11 March 2021

Fulvio Fracassi
President and CEO
Laurentian Pilotage Authority

Dear Mr. Fracassi,

The Shipping Federation of Canada, which represents the owners, operators and agents of ocean ships trading between Canadian and overseas ports, is writing with respect to the document published by the Laurentian Pilotage Authority on February 8, 2021 entitled “Details and Principles Proposed Revised Service Charges.”

As a preface to our comments on this document, it is important to note that the COVID pandemic has created significant challenges for the marine transportation sector, and that stakeholders have consequently had to make a variety of adjustments to their operations. Within such a context, it is imperative that the LPA not rely solely on increasing tariffs as a means of compensating for reduced revenues, but that it also works to find ways of improving efficiency and reducing costs on an ongoing basis.

Indeed, as noted by the Canadian Transportation Agency in past decisions, the issue of compensation to which a pilotage authority is entitled is closely linked to the efficiency of the services it provides, and this duty of efficiency is closely linked to the Authority’s obligation to be financially self-sufficient. Given the above, the Federation is a strong advocate of the need for Transport Canada, the pilotage authorities and users to develop a common understanding of the term “financial self-sufficiency” (and, by extension, of what constitutes a reasonable reserve), all the while addressing the duty of efficiency in providing pilotage services. Within such a context, it is worth noting that the LPA’s reserve has exceeded $12M since 2015 and peaked in 2019 at $14,290,000, while average annual capital expenditures have remained below $2 million. In our view, maintaining a large balance of funds in a reserve (generated from users) without a link to efficiency, serves neither the users nor the Authority.

Although we appreciate that the LPA expects to incur an operating loss for 2021, we are concerned by its response to this situation – which is to simply seek a tariff increase rather than taking any concrete steps to address efficiency. Building on our previous comments, we believe there is a better way forward for the Authority, as outlined below.

As an alternative to the current proposal, we recommend that the LPA introduce an increase of 2%, while maintaining a temporary surcharge of $55 per assignment. According to our calculations (based on LPA figures) this would result in an operating loss of $1.374 million, positive cash flow of $650,000, and a cash reserve of well over $5 million at the end of 2021. Such a result would align with the LPA’s 2020-2024 Corporate Plan, which includes Board approval of “cash reserves of $5 million based on the Authority’s obligation to fulfill its mission while maintaining its financial self-sufficiency” in a context where it does not receive parliamentary appropriations.

SHIPPING FEDERATION OF CANADA

625 René-Lévesque, Suite 800, Montreal, QC, H3B 1R2 (514-849-2325)
1055 West Hastings, Suite 300, Vancouver, BC, V6E 2E9 (778-373-1518)
www.shipfed.ca

We believe that the Authority can afford to reduce the level of the tariff increase and still maintain an adequate reserve, especially in light of its CPI forecast of 2.4% for 2021, which is relatively high compared to the increase of just under 2% that most economists are predicting. In addition, we expect vessel traffic to rebound dramatically in the second half of the year, and therefore suggest that the Authority's revenue forecast may be overly conservative. Although our proposal includes maintaining capital expenditures at $7.4 million, we see an opportunity to further mitigate financial risk by pushing back some of the planned work until the economy returns to normal sometime in 2022.

Finally, with respect to the tariff's inclusion of the new Transport Canada fees related to the administration of the *Pilotage Act*, we are concerned that there is an ongoing lack of transparency regarding the make-up of these fees, and that the Authority is simply passing these fees on to users without any need to demonstrate benefits. We remind the Authority that in a recent decision, the Canadian Transportation Agency commented that over time, "it will be incumbent on the pilotage authorities to demonstrate that their activities do not duplicate those of Transport Canada". And yet, these fees are now in their second year of implementation, and users have yet to see any data indicating that they are not being asked to pay for redundant, duplicative services. We strongly believe that users should either be provided with the necessary information to ensure that there is no duplication of costs OR the fee should be removed from the 2021 tariffs altogether.

This past year has been a challenge on all fronts and industry has worked hard to seek efficiencies and manage costs during the pandemic. We ask the LPA to support industry and do likewise by reducing the tariff increase, in line with our proposal above.

Sincerely,

M.H. Broad

Michael H. Broad
President
SHIPPING FEDERATION OF CANADA