



Canada
House of Commons

THE FUTURE OF THE GREAT LAKES/ ST. LAWRENCE SEAWAY SYSTEM

REPORT OF THE STANDING COMMITTEE ON TRANSPORT

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ROBERT A. CORBETT, M.P.
Chairman

KEN ATKINSON, M.P.
Chairman
Sub-Committee on the St. Lawrence Seaway

December 1992

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HOUSE OF COMMONS

CHAMBRE DES COMMUNES

Issue No. 22

Fascicule n° 22

Tuesday, December 8, 1992

Le mardi 8 décembre 1992

Chairperson: Robert A. Corbett

Président: Robert A. Corbett

Minutes of Proceedings and Evidence of the Standing Committee on Transport and Communications
Procès-verbaux et témoignages du Comité permanent des Transports et des Communications

Transport

Transports

RESPECTING

CONCERNANT

Pursuant to Standing Order 106/107 or 112a Order adopted by the Committee on February 25, 1992, consideration of the report on the Future of the Great Lakes/St. Lawrence Seaway System
Conformément à l'article 106/107 du Règlement adopté par le Comité le 25 février 1992, examen de l'épave de la Future of the Great Lakes/St. Lawrence Seaway System

THE FUTURE OF THE GREAT LAKES/ ST. LAWRENCE SEAWAY SYSTEM

REPORT OF THE STANDING COMMITTEE ON TRANSPORT



ROBERT A. CORBETT, M.P.
Chairman

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Chairman
Sub-Committee on the St. Lawrence Seaway

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Transport

Transports

RESPECTING:

Pursuant to Standing Order 108(2) and the Order adopted by the Committee on February 25, 1992, consideration of the report on the Future of the Great Lakes/St. Lawrence Seaway System

INCLUDING:

Fourth Report to the House

CONCERNANT:

Conformément à l'article 108(2) du Règlement ainsi que l'Ordre adopté par le Comité le 25 février 1992, examen du rapport sur le futur de la Voie maritime du Saint-Laurent et des Grands Lacs

Y COMPRIS:

Quatrième rapport à la Chambre

Third Session of the Thirty-fourth Parliament,
1991-92

Troisième session de la trente-quatrième législature,
1991-1992

Standing Committee on Transport

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The Future of the Great Lakes/St. Lawrence Seaway System

A report prepared by the Sub-Committee on the St. Lawrence Seaway

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has the honour to present its

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In accordance with its mandate under Standing Order 108(2), your Committee assigned to its Sub-Committee on the St. Lawrence Seaway the responsibility to examine the competitiveness and viability of the Great Lakes/St. Lawrence Seaway System. The Sub-Committee presented its First Report to the Committee which has adopted it unanimously and without amendments. It reads as follows:

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THE FUTURE OF THE GREAT LAKES/ST.LAWRENCE SEAWAY SYSTEM

INTRODUCTION

The Great Lakes/Seaway System (GL/SS) is a major and unique North American inland transportation route. It is part of a highly complex commercial framework of tremendous economic importance to both Canada and the United States. It serves an area larger than all of western Europe, containing approximately one-third of the combined populations of Canada and the United States and a crucial part of their manufacturing, mining and agricultural industries. Its sophisticated system of locks, canals and special channels provides for the movement of goods, especially domestic and international shipments of bulk commodities such as grain, iron ore and coal in and out of the continental heartland a distance of some 3,700 kilometres from Thunder Bay/Duluth to the Atlantic Ocean. It is indeed, one of the world's great waterways and is called by some our "fourth coast".

An essential part of this waterway is the St. Lawrence Seaway proper, a joint venture of Canada and the United States which was opened in 1959. It extends from Montreal to Lake Erie and is composed of a system of 15 locks and canals divided into two sections: the Montreal-Lake Ontario section, consisting of five Canadian and two U.S. locks; and the Welland Canal, with eight all-Canadian locks. The Seaway is operated and administered in Canada by a federal Crown Corporation with its own Act, the St. Lawrence Seaway Authority, and its American counterpart, the St. Lawrence Seaway Development Corporation.

Since the early 80's, there has been growing concern and considerable debate over the future of the GL/SS. This has occurred for several reasons; a significant decline in grain and iron ore traffic because of persistently weak and changing market conditions for grain and steel exports, the fragile financial state of the lake carrier industry, and the continuing requirement on the part of the St. Lawrence Seaway Authority, the Pilotage Authorities and ports to be financially self-sufficient.

Over the last 10 years, an extraordinary number of special and comprehensive studies have been done on the viability and competitiveness of the GL/SS complimented by an extensive and ongoing discussion as to what should be done. In the Committee's view, the "crunch" has arrived and the time for study and analysis is over. Action is what is required now because it is clear that the GL/SS is facing a major crisis which goes to the heart of its very existence as a viable and competitive commercial transportation route.

SEAWAY TRAFFIC

A. The Movement of Grain

It was emphasized to the Committee by several key witnesses, that export grain traffic has been the "lifeblood" of the GL/SS since the Seaway opened in 1959. Since then, the system has delivered 300 million tonnes of western Canadian grain worth more than \$60 billion and

has been an efficient, reliable and necessary grain transportation route. At its peak, in the late 70's, the system carried well over half the grain exported in a single crop year. Grain movement has always been a significant aspect of Seaway business accounting for between 30% and 40% of total bulk commodity traffic. The successful commercial formula, which has worked extremely well for the viability and competitiveness of the Seaway, has been grain down-bound and iron ore up-bound. This has been supplemented by movements of British Columbia and Alberta coal and Saskatchewan potash with some general cargo generated by the region.

It was also firmly stated to the Committee that there are no reasonable commercial alternatives or options to this formula as far as bulk commodity movements or general cargo are concerned. Grain volumes directly affect the competitiveness and viability of the whole system for the movement of other commodities. If there are not sufficient annual volumes moving through the system, then the cost of back-hauling iron ore would rise substantially possibly resulting in a shift to a higher cost mode of transport or more drastically, to another source for iron ore. Clearly, an increase in shipping costs or a source shift would have adverse economic consequences for the Ontario steel industry and Quebec and Labrador iron ore. Indeed, it is doubtful if either would be competitive without economical GL/SS transportation.

