# Laurentian Pilotage Authority


Canada

2004 Annual Report

Cover photo :

Reproduction of a photo illustrating the pilot boat A. Martin which is permanently based at the pilot station located at Les Escoumins, Québec.

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# Message from the CEO

Honourable Jean Lapierre
PC, MP
Minister of Transport
Ottawa, Ontario
K1A ON5

Dear Minister,

I am pleased to present the Laurentian Pilotage Authority's annual report for the year ending December 31, 2004.

RESULTS: The number of assignments for 2004 was 20,439, compared to 19,599 for 2003, or an increase of 4.3%. The average number of assignments over the last five years (2000 to 2004 inclusive) was 19,715.

In 2004, the Authority kept its administrative and operating expenses as low as possible. Its earnings were $51,335,093 an increase of $3,587,949, compared to 2003. The year 2004 shows a net loss of $3,387,079. This can be attributed chiefly to the retroactive increase in the fees payable to one pilots' corporation and the increase in the payments required under the productivity clause maintained in the service contract, in the wake of the application of the final offer selection when the service contract was renewed.

LABOUR RELATIONS: Following bargaining sessions which resumed in April 2004 with a view to renewing the service contract with the Corporation of Mid St Lawrence River Pilots, the parties proceeded to the selection of the final offer. The Arbitrator selected the offer of the Corporation. This ruling granted a three-year contract effective July 1, 2003, with increases equivalent to the change in the consumer price index for each of the three years, as well as a new wharfage fee for ships passing through St Lambert. Overall, this arbitration ruling is in line with the Authority's budget estimates. However, the productivity factor and the regulatory provisions remain in the contract.

The Authority signed a five-year contract effective January 1, 2005 renewing the collective agreement of Port of Montreal pilots. A few highlights: salaries will increase by an average of 2.5% in 2005, 2.5% in 2006 and 2007, 2.75% in 2008, and 3% in 2009.

The collective agreement of clerks, dispatchers and seamen represented by the Public Service Alliance of Canada expired on June 30, 2004. After six months of bargaining, the two parties did not manage to agree, and a wide gap remained between the demands of the Alliance and the offers of the Authority. Given the slowness of the process and the limited progress made, the Authority intends to ask the Minister of Labour for the assistance of a conciliation commissioner in early 2005.

# Message from the CEO

TARIFFS: In May 2004, board members authorized publication of a tariff with a 4% increase for 2005. The tariffs were published in July 2004 in the Canada Gazette, and objections were filed by shipowners' associations.

At the same time, the Authority asked the government to pass an order-in-council to ensure that the tariff came into force on January 1, 2005, as we did not expect the Agency to render its decision in time for the tariff to be implemented on January 1, 2005. The order-in-council was enacted on December 13, 2004. Following notices of objection filed by shipowners' associations, the Authority had to provide the required documents for all the parties involved and the Canadian Transportation Agency, which decided to hold an investigation without public hearings. The Agency's decision to grant the requested increase, with the exception of the wharfage fee in St Lambert, was rendered in late December 2004.

Because of the approval, authorized by the Federal Court, of arbitrator Richard Marcheterre's decision granting an 8% increase to one of the pilot corporations effective July 1, 2002, the Authority has adopted a proposal to modify tariffs in order to meet the financial obligations resulting from the arbitral award. The proposal aims to increase pilotage charges in District 1 by 5% effective July 1, 2005, in addition to introducing a supplementary charge of 4.9%, which will cease being applied when the total amount collected reaches $4,316,000. The tariff modification proposal we have drafted is currently being reviewed by Department of Justice lawyers.

CONTRACT: A call for tenders for a ten-year pilot boat service contract at the Pointe des Ormes/Trois-Rivières pilot station was published in the newspapers, and the tenders were opened publicly in October 2004. From among the two tenders received, that of Groupe Océan was chosen as the most advantageous for both the Authority and users of the service.

In line with Canadian Transportation Agency recommendations, a summary of the outstanding issues relating to pilotage risk studies is included in this annual report.

I would like to thank the Chair and the Board of Directors, as well as Authority management and employees for their contribution and dedication throughout the year.

Respectfully submitted,

Jean-Claude Michaud,
Chief Executive Officer
Montreal, Canada
February 14, 2005

# Mission and annual review

## MANDATE

The mandate of the Laurentian Pilotage Authority is to operate, maintain and administer, in the interests of safety, an efficient pilotage service in the waters of the St Lawrence between Les Escoumins and the north gate of the St Lambert Lock, on the Saguenay River and in Chaleur Bay. The Authority's mandate was set out in the Pilotage Act of 1972.

