SHORT SEA SHIPPING IN CANADA: ALIVE OR DEAD?

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Introduction

This paper is based on research carried out for the recent Canadian Transportation Act Review. It examines the potential for short sea shipping in the Great Lakes / St. Lawrence region and considers international best practices and their relevance to Canada. We revisit a study undertaken by MariNova in 2005, which examined the potential for a short sea service between Halifax augmented by a brief analysis of a Montreal-Hamilton service. The analysis removes all of the constraints previously identified and re-considers its viability. The study also examines the potential role for government, in terms of promoting investment in short sea shipping.

For the purposes of this paper we consider short sea shipping to include container, roll-on, roll-off (ro-ro), bulk as well as tug-and barge operations, providing interregional, intraregional and transhipment services. Our definition does not include passenger ferries, although a significant amount of commercial cargo is carried on most of Canada's ferry services, particularly in the Newfoundland trade.

Best Practices

Europe

In terms of international best practices, Europe continues to lead the way. It had a robust short sea sector even before policy-makers attempted to give it a boost. Some argue, however, that short sea policy was more of an environmental policy (removing trucks from the road) than a shipping policy. Nevertheless, the short sea and inland shipping are very key components of the EU's transportation network. A major concern has been adapting to new low-sulphur regulations, which some fear may actually put trucks back on the road or lead ship operators to operate shorter sea legs. The EU Motorways-of-the Sea program has assisted several major operators with scrubber installations as well as developing alternative fuel solutions. European ports are also paying more attention to "first mile-last mile" issues, and more closely integrating both short sea and inland shipping with deepsea operations.

It is arguable as to whether Europe's robust short sea sector owes its success to "geography", good public policy or simply the marketplace. Indeed, an audit conducted by the European Court of Auditors has said as much. Nonetheless, major EU short sea companies such as Unifeeder, DFDS, Finnlines and others, are very healthy, profitable and growing companies. The focus now seems directed at inland waterways and connecting gateway ports to logistics facilities along those waterways.

US

US policy seems very practical. The inland waterway system is well developed and thriving. The Lakes fleet carries on doing what it has been doing since the Seaway opened. Operators are being provided assistance to re-engine their vessels, but no special policy seems directed at them.

Short sea initiatives are being concentrated on "marine highways", more specifically containers on barges, to relieve highway congestion, and there have been some notable successes, particularly the service connecting the ports of Norfolk and Richmond, VA. There have also been a few expensive failures, such as the service between Sacramento and Oakland, CA, which failed to invest in reefer infrastructure to serve the main cargoes in the region.

Australia

Australia has worked hard to "liberalize" its cabotage regime. However, experience has shown it is very difficult to get shippers to "switch" modes, even with financial benefits. Shippers are also reluctant to use new or untested services, for fear that they will fail and leave them stranded. Another relevant finding is the ability to integrate short sea shipping with first and last mile delivery.

There are some short sea services which resemble European and Canadian examples, however. In late 2016, SeaRoad took delivery of a new vessel from Flensburg shipyard in Germany, the first LNG-fuelled ro-ro in the world. It is a very flexible design, able to carry reefer cargo, hazardous cargo, trailers, autos, and livestock in their own open top cassettes.

The Canadian Context

Given Transport Canada's definition, Canada has a well-developed short sea sector, with activity in the west, Great Lakes, St. Lawrence, east coast and the North. It is not just confined to the Canadian Shipowners Association fleet, who once boasted, "we *are* short sea shipping". The sector includes lakers, bulk ships, tankers, tugs & barges, container ships, ferries, general cargo vessels, con-ro's and offshore supply boats. It consists of older tonnage as well as new vessels such as recent investments by CSL, Algoma, Group Desgagnés, Oceanex, BC Ferries, the Canadian Government (for Bay Ferries) and STQ.

Transport Canada's promotion of short sea shipping since 2003 generated a great deal of interest in the sector, but few new services. Exceptions include McKeil Marine's Sept-Îles service, the recent DP World service on the west coast, attempts by Great Lakes Feeder Line and Sea3 to establish Great Lakes St. Lawrence feeder services and the ill-fated American Feeder Line service between Halifax and New England. Given the size of the country and its extensive coastline, what is the sector's true upside potential?

Short Sea Shipping in Great Lakes St. Lawrence Region

For the CTA Review, we re-examined the concept of operating a short sea feeder service between Halifax and Hamilton, as MariNova had done in 2005. We considered four scenarios: 1) previous scenario updated with current fuel prices and 25% cargo discount to get shippers to "switch"; 2) EU cabotage charter rates (i.e. open registry), no duty or vessel modifications, slightly reduced stevedoring rates, and cargo discount; 3) same as above but pilotage exempt; and 4) no cargo discount i.e. paying approximate CN rates. We found it is unlikely this concept will work even under the most favourable regulatory scenario.

We also examined the potential of a Montreal-Hamilton feeder and found it could only compete with rail under the most favourable unencumbered conditions, with a vessel operating as a foreign flag time charter, not paying pilotage and benefitting from discounted stevedoring at both ends of the service. There still remains the issue of winter service, however.