The problem that has arisen in the past decade is that declining grain movement has jeopardized the commercial validity of this formula and has adversely affected a vital and competitive component of our transportation system. In 1982/83, the Great Lakes fleet moved 57.2% of western grain while some 40.8% went through west coast ports. Five years later, in 1987/88 41% of export grain went east and 56% went west. Indeed, the volume through the GL/SS has been as low as 27% and in 1991/92, 31.3% went through the Seaway while 63.9% went through Pacific coast ports. It has been projected that by 1995/96, 30% of export grain will move through the GL/SS and 70% will be going west.

The major reason for this decline has been the changing trading patterns of world grain markets and the emergence of a strong demand for Canadian grain in Pacific Rim countries. Obviously, these markets are best served by west coast ports. However, it was indicated to the Committee that important traditional GL/SS markets in North Africa and the Middle East are now increasingly served through the west coast. Indeed, in the six years prior to the implementation of the *Western Grain Transportation Act* (WGTA) in 1983, the eastern route handled 83% of the North African and Middle East markets. For the eight years following the WGTA, the eastern system handled 42%, a 50% decrease. Had the eastern system retained its traditional share, it would have handled almost 12 million tonnes more over this period. Witnesses concluded by emphasizing that Thunder Bay has no natural catchment area for export grain and is being treated as a residual port which only receives export grain when there are capacity problems at west coast ports or it is a matter of customer preference.

Witnesses supporting the GL/SS were quick to acknowledge that a major part of this significant shift of grain export movement to the west coast can be explained by market preferences and realities. However, they are convinced that another reason for this decline is the impact of the current WGTA freight rate and subsidy structure. Its freight rate formula does not reflect the true costs and efficiencies of using specific ports. Average distance related

freight rates do not reflect the actual costs associated with using west coast ports including, car cycle efficiencies, the extra costs of shipping through the mountains (the mountain differential), the distortions favouring long haul over short haul movements and those that affect port parity through the payment of the CN adjustment for the extra costs of hauling grain to Prince Rupert and Churchill. The current method of payment of the WGTA subsidy (the "Crow Benefit") directly to the railways creates distortions and disincentives for the use of other modes of transport. This has been clearly demonstrated by several recent extensive studies on the WGTA.

The concern of many witnesses was that the WGTA sends out distorted price signals to shippers who are encouraged to ship ever increasing amounts of grain through the west coast. This in turn, would lead to more and more investment in capacity at Vancouver and Prince Rupert in response to the distorted price signals. This would mean a continuing decline in grain traffic through the GL/SS and an inevitable contraction of elevator and fleet capacity. The fear is that the GL/SS will decline to the point where, when more capacity is needed to move western grain, it will not be available. In the view of many witnesses, it was absolutely vital for Canada's export grain trade that the GL/SS be maintained as an efficient and competitive transportation route.

Under these circumstances, witnesses made it clear to the Committee that the status-quo is unacceptable. The WGTA must be changed. The true costs of shipping grain, regardless of who pays, must be transparent. All participants have to be given an opportunity to compete in the grain transportation market in a fair and equitable manner. Whatever changes are made to the WGTA, it must be ensured that they are "mode, load and direction neutral". If this occurred, witnesses assured the Committee that they were prepared to compete for export grain traffic. They emphasized that a grain transportation system without modal bias is vital for the future of the GL/SS.

The Committee is convinced that significant volumes of export grain traffic are absolutely essential to the continued viability and competitiveness of the GL/SS. We believe that changes to the WGTA can make a key contribution to ensuring the future of the GL/SS as an efficient and competitive transportation route. However, we do not believe that our mandate should extend to dealing with how the "Crow Benefit" should be paid because the importance, impact, and complexity of a change in the method of payment go far beyond the interests of the GL/SS. What, in our view, is clearly a matter for the Committee's consideration is the question of changes to the WGTA that will eliminate the current distortions and modal bias in the grain transportation system.

We recognize that this is a very complex issue with many interests involved, and that there is ongoing discussion regarding various aspects of the question that still require resolution. Obviously, this is going to take time and, until whatever changes are finally agreed upon and implemented, we believe that the WGTA subsidy should be extended to include the marine component to "neutralize" the adverse impact of the freight rate structure. We envisage that this would be a transitional measure to help the GL/SS through this difficult period, that would end when the WGTA distortions are dealt with. At that point, the GL/SS will be able to compete on a fair and equal basis for export grain with other transportation routes. Therefore the Committee recommends that:

The WGTA subsidy be extended, as a transitional measure, to include GL/SS grain export movements to achieve fairness in subsidization across Canada until the issues of the mountain differential, distortions favouring long haul over short hauls and port parity are addressed, and

Any potential changes to grain transportation policy must incorporate consideration of the direct economic impact on the GL/SS; and

The future of the Seaway as a viable and critical element of Canada's transportation infrastructure be preserved.

B. Seaway Season Extension

Several witnesses argued that one way to stimulate more traffic in the GL/SS would be through a significant extension of the system's shipping season beyond the current 8.5 to 9 month operating period. It was pointed out that it is technologically possible to do this even in heavy ice and poor weather conditions. However, it was acknowledged that there would be an increased cost to keep the system open which somebody would have to pay.

For its part, the Authority pointed out that since the Seaway opened, there has been an extension to the shipping season of four weeks on the Montreal/Lake Ontario section and two weeks on the Welland. In addition, cost-benefit studies have been done which indicate that an extension of the season cannot be justified on economic grounds. It simply makes no economic sense for the Seaway system to remain in operation during the winter period of cold weather and heavy ice. There is not sufficient ice-breaking capacity to do the job and because of the narrow channels it is very difficult to keep them open as the ice closes in behind the icebreaker very quickly. Furthermore, there are large questions regarding the required flow of water for hydro-electric plants during the winter season in periods of heavy ice and broken ice can damage hydro-electric generators. What the Authority is concentrating on doing is to provide at least 8.5 months of safe, trouble free and efficient navigation, while giving consideration to gradual, incremental extensions to any season based upon the weather, facilities, costs, and the amount of business.

The Committee agrees with the Authority's approach and believes this is more practical and economic than launching a major effort to provide a longer winter navigation season. There would be considerable extra cost and it is by no means clear that a sufficient amount of extra traffic would be generated to justify the greater cost and effort. Therefore, the Committee recommends that:

The Authority continue to provide users with a fixed 8.5 to 9 month shipping season.

