

News Release

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May 14, 1998

MARINE SERVICES FEES TO BE CAPPED FOR THREE YEARS

OTTAWA -- The Federal Government will put a three-year cap on marine services fees paid by commercial ships for services provided by the Canadian Coast Guard (CCG), Fisheries and Oceans Minister David Anderson announced today.

"We've worked closely with the commercial shipping industry and we've carefully considered their advice including a report submitted by the National Marine and Industrial Coalition. We're responding favourably to many of their proposals including recommendations for a regional approach, economic impact safeguards and stable fee levels," Mr. Anderson stated.

The revenues generated by the marine navigation services fee will be maintained for 1998-99 at the current level of \$26.7 million. This represents about 30% of the costs (\$86.6 million) of providing marine navigation services to commercial ships. Actual fees paid by individual ships will be set using updated costs and traffic volumes. These fees will then be frozen for three years.

In keeping with its March 1997 announcement on marine services fees, the Government will also implement a fee to recover a portion of the costs of the icebreaking services provided to commercial ships. This transit fee, to be put in place for the 1998-99 ice season, will recover \$13.3 million, out of a total cost of \$76 million for commercial icebreaking services. Regarding the following years, Coast Guard will continue to work with the industry to identify new savings in icebreaking services. These savings would be shared with the industry.

"While we are responding to many of the industry's proposals, the Government could not accept industry's request for a further moratorium on an icebreaking services fee. It has already been delayed by two years," said Mr. Anderson. He noted that despite the fee, over 80% of the costs of those commercial icebreaking services will continue to be subsidized by Canadian taxpayers.

In response to industry concerns for economic safeguards, the Minister also announced an independent fee review mechanism to provide a forum for commercial users to resolve fee disputes that reach an impasse. In addition, the Treasury Board Secretariat will undertake a cumulative economic impact study with appropriate departments within the next three years, to assess the impact of government cost recovery initiatives on the commercial shipping sector.

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Coast Guard will consult the commercial shipping industry over the coming weeks to finalize the rate structure for the marine navigation services fee (adjustments to take effect July, 1998) and the transit fee for icebreaking services which will take effect in December, 1998.

The Canadian Coast Guard provides marine services to commercial ships 24 hours a day, 7 days a week. Canadian taxpayers have traditionally paid for these services. However, the government's policy is that users should contribute toward the costs of services that directly benefit them.

"The marine services fees represent a partial but reasonable contribution toward the costs of services received by commercial shipping," said Mr. Anderson. "They represent a fairer deal for Canadian taxpayers that balances their interests with the concerns of a key sector of our economy. This is all part of getting government right."

The backgrounders related to this announcement are available on the automated Fax-On-Demand service of Fisheries and Oceans. They are immediately retrievable -- to users with a touchtone phone and a fax machine -- 24 hours a day, 7 days a week.

To retrieve, dial **1-416-362-1447** and follow the voice prompts.

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MARINE SERVICES FEES AT A GLANCE

Marine Navigation Fees

The revenues generated by the marine navigation services fee will be maintained for 1998-99 at the current level of \$26.7 million which represents 30.8% of the costs (\$86.6 million) of providing marine navigation services to commercial ships.

Adjustments will be made to the current marine navigation fee to correspond to the latest CCG costs and traffic volumes.

These fees will then remain frozen for three years.

Icebreaking Services Fees

A transit fee, to be put in place for the 1998-99 ice season, would recover \$13.3 million, out of a total cost of \$76 million for icebreaking services to commercial ships. Despite the fee, over 80% of the costs of those services will continue to be subsidized by Canadian taxpayers.

Any new savings realized over the next three years would be reflected in annually reduced fees.

Independent Fee Review Mechanism

An independent fee review mechanism will be established to provide a forum for commercial users to resolve fee disputes that reach an impasse.

Economic Impact Study

The Treasury Board Secretariat will undertake a cumulative economic impact study with appropriate departments within the next three years, to assess the impact of government cost recovery initiatives on the commercial shipping sector.

