

HRM Council Update

HALIFAX GATEWAY

JUNE 28, 2007

PURPOSE To provide HRM Council with an update on the Partnership's activities and initiatives with respect to the Halifax Gateway.

SUPPORTS ECONOMIC STRATEGY Halifax Gateway - Work to develop the Halifax Gateway as an East Coast logistics hub.

BACKGROUND The Gateway (including the airport, port, trucking and rail operations) generates over \$1 billion in wages each year, five times more than the existing tourism sector in Greater Halifax. As with other sectors, we need to compete nationally and internationally for business. The Greater Halifax Partnership through its role in the Halifax Gateway Council has been working to integrate strategies and create partnerships that can help bring focus to the growth of this important sector within the local and provincial economy.

PARTNERSHIP ACTIVITIES **1. Halifax Gateway Council**
The Halifax Gateway Council was created in 2004 to promote growth within the transportation sector and related industries in the Halifax region. The Greater Halifax Partnership is a founding member, and serves as a member of its Executive.

2. Port Distribution Study (2004)
In 2004, the Greater Halifax Partnership undertook and delivered (with the support of partners) a Port Distribution study that looked at the viability of the attraction to Halifax large-scale distribution centers (DC's). Many cities with container ports have been successful in growing their ports container volumes by the attraction/location of DC's within their cities.

The report indicated that in the short to medium term Halifax was not in a position to attract large-scale distribution center activity, but it did indicate that Halifax was well positioned to attract a hybrid of DC activity called "transload". Two weeks after the report was finished and released, Consolidated Fastrate called on the Halifax Port Authority and the Greater Halifax Partnership investigating Halifax as a location for a new transload facility. Consolidated Fastrate's new 90,000 square foot transload facility will be opening in July of this year. As well, a second transload facility will be announced in a couple of weeks.

3. Building the Container Transload Sector in Halifax
In May 2007, the Greater Halifax Partnership finished its follow up report to the Port Distribution study. This second report is entitled "Building the Container Transload Sector in Halifax" (*Executive Summary is attached*).

The following highlights were identified in the study:

1. Six retail targets were identified as being interested in looking at the port of Halifax as an option for shipping containerized cargo into this country.
2. Five third party logistics operators were interested in looking at the Port of Halifax as an option for shipping containerized cargo into this country.

3. Savannah and Charleston were identified as "best in class" case studies and communities in which we could learn from.
4. Identification that land in Burnside Industrial Park should be set aside for the developed of logistics activity (Distripark/Gateway Park). As well, the study identified that lands around Fairview Cove could act as an "ideal site" as it has direct access to port facilities and the CN main line and series 100 highway (MacKay Bridge).
5. Bring together a group (consisting of representatives from the Halifax Port Authority, the Halifax Gateway Council and the Greater Halifax Partnership) to implement the strategy and pursue targets as outlined in the report.
6. The need to brand, market and communicate Halifax as an ideal location for transloading and Gateway activities.

Responding to the Transload Study:

1. The Greater Halifax Partnership led a mission to both Savannah and Charleston to learn how both of these East Coast ports have had such massive success in the growth of their containerized cargo. The following groups participated: Halifax Port Authority, Halifax Stanfield International Airport, Nova Scotia Business Inc., Greater Halifax Partnership, Halifax Gateway Council and the Halifax Business Parks (HRM). A clear takeaway from this mission was that by attracting distribution centers and transload facilities into their communities, they became "must-call" ports instead of "discretionary" ones.
2. A transaction team of representatives from the Halifax Port Authority (Michele Peveril), Halifax Gateway Council (Jim Frost) and the Greater Halifax Partnership (Nancy Phillips) has been established to meet and provide briefings on the full study to existing Halifax organizations that currently undertake some form of "transload" in this community (this includes organizations such as CN, Clarke, Consolidated Fastrate and Armour). Once existing companies have the information from the study, this transaction team will begin to look at the retail leads and the identified third party logistics companies that do not currently have any presence in Halifax. Briefings have started and are expected to proceed full force over the summer.
3. The transaction team, as noted above, traveled to Toronto to meet with CN on June 18 to present the full transload report to CN's "transload" team. CN is evaluating locations in Atlantic Canada for a transload facility and are near to a decision. Information from the transload report is valuable and timely to their business case. CN has also asked for a similar briefing with their Montreal team and this will be coordinated early in July. As well, an invitation was extended to Keith Reardon, Managing Director, CN Worldwide North America to visit Halifax. Mr. Reardon will join the transaction team and members of the Halifax Gateway Council at the Partnership offices on July 3rd for a briefing on the transload study and discuss ways in which we can work together. Two areas that will be explored will be the viability of creating a partnership with Memphis, Tennessee with the help of CN. Memphis is the location that CN chose to build a new multi-million dollar transload facility and there is potential to bring goods into Halifax and transport them direct on CN's line to Memphis. As well, CN Worldwide with headquarters in Rotterdam has connections that may help Halifax position itself as a niche player in the transloading of reefer cargo (cold storage).

4. Consistent with our earlier agreement to work jointly and cooperatively with the Halifax Business Parks on communications and branding initiatives, work is currently underway with HRM and the Business Parks to set aside land in Phase 12 of Burnside (lands where currently Consolidated Fastfrate will open their 90,000 square foot facility in July and Armour has purchased land for a similar facility). This land will be branded as the Atlantic Gateway Distribution Park. It is fully expected that over the summer a brand will be developed that can be used for marketing and attraction purposes (i.e., signage in park, billboards, etc.). The Greater Halifax Partnership and the Halifax Port Authority will work closely with HRM on this exciting initiative.
5. Over the summer a communications strategy on Gateway and Gateway initiatives will be drafted and brought back to the board.

Attachment:
Executive Summary – Transload Study

Building the Container Transload Sector in Halifax

Executive Summary

In 2004, the HPA and partners undertook a study of potential distribution centre (DC) activity that could take place from Halifax. The major piece of learning from the study was that distribution centre activity was unlikely to take place in the short to medium term, but that a hybrid of DCs, container transload activity, held some potential. In the past two years, an agreement was signed between CRSA and Armour Transportation Group to move 4,000 TEUs through Halifax which would be distributed from a facility in the Burnside Industrial Park. Another company, Consolidated Fastfrate is building a new 90,000 sf transload facility in Burnside which will open in 2007. There are several more major retailers interested in moving additional volumes through Halifax if there was improved transportation distribution infrastructure available.

In the months since this study commenced, Maersk Line announced it is withdrawing from Halifax in favour of Savannah, which is 970 nautical miles further away from the Straits of Gibraltar than Halifax. The reason this has happened is that Savannah has 19 major Distribution Centres located within 5 miles of the port. This type of development makes it imperative that Halifax become larger than its own local market, in the way Savannah and other ports have. At 310,000 people, Savannah is smaller in population than Halifax but is able to serve a large population base in the South East. Developing the container transload sector is the first step in the growth of the Port of Halifax.

Market Assessment

The market assessment clearly outlined several targets that should be pursued in the short-medium term. The total estimated volume as of this writing is about 50,000 TEUs.

It is possible that one or more 3PLs could handle the volume of the various retailers listed above, much in the same way that Fastfrate is providing this service for Canadian Tire and Armour is doing for CRSA. Or, these retailers could build their own facilities, like one major retailer has done at Richmond Properties in Vancouver.

Since the study commenced, the Nova Scotia Liquor Commission, along with the liquor commissions from the three other Atlantic Provinces, have issued a tender for the services of a freight forwarder. This contract will be for a 12 month duration commencing June 2007. Within a few months, they will also issue a tender for a warehouse operation, to handle cargo arriving by vessel and rail. The new NSLC facility is expected to handle about 4,000 TEUs, of which 1,800 will arrive by water and the rest by rail. The facility will need to provide 50,000 to 60,000 sf with about 30 truck bays. It will need ample storage space and be able to turn product around in 48 hours. The most logical location is Halifax, due to the proximity of the port, but the NSLC indicates that the location of this facility will be

the decision of the contract winner. This opportunity should be the first priority of the Gateway team.