C. Seaway Capacity

It was suggested by some witnesses that traffic could be increased through an expansion in the capacity of the Seaway because the size of the ocean going world fleet has increased substantially since the Seaway opened. It was pointed out that when the Seaway opened very

few ships in the world bulk fleet could not use it. In 1960, 84% of the dry bulk carrier fleet was capable of Seaway transit and now, the situation is the reverse with only 7% of ocean going ships being able to get through the system. What would have to be done is to widen and lengthen the locks. It was recognized that the cost to do this would be very substantial (estimated to be at least \$5 billion) but it was argued that it was at least worthy of further study and cost-benefit analysis.

Other witnesses saw absolutely no need for any expansion of Seaway capacity for the foreseeable future. There is obviously considerable surplus capacity now and there is no way that billions of dollars should be spent on rebuilding the Seaway to current ocean going vessel size. However, the Authority did point out that sometime after the year 2025 the question of a major rebuilding of the Seaway will have to be addressed.

The Committee agrees that there is no need for a continuing discussion and consideration of the question of Seaway capacity at the present time. Nevertheless, we do recognize that in the future, expansion and rebuilding of the Seaway may well be required. It is therefore prudent and reasonable for the Authority to continue to assess and plan for the future infrastructure requirements of the Seaway and its users. Therefore, the Committee recommends that:

The Authority continue to monitor and assess the question of the expansion and rehabilitation of the Seaway system to ensure that the future infrastructure requirements of the Seaway and its stakeholders are met.

Apart from advocating expansion of the Seaway, several witnesses proposed that the Seaway connecting channels be deepened to allow vessels to load to a 27' draught as opposed to the current 26'3" draught. This would increase the competitiveness of the laker fleet and improve its productivity. It is estimated that 1200 tonnes more cargo could be carried per passage through the GL/SS. They complemented the Authority on its efforts to increase the draught from 26'1" to 26'3" for this shipping season but would like to see further increases to the 27' maximum.

The Committee recognizes that there would be a significant cost involved in deepening the Seaway draught to 27'. Indeed, one estimate puts the price tag at approximately \$50 million and raises the inevitable question of who pays. However, the Committee thinks that this proposal has merit and believes that a cost-benefit analysis should be done. Moreover, if that analysis is favourable, then the Committee believes that the federal government should be prepared to provide the financial support for such a project. Therefore, the Committee recommends that:

The Authority immediately do a cost-benefit analysis of deepening the Seaway draught by one foot from 26' to 27', and

If this analysis proves positive, the Federal Government be prepared to make a financial commitment to the project.

SEAWAY PILOTAGE

Pilotage is the conduct of a ship by a properly qualified deck watch officer who has adequate local knowledge of the waters through which the ship is being sailed. Canadian pilotage in the GL/SS was institutionalized in its current form, by the *Pilotage Act*, 1972. This Act provided for the establishment of Pilotage Authorities with the authority to make regulations with respect to, the establishment of compulsory pilotage areas, the prescription of vessels that are subject to compulsory pilotage, the prescription of classes of licenses and pilotage certificates which may be issued, and the prescription of tariffs for pilotage services. These authorities are Crown Corporations and are mandated to be financially self-sufficient. However, any losses are covered by annual government appropriations.

Canadian pilotage in the GL/SS is provided by two Pilotage Authorities: the Great Lakes Pilotage Authority (GLPA) and the Laurentian Pilotage Authority (LPA). The GLPA is responsible for pilotage west of the St. Lambert lock at Montreal through to the Lakehead as well as the Port of Churchill. The LPA's jurisdiction stretches north and east from the northern entrance of the St. Lambert lock to the Gulf of St. Lawrence. In recent years, both authorities have experienced operating losses; for the LPA, total losses for the years 1990/91 amounted to \$7.3 million while for the GLPA the figure was \$3.4 million, both of which have been covered by Parliamentary appropriations.

The Canadian Shipowners Association explained to the Committee that since the *Pilotage Act* has come into effect the GLPA has exempted Canadian ships and masters from compulsory pilotage on application accompanied by the required proof of knowledge and experience of the waters within the Authority's jurisdiction. Currently, the requirements are 10 trips over a three year period based solely on the shipowners' certification to that effect. In contrast, the LPA does not grant exemptions to compulsory pilotage on this basis.

The CSA pointed out that over the years, it has continually opposed compulsory pilotage in the GL/SS. It considers that the decision to use a pilot should be left to the owner or Master of a ship. It does not think that the St. Lawrence River is any tougher or more dangerous to navigate than other sections of the GL/SS. Since many of the Masters and deck officers have been doing both for years, the CSA's view is that there are no reasons to do with safety, the environment or knowledge of local waters that can justify different treatment for the laker fleet in each pilotage jurisdiction. Indeed, it was pointed out that most, if not all, of the pilots in both Authorities come from the ranks of the industry's Masters and deck officers simply because they are the only seamen who could possibly acquire the knowledge and experience of local waters that are necessary to meet the high standards of pilotage demanded by the Authorities.

The CSA did acknowledge that its experienced Masters and deck officers can apply for pilotage certificates for LPA waters. However, it argued that the current examination process is biased against such applications. The examination board is dominated by pilots, three-out-of-five. Clearly, they have a vested interest in restricting the number of pilotage certificates issued as it reduces their income and job prospects particularly in a declining market for ships. This "conflict of interest" is the major reason why, since 1987, only four candidates out of 15 have passed the examination, despite the fact that Masters have an average of 15 years experience in local waters.

The CSA emphasized that it has had discussions regarding compulsory pilotage in the St. Lawrence River with every Minister of Transport for the past six or seven years. Promises were made that something would be done, but nothing has been. So, after years of fruitless and frustrating discussions, the CSA, on 15 April 1992, took the unprecedented step of withholding payment for all pilotage services provided by the LPA. It felt it had to resort to this dramatic action in one last-ditch effort to get the attention of the government to change the system of compulsory pilotage in the St. Lawrence River.

