



Observations and Comments on the Report:

'Pathways: Connecting Canada's Transportation System to the World'

Submission to

The Honourable Marc Garneau, P.C., M.P.

Minister of Transport

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Discussion Paper
Great Lakes Pilotage Authority (GLPA)
Input document on the Canada Transportation Act Review Report:
'Pathways: Connecting Canada's Transportation System to the World'

Executive Summary

The Great Lakes Pilotage Authority (GLPA) has reviewed all recommendations presented in the latest CTA Report "Pathways: Connecting Canada's Transportation System to the World" and has discussed them with the users (Canadian Shipowners' Association, The Shipping Federation of Canada) and the Canadian Marine Pilots' Association in preparing this discussion paper. The Authority's general beliefs are that the current Pilotage Act has served the industry and the Canadian public very well since 1972, and has all the flexibility to allow the Authorities to provide safe and efficient pilotage service in the next 20 years. Minor modifications to the Act would be beneficial in the area of streamlining the tariff process and addressing the shortcomings of the final offer provision of the Act.

The Authority did host a one-day session with the major stakeholders (Canadian Shipowners' Association, The Shipping Federation of Canada, Canadian Marine Pilots' Association, St. Lawrence Seaway Management Corporation) in order to obtain firsthand their position on the GLPA's discussion paper. Views are similar on most issues, although it is too early in the process to indicate where all parties are on the issues discussed in this paper. Further discussion will be required.

The discussion paper goes into more details in addressing GLPA's position and is meant as a starting point for further discussion in addressing pilotage issues and the services it provides.

Background

On June 25, 2014, the Federal Minister of Transport launched a review of the Canada Transportation Act. The Act is the federal framework legislation for our transportation system and for the Canadian Transportation Agency's administrative role. The Act articulates a National Transportation Policy that contributes to economic growth and prosperity by giving primarily to transportation services based on competition and market forces.

A broad range of stakeholders contributed to the review which amounted to a multitude of informal communications, with 230 written submissions and participating in over 480 meetings/roundtable discussions as well as the commissioning of 36 targeted research projects. The final review report was delivered to the Minister of Transport, Marc Garneau, in December 2015 and subsequently tabled in Parliament in late February 2016. Minister Garneau has communicated to all concerned parties that a report will be presented to Cabinet in the fall of 2016 once stakeholders have been consulted on the findings and recommendations of the CTA report.

Objectives of this discussion paper

Transport Canada Policy group has asked each Pilotage Authority to review the CTA recommendations on the pilotage regime in Canada as well as the other recommendations included in the report as to provide the Authority's views on the aforementioned recommendations. The Pilotage Authorities' feedback will be analyzed by Transport Canada in the following few weeks as to formalize a consultation plan with impacted stakeholders over the summer months. For this reason, the discussion paper will cover the following points:

- Highlight recommendation that could potentially affect the Pilotage Authority in the Great Lakes region;
- Highlight the major issues now facing the Authority in providing pilotage services in the Great Lakes under the current Pilotage Act.

Recommendation from the CTA on pilotage

The recommendations addressed specifically to the Canadian Pilotage Authorities are found in Chapter 10 Marine Transport as recommendation #6 and are listed in bold below:

- 6. *The Review recommends that the Government of Canada:***
 - a. immediately integrate the four pilotage authorities within one National Pilotage Board to enable a strategic and holistic approach to pilotage for better alignment and harmonization in the way regions contract for and provide services;***

- b. complete a full assessment of the governance framework for marine navigation services within three years;***
- c. formally review compulsory pilotage areas, circumstances, and processes every three to five years minimum, in consultation with users and the international pilotage community, taking into account new technologies and best practices and including a re-assessment of navigational safety risks.***

Each one of the above recommendations will be briefly examined with a discussion on the effects.