Policy

What should the role of government be going forward? An ongoing issue is "cabotage". In Europe, the formerly closed market has become dramatically larger. An EU-flag ship can trade in the cabotage trade of any EU state. This has allowed the emergence of multi-port itineraries and longer itineraries to compete with land-based transport. Given US intransigence on this issue, perhaps one place to start a discussion is the Great Lakes, as there seems to be a desire on both sides of the border to build traffic levels back up to historic levels and pursue new cargo niches.

The *Coasting Trade Act* is related to cabotage. Canadian operators are concerned about opening up access to the Canadian market, but they are world class operators with world class technology. At the very least, the process for importing a ship into Canada should be vastly simplified. The duty requirement should be removed, and any vessel that is classified by a member of IACS or specific members of IACS (such as Lloyd's or DNV GL) should be able to enter Canada without modification. Why can a short sea vessel that is suitable to operate in the ice-infested Baltic not be able to operate in Canadian waters?

Brooks, Frost and others have advocated a Canadian "Motorways-of-the-Sea" or Marco Polo (John Cabot ?) Programme. Previous failures as well as the experience in Europe suggest that a cautious approach is most appropriate and that only companies with very strong balance sheets should be supported. This will limit the number of new start-ups, but such a program would be less risky. The CETA agreement could bring more European companies to our shores, so the "pool" of companies to work with will likely grow.

Another approach, which is advocated by many companies in Europe, is for government to simply "remove the barriers" and not meddle in the marketplace; the private sector will find opportunities on their own. This argument has much to recommend, particularly in the Canadian context. Remove obstacles such as access to vessels (i.e. the *Coasting Trade Act*), reduce or eliminate pilotage on domestic-flag vessels, and seek ways to reduce stevedoring costs for short sea and feeder operations. If government made it easier and less cumbersome for companies already in the business to expand their businesses, perhaps they would.

However, in our view, to achieve some of the potential environmental and social benefits that short sea shipping offers, and if we are to see new investments in short sea service, the Canadian industry needs a boost with a *meaningful* programme. Government could help with funding feasibility studies and with initial start-up costs, with a pre-determined timeframe and sunset of, say, three years. In this respect, Quebec's new Maritime Strategy seems to hold some promise.

Some additional ideas for moving forward

There are a number of actions that could be taken to advance the concept of short sea shipping in Canada. They include:

Highway H2O

"Highway H2O" is a wonderful brand that has minimal support from industry stakeholders. It should be a partnership that is provided support by the federal government through Transport Canada's Gateway marketing programs. It should also receive support from the two Seaway management authorities, shipping lines and ports in the GLSLS System. Ideally, it would be a bi-national program supported. This will help raise the profile of short sea shipping and educate the public about the environmental and social benefits of shipping.

Cabotage

The issues of cabotage and the *Coasting Trade Act* should be addressed. It should be easier to import vessels into Canada and to invest in the industry. We do not advocate a "free for all", but if there was some easement in coasting trade and duty provisions for imported vessels, this would likely encourage more investment in domestic shipping. This could result in providing more opportunities for domestic and foreign companies, especially with the new CETA agreement. It should not be viewed as a threat.

IACS Tonnage

Canada should begin to move towards the acceptance of high quality flag tonnage operating in our waters, rather than insisting that vessels be extensively modified before they can operate here. At the present

time, a would-be investor has to import a vessel, modify it to meet Transport Canada and Coast Guard regulations and then pay duty on it. These expenses can never be recovered if the service fails, or the vessel is too small or large and a substitute brought in, so the risks involved can be quite insurmountable.

"Motorways-of-the-Sea"

Philosophically, we believe government should remove barriers to investment in short sea shipping and let the market "decide". However, because the industry is not as mature or robust as it is in Europe, we also feel the industry needs a boost through a "Marco Polo" or "Marine Highways" program, perhaps named after one of our great explorers, Champlain or Cartier.

Because the risk of failure is high (as proven by examples in both Canada and Europe), preference should be given to existing operators with good balance sheets, rather than start-ups. Assistance should be provided for a maximum of 3 years, after which the service would be expected to be sustainable.

Port Centric Logistics

The adaptation of port centric logistics in the Vancouver, GTA and Montreal regions could enhance the competitiveness of short sea shipping and help address some first mile / last mile issues. If transloading and distribution could be done closer to port facilities this could help reduce trucking costs and impacts. This concept is being adapted in the UK as well as the largest container ports in Europe, through their extensive inland networks.

"Very" Short Sea Shipping

The Vancouver region should be encouraged to continue to examine the potential for interport short sea shipping as a means to alleviate road congestion. This is being used in Rotterdam, for moves as short as 30 km. Terminals should be designed to accommodate barges and feeders and labour agreements should be modified and negotiated to make it more cost effective.

Port Costs, etc

Government and industry should explore ways to reduce pilotage costs in the Laurentian Pilotage region, particularly as it is applied to short sea shipping. They should also work with the private sector and explore ways to reduce stevedoring and other costs that are applied to short sea shipping.

Innovation

The recent introduction of Hands Free Mooring to Seaway operations is a very good illustration of how to implement new technology and how to innovate. Danish industry is examining the potential for "land-based" pilotage, which could help reduce costs and enhance safety.