



Statement to the House of Commons
Standing Committee on
Industry, Science and Technology

The Role of the Trucking Industry in Canada's Service Sector

Canadian Trucking Alliance
324 Somerset Street West
Ottawa K2P 0J9

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About the Canadian Trucking Alliance

The Canadian Trucking Alliance (CTA) is a federation of Canada's seven provincial and regional trucking associations, collectively representing over 4,500 motor carriers. With its headquarters in Ottawa and provincial association offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Moncton, CTA is the voice of the Canadian trucking industry on policy, legislative and regulatory issues at both the national and international levels.

The Trucking Industry in Canada

Trucking in Canada, made up of for-hire carriers, private carriers, owner-operators and couriers, is a \$60 billion per year industry. The for-hire sector, comprising over 10,000 carriers, accounts for about half the industry's total revenue. Overall, the industry employs more than 400,000 people, including 260,000 drivers. There are just over 600,000 commercial trucks on the road; half these are classified as heavy trucks, which includes about 200,000 tractor-trailers.

Trucking is Canada's dominant freight mode, accounting for an estimated 70 percent of domestic shipments by value. Trucks carry almost two-thirds of Canada-United States trade: 50 percent of exports and 75 percent of imports. Cross-border transportation represents over 40 percent of the industry's revenue stream.

The Effect of Economic Conditions on the Trucking Industry

Trucking is a derived demand industry. Therefore, economic conditions in domestic and international markets are reflected in the industry's freight volumes and financial performance. The high value of the Canadian dollar combined with the general weakening of the US economy, the resulting reduction in Canadian exports to the US, and the manufacturing downturn (particularly in central Canada), are all having a profound impact on the trucking industry in most parts of the country. In January 2008, the proportion of manufacturers stating they would decrease production over the next three months stood at 33 percent, a 9 point increase from October 2007.¹ This was partially offset by 19 percent of manufacturers who expected to increase production during this period. The balance of opinion for production prospects (decreases less increases) was the most negative since January 2002.

It is in the cross-border market that the Canadian trucking industry is being particularly hard hit. From November 2006 to November 2007, Canada's total exports to the US declined by 3.8 percent and imports by 1.9 percent. However, these aggregate figures do not tell the whole story. Trucking specializes in the carriage of relatively lower weight and higher value products when compared with other freight modes. In fact, just five commodity groupings of manufactured or partially manufactured goods traditionally represent over three-quarters of total exports by truck to the US. A comparison of export statistics for November 2006 and November 2007 shows year-over-year decreases of 4.4 percent in industrial goods, 3.7 percent in machinery and equipment, 5.9 percent in automotive products and 9.9 percent in other consumer goods.

Cost Pressures on the Industry from Fuel Taxes and Rising Fuel Prices

Diesel fuel represents the second largest component of the trucking industry's cost base, next to labour. Commercial diesel volumes are massive, with over 16 billion litres consumed annually in Canada for road use. On every litre sold, the federal government collects 4 cents in excise tax. The federal excise tax on motor fuels was introduced in the mid-1980's, ostensibly as a deficit-fighting measure, but since that time it has clearly outlived its stated purpose. Unlike the GST, the excise tax on commercial diesel fuel is not a flow-through tax and therefore achieves little but to boost the

¹ Manufacturing and trade figures in this section from Statistics Canada, *Merchandise Trade of Canada (Monthly)* and *The Daily, January 29, 2008: Business Conditions Survey*

government's general revenues; but in so doing, it heaps an additional input cost on the trucking industry. The Canadian Trucking Alliance has long argued that this type of tax is both unjustified and regressive; it should therefore be overhauled and treated as a flow-through tax similar to the GST, or preferably abolished altogether.

The continually rising price of diesel fuel has in recent years created an enormous burden for the trucking industry and its customers. Using retail prices² as a reference point, the average price in Canada has risen from 75.9 cents per litre in 2004 to 113.2 on January 15, 2008 – an increase of 49 percent over about a 3½ year period (and this is after a 2 cent reduction in the GST during this period).³

While motor carriers have been able to pass some of this increase on to their customers through fuel surcharges, current economic conditions in the industry make this increasingly difficult to accomplish. Competition is fierce, largely as a result of excess capacity – what has been referred to as too many trucks chasing too little freight. As a consequence, rates are at best stagnant and in many cases are discounted just to keep trucks on the road. Industry margins, traditionally thin, are being squeezed even more as many carriers find it increasingly difficult to fully offset the rising cost of diesel by way of fuel surcharges.

The Impact of Border Security Programs

Truck transportation security programs, particularly at the Canada-US border, continue to result in duplication, overlap and ever-increasing costs. Like the exporters whose goods we carry, the trucking industry is concerned that the cost of moving goods continues to be driven up by security measures that are developed and rolled out in isolation from one another. The big picture – an appropriate balance between security and trade efficiency based on an assessment of risk – seems to have been lost.

The trucking industry fully understands how the Canada-US trade picture has changed since September 2001, and has in fact played a key role in trying to maintain the balance between efficient trade and enhanced security by participating in a wide range of Canadian and US border security programs.

However, more than six years after 9/11, it is becoming apparent that Canada and the US have created an array of programs that don't always dovetail with one another, and the situation seems to be getting worse. The trucking industry today faces a range of mode-specific, facility-specific, and even commodity-specific requirements coming at us from departments and agencies on both sides of the border. The situation is not sustainable. We can't go on forever, layering one new program on top of another, further driving up the cost of transportation and harming Canadian competitiveness.

There is of course no silver bullet to address these problems, but government agencies on both sides of the border must remember that the appropriate balance between efficient trade flow and enhanced security can be achieved only if risks are properly assessed.

² Most trucking companies will pay less than the full retail price, by purchasing through commercial cardlock facilities or using on-site bulk storage.

³ Retail diesel fuel prices from Transport Canada, *Transportation in Canada 2006* and Natural Resources Canada, *Fuel Focus January 18, 2008*.