## REGULATORY POWERS

Subject to the concurrence of the Governor in Council, the Authority regulates the establishment of compulsory pilotage districts, exemptions from compulsory pilotage, pilotage fees and classes of pilot licences and certificates issued. The Authority is required to charge fair and reasonable fees that will make it financially self-sufficient. Tariff increases must be published and authorized.

## DESCRIPTION OF ACTIVITIES

To fulfil its mandate, the Authority has established three compulsory pilotage districts: one for the Port of Montreal, another for the navigable waters between Montreal and Quebec City and a third for the navigable waters between Quebec City and Les Escoumins, including the Saguenay River. These districts represent a distance of 265 nautical miles from Les Escoumins to Montreal and another 70 nautical miles on the Saguenay.

The Authority has also adopted regulations governing the establishment, operation and management of pilotage services in the region's non-compulsory waters.

Pilotage services within the limits of the Port of Montreal are provided by pilots employed by the Authority. Services for navigable waters between Montreal and Les Escoumins, including the Saguenay River, are provided by pilots contracted from two corporations with which the Authority has entered into agreements.

The pilot assignment system operates 24 hours a day year round. The dispatching centre is in charge of assigning pilots for the district between Quebec City and Les Escoumins, including the Saguenay River, and the pilots for the districts between Montreal and Quebec City. The two dispatching centre that was operated by the Authority have been centralized in Montreal in 2004.

# Mission and annual review

Pilot boats transport pilots from shore to ship. The Authority owns and operates a pilot station in Les Escoumins, as well as pilot boats capable of serving ships throughout the year.

*Pilot station in Les Escoumins*

At the other pilot stations, that is, Quebec City, Trois-Rivières, Sorel and the three in Montreal, the Authority contracts out services to private companies.

The Authority must co-ordinate its efforts, activities and management with a number of organizations, including the following: the Atlantic Pilotage Authority, to manage services in non-compulsory waters; the St Lawrence Seaway Authority, which operates the St Lambert Lock; the Canadian Coast Guard, which manages marine activities, navigational aids and dredging and icebreaking services; the Marine Traffic Services Centre; the various ports in the region; and the associations representing agents, owners and operators of Canadian and foreign ships.

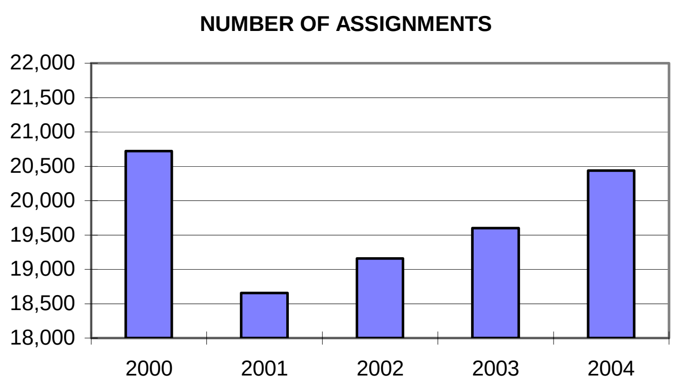
# Mission and annual review

The Authority has its head office in Montreal. The Board of Directors consists of seven members appointed by the Governor in Council. The Chairman holds a full-time position and is not a member of the Board of Directors.

The management and administrative staff, dispatchers, boat crews and Port of Montreal pilots are permanent employees of the Authority, numbering 51. There are approximately 171 contract pilots; their numbers vary depending on the needs of marine traffic. Each year, the Authority receives between 25 and 30 applications for pilot positions. Using a system based on experience and professional qualifications, the Authority draws up an annual recruitment list for future pilots. Most candidates are graduates of the Institut maritime du Québec in Rimouski. The Authority may also recruit graduates of similar institutions, such as the Canadian Coast Guard College in Sydney, Nova Scotia.

## VOLUME OF ACTIVITY

Revenues from pilotage fees and the cost of pilotage services are directly related to the number of pilot assignments and hours, and to ship size and draught. The size and draught of ships plying the St Lawrence River vary from year to year.