On the other side of the argument, the LPA said that compulsory pilotage was necessary for both the Canadian and foreign fleets to ensure navigational safety and the protection of the environment. It pointed out that Canadian Masters and deck officers can apply for a pilot's licence for the St. Lawrence River. The certification process and criteria are demanding and of high standard because it is necessary to have highly qualified and skilled pilots. In response to applicants' complaints regarding the examination process the LPA said that efforts have been made to ensure that the process is both fair and objective.

Regarding compulsory pilotage on the Great Lakes, pilotage representatives, while accepting the exemption of the Canadian laker fleet, expressed concern over whether the current criteria for the validation of competency of ship's officers to navigate in compulsory pilotage waters were adequate to ensure navigational safety. It was suggested that these criteria should be strengthened through an increased requirement for trips within local waters which are documented, along with proof of specified knowledge and skills as required by the GLPA. In their view, this important issue of validation of competency should not be simply a matter of opinion (as is the case now) as to whether Canadian ships' officers have the necessary knowledge of local waters but a matter of the GLPA having the responsibility and power to validate this knowledge.

The CSA also expressed great concern about the high and rising costs of pilotage services in the GL/SS. This sentiment was echoed by other witnesses including the Shipping Federation of Canada which represents all foreign shipping in the GL/SS. It praised the high quality and standards of Canadian pilots but was critical of their high cost and concerned about their productivity. Indeed today, the daily cost of a pilot exceeds the cost per 24 hour period of a ship's entire crew, and concern was expressed that pilots could obtain substantial increases in their remuneration because of their strong negotiating position. This was confirmed in a report in 1986, of the Water Transport Committee of the Canadian Transport Commission which made the following comments on negotiations between the pilots and the Authorities:

The terms and conditions of employment or of contracts with pilot corporations agreed to by the pilotage authorities reflect the considerable advantages accruing to pilots in negotiations. A cessation of pilotage service causes serious negative impact on the shipping industry and the national economy. The economic constraints which ensure the maintenance of reason in the normal collective bargaining process do not exist in marine pilotage. There is no risk of bankruptcy of the pilotage authorities or loss of employment or contract for the pilots to counter-balance the costs to the users caused by a withdrawal of service. In fact, this economic power was entrenched in the *Pilotage Act* through the recognition of monopoly structures for pilots. The pilots are therefore in a very strong position to maximize their income and benefits.

It was pointed out that in the Fall of 1990, the LPA after negotiations with the pilot corporations agreed to increases in compensation totalling an average of about 30% over three years. It was noted that in 1990 before these increases took effect the annual cost of a pilot in the LPA's jurisdiction ranged from \$101,000 to \$117,000. It was estimated that the increases granted in the new contract would elevate these figures to \$133,000 to \$156,000 by 1993, and it was suggested to the Committee that there was "food for thought" in making remuneration comparisons with other professional groups such as medical and legal practitioners and financial analysts.

The Committee shares the concerns of the Canadian shipowners regarding the high cost of compulsory pilotage. We also think that the views, that were expressed to the effect that the validation procedures for exemption from compulsory pilotage in the GLPA need to be strengthened, have merit. Unfortunately, the ongoing acrimony and confrontation between the CSA and the Authorities, particularly the LPA, over compulsory pilotage have been counterproductive for the competitiveness and efficiency of the whole GL/SS. The Committee is aware that some effort has been made, and the inevitable studies done, to try and resolve this festering dispute. We believe that the time has come for the federal government to take the initiative and find a solution to this problem. Therefore the Committee recommends that:

The Minister of Transport amend the regulations to the *Pilotage Act* to strengthen the validation procedures and qualifications to exempt Canadian Masters and deck officers of the Canadian laker fleet from compulsory pilotage in the GLPA and that the same regime be applied to the LPA.

The Committee has some sympathy for the argument of shipowners, both Canadian and foreign, that the monopolistic environment has enabled the pilots to command high and increasing fees for their services. They have complained about the lack of effort on the part of the two Pilotage Authorities to contain their costs and improve their productivity. Moreover, declining traffic levels and rising costs for shipowners have exacerbated this situation. As we indicated earlier, until changes are made to the WGTA to remove freight rate distortions, the GL/SS requires support during the interim period to protect its viability and competitiveness for the future. We believe that this support should include some relief in the transitional period from rising pilotage fees. Therefore, the Committee recommends that:

Pilotage fees be frozen at current levels for three years beginning with the 1993 Shipping season.

SEAWAY FINANCIAL SELF-SUFFICIENCY

When the St. Lawrence Seaway Authority was created it was given a very clear mandate to be financially self-sufficient, and that has continued to be one of its major priorities. From time to time, particularly during the high traffic years, the Authority has enjoyed a profit on its operations. However, over the past six years, as traffic has declined, the Authority has lost an average of \$5 million per year. It has not sought a Parliamentary appropriation to cover these losses but has absorbed them by drawing on its capital reserve fund which now stands at only \$14 million. Based upon revised traffic projections, it has recently been forecast that the Authority will not achieve an operating profit until the early years of the next century.

A. Seaway Tolls

Currently, over 90% of the Seaway's operating revenues comes from tolls. In the year the Seaway opened, a tariff of tolls based on estimates of future traffic was established by agreement between Canada and the United States. It has been said that Canada reluctantly agreed to do this because the U.S. government was under great political pressure from railway and eastern U.S. port interests to impose tolls to ensure fair competition. The purpose of this tariff was to ensure that users would provide sufficient revenues to cover, not only operational and maintenance costs, but interest expense on the debt incurred in the construction of the Seaway, as well as repayment of that debt. Tolls imposed on the Montreal/Lake Ontario section (the international section) were shared by Canada (71%) and the U.S. (29%), while toll revenues from the all-Canadian Welland section accrued entirely to the Authority. From the beginning, the aim of both governments was to place the Seaway on a self-sustaining basis.

For a variety of reasons, these financial objectives were not achieved and, in 1977, the Canadian government refinanced its section of the Seaway through a revision of the capital structure by converting the accumulated debt into government equity. As part of this recapitalization, the government set out a cost recovery mandate that required the Seaway to maintain tolls at a sufficient level to cover operating costs, including depreciation.

Since then the Authority has pursued this mandate through raising tolls while attempting to reduce and contain costs. The latest toll increases of 5.75% per year came into effect in 1991 and will be in place until the end of the 1993 shipping season. Recently, the Authority introduced an incentive toll program to stimulate traffic and the results for 1991 were encouraging. The Authority expanded this program for this shipping season and the Committee welcomes the initiative to encourage cruise ship traffic through the introduction of incentive tolls for passenger vessels which are capable of carrying 20 or more people.