- A. immediately integrate the four pilotage authorities within one National Pilotage Board to enable a strategic and holistic approach to pilotage for better alignment and harmonization in the way regions contract for and provide services;***

This recommendation will generate some advantages but will also incur a significant amount of disadvantages in a number of operational areas of pilotage in Canada. A list of these issues is not exhaustive but covers the main issues surrounding the 'immediate integration of the four pilotage authorities'.

A. Challenge of Immediate Integration:

1. Cost Savings

Cost savings are believed to be negligible and could even exceed the current costs of providing the pilotage services. The four authorities presently operate with four (4) independent Boards and four (4) independent operations and administration centers. The 2015 total cost to provide pilotage services in Canada were:

GLPA	\$ 25,982,000
APA	\$ 23,224,000
LPA	\$ 82,596,000
PPA	<u>\$ 77,411,000</u>
	<u>\$209,213,000</u>

The direct costs of pilot wages, contract payments, training costs and pilot boats, as well as pilot travelling expenses associated to performing pilotage duties account for \$200 million of the \$209 million with professional and administration costs representing only \$9 million (4%). In an integrated pilotage organization, all direct pilotage costs would be expected to remain unchanged with only the administration/professional fees possibly be subject to cost reduction initiatives.

In an integrated national organization, it is believed that the four (4) local offices would still be required given the complexity and the specific nature of each pilotage area. In addition, local presence is valuable in dealing with time sensitive matters and labour relations.

The Pacific Pilotage Authority is mainly a port and regional pilotage area. The Great Lakes region is a region shared with the U.S. Government and mainly services foreign vessels with assignments lasting over 8 hrs. The Laurentian Pilotage is situated in a navigation area that operates in French and provides foreign ship pilotage (60%) and domestic ship pilotage (40%) with assignments lasting 8 hrs. Finally, the Atlantic Pilotage is mainly a port pilotage area operating the ports of the four Atlantic regions. As such, given operational and dispatching expertise would still be required in each region, the operational logistics may not lend itself to the envisioned cost savings assumed under the proposed integrated entity.

Assuming the administration of the integrated Crown corporations would be centralized in Ottawa, the annual topline administration costs would be approximately be as follows:

Executive Officers (3)	\$ 900,000
Executive Assistants (3)	\$ 350,000
Operations Support (3)	\$ 210,000
Administration Support (3)	\$ 210,000
Communication/Technology	\$ 250,000
Travel/Support	\$ 250,000
Total Cost	<u>\$2,290,000</u>

Board governance costs comprise of Board member remuneration, member professional development as well as Board member travel costs. The Board composition could decrease from the current total 28 members (seven members per Authority) to an assumed eleven (11) member National Board. The proposed integrated entity's Governance model would be expected to continue to include an Audit Committee, Governance and Human Resources Committee, Technical Committee (Pilot Boats, Pilot Training) and a Risk Management Committee.

Assuming the above mentioned, the proposed governance structure would easily require a minimum of five meetings for each of the committees per year as well as five Board meetings. The five groups would therefore meet at least 25 times per year. As a result, travel costs would total over \$250,000 per year with Board remuneration totalling \$100,000 per year (\$9,000 per Board member).

The 2015 cost breakdown per Authority is as follows (in '000):

Entity	# of Assignments	Cost per Assignment	Total	Pilot Cost / Support	Pilot Boat	Admin.	Professional & Board Fees
LPA	21,468	\$ 3,847	\$ 82,596	\$ 69,726	\$ 9,896	\$ 1,500	\$ 1,474
PPA	12,892	\$ 6,005	\$ 77,411	\$ 65,603	\$ 9,106	\$ 1,500	\$ 1,202
GLPA	7,166	\$ 3,626	\$ 25,982	\$ 23,153	\$ 1,215	\$ 1,210	\$ 404
APA	8,248	\$ 2,816	\$ 23,224	\$ 15,282	\$ 6,448	\$ 1,000	\$ 494
Subtotal			\$ 209,213	\$ 173,764	\$ 26,665	\$ 5,210	\$ 3,574

Under an integrated entity, the pro-forma cost structure is anticipated to be as follows (in '000):