The Business Case

Building a transload and, eventually, a distribution sector in Halifax is of critical importance to the future of the Atlantic Gateway. The withdrawal of Maersk Line from Halifax in April 2007, in favour of Savannah, GA, which has 19 major distribution facilities within 10 miles of the port, underscores the urgency of this situation. Savannah is 870 nautical miles further away from the entrance to the Mediterranean, and the Atlantic region provided the line with ample local cargoes, including very good paying refrigerated cargoes, yet it still felt compelled to switch to Savannah because of the amount of distribution activity taking place there. From relative obscurity in the 1980s, when it was actually smaller than Halifax in the number of containers handled, Savannah has made itself a “must call” port, for lines serving the US east coast via the Panama and Suez canals. Halifax must do the same.

The transload sector begins to address the problem of the small size of the Atlantic region market. It makes the market bigger than it actually is by driving additional cargo through the port. This is just one of several initiatives underway to increase cargo throughput at Halifax, but it is very key, and has been identified as the number one priority of the Halifax Port Authority. From 26 interviews undertaken, eight companies indicated a short-medium term interest in transloading cargo at Halifax. These companies represent incremental volume amounting to about 50,000 TEUs, or almost 10% of the port’s existing volume. They also represent some of Canada’s largest retailers and a number of large 3PLs. Some of this cargo could be accommodated in facilities presently being constructed or planned; some would require new facilities.

The transload sector is important for both inbound cargo to feed national supply chains in central Canada and to provide containers for regional exporters. The contents of three 40 ft. ocean containers are destuffed at a transload facility and restuffed into two 53 ft domestic containers or highway trailers. At present, the 53 ft unit would likely return to central Canada empty and the 40 ft unit would likely return to Atlantic Canada empty. Transloading balances out two empty loads with two full loads. The retailer pays for two units to move inland instead of three. The local shipper in Atlantic Canada obtains access to much needed container equipment much sooner than otherwise. The retailer has the option of shipping its 53 ft unit to a distribution centre in central Canada or directly to a store, as well as eventually performing some value added services.

Site Selection

Given the difficult time that transportation companies have had securing land for new warehouse facilities in Burnside, HRM and/or the HPA need to immediately set aside some serviced land that is suitable for the transload sector (i.e. 15 to 20

acre parcels). This study has identified three possible locations for transload activity: Burnside; Fairview Cove; and the proposed Rocky Lake Terminal. Of these locations, Burnside is the only location that can provide suitable land immediately. The disadvantage of Burnside is the relative distance to the port. This both increases transportation costs and the amount of truck traffic on both downtown and Burnside Park streets. Unfortunately, there is no alternative site available today. Within Burnside, the study examines two sites, including Phase 12 (where Fastfrate is locating) and Phase 13 (which will not be accessible until an overpass across Akerley Boulevard is built). Clearly, short term development will need to occur within Phase 12 at Burnside.

Burnside Phase 12 does have the advantage in that the two current logistics companies (Fastfrate and Armour) will provide some momentum for logistics related activities. However the Phase 12 site does have limitations due to Juniper Lake (which constrains the layout of large lots in this area), and does not have the prominence that the land in Phase 13 could provide for a standalone logistics park. Phase 13 also has the potential for rail access.

As Phase 13 is the preferred long term location (unless Rocky Lake could be brought on line quickly), the approach should be to create a limited number of large lots near Fastfrate to accommodate any near term activity. In the meantime, HRM and the HPA should move ahead to develop Phase 13, and the HPA should push for Atlantic Gateway funding in order to pay for a new interchange which would open up access to this section of Burnside. Once access is secured, funding for new lot development would be financed based on future lot revenues – similar to the approach currently used by HRM for other business park lands.

