the Maritime provinces, CP now has a 200-mile shorter route and "we think there's going to be just some natural gravitation towards CP."

During the Montreal port strike in August, CP provided rail service for three Hapag-Lloyd and one Maersk ships diverted away from the largest Canadian east coast port, giving CP a chance to "stress

test" its offerings, said Jonathan Wahba, CP's vice president sales and marketing for intermodal and automotive.

By the end of the year, CP said investment will be in place to keep rail dwell times — the time it takes to transport containers from the marine terminal to the rail ramp — under two days, and rail transits of within 24 hours to Montreal, 48 hours to Toronto, and 70 hours to Chicago. Saint John Port Authority, CP, and terminal operator DP World are working to attract a trans-Atlantic, Asian service via the Suez Canal or even niche north-south service, offering US and Canadian shippers an alternative to routing through the ports Montreal and New York-New Jersey.

Beyond the investments being made by CP, the port is undergoing a C$205 million modernization project that will double its annual container capacity to 300,000 TEU, and the port is already eyeing new land so that it could potentially expand its annual capacity to 600,000 TEU.

Saint John's prospect to grow into a larger gateway got a shot in the arm when DP World in 2016 became the port's terminal operator, expanding its Canadian presence beyond its Western Canada footprint with the Centerm terminal in Vancouver, the Fairview terminal in Prince Rupert, and the Duke Point terminal in Nanaimo. Two months before DP World took control, Tropical Shipping moved its service from Saint John to Halifax, but within eight months of DP World taking control, a north-south CMA CGM service was secured and is served by CN. The port's other weekly and export-focused Caribbean container service doesn't depend on rail.

DP World said it will continue to invest more in rail capacity to complement the $210 million investment in port modernization, which is funded by the Saint John Port Authority, federal, and provincial governments, said Curtis Doiron, terminal general manager at DP World Saint John. The global terminal operator has already invested C$30 million in equipment and training at the port.

Expanding Vancouver presence

On the other coast, CP's new multiyear contract to move Maersk cargo through Vancouver, along with Montreal, marks the railroad's ability to expand its presence in the country's top container port, after losing the majority of ONE's business, and its willingness to tap its land assets to help seal the deal. CP said the transload project has been in the works for years and brings some much-needed transload capacity to a market where the industrial real estate market is in short supply, thanks to rising commercial and residential development.

When the transload facility opens at CP's Pitt Meadows intermodal terminal in September 2021, Maersk imports will be railed about 25 km and then transloaded. CP estimates the share of import cargo trans loaded coming through Vancouver is roughly 15–20 percent of the gateway volume, with Damco, part of Maersk, being one of the largest transloaders at the gateway. The initiative will reduce the need for about 100,000 truck trips annually, equating to 4,000 tonnes of carbon dioxide emissions, according to CP.

"Transloading today in British Columbia is either done in the city of Vancouver via truck, or it's done out in the hinterland. It's done in Prince George, Prince Rupert, or Ashcroft," Wahba said. "And we always looked at that and thought, it makes more sense to do it in Vancouver. That's where the natural flow of empties is. You do it out in the countryside and you have to get the box there. It works, but to do it in Vancouver where the local market is, we think it's just the most efficient option."

Creel has made no secret of CP's willingness to tap roughly 1,000 acres for co-location development. CP has recently opened a 20-acre auto compound for Ford and Chrysler in Vancouver, a bulk transload facility for forest products in Montreal, and a small auto compound yard in Chicago.

The Maersk deal, Creel said, is a "textbook example of taking those land assets, creating a solution in partnership with the customer, that allows them to realize their goals and objectives running their business, and allow CP to be part of something that is not only good for business, it's good for the environment, it's good for employees, it's good for sustainability."