MAY 1998

Backgrounder

B-HQ-98-23(74)

THE ECONOMIC IMPACT OF MARINE INITIATIVES

The federal government's Program Review exercise, a report by the Standing Committee on Transport (SCOT) and the commitments made in the 1995 Federal Budget set the context for the cost recovery of services provided to the commercial shipping industry by the Canadian Coast Guard. Prior to 1996, the cost for Coast Guard marine navigation and icebreaking services was borne entirely by the Canadian taxpayer.

The Coast Guard held extensive consultations with industry during the initial implementation of the Marine Services Fee, including with the 22-member Marine Advisory Board (MAB). Additional consultations were held with the Regional Advisory Boards and the industry at large through the release of two consultation papers, and through several meetings with stakeholders.

Prior to implementing fees in 1996-97, the Coast Guard submitted them to the Standing Committee of Fisheries and Oceans (SCOFO) for review. Following public hearings, SCOFO recommended that the Coast Guard proceed with the marine navigation services fees at the \$20 million level, conditional on undertaking a socio-economic impact analysis on the cumulative effect of all marine related fees and initiatives on the commercial shipping industry.

The Coast Guard and Transport Canada commissioned a study to look at the economic impact of marine service fees and other initiatives including: reform of the port system, commercialization of the St. Lawrence Seaway, pilotage reform, withdrawal of the Coast Guard from dredging in harbours and channels, and the creation of private-sector oil spill response organizations. The terms of reference were developed in close cooperation with the Marine Advisory Board, and the industry was closely involved at all stages of the study.

The Economic Impact Study

The results of the study indicated that while the cost to commercial vessels related to all marine fees and initiatives was \$75 million, the impact would be modest (1/10 of 1% of the value of the commodities shipped).

With respect to marine navigation and icebreaking services fees at the \$40 million level, the findings revealed that only gypsum and aggregates would be subject to potential disruption. Mitigating measures were implemented for these two commodities. Those measures will continue to be applied and Coast Guard will closely monitor the impact on all commodities.



Next Steps

Coast Guard remains committed to public consultation with clients on issues that affect the users of marine services. CCG will be consulting with the commercial shipping industry over the coming weeks to finalize the fee structure for the marine navigation services (adjustments to take effect July 1998) and the transit fee for icebreaking services which will take effect in December 1998.

Coast Guard is aware of the concerns that have been expressed by the marine shipping industry on the impact of cost recovery on their industry. In addition to ongoing monitoring, an independent fee review mechanism will be established to provide a forum for commercial users to resolve fee disputes that reach an impasse.

Further, the Treasury Board Secretariat will undertake a cumulative economic impact study with appropriate departments within the next three years, to assess the impact of government cost recovery initiatives on the commercial shipping sector.

MAY 1998

Background

B-HQ-98-23(75)

INDUSTRY PARTICIPATION

The Canadian Coast Guard (CCG) has held extensive consultations with the commercial shipping industry since the initial implementation of a Marine Services Fee. One of the principal fora used for consultation was the Marine Advisory Board (MAB). The MAB is an advisory body established in 1994 to provide the Commissioner of CCG with advice on strategic policy, the impact of strategic planning on marine interests, and setting priorities and directions for CCG. It is composed of some 22 members representing the interests of shippers, ship owners and other stakeholders.

Regional Advisory Boards (RAB) have also been established in each of the five CCG regions. The chair of each RAB also sits as a member of the MAB. The role of the RABs is to provide a forum for joint CCG-commercial shipping industry consultation on issues impacting commercial shipping in the regions.

Discussions with the MAB, RABs and key stakeholders resulted in changes to the Marine Navigation Services Fee structure for 1997-98. Changes included a zone based fee for the Maritimes, a tonne-kilometre fee structure for domestic bulkers, self unloaders and container ships, and a quarterly fee for other Canadian flag vessels.