In the long term, the HPA and HRM should continue to explore the potential of an inland terminal at Rocky Lake. In addition to its use as an inland terminal, this facility could also function as a Logistics Park or Distripark. From a pure location perspective, given its location on the CN main line, Rocky Lake is to superior Phase 13 for a Logistics facility site, especially once the Sackville Expressway is completed. The HPA should have discussions with the owner of this land to determine if they would be amenable to modifying their quarry plans so that the creation of an inland terminal could be fast-tracked. If this could occur, Rocky Lake would take priority over Phase 13 of Burnside.

In either event, the HPA should continue to push to acquire additional lands around Fairview Cove. Here, both CN Rail and HRM are possible partners, as both could benefit if lands are sold to the HPA to facilitate the additional development of transload and logistics related activity. A couple of major anchor tenants in this area would provide a small, but significant, Distripark in its truest sense. There would be interest in such facility due in large part to the proximity to the port, rail and container terminals which drive the transportation cost advantage. These deals might include the sale of HRM lands north of Barrington Street (i.e. the old dump, Public Works yard, and Irving lands that were recently expropriated). The HPA should work with CN Rail to explore the development

potential of the Fairview Shops property, as well as the redevelopment of the HIT to leverage its waterfront location.

Funding

The total identifiable infrastructure costs are three phases of Phase 13 of the Burnside Business Park, which altogether total \$58 million, plus \$13.5 million for the Highway 107 Interchange. Rail access would cost a total of \$7.0 million for two phases. Total additional investment required for the rest of Phase 12 not yet committed is \$36.2 million (\$3.42 per sf). Although HRM would typically fund the development of land from the Land Reserve Account, the HPA and partners should work cooperatively with HRM to ensure its timely development.

The HPA or Halifax Gateway Council should make an immediate application for funding under the Atlantic Gateway Initiative. At a minimum, this would include a request for funding for the Akerley Boulevard Interchange (to provide access to Phase 13) and perhaps some funds to remediate the lands around the Fairview Cove terminal for its expansion towards the MacKay Bridge and the creation of lots for transload facilities in this area.

As the Federal Government has made it clear that they want to use public private partnerships to fund the Atlantic Gateway initiative, the HPA should investigate the potential to partner with the private sector on the development of this infrastructure. Under this approach, the HPA could option a parcel of land in Burnside from HRM, and then develop it in conjunction with a major logistics park developer. These companies are readily identifiable.

Marketing

The Transload Strategy should be implemented by the same core groups that are acting as the steering committee for this study. The next stage of the development process should be led by either the Halifax Gateway Council or the Halifax Port Authority, with support provided by Greater Halifax Partnership, the HRM Business Parks Office, NSBI, NS Department of Transportation and Public Works and ACOA. These groups should meet at once a quarter or, failing that, at least three times per year to discuss the strategy. The meetings could coincide with the Gateway Council meetings, since most of the same players are involved.

Marketing should be undertaken by the lead organization chosen for the initiative. It should be provided a budget for staff, travel and advertising. A budget of \$250,000 to \$500,000 should be allocated for Building the Container Transload Sector. If possible, financial incentives should be pre-negotiated with various levels of government so that when the next deal is ready to be consummated, it will take substantially less time than the Fastfrate one did.

There are several choices available for marketing the initiative. It is recommended that "Gateway" be used in all branding, as this concept and terminology has "legs". It could also be logical to include the name Burnside in the park, as Burnside is well known and has a lot of brand equity within the region. However, if the target audience are logistics suppliers from outside the region,

Burnside may mean nothing to them, and the name should focus on Halifax (i.e. as an extension of the brand equity of the Port of Halifax). Depending on the answers to these questions, the facility should be called one of the following:

- Halifax Gateway Logistics Park; or
- Halifax Gateway Distripark;

The branding consultant should work with the steering committee to solve this issue. As above, all marketing and branding should be evocative of marketing being undertaken by HPA, GHP and the province.