

CANADIAN SHIPOWNERS ASSOCIATION



ASSOCIATION DES ARMATEURS CANADIENS

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**SUBMISSION TO THE STANDING COMMITTEE ON FINANCE
IN PREPARATION FOR THE 2012 FEDERAL BUDGET**

PRE-BUDGET CONSULTATIONS

**“ICE BREAKING IN THE GREAT LAKES IS AN ESSENTIAL SERVICE TO
NUMEROUS INDUSTRIES”**

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“ICE BREAKING IN THE GREAT LAKES IS AN ESSENTIAL SERVICE TO NUMEROUS INDUSTRIES”

Executive Summary

The Canadian Shipowners Association (CSA) recommends that the National Shipbuilding Procurement Strategy (NSPS) include the renewal of the Canadian Coast Guard’s (CCG) ice breakers in the region of the Great Lakes.

The economic recovery of Central and Eastern Canada requires an effective and efficient marine transportation system. Canadian domestic marine carriers move essential commodities within Canada to support numerous Canadian industries, and also for import and export. Within the region of the Great Lakes, there are positive indications of increased volumes of shipping activity to and from Canada and the United States, our largest trading partner.

The efficient movement of commodities by ship demands a waterway system that is equally efficient. Currently, both Canada and United States benefit from sharing the largest bi-national waterway in the world; the Great Lakes - St. Lawrence Seaway system. This safe and efficient system has sufficient capacity to expand in the future, which is making short-sea-shipping in Canada an economical and environmentally positive transportation choice.

Notwithstanding the strong potential of this waterway system, ice breaking services during the months of December to April remains a challenge and the renewal of the CCG’s fleet is an essential element of the overall system’s success.

About the Canadian Shipowners Association

The Canadian Shipowners Association represents the interests of a group of Canadian companies that own and operate Canadian-flag vessels operating in the Great Lakes – St. Lawrence Waterway, the Arctic, and eastern Canada. In 2010, the 70 vessel CSA fleet handled 55 million tonnes of bulk commodities (coal, grain, iron ore, aggregates, salt, and petroleum products), providing Canadian industries and communities with reliable, economic and environmentally sustainable transportation services.

The CSA members pay Canadian taxes, employ Canadian citizens, buy Canadian services, and use Canadian-paid infrastructure such as the St. Lawrence Seaway and Canadian ports. The CSA fleet is dedicated to operating in Canadian waters, providing uninterrupted service to customers through long-term commitment to shippers in the steel, agriculture, mining, construction, power and petroleum industries.

Through the support of the Canadian Government in eliminating the 25% customs duty previously charged on new vessels imported into Canada, many CSA member companies are now engaged in building new ships which will be significantly more efficient and support environmentally sustainable operations in the long-term. Canadian ship owners are making a significant investment in technology which will increase the attractiveness of marine shipping in Canada.

The Importance of Short-Sea-Shipping to Canadians and Canadian Industries

It is appropriate to consider the role of short-sea shipping in the Canadian and U.S. context. Short-sea shipping is the transportation of goods (or passengers) by the marine mode that does not cross oceans and competes with land-based modes of transport. While the environmental advantages of shipping are well known, they are amplified when considered in the short-sea shipping context. A recent study conducted by Genivar for Transport Canada evaluated the environmental and social benefits of short-sea shipping in Canada and concluded that “the short-sea shipping transportation mode has the lowest environmental and social costs for three of the four scenarios” evaluated. In addition, the most recent Great Lakes St. Lawrence Seaway study found that the marine mode saved shippers approximately \$2.7 billion in transport costs on an annual basis. This study also noted that, despite the economic advantages, the Seaway system is significantly underutilized and has the capacity to handle double the cargo movements currently transported. Therefore, optimizing the utilization of the short-sea shipping mode presents an important opportunity for both Canada and the U.S. to realize both environmental and economic gains.