Entity	Total	Pilot Cost / Support	Pilot Boat	Admin.	Professional & Board Fees
LPA	\$ 79,622	\$ 69,726	\$ 9,896	\$ -	\$ -
PPA	\$ 74,709	\$ 65,603	\$ 9,106	\$ -	\$ -
GLPA	\$ 24,368	\$ 23,153	\$ 1,215	\$ -	\$ -
APA	\$ 21,730	\$ 15,282	\$ 6,448	\$ -	\$ -
Subtotal	\$ 200,429	\$ 173,764	\$ 26,665	\$ -	\$ -
Admin	\$ 2,290			\$ 2,290	
Governance	\$ 350				\$ 350
TOTAL	\$ 203,069	\$ 173,764	\$ 26,665	\$ 2,290	\$ 350

Based on the above analysis, the projected cost savings on integrating the four pilotage authorities into one pilotage authority would be approximately \$6.2 million or 3% of total cost.

To obtain the \$6.2 million annual cost savings, the system may need to invest in communication equipment and software (\$1 million), leasehold improvements (\$1 million), staff recruiting, staff training, severance payment considerations for employees being terminated, as well as computer systems and equipment for the integrated office.

These costs above would easily reach \$20 million, therefore resulting in 10 year buy back period before the industry could benefit from substantial pilotage fee reductions.

2. Technological Considerations

The report appears to suggest that operational and technological advantages would be created under an integrated pilotage system. As the four pilotage authorities operate in completely different geographical areas of the country, additional synergies would be difficult to materialize from those currently leveraged. Listed below are a few realities related to pilotage in Canada that will demonstrate the level of technological advancement all Authorities are now working in as well as the operational differences for the four areas:

- GLPA, PPA and LPA currently equip all pilots with the state-of-the-art pilotage portable units (PPU) and provide training for these PPU. These PPU have the latest integrated AIS signals as well as water depth information provided for each assignment and are updated periodically by the technology supplier. These PPU have permitted for safer and more efficient transits in challenging weather conditions leading to reduced numbers of marine incidents and vessel delays over the last five years.
- GLPA, LPA and APA are currently using a common dispatching and billing system. These authorities are thus benefiting from shared best practices to better service its customers and meeting changing business needs. In addition, the dispatching and

billing system in the Great Lakes region is a shared system with the US Coast Guard for visibility and to maintain synergies with its US counterparts. The chosen dispatching and billing system is also a well-respected system used by many pilotage and port authorities throughout the world. Accordingly, the Authorities do have the pulse on navigation technology developments and do adjust when improvements are developed to remain current with worldwide initiatives. Thus, the Authorities are of the opinion that further technological advantages due to an integrated pilotage structure are viewed as limited when compared to the current organizational structure.

3. Operational Considerations

- APA and GLPA jointly employ close to 100 employee pilots. These pilots have collective agreements that have been in place since 1972 and are managed accordingly. These employees are members of the Government of Canada Superannuation Pension Plan and the Plan is funded by the pilots and employer as per Canadian regulations. All pension experience losses are funded by the Government of Canada and the liability for pension benefits sit with the Government of Canada. These employee pilots are not covered by the Pilotage Act's Final Offer Selection and could withhold services in cases of labour disputes.
- PPA and LPA have contracts with body Corporations who have over 300 pilots performing pilotage assignments. These pilots do not have an employee/employer relationship with the Authorities and are responsible as partners to the body corporate providing the pilotage services. The Authorities are not responsible for pension liabilities and expenses as these reside with the Pilot Corporations. Over the years, pension deficits have been funded directly by the pilots. These pilots cannot withhold their services during a work disruption due to the Final Offer Selection article in the Pilotage Act.
- Thus, under the current regulations, there are no synergy opportunities for converting either pilot structure (employees of contractors) without significant costs (i.e. pension considerations) to harmonize the groups.
- PPA operates for the most part on the Coast of British Columbia and in a culture that is very environmentally sensitive to all forms of economic and transportation development. The culture includes environmentalists, indigenous people and concerned citizens. Most of the pilotage is port pilotage (anchor area to port – short transits) for foreign ships where pilots are assigned. This area is also the growth area for trade in the country due to the developing economies in the Asian market and Canada's energy products. PPA has introduced pilot exchanges using helicopters to maximize the use of pilots and reduce the risk and time requirements of having pilots on long transits to board ships entering the pilotage areas. Most of their dealings are with Canadian government officials (TC, Coast Guard) but the Authority also deals with U.S. pilotage issues due to its southern pilotage area as well as with indigenous