CCG has continued consultations with the MAB and RABs in the development of the approach to cost recovery of marine services for 1998-99.

In addition to the formal MAB structure, other stakeholders also took the opportunity to submit proposals for consideration, including the National Marine and Industrial Coalition (NMIC), a coalition of commercial shipping interests with representation across the regions.

CCG has carefully considered the input received from the MAB, the RABs, the NMIC and other stakeholders in developing a new approach to cost recovery of marine navigation and icebreaking services.

MARINE ADVISORY BOARD (MAB)

Four working groups, struck by MAB members, examined areas of central importance to defining a new approach to cost recovery of marine navigation and icebreaking services.

These working groups met regularly during 1997, exchanging ideas, developing discussion papers and determining feasible options for fairness and equity in the development and application of the Marine Services Fee. The results of these efforts contributed to the new approach that will be applied to the cost recovery of marine navigation and icebreaking fees commencing in 1998-99.



The Sub-Committee on Costing Methods examined CCG's cost accounting methods and allocation processes with a view to providing a definition and application of direct cost. They also recommended a process for CCG to apply to help ensure the services are delivered in a cost effective manner. Utilizing input received from the working group, the CCG developed a framework for the determination of the costs for marine services. Cost recovery for marine services will now be based on a percentage of costs directly attributable to commercial shipping.

The Independent Fee Review Panel Sub-Committee canvassed members of the advisory boards to determine the need for an appropriate structure of a panel. Following this consultation, the sub-committee provided advice about the form of review mechanism they would consider most effective. They suggested some members want a strong panel and some want no panel at all, but overall, the sub-committee felt that most of industry wants a review function. It further suggested that a panel of three experts could be convened as required. It would have to be fast, effective, inexpensive and independent. Its mandate would focus on factual disputes rather than policy issues.

The Sub-Committee on Cost Reduction Plans, Application of Technology and Aids to Navigation familiarized themselves with CCG's strategic reduction plans, aids modernization program and Marine Communications and Traffic Services activities and cost allocation processes. They provided input on the appropriateness of the current marine navigation service levels as well as CCG's progress on achieving cost reductions in these areas.

The Ice Route Assistance Fee Structure Sub-Committee explored several options for an icebreaking fee structure. The majority of the committee's members were in accord with a transit fee structure with recognition of a discount for ice capable ships and a cap on the number of chargeable transits to recognize frequent traders.

REGIONAL ADVISORY BOARDS (RABs)

The Regional Advisory Boards, along with the Marine Advisory Board, monitored the progress of the sub-committees while also focusing on proposing principles and a cost recovery framework for consideration by CCG in implementing a new approach for 1998-99.

NATIONAL MARINE AND INDUSTRIAL COALITION (NMIC)

Independent from and concurrent with the MAB process, industry representation from all five CCG regions formed a National Marine and Industrial Coalition (NMIC). The NMIC's work resulted in a proposal that addressed CCG's delivery and management of services, rationalization of costs and development of a cost recovery formula. The NMIC tabled their proposal before the MAB in November 1997.

CCG will continue to examine and adjust existing consultation framework and mechanisms to ensure that meaningful and effective consultations with industry are maintained.

Background

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MARINE NAVIGATION SERVICES

The Canadian Coast Guard's (CCG) marine navigation services are part of an extensive marine safety net aimed at providing a safe and environmentally sound national transportation system.

Short Range Aids to Navigation (SRAN) include:

- **Visual aids** include lightstations; buoys marking hazards, junctions and fairways; ranges marking centrelines of channels; and daybeacons marking channels for daytime use.
- **Radar aids** include radar reflectors to enhance detection of visual aids to navigation, important land features and hazards under reduced visibility conditions; and radar beacons (RACONs) which send a distinctive response to ships' radar to identify important visual aids, land features or hazards.
- **Aural aids** include fog horns which warn of dangers and/or provide general direction; and bell and whistle buoys which warn of hazards and/or provide general direction.