Several witnesses roundly criticized this policy of self-sufficiency. They argued that not only were the current annual toll increases significantly above the annual inflation rate but, that these continuing high increases were contributing to the perception of the Seaway as a high cost transportation route. They pointed out that shipowners have made sustained efforts to contain and reduce their operating costs while government imposed costs such as tolls have continued to rise. Granted, they are a small percentage of the total cost (2% or an average of \$1.75 per tonne) but, there is no margin left at the bottom line and even small increases are making a difference. In their view, the burden of tolls will continue to hamper the efficient and cost effective operation of the GL/SS. Each new increase further erodes the credibility of the GL/SS as a competitive and cost effective alternative to other transportation routes.

Some witnesses expressed the view that the GL/SS is more than a transportation route; it is an economic zone benefitting a large concentration of North American population and industry and therefore it should be operated and maintained for the public good and the national interest. It was considered to be our national marine highway. In other words, the general tax payer should pay for its operation not the user. To support this argument, witnesses pointed out that as a result of the *Congressional Water Resources Development Act, 1986*, the Americans have effectively eliminated tolls on their two Seaway locks. This Act

provided for the levying of a port user tax on import and export cargo. The revenue from this tax is credited to the Harbour Maintenance Trust Fund. The Act further requires that tolls collected by the U.S. be turned over to this Fund. The tolls paid by ships using the two U.S. Seaway locks are rebated to them directly from the Fund. In effect, tolls have been abolished and the U.S. Corps of Engineers provides the funds for the operational and maintenance expenditures for the U.S. section of the GL/SS while the U.S. Seaway Development Corporation receives funding from the Harbour Maintenance Trust Fund. It was suggested to the Committee that Canada should follow the U.S. example.

The Committee recognizes the discipline inherent in the Authority's mandate to be self-sustaining, and that there is some question as to whether tolls are, or are not, a disincentive to traffic movements in the GL/SS. However, the recent increases are high based upon the inflation rate and there is no doubt that the shipping industry is in a very tight squeeze between revenues and costs. The Committee has been impressed with the strong views of several witnesses on this issue. We believe that in this period of low inflation, an increase of 5.75% in tolls is not justified. Once again, until changes are made to the WGTA that we have recommended, we think the GL/SS deserves relief from toll increases for the transitional period. Therefore the Committee recommends that:

Tolls be frozen at their present level for the next three years.

B. Seaway Infrastructure

It was often emphasized to the Committee, how important it is to the credibility of the GL/SS as a competitive and efficient transportation route, that it be safe and reliable. The Committee was informed that the Authority has been forced to cut its capital budget by 70%. This is because the Authority has been using money from its capital reserve fund to cover operating losses and recently has had to contribute approximately \$20 million to the Valleyfield Bridge Rehabilitation Project. This has left a capital reserve fund of only approximately \$14 million and it is forecast that the Authority will sustain an operating loss of \$12 million for the current operating season. Furthermore, the forecast of an operating profit in 1996/97 is no longer realistic and it does not appear that the Authority will achieve profitability until early in the next century. Obviously, the small capital reserve fund will soon be depleted to cover the continuing losses.

Under the circumstances, concerns were raised with the Committee that the Authority's reduced capital spending program would not be sufficient to maintain the integrity of the GL/SS as a safe and reliable transportation route. However, the Authority assured the Committee that the scaled down program would indeed be sufficient to maintain the safety of the system and that the capital requirement over the next number of years would be about \$15 million a year. It was pointed out that the U.S. government is funding a number of huge projects along the Mississippi system which are not included in those financed through the Inland Waterways Trust Fund which gets its money from a fuel tax. In addition, it was recognized that the federal government has also made a significant contribution through its commitment, in 1986, to a \$175 million structural rehabilitation program for the Welland Canal after the west wall of lock 7 collapsed. Indeed, the federal government recognized its commitment to such projects when it recapitalized the Authority in 1977 with a cost recovery

mandate which was to cover only operating costs, including depreciation. Witnesses argued that the federal government should be ready and willing to commit further capital funds to ensure the integrity of the Seaway.

43. The Committee is not convinced that the Authority is going to be able to generate sufficient funds internally to finance even a “stretched out” capital spending program which is adequate to maintain the system’s safety and reliability. In fact, the Committee was informed that discussions will be taking place between the Authority and the government regarding the Authority’s capital requirements. As we have said before we believe that the government must restate its commitment to the GL/SS and one important aspect of this commitment should be a clear indication that the government will “backstop” the Authority if it does not have sufficient funds for infrastructure projects. Therefore, the Committee recommends that:

The federal government make a commitment to provide financial support for all capital projects which the Authority must undertake in order to maintain the integrity of the GL/SS as a safe, efficient and reliable transportation route.

The Committee would also like to emphasize it appreciates that while it is essential that Seaway infrastructure is adequate for its operations, it is also important that a skilled and experienced workforce continues to be available to operate it. Some concern has been expressed that this will not be the case if the present erosion of the Seaway’s viability continues. Certainly, the Committee believes that attention must be given to the question of the maintenance of a skilled and well-trained labour component for Seaway operations.

C. Seaway Land Management Policy

The Committee was informed that the Authority during the course of 1990, developed a land management policy with the intention of generating more revenue from Seaway surplus landholdings. The Authority has identified three broad categories to classify its total landholdings(9783 hectares): waterlot and land needed for Seaway operations(6768 hectares), that available for sale or lease(1943 hectares), and what is being held in reserve for future canal and lock facilities(1072 hectares). Some concern has been expressed regarding the execution of this policy and more particularly the Authority’s approach concerning the surplus lands that have been set aside for future infrastructure requirements such as a new super lock Welland Canal.

The Committee welcomes the Authority’s development of a land management policy. The Committee believes that the Authority should pursue, with vigour, any possibilities to generate extra revenue as ultimately this means it will have to raise less from tolls. Therefore the Committee recommends that:

The Authority continue to aggressively pursue greater revenue generation from its Seaway landholdings that are available for sale or lease, and

The Authority in conjunction with the federal government and major stakeholders, examine the whole question of the realistic need to continue to reserve a large block of land for future canal and lock facilities.