The Great Lakes – St. Lawrence region was significantly impacted by the unprecedented global economic downturn that significantly reduced major commodity transportation. As the economy began to improve in 2010, there was a corresponding improvement in the shipping market, most notably in iron ore, limestone, coke, which increased by 50% while shipments of general cargo nearly doubled. The recent recovery of short-sea-shipping in Canada is a promising signal for the marine industry and the industries which it supports.

The Importance of Effective Ice Breaking Services

A sustainable and effective marine industry is essential to the economic success of numerous industries in the region surrounding the Great Lakes. Canadian, American, and Internationally-flagged ships transport bulk and general cargo all year round in this region, even during the period when the St. Lawrence Seaway is traditionally closed due to winter conditions, albeit at a reduced level. Ice breaking in the Great Lakes is a joint operation between the Canadian and United States Coast Guards. This service is delivered annually between the months of December and April. Effective ice breaking safely lengthens the navigable season and supports other industries in maintaining adequate inventories throughout the year.

The Canadian Coast Guard is currently not equipped with sufficient ice breaking assets to meet the demand for its services. Its task is a complex one as it must cover a significant geographical area that comprises the Arctic, Eastern Canada, the St. Lawrence River, the St. Lawrence Seaway, and the Great Lakes. The region of the Great Lakes is particularly challenging as it actually includes three distinct areas of operation:

1. the portion of the St. Lawrence Seaway from Montreal until the Welland Canal (including Lake Ontario);
2. Lake Erie, Lake Huron, the Detroit River, Lake St. Clair, the St. Clair River, and Georgian Bay; and
3. Lake Superior.

The Welland Canal typically closes from late December until late March, whilst the locks at Sault Saint Marie are typically closed from mid-January until late March. These closures isolate the respective waterways, commercial shipping, and Canadian and American Ice Breakers.

The Urgent Need for Fleet Renewal

The CCG traditionally deployed one ice breaker to each of the three sub-regions of the Great Lakes until recently. This ensured that adequate resources were available during the ice periods between December and April. Due to the age and condition of the CCG's vessels, the Coast Guard is no longer capable of meeting the demand and no longer deploys a dedicated ship to Lake Superior. Canadian ports and commercial shipping in Lake Superior are now completely dependent on the ice breaking resources of the USCG. This is a heavy burden for the resources of the USCG. In 2010, for example, the USCG's medium ice breaker suffered a catastrophic engineering failure and was unable to support the port of Thunder Bay, delaying a number of Canadian vessels from loading and departing the port. The consequences of such a delay in the winter months are significant, as other industries rely upon the efficient delivery of cargo by ship in order to support other manufacturing processes.

The demand for ice breaking services is equally important in the other two sub-regions of the Great Lakes. The St. Clair River is a critical waterway and prone to ice and ice build-up. December is frequently a demanding period for ice breaking services in this sub-region, and often the CCG is only capable of deploying a single vessel to the area. In 2010, a CCG ice breaker suffered an engineering failure which rendered it unusable for a significant period.

The age of the CCG fleet is also resulting in significantly higher failure rates in essential systems, which often results in the need for urgent corrective maintenance during critical ice breaking periods. With no apparent plan to renew the CCG ice breaking fleet in the Great Lakes, industry will continue to be affected by unexpected delays in levels of ice breaking services or a complete inability to operate during certain winter months. This will have a corresponding negative impact on the economic success of the industries served by commercial shipping in the Great Lakes.

The CSA Recommendation

The Canadian Shipowners Association supports the National Shipbuilding Procurement Strategy (NSPS). Notwithstanding, it strongly urges that the NSPS should also consider the need to adequately fund the renewal of the CCG fleet of ice breakers, and ensure that the CCG is equipped to deploy three multi-use ice breakers in the region of the Great Lakes, while also maintaining its current capability in the St. Lawrence River, in Eastern Canada, and in the Arctic.

Specifically, the CSA recommends that:

1. The Government of Canada develop and fund a programme to renew the ice-breaking fleet used on the Great Lakes; and
2. Adequately fund the CCG to ensure that three ice breakers are deployed in the Great Lakes.