

Canada's Coasting Trade and its Place in the National Economy

**Submission to
The Honourable Marc Garneau, P.C., M.P.,
Minister of Transport**

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The Canadian Merchant Service Guild

The Canadian Merchant Service Guild (“the Guild”) is the national association of Ships’ Officers and Marine Pilots, established by an Act of Parliament in 1919. Its nearly 4,000 members include Masters, Mates, Pilots, Engineers and other marine officers. The Guild promotes the social, economic, cultural, educational and material interests of its members. It has negotiated collective agreements covering every segment of shipping from offshore supply vessels to tankers, freighters, towboats, lakers, deep sea vessels, passenger ferries and pilotage operations in every part of Canada. Guild officials are active members of all federal government committees involved in the development of marine legislation and regulations affecting seafarers on a regional, national and international basis. The Guild is committed to ensuring the safety of life at sea and the well-being of all seafarers.

Final Report of the Canada Transportation Act Review

On February 25, 2016, the Minister of Transport tabled in Parliament the Final Report of the Canada Transportation Act Review. The Review Panel, led by the Honourable David Emerson, made recommendations, grouped under 52 headings, including many that were focused on various aspects of the marine sector. One of these recommendations is of particular interest to the Guild.

Recommendation 4c states:

4. The Review recommends that the Government of Canada act to increase the competitiveness of Canadian shipping and competition in the short sea shipping market by:

...

c. phasing-out the operating restrictions on the basis of reciprocity in the Coasting Trade Act, beginning immediately with container services; eliminating restrictions altogether within a transition period of no more than seven years.

The Development of a Ministerial Vision for Transportation

On April 27, 2016, in an address to the Economic Club of Canada, the Minister of Transport began a national discussion on a long-term strategic vision for Canada’s transportation system. Asking for input from interested Canadians, the Minister set out five themes, around which a series of roundtables, workshops, meetings and online forums were organized. The themes identified were: Trade Corridors; Green and Innovative Transportation; the Traveller; Waterways, Coasts and the North; and, Safety.

These discussions, along with consultations with other federal departments and with provincial governments, led to the Minister’s articulation, on November 7, 2016, of Strategic Plan 2030. The plan is an important response from the Minister to the Mandate Letter he received from the Prime Minister last November, in which he was charged with responsibility to ensure that Canada’s transportation system supports economic growth and job creation, while providing Canadians with a system that is safe and reliable.

Response from the Guild

This submission provides a response to both the Emerson recommendation regarding the Coasting Trade and the Minister's call for input to the development of long-term policies for the transportation sector.

The Emerson recommendation in respect of the Coasting Trade came as something of a surprise. It had not been an area of discussion with stakeholders over the course of the Review Panel's consultations and deliberations, nor was it raised as a subject of concern by any of the parties who made submissions to the Panel. On the contrary, certain groups, including the Canadian Shipowners Association and the St. Lawrence Shipoperators, emphasized the value of existing provisions in the Act which protect Canadian domestic shipping.

Moreover, the Panel's Report contained virtually no background information or analysis regarding the impact of its recommendation to remove provisions of the Act which require the Coasting Trade to be operated by Canadian-registered and Canadian-manned vessels. Nor did the Report provide any compelling justification that would warrant such a significant change in the Coasting Trade regime.

As a consequence, the Guild commissioned a study to determine what the actual consequences of the Panel's recommendation would be on Canadian jobs and the economy. The study was undertaken by Kieran Management Advisory Services (MAS), in association with DAMF Consultants Inc. and Davies Transportation Consulting Inc. The principals of this consulting team are recognized as leaders in the area of transportation policy and economics, and together, have decades of experience relevant to the maritime sector.

Aside from a very specific preoccupation with the Emerson recommendation regarding the Coasting Trade, the Guild was also mindful of the Minister's call for input into all aspects of transportation policy. One aspect that is an ongoing matter of special interest for the Guild is the availability of qualified and well-trained personnel, not only to staff Canadian vessels serving the Coasting Trade, but also to create a pool of candidates for a variety of positions in both the public and private sectors needed to maintain safe, efficient maritime operations.

The Guild's Study regarding Impacts of Proposed Changes to the *Coasting Trade Act*

Methodology

The study sought to identify and, where possible, quantify the consequences of implementing the Emerson recommendation. Specifically, the study examined impacts in three areas:

- 1) Canadian jobs, wages and income tax revenue;
- 2) marine training institutes; and,
- 3) Canada's capacity to sustain a robust maritime sector, contributing to safety and security, trade and economic development.

In terms of the study's methodology, different approaches were used for each of the three lines of inquiry identified above:

1) Jobs, Wages and Income Tax Revenue:

- information from previous studies;
- employment and income data from the National Household Survey of Statistics Canada; and,
- results from mathematical modelling developed specifically for the study.

2) Marine Training Institutes:

- estimates of jobs and income derived from employment and activity, as provided by Canada's seven marine training institutes; and,
- other information from the institutes on courses offered, students enrolled, and accreditation granted, including cadet, certificate upgrade, and renewal programs.