people on the coast. The English language is the only operational language used in PPA.

- GLPA operates in an area that covers over 3,700 kilometers. It operates in the Canadian and American jurisdiction waters and overlaps the provinces of Quebec, Manitoba and Ontario with the following states: New York, Pennsylvania, Illinois, Michigan, Minnesota, Wisconsin and Ohio. The culture in the area is mostly industrial but over the last few years environmental groups have started to voice their concerns. The Great Lakes region is serviced by 60 Canadian pilots who report to GLPA and 50 American pilots who report to the U.S. Coast Guard in Washington.

The average assignment time is over 8 hours as most of the pilotage in the Great Lakes covers long transits. The five Great Lakes are also compulsory pilotage areas due in large part to the American Oil Pollution Act of 1990 which followed the Exxon Valdez incident. This law as well as the Jones Act are not easily changed and add to pilotage costs as pilots from both countries need to be assigned to all foreign-flag ships in all areas including open waters of the five Great Lakes. The area includes 14 locks and is closed for 2½ months each year due to winter ice conditions and the St. Lawrence Seaway Management Corporation (Seaway)'s maintenance of the locks. Four (4) of the districts operate in English with one (1) district, which navigates a section in Quebec and Eastern Ontario, that operates in French. Coordination with the U.S. Coast Guard requires daily communication to ensure a safe and efficient pilotage service in the international waterways while respecting each country's regulations.

- LPA operates in the province of Quebec with operations conducted solely in French. Environmental concerns have increased in the last few years from indigenous and environmental groups. The entire area, 300 kilometers, is served by close to 300 pilots who are members of a corporate group. Most assignments can stretch over 8 hours and are provided to foreign ships (60%) and domestic Canadian ships (40%). LPA operates 12 months a year with reduced traffic during the winter months (January-March) subject to double pilotage.
- APA is responsible for all the pilotage in the four Atlantic Provinces. The area operates in English only and has no exposure to the U.S. Coast Guard. The pilotage assignments are mainly of the port pilotage nature and are of short periods (less than 3 hours). The economic region is not in a growth pattern and pilotage assignments have been on the decrease in recent years.

Concluding Comments on the First Recommendation

As demonstrated, the operational savings realized in the integration of the four pilotage authorities are negligible and would not necessarily improve operational and technological realities in the country. Each pilotage area has its own unique challenges that cannot be eliminated by simply combining all authorities into one pilotage authority. As the four authorities are currently sharing best practices, they are all taking advantage of the latest technological

advances in the marine navigation field. Thus, any improvements in this area would not require integration. The introduction of technology is expensive and has not reduced the need for pilotage to foreign ships. It has improved the safety of the services but has not met the industry's expectation of reducing the need for pilots in Canadian territorial waters. Thus, although the Federal Government's objective is to create a national pilotage entity with the goal to improve the capacity and adaptability to allow it, and its users, to respond effectively to evolving international and domestic conditions and markets, the GLPA believes the proposed recommendation in isolation will not improve Canada's international competitiveness, trade interests, and economic growth and prosperity.

(B) Challenge of Having All Marine Navigation Services Under One Operating Organization
b. complete a full assessment of the governance framework for marine navigation services within three years;

In 2015, GLPA and the other three pilotage authorities collectively generated \$209 million in revenues and are mainly financially self-sufficient. They have been financially self-sufficient since 1998, when the Pilotage Act was amended to reflect the financial self-sufficiency requirement and eliminated the Federal Government appropriations to cover operational shortfalls. The other marine service fees collected by the ports, Canadian Coast Guard and the Seaway are not sufficient for their operations to breakeven (except for Ports) and rely on Federal Government appropriations for their viability.