Long Range Aids to Navigation (LRAN) include:

- **Loran-C** hyperbolic radio navigation system that is used to identify vessel position on both the east and west coasts and on the Great Lakes, for use with Loran-C receivers and specialized nautical charts.
- Precision navigation systems such as the **Differential Global Positioning System (DGPS) and the Automatic Identification System (AIS)** which will help provide mariners with increasing navigational accuracy.

Marine Communication and Traffic Services (MCTS)

MCTS services include the establishment of compulsory traffic routes and other shipping traffic controls necessary for safe navigation; issuing Notices to Mariners and Notices to Shipping; assisting Environment Canada in providing weather forecasts; and establishing vessel traffic service zones and imposing mandatory practices and procedures within those zones. MCTS centres are staffed by highly qualified personnel on a 24-hour, 7-day-a-week basis.

Vessel Traffic Services (VTS) are provided in Canadian waters where the federal government has justified the need and has accepted responsibility for providing VTS. In all VTS zones, vessel movements are monitored through direct VHF radio communications. In some areas, VHF radio is supplemented by shore-based radar surveillance equipment, closed circuit television and/or visual sightings.



FURTHER STRATEGIC DIRECTIONS

- **Modernization of Aids to Navigation**

The Coast Guard is addressing the needs of the modern mariner and facing its financial challenges by implementing an aids to navigation modernization program which takes advantage of modern technology and will result in a more equitable, safe, cost-effective and environmentally friendly service across Canada. To realize these objectives, the Coast Guard is utilizing low maintenance buoys and solar power, eliminating the use of diesel power, and applying the national provision policy and design standards during cyclical reviews of the aids to navigation systems in all regions of Canada. As well, the maintenance of certain aids to navigation systems are being contracted out.

There are two key activities in adjusting aids to navigation systems: (1) aids to navigation systems are being adjusted to meet national provision policy and design standards, and (2) some aids to navigation are being privatized or transferred to local community associations or governments to operate.

Under the aids modernization program, public consultation and communication with local municipalities and users is being carried out. Coast Guard gives full consideration to user comments and exercises great caution in making changes. No changes to the aids to navigation provided for recreational boaters will be made until consultations with local users have been completed.

In recent years, some users have equipped themselves with modern on-board navigational aids such as radar, depth sounders, Loran-C and the Global Positioning System (GPS) and the Differential Global Positioning System (DGPS) and rely less on a conventional visual aids system to ensure safe navigation.

A key concept in the modern day aids to navigation system is that safety is a shared responsibility between the individual and government. Individuals are responsible for their own safety and survival. They must navigate only in conditions that are appropriate for their vessel. They must equip their vessel for the conditions in which they navigate and train themselves in proper navigation and vessel handling techniques. The government has accepted the responsibility of ensuring that an appropriate system of aids to navigation is in place to assist the prudent mariner. A large number of conventional aids to navigation will remain in service for that purpose.

Coast Guard has begun the implementation of DGPS technology, an enhancement of the satellite-based Global Positioning System (GPS). The differential technique computes the range of errors in the GPS signals and then transmits the corrections to the user, in real time, providing a positioning accuracy of 10 metres.

DGPS technology, when combined with onboard electronic charts such as Electronic Chart Display Systems (ECDIS), will enhance mariner safety and reduce the risk of marine accidents by allowing mariners to continuously update their vessel's position within the advertised coverage zones.

- **Automatic Identification System (AIS)**

The CCG is also testing an Automatic Identification System (AIS) to improve ship surveillance and enhance data exchange between ships and MCTS centres.

The AIS is a technique which uses radio transponders on board vessels to provide positive identification and accurate location. A ship equipped with an AIS transponder can also automatically determine its exact geographical position using the Global Positioning System (GPS) augmented by DGPS. Once the ship has determined its position, it feeds this information into the AIS transponder which transmits this information via a designated radio communication channel to an operations centre on shore as well as to other ships. The receiving station displays them on a display screen against the background of an electronic chart of the area.

