



FERTILIZER CANADA
FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8
T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca
fertilizercanada.ca | fertilisantscanada.ca

Pilotage Act Review Submission by Fertilizer Canada

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Executive Summary

As the foundation of Canada’s agri-food sector, Fertilizer Canada represents companies that are engaged in all aspects of the fertilizer supply chain. Our members play an essential role in contributing to the Canadian economy and employing Canadians.

Fertilizer Canada has a vested interest in the modernization of the *Pilotage Act*. In particular, there are two key areas of concern for our members that the government should address when considering changes; they are;

1. **Rate Setting** – Ensure greater transparency and reduce conflict of interest associated with pilotage rate setting in Canada; and,
2. **Service Delays** – Increase pilotage options for shippers within the Canadian pilotage system based on global best practices.

Introduction

The fertilizer industry in Canada is innovative and a significant source of well-paying middle-class jobs. Fertilizer Canada represents the manufacturers, wholesale, and retail distributors of potash, nitrogen, phosphate and sulphur fertilizer, and related products. Collectively, our members employ over 12,000 Canadians directly, and many more in related supply and service industries. We contribute more than \$12 billion annually to the Canadian economy, through advanced manufacturing, mining, and distribution facilities nationwide.

The promotion of competition, access, and transparency along Canadian trade and transportation corridors is critical to international trade and the movement of Canadian goods. A fair and efficient marine transportation system, supported by transparent rate setting and a more nimble supply system for pilots will enable our members to get Canadian goods to market with greater efficiency, and ensure Canadian farmers have access to sustainable, fertile soil for crop production.

We are encouraged by Transport Canada’s commitment to modernize Canada’s transportation system. Our submission provides recommendations that we believe will enhance transparency, increase competition, and lead to greater efficiency within the marine transportation system.

Bringing Canadian Goods to Market

The Advisory Council on Economic Growth highlighted the Canadian agri-food sector’s strong growth and export potential. Fertilizer Canada’s members support the global growth of the Canadian agriculture and agri-food sectors, to meet emerging market demand for higher value and higher yield foods through innovative value-added manufacturing processes throughout the agriculture supply chain.



Transportation has become the second highest business cost for our members. Fertilizer Canada supports 50% of global food production and enables farmers to produce crops to meet global demands for food, fibre, and fuel.

Trade and transportation corridors are essential for the movement of Canadian goods throughout the country and facilitate international trade. The fertilizer industry requires a fair, efficient, and competitive marine transportation system to support Canada's global competitive advantage and move products to market. A vibrant and competitive fertilizer industry supports the Canadian agriculture sector, grows the economy, and creates middle-class Canadian jobs.

Fertilizer Canada is a proud partner of Canada's marine transport system. We support the government's effort to modernize the *Pilotage Act*, to deliver safe and efficient pilotage services in Canada.

Fertilizer Facts

Global Supply: 12% of the global fertilizer supply is produced in Canada

Exports: 80% of Canada's fertilizer products are exported

Trade Surplus: \$5.4 billion trade surplus with the United State

Broad Market: Ships to more than 70 countries worldwide.

Increased Transparency in Rate Setting Methodology

Pilotage Authorities in Canada are a monopoly that set their own tariffs without a transparent rate setting methodology. There is an inherent conflict of interest in the current system. Pilotage Authorities responsible for establishing their own rates, without any external competition, focus primarily on sustaining operations rather than ensuring value for shippers. The existing system does not provide any incentive for authorities to set competitive rates; has demonstrated a lack of efficiency in absorbing cost increases; and, has failed to adjust to decreased service levels along particular pilotage service routes.

The system is unfair, lacks transparency, and causes uncertainty for users. Despite the existence of a mechanism that allows industry to object to tariff increases, when used, the interests of the shipper are rarely considered and rates have continued to increase beyond what is affordable to shippers. These costs increases ultimately get past down to the consumer, farmers. Eliminating the conflict of interest entirely would allow for a more transparent and less complex rate setting system that is fair to all parties.

Fertilizer Canada recommends that the review consider alternate options for setting pilotage fees. Some possibilities could include shifting this responsibility to Transport Canada, or a committee comprised of shippers, regulators, users and operators, which would result in a more balanced pricing system.

When Pilotage Authority introduce an increase in pilotage fees, there is a negative impact upon industry, customers, and in the ability remain competitive in international trade. Pilotage rate setting methodology must be transparent and take into consideration competitiveness, accessibility, and efficiency. Any changes should align with the National Transportation Policy, as outlined by the Transportation Act, which states,



“[...] a competitive, economic and efficient national transportation system that meets the highest practicable safety and security standards and contributes to a sustainable environment and makes the best use of all modes of transportation at the lowest total cost is essential to serve the needs of its users, advance the well-being of Canadians and enable competitiveness and economic growth.”ⁱⁱ

Increased Efficiency and Elimination of Delays

Pilotage Authorities in Canada endeavor to prevent delays by projecting the demand for pilots based on meetings with industry and monitoring local, national, and international trends. Some authorities such as the Great Lakes Pilotage Authority have made significant efforts to reduce delays caused by a shortage of pilots. As a result of these efforts, The Great Lakes Pilotage Authority has recorded a 31% decrease in delays in 2016 in comparison to 2015.ⁱⁱ However, delays still occur at an operating cost to industry users of \$1,000 per hour, as estimated by the authority in 2017.ⁱⁱⁱ This cost to users results in supply chain issues for downstream customers, thereby compromising competitiveness and efficiency.