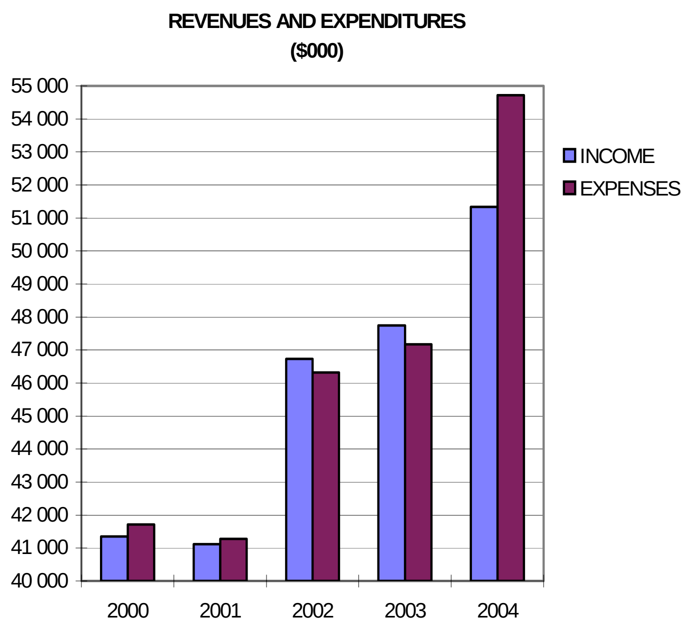



The number of vessels using the St Lawrence River directly affects the number of pilot assignments.

The revenues and expenses of pilot boats operated by the Authority and those under contract are also related to the number of services provided to ships. Administrative and dispatching centre expenses are relatively fixed, and the volume of marine traffic has little impact on them.

## Mission and annual review

### FINANCING




Over the years, the Authority has incurred losses and accumulated deficits. We have made efforts to better manage revenues and expenses. Following the 1998 amendments to the Pilotage Act, under which parliamentary appropriations could no longer be used, the deficits for 2000 and 2001 were financed out of working capital and through the use of a line of credit. In the normal course of its operations, the Authority in 2004 used a commercial line of credit not exceeding $2,100,000, as authorized by the Minister of Finance. A borrowing limit was also set by the government. This limit was set at $3,625,000.

2004 revenues reflected the 2.5% tariff increase which applied over the course of this year, as well as the 4.3% increase in the number of assignments. Expenses went up owing to increases in the remuneration of pilots as well as the increase in the number of assignments. Moreover, in 2004 the Federal Court decided to uphold the arbitration ruling granting an 8.0% increase effective July 1, 2002 to one of the pilot service providers. The financial impact of this decision, which covers a period of 2.5 years as of December 31, 2004, was entirely absorbed in 2004. As a result of this decision, the anticipated 2004 loss of $708,000 increased to $3,387,079.

The mortgage loan taken out in 1996 to finance the purchase of a pilot boat was renegotiated in 2001. The balance of this loan as of December 31, 2004 was $1,366,268. The loan matures in August 2008.

A seven-year lease was negotiated for the use of a pilot boat (Côte Nord), which went into service in spring 2001. It is shown here in operation at Les Escoumins.

# *2004 strategic orientation*

## OBJECTIVES AND ACHIEVEMENTS

***Financial self-sufficiency***

- *Variation of revenues*

    - A 3.95% tariff increase was necessary in 2003. The Canadian Transportation Agency granted an increase of 2.50%, creating a shortfall of $550,000 per year, which obviously affected 2004 revenues. After consulting with the marine industry, the Authority decided to increase its 2004 pilotage charge tariffs by 2.50% rather than 2.95%. As a result of these two factors, the 2004 increase was not enough to maintain self-sufficiency.

    - The 4.3% increase in traffic had a positive impact on the level of income.

    - The latest amendments to the Pilotage Act have not delivered the desired benefits in terms of financial self-sufficiency because the Government of Canada is unable to implement new tariffs within 30 days of publication, as stipulated in the Act. Tariffs therefore cannot be applied as planned, thus depriving the Authority of revenue.

- *Cost management*

    - It was not possible in 2004 to reduce costs enough to make up for the shortfall caused by the Canadian Transportation Agency's decision on the 2003 tariff increase, which has had an impact on all subsequent years. Cutting costs in such a way would have resulted in our not being able to offer quality service in the short term, and not being able to provide service at all in some high-traffic situations.

    - The increase in traffic resulted in an increase in pilots' fees.

    - The staff pilots' employment contract expired on December 31, 2004. A new five-year contract was negotiated in the fall of 2004. It will expire on December 31, 2009.

    - The Authority's challenge of an arbitrator's decision to grant an 8.0% increase effective July 1, 2002 to one of the pilot groups was heard by the Federal Court. The Court upheld the arbitration ruling. The financial impact of this decision was recorded in the 2004 accounts and had a significant negative effect on the Authority's finances.