D. Seaway Cooperation

During the hearings the Committee was struck by the fact that there are an impressive number of private and public Canadian and American organizations, associations, and groups which have an interest or direct involvement in the operations and future of the GL/SS. They have been responsible for many of the studies done on the competitiveness of the system and have aggressively supported and promoted it in North America and overseas. Moreover, there appears to be reasonably good cooperation and coordination among all these players although some concern was expressed that sometimes their efforts do appear to conflict with one another.

It was suggested to the Committee that a new bi-national task force should be formed by the Canadian and U.S. federal governments to undertake a comprehensive and definitive study on the future viability and competitiveness of the GL/SS.. The idea would be, that upon completion of the study, a bi-national strategic plan would be developed and implemented under the leadership of the two governments.

Frankly, the Committee is not enthusiastic about another global study. It does not appear to us that anything new or original can be said or recommended regarding what should be done to ensure the future of the GL/SS. As has been indicated, the Committee believes that the time for debate and study are over and the time for action has come.

In that light, the Committee believes there may well be merit in the formation of a bi-national umbrella group to represent and promote the GL/SS's interests. This new organization would not include representatives from the Canadian and U.S. federal governments. The purpose would not be to sponsor and coordinate more study and analysis. It would be to consolidate what has been done and develop a coherent and coordinated action plan which would then be pursued vigorously and relentlessly in Ottawa and Washington. This is of particular urgency and importance because of the change of Administrations in the U. S. Therefore, the Committee recommends that:

A bi-national umbrella organization be formed within existing resources and organizations to develop, and coordinate a bi-national strategic action plan to ensure the future viability and competitiveness of the GL/SS;

This new organization vigourously and urgently promote this action plan in Ottawa and Washington, and

The St. Lawrence Seaway Authority in cooperation with the Seaway Development Corporation take the leadership role in the development and promotion of this new bi-national organization.

CONCLUSION

The Committee believes that the future economic well-being of the GL/SS is very important to the social and economic prosperity of the Central Canadian region. It is critical not only for Thunder Bay and the other Ontario/Quebec ports along the system but also, for

Ontario and Quebec-based agriculture, manufacturing and mining industries. Moreover, it is vital as well, for the long term interests of the land locked western farmer. The Committee recognizes that to a major degree the future viability and competitiveness of the GL/SS is dependent upon the strength and location of export grain markets, the recovery of the steel industry and coal and potash markets, and a strong global economy. All of these factors are well beyond the Committee's scope and control. However, what is by no means out of reach, is the ability and political will to do what is necessary to make sure that the GL/SS continues to be a safe, reliable and competitive transportation route.

The Committee believes the GL/SS is facing a crisis which is threatening its very survival as one of North America's major distribution systems in the 21st century. Unfortunately, the near term traffic forecasts for both grain and iron ore are not encouraging. Further decline is being suggested followed by a slow, undramatic upward trend in the last half of this decade. Action must be taken to get the GL/SS and its public and private stakeholders through this very difficult period or there is a serious risk that the system will not be there when it will surely be needed in the future.

The Committee's major recommendations on grain, pilotage, tolls, and capital funding all require the federal government's involvement, leadership and financial resources. They are based on the premise that the GL/SS makes a significant contribution to the social and economic prosperity of Canada which justifies the federal government's direct involvement and financial support. The Committee believes that the only way the future of the GL/SS can be assured is through a partnership between the stakeholders and the federal government to take action now to make it happen. The Committee is convinced that what is needed is a renewed, definitive commitment from the government to the future viability and competitiveness of the Seaway. We urge the government to do this immediately and demonstrate its determination to fulfil its renewed mandate by implementing our key recommendations on an urgent basis.

Ontario and Quebec-based agriculture, manufacturing and mining activities. Moreover, the vital as well for the long term interests of the land locked western farmer. The Committee recognizes that to a major to give the future, stability and competitiveness of the C.I.T.S is dependent upon the strength and location of export markets and the recovery of the steel industry and coal and other markets, and a strong global economy. All of these factors are well beyond the Committee's scope and control. However, what is of immediate concern is the policy and political will to do what is necessary to make sure that the C.I.T.S Committee is able to continue to meet its mandate and to provide the necessary leadership and coordination to the various departments and agencies involved.

The Committee believes the C.I.T.S is facing a crisis which is threatening its very survival as one of North America's major distribution systems in the 21st century. Unfortunately, the current economic conditions for both steel and iron ore are not encouraging. Further, because of being suggested followed by a slow and steady downward trend in the last half of this decade. Action must be taken to get the C.I.T.S and its public and private shareholders through this very difficult period or there is a serious risk that the system will not be there when it will surely be needed in the future.

The Committee's main recommendations are that the Government should provide the necessary funding and support to ensure the C.I.T.S can continue to operate as a viable entity. They also recommend that the Government should provide the necessary leadership and financial resources. They are based on the premise that the C.I.T.S makes a significant contribution to the social and economic prosperity of Canada which justifies the federal government's direct involvement and financial support. The Committee believes that the only way the future of the C.I.T.S can be assured is through a partnership between the shareholders and the federal government to take action now to make it happen. The Committee is convinced that what is needed is a new and dynamic organization that the Government, the private sector, and the components of the industry. We urge the Government to do this immediately and to ensure that the necessary funding is provided to fulfill its renewed mandate by restructuring out of the recommendations on an urgent basis.

The Committee also recommends that the Government should provide the necessary funding and support to ensure the C.I.T.S can continue to operate as a viable entity. They also recommend that the Government should provide the necessary leadership and financial resources. They are based on the premise that the C.I.T.S makes a significant contribution to the social and economic prosperity of Canada which justifies the federal government's direct involvement and financial support. The Committee believes that the only way the future of the C.I.T.S can be assured is through a partnership between the shareholders and the federal government to take action now to make it happen. The Committee is convinced that what is needed is a new and dynamic organization that the Government, the private sector, and the components of the industry. We urge the Government to do this immediately and to ensure that the necessary funding is provided to fulfill its renewed mandate by restructuring out of the recommendations on an urgent basis.

