Highway H_2O: Building on commodity success

BY JACK KOHANE

Photos: St. Lawrence Seaway Management Corporation

ARON GAMPEL

DARRYL MARKLE

MARC-ANDRÉ ROY

Capturing more commodity commerce, connecting with markets around the world, and tapping into an improving North American economy, these were the themes marking last year's Highway H_2O, the premier marine industry conference, hosted by The St. Lawrence Seaway Management Corporation (SLSMC), the business development platform for the Great Lakes-Seaway System. Great Lakes/Seaway stakeholders heard messages boosting the Seaway as the route of the future. Optimism prevailed over the 2-day event.

Taking a global economic perspective, Aron Gampel, VP and Deputy Economist at Scotiabank, launched the 10th annual Highway H_2O Conference held in Toronto, telling the packed hall of delegates that financial markets remain volatile. "After a prolonged era of markets going up and up, now uncertainty and volatility goes on. Stability is out," he commented.

Stating his prediction that global growth will be "generally slow but steady," Gampel foresees periods of strength followed by periods of weakness, pointing to a lack of enough aggregate demand in the global economics to sustain a high, sustained global economy. "The U.S. is picking up, but China is slowing down going from double digits to single digit growth that is impacting global commodity markets. Economies like Canada are going sideways … that's the best we can do for the time being."

Canada will continue to rely on trade to offset the weakening demand. Gampel forecasts exports rising 7 per cent in 2015 driven primarily by a strengthening of the U.S. economy. "Canada will be pulled along because of the low value of our currency, our competitiveness is improving, our productivity is on the rise. The Seaway is helping to expand our trade internationally. Trade deals are being put together with Europe, South Korea, and the Asia Pacific region, and bilateral relations are increasing. There are tremendous markets for Canadian minerals, forest products, agri-foods, energy products. We have the increasing ability with these trade deals to enter new markets overseas. From a Canadian vantage point, there's much optimism about the outlook."

Similarly upbeat, Darryl Markle, Export Manager, Eastern Canada, for Parrish & Heimbecker, Ltd., a Canadian-owned grain company operating export terminals, inland grain elevators and primary food processing locations across the country, enthused about agriculture being alive and well and in full growth mode. Shipping is the cornerstone of our exporting program. Without a viable shipping network, our future is bleak. We have a great, reliable shipping network, and the St. Lawrence Seaway is vital to our economic growth and stability."

Markle cited that in 2013, Canada produced over 96 million tonnes of grain; that our exports accounted for over 42 per cent of our production; and the fact that Canada is the world's 6th largest agricultural exporter.

"So when we discuss agriculture as it relates to eastern Canada – eastern Canada makes up 25 percent of our exports," he said. "How did we generate this growth? Over the past decade, we've seen billions of dollars flowing into agriculture – increasing technology on the farm, whether it's seeds, pesticide controls, better farming practices, our equipment is becoming better, we are managing the farm better. We are putting in better infrastructure – example: the export terminal in Hamilton, Ontario. The Seaway system is a critical part of our business and for agricultural growth in Canada. Without this network, from a grain standpoint, we wouldn't have the success we have today."

Aluminum as a good fit for the Seaway was the drumbeat sounded by Chris Smith, Plant Manager for Novelis Inc., a world leader in rolled aluminum products used in beverage cans, automobiles, and consumer electronics. Novelis is owned by a Mumbai, India-based conglomerate with 81,000 employees worldwide, revenues of $9.8 billion, and running 25 different operations in nine countries.

Speaking to the Conference via phone from his office in Oswego, NY, Smith detailed his company's latest project – providing aluminum products for Ford's new model F-150 truck. He described it as a story of partnership and innovation involving the Port of Oswego, Novelis, and the Ford Motor Company.

Smith outlined the role of the port of Oswego in this initiative, emphasizing that it's a deep-water port at a strategic location in the northeastern shipping market, within 750 miles of reaching half the U.S. and Canadian populations – much of this business is in manufacturing. One of the most productive ports in the region, about 120 vessels go through the port on annual basis, and is increasingly touted as a contender for international trade offering huge potential.

The project with Ford exchanges steel for aluminum parts and components in its model F-150. The vehicle was launched a few months ago by Ford, but the initiative with Oswego has been in the works for the past three years. Expressly to service this initiative, Novelis created 250 jobs with another 100 by the end of 2015. The company has invested $350 million in three production lines to supply aluminum sheets to the automotive industry, and a further $50 million invested in the recycling of scrap processing part of its operation. Smith notes that Novelis has a global target of 80 per cent recycled content being in all of its products by 2020. This automotive initiative with Ford is key to hitting the target.

"The role of the port in this initiative is key," stated Smith. "It represents an interesting case study of how ports can work with local businesses to create demand and drive throughput. Zelco Kirincich, (CEO of Port of Oswego Authority) listens to our demands and expectations. He's learned about the automotive business and the aluminum business. Oswego is key to where we are today and where we are going to be tomorrow."