# 2004 strategic orientation

  - Negotiations with this pilot group for the renewal of the contract which ended June 30, 2003 took place in 2004. The parties were not able to come to an agreement, and the case was referred to an arbitrator for selection of the final offer. The arbitrator selected the offer of the pilot group. The costs of this contract are therefore higher than the Authority had anticipated.

- *Updating of management, administration and operating methods*

  - A computerized assignment, billing and pay system was introduced in 2004. A great deal of effort was devoted to teaching this system and adapting it to the specific work rules in pilots' contracts.

***Maximize pilotage system efficiency***

- *Minimize the number of incidents*

  - More than 99% of all assignments were incident-free in 2004.

  - Continuous pilot training was maintained. Refresher courses were given on simulators.

  - Incidents are investigated and reports are submitted to management for evaluation and decision.

- *Provide the best pilotage service and meet user needs*

  - Consultations and numerous discussions were held with users on the quality and efficiency of the service provided and on the information sent. An advisory committee was set up with users to have them actively participate in the process of negotiating the renewal of pilotage service contracts.

- *Renew capital investments*

  - One of the pilot boats used at the pilot station in Les Escoumins was sent to the shipyard for an inspection. The defects and non-conformities detected were corrected. Rigorous maintenance was done on the assets to keep them in good condition and extend their service life.

# 2004 strategic orientation

**Modernize the current process for issuance of pilotage certificates**

- *Implement the new training program*

  - The first phase of the program is now in place, and candidates have begun their training.

- *Simulator*

  - The Authority, together with the stakeholders concerned, has co-ordinated implementation of an action plan for the acquisition of a multifunctional navigation simulator.

**Follow up and implement Transport Canada recommendations**

- *Assess pilotage needs and conditions and the risks posed by the change*

  - Following the report on the study of pilotage risks with regard to Canadian ships, the Authority proposed regulatory changes in March 2004, including additional criteria for exempting ships from compulsory pilotage based on various conditions having to do with ship's characteristics and the qualifications of personnel on board. After a meeting of legal advisors in Ottawa in October, it was proposed to modify the proposed approach in order to define it in the following months.

  - In October 2004, the consultant completed a study on the risks making double pilotage necessary in the Laurentian region, and gave the final report to Transport Canada. The method used by the consultant aimed to determine at which point and in what circumstances the double pilotage obligation was valid, and used a risk management approach, taking into account aggravating and mitigating factors. In November, Transport Canada asked the main stakeholders to comment on the final report in order to determine whether they wanted to further validate this model in a subsequent phase, and eventually see whether amendments should be made to current regulations.

# Economic conditions

The Authority operates in a tightly regulated monopoly market. Under the Pilotage Act, ships meeting certain specifications that ply the waters of the St Lawrence between Les Escoumins and St Lambert must use the Authority's pilotage service, as it is the sole authorized provider of this service in the region.  Many aspects of this monopoly role make for different operating and management procedures than would be found in a competitive market.

## TARIFFS

To avoid abuses, a legal mechanism is provided for the establishment of pilotage tariffs. When the Authority needs to change its tariffs, it must publish them in the Canada Gazette, and users then have a certain length of time in which to challenge them. The Canadian Transportation Agency, an independent body, assesses users' objections and decides what kind of investigation is required. The Authority is required by law to comply with the decision of the Canadian Transportation Agency. Sometimes, the lengthy process of implementing a new tariff will deprive the Authority of income.

Should a Canadian Transportation Agency decision go against the Authority, the financial impact of the shortfall will directly affect operating results. A review of all planned strategies and objectives in the light of that decision would then be necessary to maintain financial self-sufficiency.

## PILOTS

Pilotage services are rendered by pilots belonging to pilot corporations with which the Authority negotiates contractual agreements. Only Port of Montreal pilots are Authority employees. By law, pilots working in a given district are either contractual pilots or pilots employed by the Authority.

Since each district's pilotage services are provided by a single group, and the Act precludes competition, the Authority must negotiate with pilot corporations that are monopolies. However, the Pilotage Act contains a provision for settling disputes that may arise during negotiations. Work stoppage of any kind is prohibited under the Act.

The cost of pilotage contracts accounts for about 80% of the Authority's total costs. Consequently, the outcome of the contract talks has a decisive impact on the Authority's financial management.

# Economic conditions

## MARINE TRAFFIC

Marine traffic directly affects the Authority's operations and financial performance. Traffic varies from month to month in any given year. During the first quarter, the winter months, traffic and the number of assignments are minimal. Ships' itineraries end at the Port of Montreal, since the St Lawrence Seaway is closed to traffic. The fourth quarter is the busiest period.

