

**Actions to move
Northern Ontario forward**

**RESPONSE TO THE DRAFT 2041 NORTHERN ONTARIO
MULTIMODAL TRANSPORTATION STRATEGY**

Marine Tourism – Cabotage

By Dr. Barry Prentice | No. 3 | December 2017

In July, 2017, The Ministry of Transportation (MTO) and the Ministry of Northern Development and Mines (MNDM) released a Draft 2041 Northern Ontario Multimodal Transportation Strategy to align with the 2011 Growth Plan for Northern Ontario.

Northern Policy Institute (NPI) recognizes the importance of an innovative, diverse transportation strategy that takes all communities into account. As part of our role to propose evidence based, practical solutions that support the sustainable development of Ontario's northern regions, we've put forward this series of action items that outline concrete next steps that the public and private sectors can use to inform the implementation and management of transportation policies.

These action items relate directly to directions outlined in the draft strategy.

DIRECTION 4.4:

Support enhanced marine tourism business in Northern Ontario

Summary of Proposed Action Items:

MNDM and MTO should:

1) Encourage the Ontario Government to press Canadian negotiators to develop a trial cabotage zone on the Great-Lakes-St. Lawrence Seaway, during or after upcoming NAFTA renegotiations.

2) Encourage the Ontario Government to press for an expansion of the waivers given to foreign shipping to allow for more competition on the Great Lakes by international cruise lines, or under the CETA to permit the European cruise lines to gain access.

BACKGROUND

The NOMTS recognizes the barrier that lack of cabotage with the United States poses to the development of cruise ship tourist services on the Great Lakes. This is a significant obstacle to economic services, particularly with respect to attracting foreign cruise-ship lines to develop such tourist service. Clearly, this is a missed opportunity of substantial importance. Cruises in the Mediterranean, Caribbean, the British Columbia-Alaska coast and on the river systems of Europe have expanded rapidly. The popularity of cruises is likely to continue because the world's aging population has both the time and means to enjoy these types of vacations. The Great Lakes-St. Lawrence Seaway offers an experience equal to or better than any foreign offerings, albeit the season may be restricted to the May-September period. To date only three companies offer cruise services in the Great Lakes area, and some are exclusively within US waters.¹

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As noted by the NOMTS, cabotage restrictions limit foreign-owned ships to movements between ports on opposite sides of the border, but not between two ports on the same side of the border. This limits the itineraries that are possible for cruises on the Great Lakes. Given the long sailing times between ports in the region. These itinerary restrictions make Great Lakes cruises less attractive to tourists than would be the case otherwise.

The cruise market on the Great Lakes is even more restricted for non-Canadian or non-U.S. cruise lines, as these vessels can at least travel from port to port on their side of the border. A foreign carrier on the other hand, would have to pick up and drop passengers in either the U.S. or in Canada, but could not originate and return passengers to the same port.

Cabotage restrictions have a long history, but little if any justification either economically or militarily, remains. Essentially, they are a form of trade protectionism that was not eliminated when the North American Free Trade

Agreement (NAFTA) was signed. Typically, the finger is pointed at the U.S. *Jones Act* that restricts all US coastal trade to US-built, owned and operated ships. Canada's cabotage restrictions recognize more exceptions, and allow some ships to operate between Canadian ports on waiver programs, but no foreign cruise lines are permitted to operate on the Great Lakes.

Interestingly, the NOMTS makes no mention of the impact that cabotage restrictions have on marine freight movements on the Great Lakes. While the impact is not as dramatic because it is mainly bulk shipping that moves from port to port, the lack of cabotage prevents the development of an integrated cross-border market. It may also be a major barrier to the development of containerized feeder services that would greatly assist ports like Thunder Bay and Sault Ste. Marie in developing their economies.

The NOMTS also recognizes some other limitations that impose costs and restrict cruise operations. The mandatory use of pilots on the St. Lawrence Seaway continues to impose an unnecessary cost on all shipping. In the age of GPS, radar and collision-avoidance technology, pilotage is an anachronism. Increased safety is no longer a sufficient justification for retaining this requirement. The other problem is inadequate border security facilities. In part, this may be a chicken and egg argument, but it is also the case that the customs agencies resist the development of any new services unless they are provided on a user-pay basis. This is a case where the Finance Department determines transportation policy.

The actions underway to raise awareness are desirable, but unlikely to deliver much in terms of results. The cabotage problem lies at the national level and involves trade agreements. The recent Comprehensive Economic Trade Agreement (CETA) between Canada and the European Union includes language that could permit some European shipping lines or their subsidiaries to operate feeder services in the Great Lakes, but the scope is limited. At the present, it looks like cabotage would be limited to only Halifax to Montreal. Nonetheless, this development offers some hope that cabotage could be expanded.

The NOMTS could expand its coverage to be more proactive on this issue. As the NAFTA has now been re-opened for negotiations, the Ontario Government could press the Canadian negotiators to develop a trial cabotage zone on the Great-Lakes-St. Lawrence Seaway. Given the relatively small size of this market in the scope of the NAFTA agreement, this might be something that the U.S. Government could accept despite the strong lobby efforts of the marine sector that resists any change to the *Jones Act*.

¹ Victory Cruise Lines, Pearl Seas Cruises and Blount Small Ship Adventures

Similarly, the Ontario Government could press for an expansion of the waivers given to foreign shipping to allow for more competition on the Great Lakes by international cruise lines, or under the CETA to permit the European cruise lines to gain access.

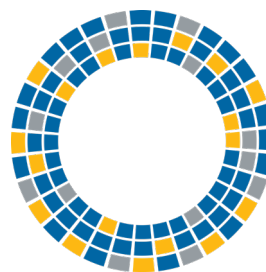
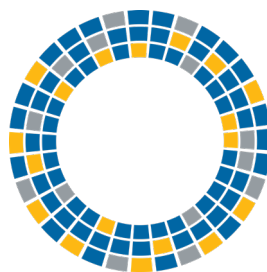
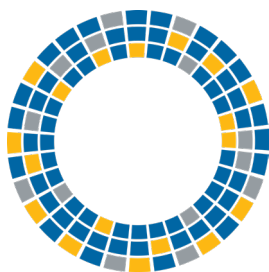


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Dr. Barry Prentice is a Professor of Supply Chain Management, at the I.H. Asper School of Business, University of Manitoba and the former Director (1996-2005) of the Transport Institute. His major research and teaching interests include logistics, transportation economics, urban transport and trade policy. Dr. Prentice holds a degree in economics from University of Western Ontario (1973) and graduate degrees in agricultural economics from University of Guelph (1979) and University of Manitoba (1986).

Through the Transport Institute, Dr. Prentice has organized national and international conferences on sustainable transportation (Railways and the Environment), supply chain logistics (Planes, Trains & Ships), agribusiness logistics (Fields on Wheels), the potential use of airships for northern transportation (Airships to the Arctic) and food trade between Canada and Mexico (La Cadena de Frio).

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Northern Policy Institute is Northern Ontario's independent think tank. We perform research, collect and disseminate evidence, and identify policy opportunities to support the growth of sustainable Northern Ontario communities. Our operations are located in Thunder Bay, Sault Ste. Marie and Sudbury to enhance Northern Ontario's capacity to take the lead position on socio-economic policy that impacts Northern Ontario and Canada as a whole.

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