Addressing the matter of cargo diversification, Marc-André Roy zeroed in on what he views as exciting project cargo opportunities emerging for the Great Lakes Region and the Seaway, the Alberta oil sands being among the biggest opportunity. "I'm talking about the movement of project cargo," he began. There are 241

MARK THIELE

projects in the oilsands, some are in various stages of consideration. We have narrowed it down to 38 key projects. Commodity prices can fluctuate, projects can get turned on and off, but if we focus on these 38 most

RICHARD SAWALL

likely to go ahead, that alone will generate 12,000 project modules."

These modules are pre-fabricated, ready-to-assemble sets of pipes and tubes, ranging from 40 to 80 feet in length, 14-15 feet in width, and weighing between 130,000-250,000 pounds, oversize/overweight loads that can easily be moved by ship. Modules are manufactured largely in Asia, and their various components can be assembled on site.

Roy, a Partner with CPCS and the Project Director of the recent St. Lawrence Seaway Competitiveness Study, urged marine to make the oil sands project cargo a going concern. "These modules are moving now, and there will likely be a spike in 2015. The expected number of 12,000 oil sands modules are only modules, there's a lot more project cargo that's moving. Depending on the nature of the project, it could range from 3 to 50 times the number of project cargo moves for every module that moves."

However, Port of Houston is currently snaring most of that project cargo business. The main reasons, according to Roy, are that the Houston-to-Alberta transport corridor is already well established. There are fewer physical challenges along this corridor, bridge clearances and such from Houston to Alberta. He also cited some key Seaway challenges, including the seasonality of the Seaway; limited backhaul opportunities for marine carriers (which reduces carrier interest because they can't pick up cargo going the other way); and the host of charges incurred by the marine mode, notably pilotage.

Can the Seaway be an alternative route for oilsands project cargos? Roy believes so. He pointed out that there have been requests for quotes to ship modules destined for the oilsands, from Asia via the Port of Thunder Bay. "Modules are big things," he exclaimed. "Shippers are seeking options."

Some salty words peppered Mark Thiele's presentation. "Salt makes headlines, especially during winter," remarked the Vice-President of Mid-American Salt, headquartered in Fort Wayne, Indiana. Mid-American Salt is a regional supplier and importer of bulk salt products from around the world, and the "go to" provider for emergency large volume shipments. "Last winter, at the end of the season, we were one of the very few still shipping salt to cities all over the eastern half of the U.S.," lauded Thiele. "Our team came up with creative ways of getting salt from available sources to customers who needed it most."

Though most bulk salt is moved by semi-trailers on road and rail, Thiele opined to his Highway H_2O audience that marine is a viable transport option for salt. "We've found a valuable resource in The St. Lawrence Seaway Management Corporation. They have given us insight into the industry. As a result, we are bringing eight vessels into the Great Lakes in 2015. We've found high-quality inventory offshore in Africa, Europe and South America. To get this to market we've partnered with trucking companies, rail, ocean vessels and barges. We do a lot of barging up the river systems through New Orleans, it's proven to be very reliable, though a bit slow. We are in this for the long haul and looking to partner with vessel owners in the Great Lakes to put together a good logistics chain to move product on an annual basis. We're very interested in this mode."

Speaking for the oil and petroleum sector, Richard Sawall, Director of Development for US Oil, a Midwest-based bulk liquid terminal owner/operator and marketer of refined products, including gasoline, diesel, ethanol, and natural gas, said the St. Lawrence Seaway system is crucial to his company's operations. "We are active on the Great Lakes with refined and renewable energy products. We own a 70,000 barrel barge used for shipping refined and renewable products. We also use third party vessels to ship and receive products. US Oil and others are investigating the use of the Great Lakes as a means to efficiently move crude oil out of the mid-continent to international markets." The first leg to move Canadian heavy bitumen would be by rail from Canadian origins to terminals on the Great Lakes. The second leg would be via Seaway vessel to deep water ports on the Canadian East Coast as needed.

Sawall described his company's plans to move more product faster: US Oil is considering the use of its Jones Island terminal (Port of Milwaukee, WI) for this move. The Jones Island terminal has 310,000 barrels of storage (200,000+ barrels heated storage), with rail and steam. Jones Island would receive crude via rail in volumes ranging from 5,000 to 60,000 barrels per day. Crude volumes would aggregate in tanks until the product could be loaded to vessels (approx. 100,000 barrels cargo per vessel). "Additional terminals assets could be activated for this trade if higher volumes are desired," he added.

From US Oil terminals, vessels would transit the Great Lakes and St. Lawrence Seaway en route to the Atlantic Ocean. The oil would be delivered via Seaway vessel to deepwater terminals on Atlantic Coast that could aggregate volumes. Multiple deep-water ports are available, such as NuStar Energy's Point Tupper, NS, and Port of Belledune, NB, both of which are being considered by US Oil. (See "Chaleur Terminals Inc., canadiansailings.ca/?p=9381). Once on deep water, crude can move anywhere in the world economically.

"I think there will come a critical mass of attention being paid on the Great Lakes/Seaway route," nodded Sawall. "There are a number of different parties, like the terminals, terminal operators, crude oil producers, and crude oil buyers, who are looking at this route. Up to this point, there have been no bottlenecks to Canadian crude. That may change. The next three to five years will be a sweet spot. We will see if we can make something happen."