**NUMBER OF ASSIGNMENTS BY QUARTER**

| | 2004 | % |
|---|---|---|
| 1st quarter | 3,689 | 18.0% |
| 2nd quarter | 4,983 | 24.4% |
| 3rd quarter | 5,354 | 26.2% |
| 4th quarter | 6,413 | 31.4% |

Since some charges are by nature fixed, changes in traffic volume are an important consideration in planning revenues to meet financial obligations.

The Authority has no control over traffic, which is influenced by a number of factors, chief among them the following:

- Weather conditions
  More clement weather or severer winters will influence costs and pilotage activity.

- Value of the Canadian dollar
  Exchange rate fluctuations affect import and export levels and, by the same token, shipping.

- Inflation and interest rates
  These two economic factors have an impact on commodity prices and international trade, on which merchant shipping depends.

- Competition with other modes of transportation
  The cost and speed of shipment are important factors for marine operators, and other modes of transportation are competitive in both respects.

- United States competition
  Pilotage fees are only one of many costs incurred by carriers. East coast US ports and Golf of Mexico ports are fierce competition for the St Lawrence corridor.

# Outlook for 2005

## NEGOTIATIONS

In 2004, negotiations took place with dispatching centre employees, seamen and clerks in order to renew the collective agreement which ended on June 30, 2004. As bargaining did not lead to an agreement, in 2005 the parties will use the services of a conciliator designated by the Minister of Labour.

## INTERNAL AUDIT

In view of the financial scandals which have taken place around the world in recent years, Treasury Board has not agreed to exempt the Authority from the requirement to carry out internal audits. Accordingly, the Authority will begin an internal audit program in 2005.

## DEPARTMENTAL RECOMMENDATIONS

Regulatory amendments concerning Canadian ships subject to compulsory pilotage will be published in 2005. The conclusions of the risk study currently being carried out regarding situations that call for the use of a second pilot will be made public in 2005.

## FINANCIAL SELF-SUFFICIENCY

The Authority expects to end 2005 with a loss on the order of $1,000,000. The tariff increase requested to come into effect on January 1, 2005 included a docking charge for ships docking at the St Lambert Lock or wait wall. The Canadian Transportation Agency did not authorize the implementation of this charge. The shortfall will therefore be approximately $300,000 higher than expected.

The Federal Court upheld the arbitration ruling granting an 8.0% fee increase to the Corporation of Mid St Lawrence River Pilots, effective July 1, 2002. In order to achieve financial self-sufficiency once again, the Authority will publish a 5.0% tariff increase and a temporary increase of 4.9% effective July 1, 2005. The temporary increase will be used to reimburse the amounts due and accumulated from July 1, 2002 until the coming into force of the tariff.

# Outlook for 2005

The Treasury Board Secretariat has asked Transport Canada to co-operate with the Authority on finding solutions to the financial problems. A report is to be released in early 2005.

## ADMINISTRATION AND OPERATIONS

In recent years the Authority has managed its resources effectively while maintaining high-quality service and high client satisfaction. The corporate plan will keep the Authority on the same course in order to build on our accomplishments and do even better.

The centralization of the two dispatching centres was carried out on July 1, 2004. As almost all of the employees who worked at the Quebec City centre resigned, the Authority lost some of its know-how. Numerous efforts have been made to fill this gap. They will continue throughout 2005.

*The ship Queen Mary 2 at the Port of Quebec in the fall 2004*

# Economic retrospective

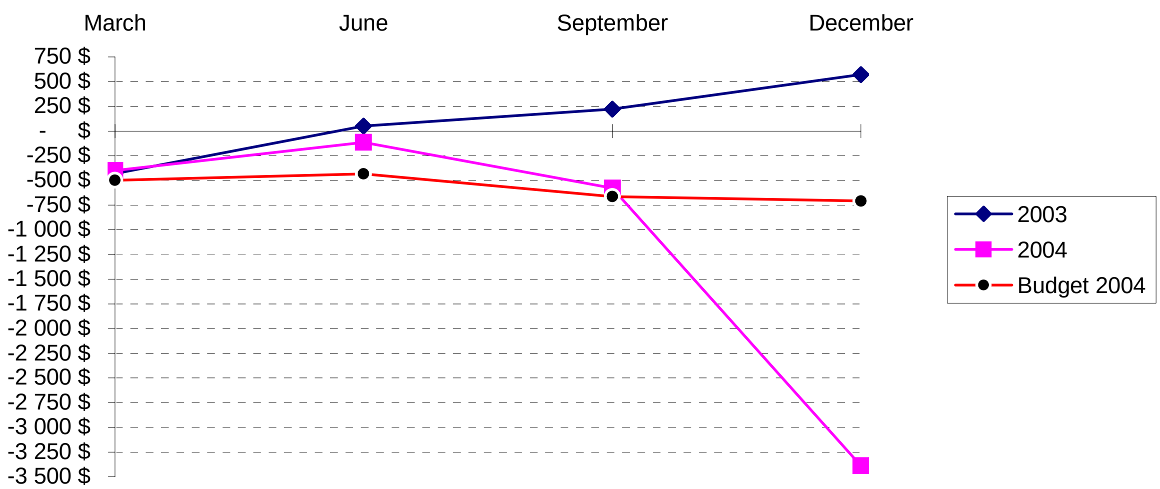
The purpose of this analysis is to make the financial statements appearing on the following pages easier to understand, to explain year-to-year variations and to relate figures to the budget forecasts for 2004.