This in itself creates different cultures in managing the fees collected from users in delivering services. For the last 20 years, pilotage authorities have had to manage and operate using private sector management practices as they have had to improve productivity and implement cost control measures. As an example, since 2009 the GLPA's tariff requirements have increased by 12.25%, which closely matches the cost of living for the same period. During this period, the average workload per pilot (productivity) has increased from 105 assignments per pilot to 136 assignments per pilot (representing a 20% increase in productivity). Under similar circumstances, it is questionable that a new national marine service would be able manage operations differently as to yield additional efficiencies over and above the results previously reported.

Pilotage fees have been identified as a reason commerce in the Great Lakes Region has decreased. The Seaway tonnage decreased 10% in 2015 with another 20% expected for 2016 yet the GLPA's number of assignments have only decreased by 4% in 2015 and is expected to remain flat for 2016. The ability for the Seaway to balance its books is becoming more difficult as is the ability for the Canadian Coast Guard to fully service the users (as seen in 2013 and 2014 ice breaking in the Great Lakes). Different cultures, mandates and operational objectives will be difficult to manage cost and control in an organization that does not have the history of operating within its allocated/generated revenues. Pilotage did operate under the control of Transport Canada prior to 1972 and this business model had to be restructured following the last Royal Commission on Pilotage as it was deemed to be unresponsive to change and unable to adapt to changing times.

Conclusion

GLPA is concerned that the recommendation to group all marine services in Canada is not founded on economics, best business practices and navigation safety. The potential size of this type of organization could render pilotage as over bureaucratic and inflexible in these changing times. It could also jeopardize the main objective of pilotage as being independent from economic pressures, and thus, leading to the potential of increased marine incidents. Thus, it is GLPA's view that the proposed recommendation will not provide the Federal Government with the benefits it is seeking through aligning itself to improve the governance and service delivery models for key federal operations, assets and agencies

(C) Formally Review Compulsory Pilotage Areas Considering Technology and Best Practices

c. formally review compulsory pilotage areas, circumstances, and processes every three to five years minimum, in consultation with users and the international pilotage community, taking into account new technologies and best practices and including a re-assessment of navigational safety risks.

This recommendation conflicts from the directive received in 1999 from the CTA that suggested a review of compulsory pilotage is to be completed only when significant navigation risks have increased. In the Great Lakes, the entire region is subject to compulsory pilotage and there has not been any important changes in technology nor navigational issues warranting a full review. This type of review would force the Authorities to incur significant expenses (\$250,000 per Authority for full review) while yielding very little changes, if any.

The Authority continuously reviews incidents as well as operational results to assess its needs to review compulsory pilotage areas. GLPA is also faced with the fact that it shares the responsibility to provide pilotage services with the U.S. Coast Guard approved pilots, and as such, the need to respect U.S. Great Lakes pilotage requirements. As these requirements are not ready to be revisited by the U.S Coast Guard, it limits GLPA's flexibility to unilaterally review mandatory pilotage.

One area of compulsory pilotage being questioned by a few of the domestic and foreign users are the 5 Great Lakes themselves given they do not present the highest marine incident rates due to their size and depth of the lakes.

In the event GLPA lifted compulsory pilotage in Lake Ontario and Lake Erie (GLPA does not pilot in Lakes Huron, Michigan, Superior), the cost savings of eliminating pilots would most likely be offset by the cost of hiring pilot boat services in the six Lake Ontario and Lake Erie ports. Further study on the cost implications of this measure is warranted. Thus, this initiative is not only believed to result in a zero sum financial savings but rather result in potentially increasing the risk of marine incident given foreign crews would not have the knowledge of the waters at these ports.