CONCLUSION

The C.I.T.S is a vital part of the Canadian economy and its future is crucial to the well-being of the country. The Committee believes that the only way the future of the C.I.T.S can be assured is through a partnership between the shareholders and the federal government to take action now to make it happen. The Committee is convinced that what is needed is a new and dynamic organization that the Government, the private sector, and the components of the industry. We urge the Government to do this immediately and to ensure that the necessary funding is provided to fulfill its renewed mandate by restructuring out of the recommendations on an urgent basis.

LIST OF RECOMMENDATIONS

The WGTA subsidy be extended, as a transitional measure, to include GL/SS grain export movements to achieve fairness in subsidization across Canada until the issues of the mountain differential, distortions favouring long haul over short hauls and port parity are addressed, and (Page 4)

Any potential changes to grain transportation policy must incorporate consideration of the direct economic impact on the GL/SS, and (Page 4)

The future of the Seaway as a viable and critical element of Canada's transportation infrastructure be preserved. (Page 4)

The Authority continue to provide users with a fixed 8.5 to 9 month shipping season. (Page 4)

The Authority continue to monitor and assess the question of the expansion and rehabilitation of the Seaway system to ensure that the future infrastructure requirements of the Seaway and its stakeholders are met. (Page 5)

The Authority immediately do a cost-benefit analysis of deepening the Seaway draught by one foot from 26' to 27', and (Page 5)

If this analysis proves positive, the Federal Government be prepared to make a financial commitment to the project. (Page 5)

The Minister of Transport amend the regulations to the Pilotage Act to strengthen the validation procedures and qualifications to exempt Canadian Masters and deck officers of the Canadian laker fleet from compulsory pilotage in the GLPA and that the same regime be applied to the LPA. (Page 8)

Pilotage fees be frozen at current levels for three years beginning with the 1993 Shipping season. (Page 8)

Tolls be frozen at their present level for the next three years. (Page 10)

The federal government make a commitment to provide financial support for all capital projects which the Authority must undertake in order to maintain the integrity of the GL/SS as a safe, efficient and reliable transportation route. (Page 11)

The Authority continue to aggressively pursue greater revenue generation from its Seaway landholdings that are available for sale or lease, and (Page 11)

The Authority in conjunction with the federal government and major stakeholders, examine the whole question of the realistic need to continue to reserve a large block of land for future canal and lock facilities. (Page 11)

A bi-national umbrella organization be formed within existing resources and organizations to develop, and coordinate a bi-national strategic action plan to ensure the future viability and competitiveness of the GL/SS; (Page 12)

This new organization vigorously and urgently promote this action plan in Ottawa and Washington, and (Page 12)

The St. Lawrence Seaway Authority in cooperation with the Seaway Development Corporation take the leadership role in the development and promotion of this new bi-national organization. (Page 12)

Appendix A

List of witnesses

Associations and Individuals	Issue	Date
Canadian Brotherhood of Railway, Transport and General Workers René Moreau, National Vice President; Kevin Collins, Research Director.	6	November 5, 1992
Canadian Merchant Service Guild Maury Sjoquist, National President; Lawrence Dempsey, Secretary-Treasurer; Pierre Boucher, Vice-President, Canadian Marine Pilots Association.	4	May 20, 1992
Canadian National (CN) Dave Todd, Vice-President, Government Affairs; Sandi Mielitz, Assistant Vice-President, Grain and Grain Products.	3	May 6, 1992
Canadian Shipowners Association Norman T. Hall, President; Jean-Paul Sirois, Director, Economic Research; Neil Hunter, Director, Marine Operations and Regulations.	4	May 20, 1992
Canadian Wheat Board Dr. Brian Oleson, Executive Director, Planning and Communication; Gil Booth, General Director of Grain Transportation.	7	November 18, 1992

Associations and Individuals	Issue	Date
Chamber of Maritime Commerce Jack McAllister, President.	7	November 18, 1992
City of Sault Ste. Marie Steve Butland, M.P. Don Redmond, Commissioner of Engineering and Planning.	8	November 24, 1992
City of Thorold (Ontario) William C. Longo, Mayor; Fred Neale, Councillor; Ken Todd, City Administrator.	6	November 5, 1992
Fair Access to Canada's Transportation Systems Coalition (The) (F.A.C.T.S.) Donald Paterson, Co-Chairman; Henri Allard, President, St. Lawrence Economic Development Council (SODES).	5	June 10, 1992
Grain Transportation Agency Peter Thompson, Administrator; Gordon Miles, Deputy Administrator; Anthony N. Kaplanis, Ports Co-ordinator (Eastern).	7	November 18, 1992
Great Lakes Commission (The) (USA) Stephen Thorp, Program Manager, Transportation and Economic Development.	6	November 5, 1992
Great Lakes Pilotage Authority, Ltd. R.G. Armstrong, Chairman; R.M. Childerhose, General Manager, Secretary/Treasurer; Captain J.Y. McCarthy, Director of Operations.	2	April 30, 1992

Associations and Individuals	Issue	Date
International Association of Great Lakes Ports John M. Loftus, President.	6	November 5, 1992
Laurentian Pilotage Authority Canada Jacques Marquis, Chairman; Guy LaHaye, Director of Operations; Yvon Matte, Director to the Administration.	2	April 30, 1992
Shipping Federation of Canada (The) Francis C. Nicol, President.	5	June 3, 1992
St. Lawrence Seaway Authority (The) Glendon R. Stewart, President and Chief Executive Officer.	1 8	April 1, 1992 November 24, 1992
Thunder Bay Harbour Commission (The) S. Paul Kennedy, Director of Marketing	6	November 5, 1992
Transportation and Communications Union Herbert T. Daniher, Executive Vice-President, Grain Division; Michael Poleck, Financial Secretary Treasurer.	9	November 24, 1992

