PROCEEDINGS —
Eighteenth Annual Meeting

Theme:
"Transportation in Transition"

October 17-18-19, 1977
Colony Square Hotel
Atlanta, Georgia

Volume XVIII • Number 1 1977

TRANSPORTATION RESEARCH FORUM

Transport Pricing and Public Policy: A Coastal Shipping Viewpoint

*by Paul A. Preville**

THE THEME of this Annual Meeting, Transport Pricing and Public Policy, is an apt combination of two elements, each having a profound effect on the other, and resulting in many interrelationships. Pricing and Policy generally have a direct relationship where a subsidy is paid or where the full capital and operating cost of a Government facility is not recovered. Also, there are many indirect relationships because Government activity in many spheres also affects transportation and these include corporate affairs, labour, energy, taxation, environment.

Public policy has many expressions which may relate to air, water, rail, highway or pipeline modes generally, or to specific regions of the country, or even to specific services. There are federal and provincial transport acts and regulations giving a broad definition of policy. The Government with the primary concern for waterborne transportation is the Federal. In addition to the National Transportation Act, the Federal Government has several others relating to shipping, including Water Carriage of Goods Act, National Harbours Board Act, Canada Shipping Act, St. Lawrence Seaway Authority. The Federal Government provides a long list of services to shipping as well, relating to channels and dredging, aids to navigation, hydrographic surveys and publication of charts, icebreakers, pilot service, and so on. The Federal Government is also directly concerned in the provision of some ferry and coastal steamship services in Atlantic Canada for which it is responsible through statutory requirement.

The National Transportation Act established that competition should be the prime means of regulating transportation, including its pricing, except in some parts of the country and as well as providing a means of protection for captive shippers and a method of appeal against non-compensatory rates to prevent unfair competition. Some changes to the National Transportation Act are now envisaged in Bill C-33 which would change the previous policy of market system regulation to one of government direction especially for the railways.

**Executive Vice-President, Clarke Transportation Canada Ltd.*

This change could both induce cost and also could reduce prices through subsidization.

Transportation pricing is generally related to cost. This applies to all modes, and it applies to each individual link in the transport chain as well as to the through and through transport service. Some items of cost can be expected to have a significant influence on transport cost in the future and many of these costs can be influenced and modified through the policies of our governments.

Pricing of coastal and inland marine transportation is affected by a number of major cost items. These include wages and salaries which have been increasing faster than the rate of inflation due to greater union demands, and increased vacations for seagoing personnel. Public Policy in this matter has its expression through the Anti-Inflation Board which aims at national self-regulation. Real productivity increases by seagoing personnel are difficult to achieve because the most efficient way is for the ship to do more. Since the size, speed and capacity of a given ship are fixed, productivity can only be increased by carrying more in a given time period, which, if capacity cargoes are available, means shorter voyages, or shorter periods in ballast, or greater return loads, or longer operating season.

Sometimes productivity increases can be achieved economically by lengthening the ship, or increasing draft or speed. Maritime Unions, both seagoing and shore based, have a history of high demands for wages, fringes, and working conditions. Should these continue, the wage cost factor will affect transport pricing. Government policy can help greatly through control of inflation.

Energy, generally in the form of oil fuel, is a major ship operating cost. The cost of fuel will cause transport prices to rise as the Canadian price approaches a still increasing world price. Canadian energy policy is aimed at providing a more gradual series of price increases rather than a few catastrophic ones. However, it is to be realized that as the cost of fuel goes up, then the cost of most goods and services will increase as well. The effect of a fuel cost increase will be greater for trucks and trains than for ships.

In the last few years, the cost of repairs, repair materials and supplies have increased in parallel with galloping inflation. Replacement parts especially had a rapid increase worldwide. Insurance premiums have had a history of sharp increases recently as well. It is expected that these costs of repairs, supplies, and insurance should begin to level off.

Marine terminal costs for loading and discharging ships of all kinds have had sharp cost increases on the labour component. The now well established trend is to further mechanize or unitize so that materials handling costs can be kept in line.

The cost of building ships in Canada has more than doubled in the last ten years. A new ship built overseas now could be obtained for about 25% less than a Canadian built ship after paying import duty, but this is still expensive. The least expensive method of acquiring a new tonnage which shipping companies are now doing is to purchase an existing ship for import and modifying it to suit the trade. The capital cost of new tonnage from whatever source is higher than that of existing ships, so the capital charge component is going to increase shipping rates as new ships are brought in. The capital cost for a new ship is by far the largest component of operating cost, and so the capital charge factor becomes the greatest component of freight rates. Also, shipping companies may in future have difficulty to borrow the money needed for new ships because of large amounts needed and because of competition in capital markets. In the past, Public Policy has been expressed in terms of assistance to Canadian shipbuilding through a shipbuilding subsidy, and this was aimed at bringing Canadian shipyards into line with their competition and also encouraging Canadian shipyards to improve their plant. Since this capital cost component of transport pricing will become more and more important, this is an area where Public Policy might be developed to assist. There are several methods which can be used. such as making available a fund which would lend to private industry at low interest rates, or providing a tax advantage, or by a shipbuilding subsidy or cash grant.

Pilotage is a service to shipping organized and operated through government agencies. The cost of pilotage has risen tremendously so that the charge becomes excessive when compared with the value of the service in many cases. Pilotage charges is an area where effort should be made to reduce the costs. Also, pilotage regulations could be revised to allow officers on coastal or inland ships greater opportunity to obtain limited pilotage certificates which would reduce the need for pilots and help reduce the cost.

Port Charges and top wharfage are in the public domain because the government owns nearly all the facilities and sets the rates. Port Charges could be expected to increase sharply if a full user pay policy were adopted. However, a new ports policy is being defined and will soon be implemented. Major ports should develop a closer relationship to the community due to local involvement on Port Commissions which are to operate the ports as self-sustaining business enterprises. They will be able to set their own rates within guidelines. Ports will have to generate sufficient revenues to meet operating costs and some capital costs. This will mean that charges will vary from port to port. Port Charges are assessed against the cargo going over the port, so there may be an incentive to keep charges as low as possible to make each port attractive. On the other hand, the capital cost for new port facilities is very high, and if local Port Commissions have to recover these costs, then Port Charges can be expected to increase.

The St. Lawrence Seaway is an infrastructure for shipping built by the Government at great expense. Current policy is aimed at making the St. Lawrence Seaway Authority viable by eliminating debt and doubling the tolls. Increased tolls will certainly be charged to the cargo and will result in a direct increase in transport costs.

Some steamship services receive a subsidy and these are generally services to remote areas which could not otherwise exist. In many cases, government subsidy does not result in lower rate because the subsidy prerequisite is a high level of commercial revenue. Public Policy seem to be moving toward less rather than more subsidized services.

In the past few years, freight rates have not kept up with increases in costs, and regular rate increases can be expected into the future in order to catch up.

Many of the cost increases facing coastal shipping in the near future are largely beyond its control. The cost of new ships, the cost of fuel, labour, repairs, port charges, are among these costs. Pricing activity will therefore be towards increasing rates. At the same time, Public Policy seem to be headed in the direction of user pay which would indicate no relief from higher transport prices.