



ASSOCIATION OF CANADIAN PORT AUTHORITIES
ASSOCIATION DES ADMINISTRATIONS PORTUAIRES CANADIENNES

Submission to Transport Canada St. Lawrence Seaway Review Association of Canadian Port Authorities April 2018

Executive Summary

The St. Lawrence Seaway is an essential and well-managed part of the Canadian and continental supply chain with tremendous potential as a sustainable, safe and efficient means of moving cargo in and out of the continental heartland; the Transport Canada Review of the St. Lawrence Seaway is a major opportunity to discuss how this potential can be achieved.

ACPA members are supportive of the current Seaway Management Corporation management and are of the view that it has effectively introduced new technologies and operational processes while also making efforts to extend the season and respond to customers. Given the challenge maintaining the extensive Seaway infrastructure, ACPA would like to recognize that the current operations and capacity provide much expertise to build upon within the review of the St. Lawrence Seaway.

While ACPA would see the current management structure of the Seaway remaining, ACPA is putting forward the following recommendations in order of priority:

1. Reduce costs such as pilotage fees and tolls through regulatory changes to ensure marine competitiveness and modal equity
2. Promote the Seaway as part of a broader bi-national transportation and supply chain system
 - a. National and sub-national government cooperation to ensure seamless transportation with identified, empowered and accountable champions
 - b. Broaden the number and diversification of the governance of the Seaway Board of Directors to reflect and represent markets and regions (such as Western Canada) that can and do use the Seaway
 - c. Broaden awareness and appreciation of the system within policy and with the public through strategic communications
3. Remove cabotage restrictions in Canada to allow for competition
4. Enhance ice-breaking capacity

The Association of Canadian Port Authorities (ACPA) is a national association representing 18 Canada Port Authorities. Five of the CPAs are located on the Great Lakes — Oshawa, Toronto, Hamilton, Windsor and Thunder Bay — and five on the St. Lawrence River, Sept-Îles, Saguenay, Québec, Trois-Rivières and Montréal.

The Importance of the St. Lawrence Seaway and Marine Transportation

The efficient operation of the Seaway is critical for CPAs in the Great Lakes and St. Lawrence System (GLSLS). Although there is some cross-lakes trade, most of the cargo throughput in Great Lakes' ports is dependent on the Seaway. Similarly, many St. Lawrence River ports transship commodities from the Great Lakes for onward overseas destinations. Much of the Port of Thunder Bay's 7.3 million tonnes of grain is shipped through the Seaway while most of the Port of Hamilton's 9.9 million tonnes of throughput is Seaway dependent. The Canada Port Authorities on the Great Lakes and the St. Lawrence River are highly reliant on the competitiveness, efficiency and integration of the Seaway with inland supply chains.

Marine transportation is the most environmentally sustainable form of transportation, with the lowest emissions per tonne kilometer. In addition, it is quieter, safer and can move trucks off congested and crumbling public highways. The value and potential of inland marine transportation and of the Seaway within it has been recognized through a number of high level initiatives to leverage the marine value proposition in the continental heartland and grow marine transportation. The Quebec Maritime Strategy and the Maritime Strategy of the Council of Great Lakes Governors and Premiers are evidence of the importance of maritime transportation for economic growth.

Issues and Challenges

While traffic levels through the Seaway and on the Great Lakes and St. Lawrence System continue to improve in line with the global economy, there is still room for growth. Much of the region's marine-related commodities comprise heavy industrial output, mining, natural and agricultural resources. These bulk commodities require high-volume, low cost marine transportation options to remain competitive. Despite its potential to serve the region's significant commercial shipping needs, the Seaway could realize higher levels of bulk and non-bulk maritime traffic. Although the Seaway is connected to highly populated Canadian and American markets and key railroads and highways, the full integration and utilization of the Seaway into continental supply chains is still restricted for a number of reasons.

1. Marine Transportation Costs

The marine sector on the GLSLS has to compete with other land-based transportation modes which do not face similar costs for using road and rail. The largest portion of the overall cumulative costs of shipping goods by water is pilotage fees, much of it for transits that are extremely safe with mariners with highly specialized knowledge and experience in these waters. Pilotage charges can be as much as \$80,000 for a round trip from the lower St. Lawrence River to Lake Superior and even higher for foreign-flagged vessels. Steps have been taken to

address pilotage costs by providing exemptions to certified captains and crew with recognized experience operating in the GLSLS. The Canadian Coast Guard has also introduced a number of charges to ships in the GLSLS. These fees have no equivalent in competing land-based modes. For example, the CCG charges include: dredging fees; marine navigation service fees (relating to vessel traffic services and aids to navigation); and, ice breaking fees. The U.S. Coast Guard has no comparable fees for ships operating in the American portion of the GLSLS.

