



## **Great Lakes Pilotage Rates - 2023 Annual Review and Revisions to Methodology Docket No. USCG 2022-0370**

COMMENTS OF THE SHIPPING FEDERATION OF CANADA, AMERICAN GREAT LAKES PORTS ASSOCIATION,  
AND UNITED STATES GREAT LAKES SHIPPING ASSOCIATION

September 29, 2022

Our three trade associations representing the owners, operators and agents of ocean-going vessels that use U.S. Great Lakes pilotage services, and U.S. Great Lakes ports whose competitiveness relies on safe, reliable and cost-efficient pilotage services are pleased to submit the following comments in response to the U.S. Coast Guard's Notice of Proposed Rule Making (NPRM) on Great Lakes Pilotage Rates for 2023 published in the Federal Register on August 30, 2022.

The NPRM proposes to increase pilotage rates in all areas of the Great Lakes for the 2023 shipping season following the 10-step ratemaking process contained in regulation. All vessels engaged in foreign trade that operate on the Great Lakes are required by law to employ the services of a U.S. or Canadian pilot to assist with navigation. While it is not compulsory, many U.S. and Canadian domestic vessels also hire pilots for a variety of reasons. The Coast Guard has authorized three private pilot associations to exclusively provide service in three distinct geographic areas of the Great Lakes. The proposed rates seek to generate adequate revenue to support each of the three associations.

We note that the Coast Guard has applied the current rate-setting methodology to calculate the 2023 rates and is not proposing any policy changes at this time. Nevertheless, the Coast Guard has invited general comments on the rate-setting methodology and staffing model for future consideration.

### **Statutory Authorization and Framework**

The system of Great Lakes pilotage was authorized by Congress in 1960 and set forth objectives supporting effective use, safety, public interest and foreign relations. The recent Great Lakes Pilotage Advisory Committee meeting heard about the objective to make sure pilots were adequately paid. All who are participants of Great Lakes maritime commerce accept the importance of a professional pilotage system and appropriate compensation; however, other businesses in the navigation system answer to challenges regarding performance and competition and are publicly accountable - including

the US Coast Guard, vessel operators and ports. Governance of the pilots can't be by pilot anecdote alone. There is no better entity in the US to review and evaluate pilotage system performance than the US Coast Guard. It is in the public interest that performance and reliability metrics be available especially in the context of base rates and annual rate increases. Frequent use of "necessary and reasonable" is mentioned by the Coast Guard in the review of pilot financial reports. A key question is why are certain expenses necessary and what constitutes the reasonableness? It is also in the public interest that the framework for pilotage operation in so-called "designated" and "undesignated" waters be re-evaluated and reflect current navigation practices through the Great Lakes in today's maritime transportation system.

### Target Compensation

Our organizations support a safe, reliable and cost-efficient pilotage system. However, our members continue to be alarmed at the escalating cost of Great Lakes pilotage services. During seven of the last nine years, the Coast Guard has proposed a double-digit percentage cost increase over the previous year. A primary driver of these costs is pilot compensation, which the Coast Guard proposes to set at an historic high of \$422,336/pilot for the nine-month 2023 shipping season. This amount far exceeds the level of compensation of U.S. or Canadian Great Lakes vessel masters or other comparable positions in the maritime industry. It places U.S. Great Lakes pilots among the wealthiest 2% of Americans.

### Individual Pilot Compensation

While the rates seek to generate enough revenue to compensate all registered pilots at \$422,336, there is no requirement that this actually happen. In fact, there is no publicly available data documenting the actual compensation experience of each Great Lakes pilot. We do not know if work load and revenue is shared equitably among members of each association. This issue is perhaps the least transparent aspect of Great Lakes pilotage rate setting. Therefore, we once again ask Coast Guard to require that this information be reported in the annual financial statements of Great Lakes pilot associations - as it once was in the past.

### Expense Review

With a focus on cost and a desire to improve transparency, we recommend that the Coast Guard conduct an item-by-item review of pilot association expenses to determine if they meet the "necessary and reasonable" standard. We further recommend that the Coast Guard define what "necessary and reasonable" means. Many aspects of the rate-setting process rely on subjective decisions by the Director, and this is one such area. Under the rate-setting methodology, users reimburse pilot associations for their operating expenses. In a monopoly system, there are no competitive pressures to police costs. This leaves only the Director to police costs using "necessary and reasonable" as a guide.

### Staffing Model & Reliability

We share the Coast Guard's interest in a reliable pilotage system and appreciate the opportunity to comment on the current staffing model detailed at 46 CFR 401.220. The regulations give the Director considerable discretion to adjust staffing to address unanticipated needs. We continue to be concerned about the availability of pilots due to non-compulsory pilotage users (such as Canadian Lakers), and new pilotage demand created by the success of the Great Lakes cruise sector. We urge the Director to continue to engage in dialogue with both of these non-traditional user groups and keep abreast of future demand as best as possible.

### Self-Analysis of Previous Rate-settings

The rate-setting process seeks to predict future conditions and needs. For that reason, it will always be an inexact exercise. One way to improve the process is for the Coast Guard to include an annual "look back" analysis and discussion of the accuracy of the previous year's rate. For example, such an analysis could look at pilot delays as an indicator of the accuracy of the staffing model. It could also look at target revenue generation and compare it to actual revenue generation. During the last five years, the rate-setting has resulted in a gross over-realization of revenue for the three pilot associations as illustrated below.

<b>Target Revenue vs. Actual Revenue 2016 - 2020</b>		
<b>Year</b>	<b>Target Revenue in Rate</b>	<b>Actual Revenue in Financial Reports</b>
2016	19,103,678	28,222,522
2017	22,326,381	26,429,565
2018	25,156,442	31,409,535
2019	27,988,185	36,561,370
2020	28,268,030	36,423,431

These discrepancies indicate that the Coast Guard's methodology is flawed and most likely underestimates traffic demand. Comparing the targeted performance of the methodology with the actual performance would be a useful exercise.

September 29, 2022

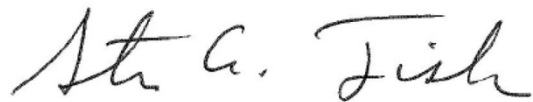
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Thank you for considering our views on Coast Guard oversight of Great Lakes pilotage. Our organizations and members remain committed to a safe, reliable and efficient pilotage system on the Great Lakes - St. Lawrence Seaway system.

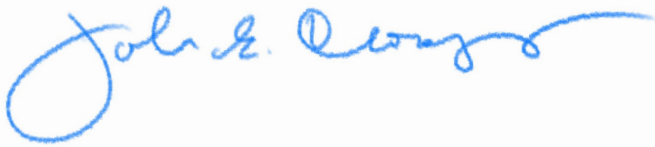
Sincerely,



Chris Hall, President  
Shipping Federation of Canada



Steven A. Fisher, Executive Director  
American Great Lakes Ports Association



John Crowley, Executive Director  
United States Great Lakes Shipping Association