## FINANCIAL OVERVIEW

During fiscal 2004, the Authority posted a net loss of $3,387,079, compared with a net profit of $571,940 for 2003, a difference of $3,959,019. The 2004 budget had forecast a net loss of $708,000. Efforts were made to boost revenues and to reduce and/or cap expenditures. The results obtained in 2004 did not allow the Authority to maintain financial self-sufficiency.

The fiscal 2004 loss includes costs relating to the arbitration ruling granting an 8.0% increase to one of the pilot groups. This increase is retroactive to July 1, 2002, and covers a period of 2.5 years as of December 31, 2004. The Authority had set aside a reserve of 3% during the same period. The 5% differential was recorded as an expense in the 2004 accounts.

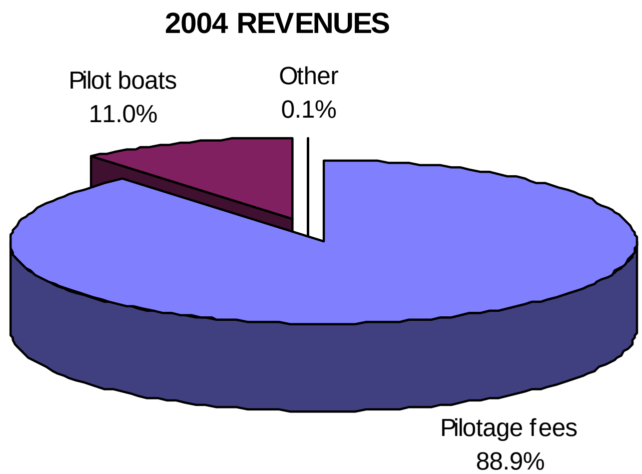
**Comparative table of results as at December 31, 2004**
**($000)**



# Economic retrospective

## REVENUES

Revenues are derived chiefly from the fees charged for the services of pilots and pilot boats. A new pilotage tariff, incorporating a 2.5% increase, took effect on January 1, 2004. Marine traffic in 2004 was up by 4.3% over the previous year. Average ship dimensions and draughts were virtually the same as in 2003. All these factors combined resulted in an increase in revenues of about $3,587,949 compared to 2003.



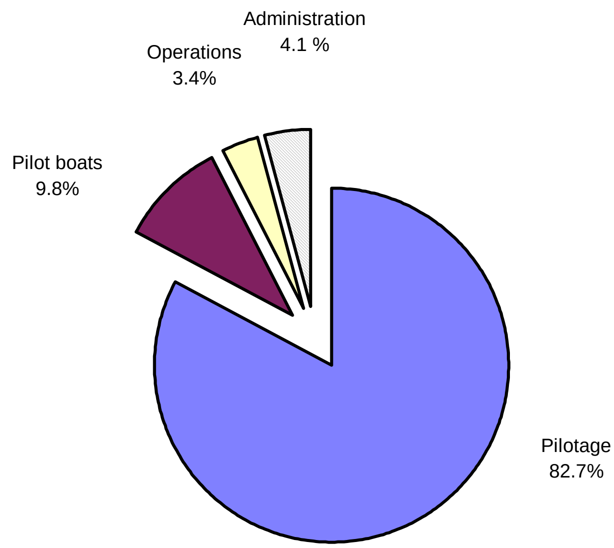

Pilot boat revenues are also influenced by traffic as well as by the increase in the amounts charged to users. These revenues consist of the cost of the service rendered by the Authority with its own pilot boats, plus the cost of service contracted for with private companies, plus the administrative costs related to these services.

## Economic retrospective

### EXPENDITURES

Most of the Authority's costs consist of pilots' fees, salaries and benefits. Like revenues, these costs are directly influenced by marine traffic, ships' dimensions and draughts.