AIS technology has the potential to help CCG reduce the costs of some of its services while, at the same time, offering enhanced capabilities of ship detection, surveillance, and identification for data inquiries.

COST OF MARINE NAVIGATION SERVICES

The 1996-97 full cost of marine navigation services is \$260.7 million. Of this amount, \$86.7 million is for services directly received by commercial ships (i.e. SRAN, DGPS and 50% of VTS) in southern waters.

MARINE NAVIGATION SERVICES FEES

The current revenue level will be maintained at \$26.7 million for 1998-99. This level would generate 30.8% of the cost of services directly received by commercial ships in each region.

Actual fees for 1998-99 will be set using updated costs and traffic volumes. These fees will then remain frozen for three years.

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Backgrounder

B-HQ-98-23(77)

ICEBREAKING SERVICES

The Canadian Coast Guard (CCG) provides, operates and maintains icebreakers and icebreaking facilities and services for marine traffic navigating through or around ice covered waters and for flood control. Services provided involve the physical act of icebreaking and the collection, analysis and provision of ice information.

CCG's main icebreaking services include: route assistance; ice routing and information services; marine facilities and port maintenance; ice management and Arctic Sealift support. These services are provided during winter on the East Coast of Canada and in the summer in the north.

Route assistance services include:

- Escorting ships and organizing convoys to travel through ice covered waters;
- Freeing beset vessels;
- Maintaining shipping channels and tracks; and
- Standing by in areas where requests for route assistance are likely.

Ice routing and information services include:

- Undertaking ice reconnaissance activities to survey and forecast ice conditions;
- Supplying ice information to interested parties; and
- Providing ice information broadcasts and ice routing advice to ships requiring such information.

Marine facilities and port maintenance include:

- Breaking out approaches and clearing ice from wharves;
- Assisting shipping within ports;
- Helping fishing vessels to gain access to and egress from their harbours; and
- Breaking out harbours to facilitate ice clearance at the end of the ice season.

Ice management includes:

- Monitoring ice conditions and water levels in anticipation of flood risks;
- Preventing formation of ice jams/excessive buildup of ice in areas threatened by flooding;
- Providing icebreaker services to facilitate ice flow during spring break-up;
- Standing by in areas prone to excessive buildup; and
- Constructing and positioning ice booms and artificial ice islands to encourage the formation of an ice cover outside the main shipping channel.

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Arctic Sealift support includes:

- coordinating the movement of cargo for the annual resupply of Northern settlements and military sites using contracted commercial carriers; and
- employing Coast Guard ships when this activity is not commercially viable for private carriers.

The role of Coast Guard Icebreaking Program personnel is to minimize the risk of damage to vessels and reduce travel time as much as safely possible. Seventeen icebreakers are stationed throughout eastern Canada to ensure year-round access to shipping lanes by the commercial marine shipping sector and to provide flood control.

Unlike marine navigation services, for which responsibility is assigned to five distinct regions, the Icebreaking Program is an integrated delivery system. A number of factors support the logic for managing the program in this manner. Ice is constantly shifting within the zone, regardless of regional boundaries. Commercial vessels may cross up to four regions on a single transit. The capital cost of putting icebreaking vessels in service is considerable, and thus vessels are shared between regions, and the ice zone is vast. This integrated delivery system is exemplified in the 18-year-old agreement between Canadian Coast Guard and the United States Coast Guard to jointly provide icebreaking services in the Great Lakes. This international cooperation ensures that costs to both countries are kept as low as possible, while ensuring the availability of services when needed.

COST OF ICEBREAKING SERVICES

The 1996-97 full cost to CCG of providing icebreaking services was \$163.5 million. The services subject to cost recovery are route assistance, ice routing and information services and marine facilities and port maintenance in support of commercial ships. The cost of services directly provided for commercial ships during the winter ice season is \$76.0 million.