3) Robust Maritime Sector:

- literature search of related public policy issues, discussions with industry stakeholders, examination of the role of the on-board labour pool for staffing key positions elsewhere in the sector, and review of relevant sovereignty and security issues in Canada's North.

Findings

The study's findings are predicated on a straight-forward and unassailable assumption as to the consequence of opening up Canada's Coasting Trade to foreign operators.

On-board wages for crews of foreign-flagged vessels are only 30-35% of Canadian crew wages. Other vessel-related costs are also lower (e.g., capital cost, repair and overhaul cost, and fees).

The consequence of this is that, if registry and crewing restrictions are removed, Canadian Coasting Trade vessels would be foreign-registered, and Canadian seafarers would be replaced by foreign crews.

1) Jobs, Wages and Income Tax Revenue:

- 12,000 jobs held by Canadians would be lost. Over half of these would be seafarers on-board vessels, who would be replaced by foreign crews. In addition, the loss of spending power from those jobs would result in the loss of more than 5,000 other jobs across the economy (based on a recognized multiplier of 0.8);
- These job losses mean that \$746 million in wages, per year, would be lost to the Canadian economy;
- Furthermore, \$148 million in income tax revenues, per year, would be foregone;
- In addition, market share and profitability of Canadian-owned shipping lines would be compromised, as would tax revenue from those companies. It was beyond the scope of this study to quantify such impacts, as that would require corporate information from shipping companies themselves, and, in any event, would surely be affected by market behaviour and public policy decisions yet to be determined.

2) Marine Training Institutes:

- The seven marine training institutes, certified by Transport Canada, rely on demand from the Coasting Trade for qualified Canadian personnel to generate student enrollment. It follows that if foreign crews staff Canada's Coasting Trade vessels, the need for the training institutes virtually disappears.
- The training institutes support 237 full-time equivalent jobs in teaching, administration and management. These jobs would no longer exist, nor would the \$18.4 million in wages that they generate.

3) Robust Maritime Sector

- Strategic Sea Lift: Coasting Trade services are the principal remaining source of qualified mariners, should the need arise to rapidly expand Canadian marine strategic sea lift capability for either domestic or international purposes. Elimination of this pool of qualified personnel, as a consequence of proposed amendments to the *Coasting Trade Act*, could contribute to increased security risk exposure.
- Sovereignty: Canadian-flagged domestic marine vessels are an important manifestation of national sovereignty in much-disputed Arctic waters. They complement the presence of Canadian Coast Guard vessels and the Royal Canadian Navy. Their disappearance can only weaken Canada's claims as they pertain to Arctic sovereignty.
- Reciprocity: The Emerson Report recognizes that reciprocity is an essential element to the successful implementation of its recommendation concerning the Coasting Trade. The strong American aversion to reciprocity, as it would affect their own Coasting Trade, is insurmountable, given the national security considerations attached to restrictions on ownership and crewing of domestic vessels. Because American reciprocity is a non-starter, a Canadian initiative to unilaterally liberalize its own Coasting Trade would be disastrous.

Recruitment and Training of Marine Seafarers

The need for competent and qualified seafarers is self-evident, insofar as Canada's domestic fleet cannot operate without such well-trained individuals. What is not always as obvious is the fact that these mariners are a crucial source for succession to key position in the broader maritime sector. More individuals qualified as deck officers and engineers work on-shore or as marine pilots than onboard vessels in the Coasting Trade. Key positions derived from on-board staff include Transport Canada safety inspectors and marine policy and planning officers, federal investigators and regulators, port officials, marine pilots, shipping agents, and freight logistics staff.

Currently, the supply of qualified candidates meets the demand for seafaring positions, including the need to accommodate the unusually high turnover of seafaring personnel for other positions in the sector. In fact, in the current year, the total number of new cadets (310) is above the most recent three-year average of 291. This suggests that seafaring careers remain attractive to young Canadians, and the industry's ability to continue to maintain an adequate supply of qualified personnel is not in jeopardy. The information gathered in the Guild's study also confirmed that Canada's marine training institutes have the capacity to provide training to sufficient numbers of candidates to meet industry's demands.

There is a certain irony in the fact that the recommendations in the Review Panel's Final Report refer to the need to modernize recruiting and training of Canadian seafarers, while at the same time, recommending changes to the *Coasting Trade Act* that would almost completely destroy Canada's ability to train and accredit such individuals.

The downstream impact that an absence of qualified seafarers would have on the sector is one more reason why the recommendation should not be pursued.

Conclusion

There is an absence of any credible evidence in the Review Panel's Final Report that implementation of the Emerson recommendation related to the *Coasting Trade* would result in a net benefit.

The results of the study undertaken on behalf of the Guild identifies significant job losses and other harm to both the maritime sector, and the Canadian economy as a whole.

Accordingly, it is the strongly-held position of the Guild that the recommendation should not be implemented. Instead, the Government of Canada is urged to consult with key stakeholders connected to Canada's *Coasting Trade* to identify any measures that might contribute to the efficiency and cost effectiveness of the service. Such consultation would be especially important, given that it did not take place during the Review Panel's work.