**2004 EXPENDITURES**




The Federal Court upheld the arbitration ruling granting a fee increase of 8.0% to one of the pilot groups, retroactive to July 1, 2002, this increase, covers a period of 2.5 years. The Authority had set a reserve of 3.0%. The 5.0% differential was recorded as an expenses in 2004, accordingly, this increased the level of these expenses.

## Economic retrospective

### BORROWING

The Charlevoix pilot boat financing is now the only outstanding loan.  This boat operates out of the pilot station in Les Escoumins. The revenues necessary to repay this loan will come from a surcharge to users of the pilot boat service.


*We see here two of the Authority's pilot boats that operate out of the pilot station in Les Escoumins.*

# Comparison and statistics

**YEAR ENDED DECEMBER 31** (in thousands of dollars)

| | **2004** | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Pilotage charges | **$45,639** | $42,131 | $41,747 | $36,379 | $36,479 |
| Pilot boats | **5,643** | 5,165 | 4,900 | 4,691 | 4,675 |
| Other | **53** | 451 | 87 | 45 | 193 |
| **TOTAL** | **51,335** | 47,747 | 46,734 | 41,115 | 41,347 |
| **Expenses** | | | | | |
| Pilots' fees, salaries and benefits | **45,259** | 38,435 | 37,380 | 32,973 | 33,741 |
| Operating costs of pilot boats | **5,350** | 4,742 | 4,674 | 4,377 | 4,392 |
| Operation and administration | **4,113** | 3,998 | 4,268 | 3,925 | 3,584 |
| **TOTAL** | **54,722** | 47,175 | 46,322 | 41,275 | 41,717 |
| **Net income (loss)** | **($3,387)** | $572 | $412 | ($160) | ($370) |
| **Working capital** | **($4,319)** | ($1,163) | ($1,829) | ($2,243) | ($3,761) |
| **Human resources** | | | | | |
| Officers | **3** | 3 | 3 | 3 | 3 |
| Administration | **10** | 11 | 11 | 12 | 12 |
| Assignments | **17** | 17 | 18 | 18 | 18 |
| Boat crews | **12** | 12 | 12 | 12 | 12 |
| Staff pilots | **9** | 9 | 9 | 9 | 8 |
| Contract pilots (active certificates – person years) | **161** | 164 | 164 | 168 | 165 |
| **Statistics** | | | | | |
| Number of assignments | **20,439** | **19,599** | 19,149 | 18,655 | 20,713 |
| Number of marine occurrences* | **20** | **14** | 31 | 22 | 26 |
| Holders of marine pilotage certificates | **7** | **7** | 7 | 7 | 7 |

*Compilation of all reported marine occurrences, with or without damage

# *Safety and marine occurrences*

Navigation safety on the St Lawrence River is the primary objective of the Authority and its pilotage system, which must be efficient and economical and meet the needs of marine operators.

No major accidents caused by pilotage system deficiencies were reported in 2004. Some marine occurrences, such as collisions with wharves or other port equipment were reported and recorded. There were occurrences on less than 1% of pilotage missions during the year. The competency of the pilots, the continuous training program and the quality of equipment contributed to marine safety effectiveness, quality and level of excellence, in which we take pride.

| **OCCURRENCES** | **2004** | 2003 |
|---|---|---|
| Striking | **0** | **0** |
| Collision with embankment | **0** | **0** |
| Collision with port equipment | **0** | **3** |
| Collision with wharf | **7** | **8** |
| Collision with ship | **2** | **1** |
| Collision with bridge | **0** | **0** |
| Collision with buoy | **1** | **1** |
| Stranding | **3** | **1** |
| Other | **7** | **0** |
| **Total** | **20** | **14** |

# The Authority

The Laurentian Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act, Statutes of Canada 1970-71-72, Chapter 52.

The mandate of the Laurentian Pilotage Authority is to establish, operate, maintain and administer, in the interests of safety, an efficient pilotage service within all Canadian waters in and around the Province of Quebec, north of the Northern entrance to the St Lambert Lock, except the waters of Chaleur Bay south of Cap d'Espoir.

To achieve these objectives, regulations have been established by the Authority mainly with respect to:

1. establishment of compulsory pilotage areas;

2. prescribing of ships or classes of ships that are subject to compulsory pilotage;

3. prescribing of classes of pilotage licences and certificates that may be issued;

4. prescribing of tariffs of pilotage charges to be paid to the Authority for pilotage.

In addition, all regulations that are presently in effect are from time to time amended to adapt to new circumstances, taking into account the changes in the services to be provided.