The Canadian locks on the Seaway charge tolls while the U.S. locks do not, although it should be noted that the Canadian Seaway tolls track below the rate of inflation. Tolls on the Seaway reduce the system's competitiveness. There is a need to either reduce the Canadian tolls or eliminate them altogether in recognition that the Seaway is a national transportation corridor. To offset lower or eliminated tolls, the Seaway should be encouraged to pursue other revenue streams such as augmenting existing electricity generation. It should be noted that, currently, revenues generated by such activities are not retained by the Seaway; rather, they are returned to the federal Consolidated Revenue Fund.

All of these tolls, charges and fees add to the cost of shipping goods by water and makes the GLSLS less competitive which in turn affects Seaway usage.

2. Cabotage

A major impediment to effective GLSLS short-sea-shipping is the cabotage regimes imposed by both Canada and the U.S. Both countries restrict the right to operate marine transport services between two points within each jurisdiction to domestically flagged carriers for reasons of security and defence. Hence, oceangoing, foreign-flagged vessels cannot offer services in competition for domestic transits. In addition, SOLAS, ice class, foreign-flagged vessels, which can break ice, are not able to compete in these inland waters. Cabotage has diminished the size of the fleet available to the domestic fleet and some foreign-flagged vessels and served to dampen market forces that would use the Seaway.

3. Modal Competition and Competition for U.S. East Coast ports.

Over the past several years, many comprehensive studies of the potential for growth and economic impact of the GLSLS have been undertaken.ⁱ These studies outline the many barriers and constraints facing the Seaway in comparison to its land-based multimodal road and rail competitors while also pointing out the untapped potential and sustainability value of marine and Seaway transits. There is clearly a need for a competitive, efficient and effective system to generate a modal shift from road and rail to marine services. A cost-effective Seaway system is essential to counteract growing competition from expanding U.S. East Coast ports.

4. Lack of Year-Round Operation and Challenges of Operating in Winter Conditions

A major physical challenge facing the Seaway is seasonality; winter ice on the Great Lakes and St. Lawrence Seaway stops vessel movement while locks can ice up and icebreaking is stretched. However, the Seaway has extended its season by 10 days

over the last twenty years and provided a predictable pattern of operation for shippers to plan around.

5. Unrealized potential for regional economic development

The strategic marine-industrial properties along the Seaway corridor (those with a combination of transportation infrastructure and cargo-handling capacity) should be viewed with their long-term economic growth potential, and benefits to host communities and the Seaway in mind. These properties currently hold unrealized potential for investment and cargo growth and would benefit from a development approach that includes expertise in transportation-intensive industrial development, and the capacity to reinvest in infrastructure.

Recommendations

Despite these challenges there is good news. Canada is developing new trading arrangements and implementing CETA while also funding trade-enabling infrastructure. Future-oriented transportation policy development embodied in the federal government's *Transportation 2030* framework, the *Oceans Protection Plan*, the *Pilotage Act Review* and the *Ports Modernization Review* are important current and directly-connected opportunities for Seaway optimization.

Beyond these policy development opportunities, there are also opportunities in the shipping and marine world to optimize the Seaway. While new markets in project cargo, non-bulk, and cruise shipping are possible, existing bulk markets present the biggest opportunity and would not require any large infrastructure investments. The ports of Trois Rivières and Indiana have partnered to facilitate cargo movements, while the Cleveland Europe Express — a direct cargo shipping line operating between Cleveland, Valleyfield Québec and Antwerp — exemplifies the potential for a more robust supply chain that ships continental cargos with the marine mode. Seaway optimization can grow the total bulk cargos that ship in and out of the Seaway and provide options for shippers.

Ports and marine transportation are highly sophisticated users of technology and increasingly integrated into continental supply chains and new markets. Harnessing the power of data and technology along the Great Lakes and St. Lawrence Seaway and Waterway could be a very effective way of optimizing current infrastructure and assets without making major infrastructure investments.