ICEBREAKING SERVICES FEE

Coast Guard is using input from the Marine Advisory Board sub-committee on Ice Route Assistance Fee Structure as the basis for a proposed icebreaking fee. The fee will be introduced at a level to generate \$13.3 million in 1998-99 which represents 17.5% of the \$76.0 million cost of services directly provided for commercial ships.

STRATEGIC DIRECTIONS

Coast Guard, in partnership with other departments and agencies, will continue with the use of new technology to provide more effective and efficient icebreaking services. Some of these initiatives include the St. Lawrence River Ice Manager (remote sensing of ice, water levels, tide & current, etc.); electromagnetic ice thickness sensors; acoustic sensing of ice pressure; X-polarized radar; and an Ice Navigation simulator.

COLLABORATION WITH INDUSTRY

The Icebreaking sub-committee of the Marine Advisory Board, whose members represent commercial users of icebreaking services, produced the report ' CCG Icebreaker Requirements', on November 27, 1996. This report identified the type, number, location and timing of icebreaker requirements. This sub-committee also provided valuable input for the structure of the Icebreaking Services Fee.

Each year CCG personnel plan the upcoming season's icebreaking requirements in co-operation with the commercial shipping sector well in advance of the build-up of ice to ensure the most effective use of resources. CCG, in consultation with users, will continue to explore options to reduce icebreaking services in an effort to reduce costs, while recognizing CCG's responsibility to ensure marine safety. Any new savings realized over the next three years will be shared with the commercial shipping industry and reflected in annually reduced rates.

INTERNATIONAL EXPERIENCE

Fees for marine services are a reflection of governments globally becoming fiscally responsible. A number of other countries charge for marine services. Sweden, Finland, and Norway all charge anywhere from 70 to 100% of icebreaking costs. By contrast, CCG is introducing a fee for icebreaking services which will generate \$13.3 million. This level represents only 17.5% of costs directly attributable to services provided to commercial clients.

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Backgrounder

B-HQ-98-23(78)

PROPOSED ICEBREAKING FEE STRUCTURE

On March 20, 1997, the government announced that along with work to restructure existing fees for marine navigation services, the Canadian Coast Guard (CCG) would continue to develop, in partnership with industry, a fee for icebreaking services. This fee would be introduced in those areas requiring icebreaking services as part of the comprehensive fee system for 1998-99.

As a result, during 1997-98, CCG undertook extensive consultations with the commercial shipping industry to determine levels of service required by this industry before establishing a fee structure. The industry supports a regional approach to icebreaking fees that recognizes two regions; the East where icebreaking services are provided and the West, where no service is provided.

The Ice Route Assistance Fee Structure Sub-Committee explored several options for an icebreaking fee structure and proposed the following:

- This fee will apply in the East on a system-wide basis as icebreaking services are provided and operated as one integrated system of all areas requiring icebreaking services.
- The fee will apply in the ice zone which is those areas south of 60° north latitude where, in a typical winter, CCG provides icebreaking services to commercial users.
- The fee would only be charged in waters typically infested by ice during the winter icebreaking season.
 - ◊ January 15 to May 15 for Northeast Newfoundland
 - ◊ December 21 to April 15 for waters of the Great Lakes, the St. Lawrence River, the Gulf of St. Lawrence, and Cabot Strait
- A transit fee would apply each time a vessel sails to or from a Canadian port in the zone where icebreaking is typically provided during the defined ice period. The transit fee would cover route assistance, ice routing and information services and marine facilities and port maintenance in support of commercial ships.

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- The fee would be the same regardless of vessel size, type and flag and would not apply to non-propulsion ships.
- A cap on the maximum number of chargeable transits would apply to frequent traders.
- The fee would be discounted based on a vessel's capability to move through ice.

