



**AMERICAN
GREAT LAKES PORTS
ASSOCIATION**

**U.S. GREAT LAKES PILOTAGE
BACKGROUND PAPER
May 31, 2016**

General Background

Marine pilots are expert navigators familiar with local geography, weather, currents and sailing conditions. All ocean-going ships operating on the Great Lakes and St. Lawrence Seaway are required by law to hire a U.S. or Canadian pilot to assist with navigation. These individuals are made available to ship operators by organizations that provide pilotage services.

Geographic Jurisdiction of Pilotage Service Providers

There are five pilotage service providers in the Great Lakes-St. Lawrence Seaway region. Two are Canadian, and three are American. These organizations provide services according to geographic area. In general, Canadian pilot organizations provide pilots to ships while they are in Canadian territory. U.S. pilot organizations provide pilots to ships while they are in U.S. territory. In binational areas of the Great Lakes (Lake Superior, Lake Huron, the St. Clair River, Lake St. Clair, the Detroit River, Lake Erie and Lake Ontario) U.S. and Canadian pilot organizations divide the business and take turns providing pilots.

The five Great Lakes-St. Lawrence Seaway pilot organizations are:

Laurentian Pilotage Authority (Canadian):

Is organized as a Canadian Crown Corporation and provides pilots to maritime commerce in Canadian sections of the St. Lawrence River from Montreal, Quebec extending east to (roughly) Les Escoumins, Quebec.

Great Lakes Pilotage Authority (Canadian):

Is organized as a Canadian Crown Corporation and provides pilots in Canadian or binational waters of the Great Lakes west of Montreal, Quebec.

St. Lawrence Seaway Pilots Association (American):

Is organized as a private partnership and provides pilots in binational sections of the St. Lawrence River and Lake Ontario

Lakes Pilots Association (American):

Is organized as a private corporation and provides pilots in binational sections of Lake Erie, the Detroit River, Lake St. Clair and the St. Clair River

Western Great Lakes Pilots Association (American):

Is organized as a private partnership and provides pilots in all areas of Lake Michigan and binational sections of Lake Superior, the St. Marys River, and Lake Huron

The number of pilots employed in each area is based on the volume of ship traffic, the geography of the region, and the maximum number of hours pilots are allowed to work under U.S. Coast Guard and Transport Canada regulations.

U.S. Regulatory Oversight

The Great Lakes Pilotage Act of 1960, and its associated regulations, give form and structure to the pilotage regime in the sections of the Great Lakes under U.S. jurisdiction. In its current state the system is similar to a regulated monopoly. Ship owners (the consumer) are required by federal law to employ pilots. Since there is only one pilotage service provider authorized in each geographic area, an effective monopoly exists. To protect the consumer from abuse, and to ensure the safety and efficiency of the system, the Coast Guard exercises broad regulatory oversight over all aspects of Great Lakes pilotage, including the setting of fees.

The Coast Guard's Office of Great Lakes Pilotage is responsible for oversight of the U.S. portions of the pilotage system. It is located at Coast Guard headquarters in Washington, DC.

U.S. Pilotage Rates

The fees charged by American pilot organizations for their services are regulated by the U.S. Coast Guard. These fees are determined through a step-by-step rate-setting process contained in federal regulations (46 CFR Part 404). Under these regulations, the Coast Guard must adjust pilotage rates at least once every five years through a rulemaking process. The agency has the option of adjusting fees more frequently if it believes an adjustment is warranted. During the last decade, the Coast Guard has adjusted fees annually. Any adjustment in fees is done through public notice in the Federal Register.

2016 Pilotage Rate Increase

On September 10, 2015, the U.S. Coast Guard proposed an historic 58% increase in U.S. pilotage rates for the 2016 Great Lakes navigation season. On December 9, 2015, a coalition of Great Lakes ports and vessel operators submitted comments in opposition to the rate increase arguing that the agency had miscalculated aspects of the rate adjustment, lacked a record of evidence to support agency decisions, and made arbitrary decisions.

Unfortunately, the agency largely dismissed concerns raised by the shipping industry and on March 1, 2016, issued its final rule largely unchanged. The new rates will be implemented over a two-year period with a 24% increase having taken effect on April 6, 2016, and the rest to be implemented in 2017.

The rate increase is being driven by three key issues:

1) Individual pilot compensation

the Coast Guard wants to increase annual target compensation for each pilot from 2015 levels (~ \$235,000/year) to \$326,000/year for the nine month navigation season.

2) Number of U.S. pilots

the Coast Guard wants to size the pilot workforce to peak demand periods so that there are never ship delays based on inadequate pilot availability. To do so, the Coast Guard wants to increase the number of U.S. pilots from 34 to 54.

3) Training surcharge

the Coast Guard wants to charge vessel operators \$1.65 million to pay for the training necessary to ramp-up pilot numbers.

Industry Concerns

Under Coast Guard management, Great Lakes pilotage has become a runaway cost for international trade on the Great Lakes-St. Lawrence Seaway navigation system.

In the last decade, U.S. pilotage rates on the Great Lakes have increased 114 percent. The 2016 rate adjustment will increase costs further. Today, the daily cost of a Great Lakes pilot (~\$10,000) exceeds the daily cost of chartering the entire vessel and its crew.

Runaway costs threaten the competitiveness of international commerce on the Seaway system. Great Lakes ports, terminals, dock workers, warehousemen, truck drivers, and others all have a stake in this commerce and will all be impacted should shippers chose to move goods by other routes.

While Great Lakes ports support a safe, efficient and reliable pilotage system on the Great Lakes, we disagree with the Coast Guard's approach. In any regulated monopoly, market forces are absent. As the regulator, one of the Coast Guard's roles should be to protect the consumer. Coast Guard oversight of Great Lakes pilotage annually adds additional costs to the shipping system, but is deficient in that it never seeks to find cost efficiencies.