

TERMS OF REFERENCE
FOR A PRE-FEASIBILITY STUDY INTO THE ROLE OF THE PROVINCE
OF NEWFOUNDLAND AND LABRADOR IN AN ATLANTIC GATEWAY

Island-Based Transshipment Ports

Newfoundland and Labrador has been relegated to the sidelines by many advocates of an Atlantic Gateway, who argue that no port can contend or compete for this transshipment role unless they meet the following conditions:

1. Must be located on major international shipping corridors with the Far East through the Suez Canal;
2. Must have a deep-draft port which is ice-free year round; and
3. Must be located on major continental highway and railroad corridors.

Even though the Island of Newfoundland has deep-draft, ice-free ports on the south coast it is argued by some that the lack of direct access to transcontinental highways and railroads takes the Province out of the running for an Atlantic Gateway. Yet, many major transshipment ports, such as Freeport in the Bahamas, Hong Kong, Singapore, and others are located on Islands, without direct transcontinental access to highways and rail. Such ports rely primarily on short sea shipping as a means of distributing cargo from large vessels to terminals on continental mainlands. Therefore it would be short sighted to dismiss the potential role which can be played by ice-free, deep water ports in this Province. By virtue of its strategic location and its natural advantages the Province should take on a pro-active, rather than reactive role, in the design and development of an Atlantic Gateway

Short Sea Shipping

Short sea shipping is an issue of critical importance which needs to be investigated. The economics of short sea shipping and the sensitivity of shipping cost in terms of distance from the market need to be explored. Various options need to be reviewed. One involves the unloading of only a portion of the overall cargo from large container vessels for transport by smaller vessels to ports on the eastern seaboard, including Montreal. In this option the larger vessels would continue on to another east coast port to discharge the rest of its cargo, while smaller vessels would distribute cargo to other ports. Another option would see the discharge of the entirety of the cargo into smaller vessels at a port in Newfoundland and Labrador, thereby freeing up the larger vessel to reload in Newfoundland or else to travel elsewhere to load before returning to

ports in the Far East. Short sea shipping requires the ability for shippers to take on goods in one Canadian port for transport to another Canadian port.

Cabotage

The freedom to take on cargo from one Canadian port for discharge in another or to take on cargo at an American port for discharge at another is known as cabotage. Wikipedia describes cabotage as follows: “Cabotage is the transport of goods or passengers between two points in the same country. Originally starting with shipping, cabotage now also covers aviation, railways and road transport. Cabotage is trade or navigation in coastal waters, or the exclusive right of a country to operate the air traffic within its territory.

“Cabotage is commonly used as part of the term ‘cabotage rights’, the right of a company from one country to trade in another country. In aviation terms, it is the right to operate within the domestic borders of another country. Most countries do not permit cabotage by foreigners, although this is changing within Europe for member states of the European Union. Politically, cabotage regulations restricting trade to domestic carriers are a form of protectionism. Justifications for cabotage regulations include national security and the need to regulate public safety.”

To be viable a short sea shipping feeder would need to deliver to US ports. To be economically competitive it would need to be international with open registry. It would then (due to cabotage restrictions) not be able to provide feeder short sea shipping services to Canadian ports.

Cabotage regulations in Canada represent an obstacle to short sea shipping because these regulations make it impossible for foreign owned vessels to pick up and discharge at competitive costs. The lifting of cargo from one Canadian port to another has to be done by Canadian vessels, staffed by Canadian crews paying Canadian taxes. Newfoundland is disadvantaged currently as a transshipment port for short sea shipping forward to ports such as Halifax and Montreal by Canadian shipping regulations. Policy changes are needed in order to enable transshipment through short sea shipping. The nature of the policy changes and the political advocacy efforts needed to overcome cabotage regulations need further delineation.

Import Duty

The 25% import duty on vessels brought in from outside the country represents another financial burden for shipping from one port to another by Canadian shippers. Innovative measure have been devised within the European Union to overcome these problems and the Province needs to assess these measures and decide if they can be transplanted to Canada.

Taxation and Public Support

The lack of public support for ports and terminals, unlike the US, represents a challenge for all Canadian ports vying for the transshipment of merchandise trade with the Far East. If Canada is to compete seriously for an Atlantic Gateway there will have to be measures to create a more level playing field with American and with Mexican ports.

The Jones Act

The Jones Act in the United States is a major protectionist policy which makes it extremely difficult for foreign owned vessels to unload in US ports and to carry cargo from one port to another. The impact of the Jones Act should be fully explored in the context of an Atlantic Gateway.

Inventory of Ports in Newfoundland and Labrador

In order to determine which ports are best suited to serve as an Atlantic Gateway it will be necessary to compile geophysical information on ice-free, deep channel/deep water ports. Most of the information is readily available but needs to be organized and presented in the context of the requirements for an Atlantic Gateway. In addition, an assessment is required of the cost of building infrastructure in these ports.

Human Resources

One of the major challenges in the development of an Atlantic Gateway is the need for training at a high level of quality and sophistication. Human resources should be given as much attention as physical infrastructure. Transshipment of the volumes envisaged require management and computer skills to handle a highly complex logistical operation. Centers of excellence such as the Marine Institute will play a key role in the training and technology transfer needed to create an Atlantic Gateway.

Pre-Feasibility Study

It is recommended that a pre-feasibility study be prepared which would examine the following:

- The public policy issues surrounding cabotage and the Jones Act.
- The economics of short sea shipping and the financial parameters within which private sector investment will occur.
- Global trade information along with the development of appropriate origin-destination statistics, including commodity types and their geographical origin of shipping and assembly. This would encompass the rate of growth expected in commodity transportation and would embrace petroleum products as well as other merchandise trade. It would include containerized and break bulk trade.

- Identify the existing and proposed transportation routes, modes and services likely to be used to transport merchandise and petroleum cargo.
- Identify transportation requirement of shippers and consignees.
- Inventory ports in the Province.
- Determine the main criteria affecting the suitability of ports in Newfoundland and Labrador to be used in the global transportation network and apply these criteria to ports in the inventory. Estimate the infrastructure costs for each of the most prospective ports.
- Simulate services, shipping and terminal activities, using Newfoundland and Labrador ports.
- Identify intermodal requirements within and without the Province, including air transfer and short sea shipping and the costs associated with these.
- Develop schedules and costs of short sea services and associated intermodal transfers, both within and without the Province for selected customers/commodities for given origin destination pairs. For these services and transfers complete a comparative analysis of probable competing services and the managerial, logistical requirements of the services and transfers.
- Identify the cost and parameters of a full feasibility study.
- Identify the human resource requirements of an Atlantic Gateway in concert with international centers of excellence in the development, certification and delivery of training for the operation and management of ships, ports and terminals.
- This work should be undertaken in close consultation with ship owners, terminal operators, marine training institutions, manufacturers and shippers.

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