Another key driver for optimization of the marine mode is the fact that marine transportation emits significantly less per tonne of cargo carried. This fact combined with consumer and shipper demand to reduce carbon footprint also make a very strong case for Seaway and marine optimization. Providing shippers with competitive, low-emissions and safe transportation options to growing markets through inland waters and the Seaway can drive optimization and growth.

Given the opportunities and the broader enabling policy frameworks being put in place, ACPA puts forward the following recommendations, in order of priority, as necessary steps to Seaway and supply chain success:

1. Drive marine competitiveness and modal equity through regulatory changes to reduce costs such as pilotage fees and tolls.

If only one thing was done to help the Seaway and the inland marine transportation system, ACPA would argue that it should be regulatory changes to reduce costs. To reduce modal inequities and make the GLSLS more competitive, cumulative marine fees such as pilotage fees, tolls and dredging fees should be eliminated or reduced. There are no equivalent costs in the competing road and rail modes. To its credit, the Seaway has recognized the impact of tolls by introducing incentive programs for current and new customers which have led to additional cargo movement through the Seaway, as well as a previous 5-year toll freeze after the 2008 economic downturn. However, further steps are needed, such as reducing pilotage requirements where ships use improved navigational technologies and removing the need for pilots while sailing on large stretches of open water (each Great Lake is a virtual inland sea) or where certification for pilotage is achieved by Captains and mariners.

2. Promote the Seaway as part of a broader bi-national transportation and supply chain.

Broader awareness, appreciation and application of the St. Lawrence Seaway as a part of integrated system is necessary to any review of the Seaway. Achieving this awareness and collaboration rests on:

- a. **A national and sub-national policy and regulatory approach** that views the Seaway as part of a broader seamless transportation and supply chain system. An essential first step is a **joint effort by the Canadian, Quebec and Ontario governments to develop an integrated maritime strategy** across and through their respective connected waterways, perhaps building on and replicating the Quebec Maritime Strategy. Implementation of this effort would require identified, accountable and clear **champions** such as Ministers, Premiers and senior bureaucrats that are held responsible for ensuring that the Seaway is optimized on an ongoing basis.
- b. **Broaden the number and diversification of the composition of the Seaway Board of Directors** to represent key markets, industries, innovators and regions (e.g. Western Canada) and ensure that the Seaway reflects market needs.
- c. **Enhance and expand communications to generate awareness of the Seaway.** Currently the Seaway Management Corporation has a very successful and highly recognizable *Highway H2O* campaign to promote the Seaway. ACPA would support the continuation of this as well as enhanced communications to promote the Seaway and inland waters as a means of moving cargo. If competitiveness is addressed through the first recommendation of reduced costs, enhanced communications of this advantage will attract new shippers and markets seeking lower cost shipping options.

3. Remove cabotage restrictions in Canada to allow for competition

Removal of cabotage through the Coasting Trade Act would increase options for shippers beyond the current domestic fleet for domestic transits. More ocean-going vessels would allow for competition and a steadier supply of cargo vessels and cruise ships. In addition, some ocean-going vessels are ice class and can transit and break ice for a longer and more reliable shipping option; this can also offset the challenges with icebreaking capacity.

4. Enhance ice-breaking capacity

Currently, ice-breaking assets are very limited and spread between a broad geographical area (Great Lakes, St. Lawrence, East Coast and Arctic), and set of functions (research, rescue, recovery and icebreaking for navigation). While the icebreaking on the Great Lakes is shared with the United States Coast Guard, the combined assets are not enough to ensure predictable and timely movement of vessels. To that end, enhanced ice-breaking capacity through leasing or purchase of assets would provide a clear and reliable path for vessel transits on the Great Lakes and in the Seaway. Ultimately, however, this will require a broader, national discussion on existing fee structures.

Conclusion

There is a need to consider the St. Lawrence Seaway as part of a broader integrated system that connect the Great Lakes and the economic hinterland to the St. Lawrence River and global markets. This system provides significant opportunities for firms and industries in the heartland of North America to move goods, commodities and cruise ship passengers by sea both to trading partners and ports, domestically and overseas to global markets.

The Seaway has the capacity to significantly increase trade both regionally and internationally, but it needs government and the private sector support to achieve its full potential in moving goods and cruise ship passengers to and from North America's continental heartland.

References

¹ Some of these many studies include:

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