The idea of shore-based pilotage is an interesting one, but as both studies used in the CTA report concluded, we are a generation away from making improvements in this field. Currently,

there is only one location in the world and under specific circumstances where shore-based pilotage is used. It is only used in Amsterdam during storms when ships are directed to safe anchorage as it is not safe enough to deliver a pilot to the ship. In other areas, the term 'shore-based pilotage' is used but in fact this system is similar to Canadian practices of exempting ships (through Pilotage Certificate) in certain waters of the Atlantic and Great Lakes.

Conclusion

This recommendation conflicts with prior direction from the CTA and will be costly to implement and is viewed as not providing the perceived benefits from adjusting the current legislative and policy framework required to support Canada's international competitiveness, trade interests, and economic growth and prosperity. To the contrary, GLPA will require funding as the users will have to see tariff increases to offset these costs.

GLPA agrees to further study the cost/safety implications of allowing ships in the 5 Great Lakes (open waters) without the requirement of a pilot being on the ship. This exercise will be undertaken in 2017 with the assistance of industry, pilots and the U.S. Coast Guard (responsible for pilotage in the Great Lakes).

Major Issues Facing the GLPA in Today's Current Environment

- (1) The Authority continues to have difficulty meeting its business needs due to the untimely and unjustly demanding tariff processes in order to respond to a changing marine navigation field. The Authority needs to have a consultative exercise where the users accept the tariffs being proposed to avoid an appeal process. Alternatively, it faces long months of delay to implement additional charges and additional, costly legal bills required to prepare a proper case to the CTA for review.

In a number of cases in the last eight years, GLPA has knowingly accepted lower tariffs from initial tariff strategies and/or delayed other strategic initiatives on safety sensitive functions in order to avoid delays and additional costs to obtain the tariff approval without appeal. It is for some of these reasons the GLPA has not yet reached financial self-sufficiency nor eliminated its surcharge, which are both Federal Government objectives.

GLPA and the other pilotage authorities should be granted the same tools to deal with tariff issues as the Canadian Ports and the St. Lawrence Seaway. This will avoid the systematic push back from users that have everything to gain in appealing a tariff. GLPA has increased the pilots' productivity by close to 30% since 2009 and requires additional tariffs that cannot be charged in a timely fashion. This could lead to ship delays and possibly affect overall safety of the system.

- (2) Government directives such as wage/benefit freezes are not applicable to GLPA employees. In the event the GLPA employees are not happy with the Authority's wage/benefit packages, an arbitrator is named to rule on the issue. Arbitrators are not bound by Government directives which could possibly conflict with CTA tariff rulings. This reality has a way of increasing pilotage costs as the Authority has not been

successful in most arbitration cases when it comes to limiting wage increases. A solution to this issue would be to either bind the employees to Government policy or for the arbitrators to be directed to follow Government Directives when wages/benefits are considered.

The current process for altering the pilotage tariffs needs to be addressed and changed to allow the Authority flexibility and control over its only source of revenue. The current practice in place is time-consuming which causes significant costs to the Authority as current tariffs require close to six months delay to implement, given the current Government process. In cases where the users object to the changes in tariff, we can see over a year in delays which is not acceptable in a business environment that is subject to unforecasted charges and uncertainty.

The Authority's collective agreements are subject to arbitration in cases where both parties cannot agree to a settlement. This process needs to reflect current economic considerations as well as Government initiatives that affect wages and benefits for employees.

Both recommendations above can be achieved without the requirement of amending the current Pilotage Act at this time, but it will require a change in procedures and Government approval process. Further study/discussion on these topics needs to be done to address what GLPA deems to be the major issues in pilotage not currently addressed in the current CTA study.

Concluding Comments

GLPA has provided this Discussion Paper in short order to facilitate the continued discussion on reviewing the latest CTA report. The document covers some of the major findings and includes comments/ideas for additional discussion.

GLPA and its Board look forward in sharing our expertise in this marine service and look forward to your comments as well as invitations to participate in more in-depth discussions on the important changes required to the current pilotage model.