The CCG remains committed to public consultation with clients. The commercial shipping industry will be consulted on the details of the fee structure for icebreaking services prior to its implementation in December 1998.

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Background

B-HQ-98-23(79)

MARINE SERVICES FEES GUIDING PRINCIPLES

The Canadian Coast Guard's (CCG) work with the industry during the past year has been instrumental in the development of a set of Guiding Principles for Marine Services Fees which will guide the implementation of cost recovery of marine navigation and icebreaking services on the commercial shipping sector.

CCG consulted extensively with industry, primarily through the Marine Advisory Board (MAB) and Regional Advisory Boards (RABs), and has taken into consideration the National Marine and Industrial Coalition (NMIC) proposal. CCG has listened to industry's concerns in developing the 14 principles listed below. These principles will guide cost recovery of marine services.

COST OF SERVICES

The full cost for CCG's marine navigation and icebreaking services will be determined in accordance with Treasury Board's *Guide to Costing Outputs*.

BENEFICIARIES

The costs will be split between the following general beneficiary groups:

- i) users, and
- ii) other beneficiaries.

USER GROUPS

The general user groups of Coast Guard services are ferries, other commercial vessels, fishing vessels, recreational vessels, and state and military vessels.

APPLICABLE COSTS

Only full costs directly attributable to a user group (i.e. direct costs), will be subject to recovery from that group.

COSTING DATA

Costs will be attributed based upon historical financial and operational data for the most recent period available.



FEE STRUCTURES

User charges for marine services will be structured to recognize the manner by which the service is delivered.

ABILITY TO PAY

The level of cost recovery from each user group will recognize that group's ability to pay.

EXEMPTIONS

For reasons of public policy, certain parties within a user group may be exempted from all, or some portion of the fees. In such cases, the foregone revenue will not be passed on to other users in the form of increased user charges.

DISCOUNTS AND INCENTIVES

User charges may be structured to recognize the value of the service received, operational differences, and to encourage behavior consistent with the mandate and objectives of CCG.

IMPACT ASSESSMENT

The impacts of the user charges will be considered prior to implementing new fees, during the ongoing application and during the modification of existing fees. The evaluation of the impacts will consider the competitiveness of industries and regions.

LEVELS OF SERVICE

Services subject to cost recovery will have periodic reviews of the appropriateness of their levels of service and the efficiency of their service delivery utilizing such tools as performance measurement, benchmarking, and zero-based budgeting.

DISPUTE RESOLUTION

Fair and effective dispute resolution mechanisms will be provided for complaints related to the development, ongoing application or modifications to user fees.

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Background

B-HQ-98-23(80)

APPLICATION OF THE MARINE SERVICES FEES

The aim of the Marine Navigation Services Fee and Icebreaking Services Fee is to recover a portion of the cost of marine navigation and icebreaking services provided for commercial ships. The fees do not apply to pleasure craft, fishing vessels and state and military vessels used for non-commercial government purposes.

Note also that a significant portion of the Canadian Coast Guard's (CCG) total services are not subject to cost recovery by the Marine Services Fee because they are deemed in the public interest. These services include search and rescue, a portion of vessel traffic services which helps prevent marine accidents that may lead to the pollution of the marine environment and the provision of icebreaking for the purpose of flood control.

Within the marine navigation and icebreaking service fees there are three main exclusions:

1. The exclusion of vessels operating in waters north of 60°.
2. The exclusion of remote areas in waters south of 60°.
3. The exclusion of vessels operated by the Province of Newfoundland in accordance with the Terms of Union between Canada and Newfoundland.

In the interest of fairness, the foregone revenues resulting from these fee exclusions will be borne solely by the government.

Further details on the Marine Services Fee application will be available as part of the consultation package to be released shortly.