Pilotage Authorities are experiencing shortages in the pool of pilots with the skills required under the current regulations. The average age of marine pilots ranges between 52 to 58 years between the Atlantic, Great Lakes and Pacific Pilotage Authorities^{iv}, which suggests that the shortage will only become more acute over time. The Great Lakes Authority provides passage for over 7,000 ships on an annual basis; however, employs only 59 pilots, including apprentices. As a result of a pilot shortage, the authority experiences significant delays.^v Some Pilotage Authorities increasingly rely upon contract pilots. Given the current situation, further shortages and increased delays will occur without significant changes to the system.

The *Canada Transportation Act* Review recommends a review of compulsory pilotage service areas. Marine navigation technologies have evolved considerably since the *Pilotage Act* first came into effect in 1972. A review of the requirement for compulsory pilotage to determine where technology may be sufficient to ensure safety is long overdue. To adhere to international requirements, all ships use electronic navigation equipment. There are additional technologies, such as remote piloting of vessels and automated navigation systems that, when combined with navigation equipment, can reduce the requirement for compulsory pilotage without compromising the excellent safety record of Pilotage Authorities in Canada. .

Other jurisdictions such as Norway and Denmark have created options for users that enable more efficient and less expensive service. For example, both Norway and Denmark allow Pilotage Exemption Certificates. In Denmark, Captains or Navigators that can demonstrate the same local knowledge as a pilot may receive a Pilotage Exemption Certificate, if they an aptitude test and make the same number of required calls in the designated area. In Norway, sailors with documented sea-service and who have passed a practical and theoretical exam for a specific pilotage service area can apply for an exemption certificate.^{vi} The Norwegian Coastal Administration cooperates with maritime colleges, with input from industry,



to provide navigators gradual training in coastal navigation, in order to apply for a Pilot Exemption Certificate. In Norway, there are currently more voyages using the exemption than those that use a pilot with no safety impacts.^{vii} In fact, the number of incidents on Norwegian vessels has declined in recent years.^{viii}

Allowing Pilotage Exemption Certificates would increase efficiency, decrease service costs, help to eliminate delays caused by pilot shortages, and positively impact safety. It would also potentially lower cost pressures on Pilotage Authorities, some of which are currently operating at a loss, while creating some revenue-generating activity in the provision of examinations for Pilotage Exemption Certificates. However, procedures for obtaining exemption certificates should not overly cumbersome so that they do not act as a deterrent. A study by PWC on Pilotage Exemption Certificates (PECs) across Europe indicates that PECs can:

“prevent bottlenecks that are frequent in critical hours/days and increase flexibility so that ships that really need the pilotage (services) may receive better service and the traffic is handled more fluently. PECs can also contribute to the environmental cause, since there would be less fuel consumption in a port without (or with reduced number of) boats carrying pilots to and from vessels, reduced cost from a reduction of needs of water clerks to inform all parties in the port etc.”^{ix}

Conclusion

The Canadian fertilizer industry is a proud partner of Canada’s marine transport system. Our members rely on an interconnected network of specialized handlers and infrastructure to ship our products over long distances to domestic, continental, and international markets. The economic future of our industry is dependent on a strong and responsive transportation network that is supported by a modern legislative framework. Ensuring our partners can deliver their products to farmers safely and securely is of paramount importance and we have a long, proud record of success.

Fertilizer Canada has a vested interest in the modernization of the Pilotage Act. When considering changes, the government must ensure that the impacts of these changes do not negatively affect industries and users of the pilotage system.

Summary of Recommendations

1. **Rate Setting** – Ensure greater transparency and reduce conflict of interest associated with pilotage rate setting in Canada; and,
2. **Service Delays** – Increase pilotage options for shippers within the Canadian pilotage system based on global best practices.

Fertilizer Canada kindly requests that the Review consider our recommendations to adapt the Act to current realities experienced by shippers and Pilotage Authorities and adopt global best practices. It is important that the Review take into consideration the objectives of the National Transport Policy in modernizing the *Pilotage Act*. We are confident that the Review will bring forward a more balanced pilotage service system that enables greater efficiency, competitiveness and economic growth for all users.



For further information,
Please contact: Emily Pearce Rayner,
Director, Government Relations,
eperce@fertilizercanada.ca, or
613 786-3034

ⁱ Government of Canada, Canada Transportation Act, Section 4 – 5, 1996 (last amended October 17, 2017).

ⁱⁱ Government of Canada, Pilotage Act Review discussion, last modified October 2017.

ⁱⁱⁱ Government of Canada, Regulations Amending Great Lakes Pilotage Tariff Regulations, Vol. 151, No. 10, March 2017.

^{iv} Canadian Marine Pilots' Association, Canadian Pilot, Vol. 5, No. 1, Spring 2013, page 4.

^v Government of Canada, Pilotage Act Review discussion, last modified October 2017.

^{vii} European Union, PwC and Panteia for the European Commission of the European Union, Directorate-General for Mobility and Transport, Study on Pilotage Exemption Certificates – Final Report, September 2012, pages 121 – 131.

^{viii} Norwegian Coastal Administration, Maritime Safety in a situation of pilot shortage, 2013.

^{ix} Statistics Norway, Fewer injuries on marine vessels, June 2015.

^x European Union, PwC and Panteia for the European Commission of the European Union, Directorate-General for Mobility and Transport, Study on Pilotage Exemption Certificates – Final Report, September 2012, pages 126 – 127.