Appendix B

List of Submissions

Associations	Issue	Date
American Iron Ore Association—Lake Carriers' Association (USA)		November 17, 1992
Canadian Brotherhood of Railway, Transport and General Workers	6	November 5, 1992
Canadian Merchant Service Guild	4	May 20, 1992
Canadian Wheat Board	7	November 18, 1992
Chamber of Maritime Commerce	7	November 18, 1992
City of Sault Ste. Marie	8	November 24, 1992
City of Thorold (Ontario)	6	November 5, 1992
Fair Access to Canada's Transportation Systems Coalition (The) (F.A.C.T.S.)	5	June 10, 1992
Grain Transportation Agency	7	November 18, 1992
Great Lakes Commission (The) (USA)	6	November 5, 1992
Hamilton Harbour Commissioners (The)		November 17, 1992
International Association of Great Lakes Ports (USA)	6	November 5, 1992
International Longshoremen's Association Great Lakes District (USA)		May 29, 1992
Laurentian Pilotage Authority Canada	2	April 30, 1992
Ontario Ministry of Transportation		November 17, 1992
Quebec Ministry of Transportation		Aug. 6, 1992
Shipping Federation of Canada (The)	5	June 3, 1992
St. Lawrence Seaway Authority (The)	1	April 1, 1992
Thunder Bay Harbour Commission (The)	6	November 5, 1992

Associations	Issue	Date
Toronto Harbour Commissioners (The)		November 4, 1992
Transportation and Communications Union	9	November 24, 1992
Windsor Harbour Commission (The)		November 5, 1992

Request for Government Response

Your Committee requests that the Government respond to this report in accordance with Standing Order 109.

A copy of the relevant Minutes of Proceedings and Evidence (Issue No. 10 of the Sub-Committee on the St. Lawrence Seaway and Issue No. 22 of the Standing Committee on Transport, which includes this report) is tabled.

Respectfully submitted,

Robert A. Corbett, M.P.
Chairman

Ken Atkinson, M.P.
Chairman,
Sub-Committee on
the St. Lawrence Seaway

Request for Government Response

Date

Standing Order No. 10 of the
Your Committee requests that the Government respond to this report in accordance with
(the Commission) under clause

Sub-Committee on the St. Lawrence Seaway and Issue No. 22 of the Standing Committee on
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Respectfully submitted,

Robert A. Corbett, M.P.
Chairman

Ken Atkinson, M.P.
Chairman
Sub-Committee on
the St. Lawrence Seaway

Minutes of Proceedings

THURSDAY, NOVEMBER 26, 1992

(13)

[Text]

The Sub-Committee on the St. Lawrence Seaway of the Standing Committee on Transport met *in camera* at 11:00 o'clock a.m. this day, in Room 306, West Block, the Chairman, Ken Atkinson, presiding.

Members of the Sub-Committee present: Iain Angus, Ken Atkinson, Girve Fretz, Len Gustafson, Stan Keyes.

In attendance: From the Research Branch of the Library of Parliament: John Christopher, Research Officer; David Cuthbertson, Consultant.

In accordance to Standing Order 108(1) and the Order adopted by the Standing Committee on Transport on February 25, 1992, consideration of issues relating to the Great Lakes and the St. Lawrence Seaway System.

The Sub-Committee proceeded to consider a draft report.

At 12:15 o'clock p.m., the Sub-Committee adjourned to the call of the Chair.

TUESDAY, DECEMBER 1, 1992

(14)

The Sub-Committee on the St. Lawrence Seaway of the Standing Committee on Transport met *in camera* at 3:45 o'clock p.m. this day, in Room 306, West Block, the Chairman, Ken Atkinson, presiding.

Members of the Sub-Committee present: Iain Angus, Ken Atkinson, Len Gustafson, Stan Keyes.

In attendance: From the Research Branch of the Library of Parliament: John Christopher, Research Officer; David Cuthbertson, Consultant.

In accordance to Standing Order 108(1) and the Order adopted by the Standing Committee on Transport on February 25, 1992, consideration of issues relating to the Great Lakes and the St. Lawrence Seaway System.

The Sub-Committee proceeded to consider its draft report.

At 5:30 o'clock p.m., the Sub-Committee adjourned to the call of the Chair.

THURSDAY, DECEMBER 3, 1992

(15)

The Sub-Committee on the St. Lawrence Seaway of the Standing Committee on Transport met *in camera* at 10:15 o'clock a.m. this day, in Room 306, West Block, the Chairman, Ken Atkinson, presiding.

Members of the Sub-Committee present: Iain Angus, Ken Atkinson, Girve Fretz, Len Gustafson, Stan Keyes.

In attendance: From the Research Branch of the Library of Parliament: John Christopher, Research Officer; David Cuthbertson, Consultant.

In accordance to Standing Order 108(1) and the Order adopted by the Standing Committee on Transport on February 25, 1992, consideration of issues relating to the Great Lakes and the St. Lawrence Seaway System.

The Sub-Committee proceeded to consider a draft report.

It was agreed,—That today's report, as amended, be adopted by the Sub-Committee and that the Chairman present it to the Standing Committee on Transport as soon as possible.

It was agreed,—That the said report be intitled: "The Future of the Great Lakes/St. Lawrence Seaway System."

It was agreed,—That, pursuant to Standing Order 109, the Committee request that the Government table a comprehensive response to this report within one hundred and fifty (150) days.

It was agreed,—That the Committee hire a Text Editor to review the concordance of the French and English versions and that he be paid a maximum of \$1,000.00 to perform his duties.

It was agreed,—That the Chairman be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report to the House.

At 11:00 o'clock a.m., the Committee adjourned to the call of the Chair.

Marc Toupin

Clerk of the Sub-Committee

TUESDAY, DECEMBER 8, 1992

(36)

[Text]

The Standing Committee on Transport met *in camera* at 10:10 o'clock a.m. this day, in Room 306, West Block, the Acting Chairman, Ken Atkinson, presiding.

Members of the Committee present: Iain Angus, Ken Atkinson, John Manley and Lee Richardson.

Acting Member (s) present: Bob Hicks for Robert A. Corbett.

In attendance: From the Research Branch of the Library of Parliament: John Christopher, Research Officer; David Cuthbertson, Consultant.

Pursuant to Standing Order 108(2) and the motion adopted by the Committee on February 25, 1992, consideration of the competitiveness and viability of the Great Lakes/St. Lawrence Seaway System.

The Committee proceeded to consider a draft report.

It was agreed,—That the report, The Future of the Great Lakes/St. Lawrence Seaway System be concurred in.

It was agreed,—That the Chairman present the report to the House.

It was agreed,—That, pursuant to Standing Order 109, the Committee request that the government table a comprehensive response to this Report.

At 10:20 o'clock a.m., the Committee adjourned to the call of the Chair.

Marc Toupin

Clerk of the Committee