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Background

B-HQ-98-23(81)

COSTING FRAMEWORK FOR MARINE SERVICES FEES

The *Treasury Board Cost Recovery and Charging Policy* supports full cost as the basis to assess user charges. Treasury Board's *Guide to the Costing of Outputs in the Government of Canada* provides direction on how to determine the full cost of outputs. Full cost includes operating costs, contributions to employee benefits, a share of corporate and administrative services, depreciation, cost of capital and the cost of services provided at no charge by other government departments.

As a result of the March 20, 1997, announcement to move to a percentage of direct cost for Marine Services Fees, the Marine Advisory Board (MAB) established a sub-committee to study and make recommendations on the direct cost approach. The sub-committee's report defined direct cost as "the incremental share of costs associated with the shipping industry's use of Canadian Coast Guard (CCG) services, determined using such tools as efficient benchmarking, zero-based budgeting, activity-based costing, user profiles and levels of service analysis and eliminating premiums associated with providing services for the public good." A key component was the immediate undertaking of client profiles so that CCG could improve their understanding of client's demand for services.

Following examination of the MAB sub-committee's report, CCG developed a framework for the determination of the costs that would be attributable to clients for cost recovery.

COST ELEMENTS

Operating and maintenance (O&M): Includes direct labour including employee benefits; direct operating costs such as travel, professional services, etc.; and direct material costs.

Depreciation: Depreciation is the recognition that an asset provides benefits for more than one year by spreading the cost over the expected useful life rather than being charged entirely in the year of acquisition. A straight-line depreciation method is used on the historical cost of the asset over the expected useful life.

Cost of Capital: The cost of capital represents the cost to the government of financing the assets used in carrying out its activities. While this cost does not show up on the government's books, it is part of the economic cost of investing in assets.

Departmental Overhead: Cost of DFO regional and headquarters corporate service functions incurred in support of the delivery of CCG services.

Other Adjustments: Reflects costs incurred by non-CCG government organizations on behalf of CCG, including employee benefits funded by Treasury Board.

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COSTS DIRECTLY ATTRIBUTABLE TO CLIENT GROUPS

Only the portion of the full CCG costs directly attributable to client groups would be subject to recovery from that group. The client groups include ferries, other commercial shipping, fishing, recreational boating and state and military vessels.

The allocation of the costs to these client groups has been done using client profiles.

CLIENT PROFILES

The methodology to undertake client profiles was reviewed by two MAB sub-committees. The methodology was applied across all regions to develop an accurate picture of the clients of those CCG services subject to cost recovery. The profiles identified and allocated the CCG services provided to the following groups: fishing vessels; ferries; other commercial vessels; recreational vessels; state and military vessels; and others, including public beneficiaries.

Consistent with the direction supported by the MAB sub-committee on Direct Costs, CCG identified the demand from different user groups for specific CCG services. For the purpose of these profiles, the term “demand” includes both the actual and deemed demand for a given service provided by CCG. Actual demand refers to the quantity of a service requested by clients, while deemed demand refers to the quantity of a service that CCG has determined is necessary for reasons of safety or public interest.

ADMINISTRATION COSTS

For 1998-99 it is proposed that only those ongoing incremental expenditures directly associated with the billing and collection of fees be included as part of the fee recovery. It is estimated that these elements will total some \$1.6 million.

For simplicity, the administration expenses will be converted to a percentage of the 1998-99 revenue objective and this percentage will be applied to all marine navigation and icebreaking fees, e.g. based on a \$40.0 million revenue level, the administration cost would be in the order of 4.0%.

COST OF MARINE NAVIGATION SERVICES

The 1996-97 full cost of marine navigation services is \$260.7 million. Of this amount, \$86.7 million is for services directly received by commercial ships (i.e. SRAN, DGPS and 50% of VTS) in southern waters.

COST OF ICEBREAKING SERVICES

The 1996-97 full cost to CCG of providing icebreaking services was \$163.5 million. The services subject to cost recovery are route assistance, ice routing and information services and marine facilities and port maintenance in support of commercial ships. The cost of services directly provided for commercial ships during the winter ice season is \$76.0 million.