The Laurentian Pilotage Authority is required to make regulations prescribing tariffs of pilotage charges which are fair and reasonable and consistent with providing a revenue sufficient to permit the Authority to operate on a self-sustaining financial basis.

# Directors and Officers


## Board of Directors

**Gilles Champagne**
Chairman of the Board
4th from left in photo

**Jean-Louis Dufour**
Pilot
Corporation des pilotes du Bas St-Laurent
1st from left in photo

**Capt. Rosaire Desgagnés**
Retired
Groupe Desgagnés inc.
2nd from left in photo

**Anne Carrier**
President
Anne Carrier Architectes
3rd from left in photo

**Daniel Falaise**
Director Market Development
Logistec Arrimage inc.
5th from left in photo

**Gilles Denis**
Pilot
Pilotes du St-Laurent central inc.
6th from left in photo

**Clément Gaudreau**
Lieutenant Colonel
retired
7th from left in photo

## Corporate Secretariat and Officers

**Jean-Claude Michaud**
Chief Executive Officer

**Yvon Martel**
Director of administrative services

**Denys Pouliot**
Director of Operations

**Mario Saint-Pierre, LL.M**
Corporate Secretary
and Legal advisor

# MANAGEMENT REPORT

The management of the Laurentian Pilotage Authority is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles and for all other information presented in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgement in establishing reasonable estimates. Financial information shown elsewhere in this annual report is consistent with that contained in the financial statements.

Management maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis. These systems and practices provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that the transactions are in accordance with the *Pilotage Act* and its regulations, the *Financial Administration Act* and its regulations, and the by-laws and policies of the Authority.

The Board of Directors is comprised of Directors who are not employees of the Authority. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee oversees the entity’s systems of internal accounting and administration control. The Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements are reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The external auditor, the Auditor General of Canada, is appointed under the Pilotage Act and has audited the financial statements in accordance with Canadian generally accepted auditing standards. Her report outlines the nature of the audit and expresses her opinion on the financial statements of the entity.

*Jean-Claude Michaud*
*Chief Executive Officer*

*Yvon Martel*
*Director of administrative services*

Montreal, Canada
February 14, 2005

# AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 2004 and the statements of operations and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 14, 2005

## LAURENTIAN PILOTAGE AUTHORITY

### Balance Sheet
### as at December 31

| | **2004** | 2003 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | **$ --** | $681,501 |
| Accounts receivable | **10,399,109** | 7,515,858 |
| | **10,399,109** | 8,197,359 |
| Long term | | |
| Property, plant and equipment (Note 4) | **1,864,928** | 2,231,094 |
| | **1,864,928** | 2,231,094 |
| **Total assets** | **$12,264,037** | $10,428,453 |
| **Liabilities** | | |
| Current | | |
| Bank indebtedness and bank overdraft (Note 5) | **$ 1,427,017** | $ -- |
| Current portion of bank loan (Note 6) | **171,116** | 160,167 |
| Accounts payable | **13,119,865** | 9,199,823 |
| | **14,717,998** | 9,359,990 |
| Long term | | |
| Provision for employee future benefits (Note 7) | **802,471** | 767,589 |
| Bank loan (Note 6) | **1,195,152** | 1,365,379 |
| | **1,997,623** | 2,132,968 |
| **Total liabilities** | **16,715,621** | 11,492,958 |
| **Equity of Canada** | | |
| Contributed capital | **2,479,154** | 2,479,154 |
| Accumulated deficit (Note 3) | **(6,930,738)** | (3,543,659) |
| | **(4,451,584)** | (1,064,505) |
| **Total liabilities and Equity of Canada** | **$12,264,037** | $10,428,453 |

Contingencies and commitments (Note 8 and 9)
*The accompanying notes are an integral part of these financial statements.*

Approved by the Board

GILLES CHAMPAGNE
Member and Chairman of the Board

CLÉMENT GAUDREAU
Member and Chairman of the Audit Committee

## LAURENTIAN PILOTAGE AUTHORITY

### Statement of Operations and Accumulated Deficit
### for the year ended December 31

| | **2004** | 2003 |
|---|---|---|
| **Revenues** | | |
| Pilotage charges | **$51,282,151** | $47,296,400 |
| Other revenues | **52,942** | 450,744 |
| | **51,335,093** | 47,747,144 |
| **Expenses** | | |
| Pilots' fees, salaries and benefits | **45,259,182** | 38,434,934 |
| Operating costs of pilot boats (Note 6) | **5,349,684** | 4,742,261 |
| Staff salaries and benefits | **2,487,526** | 2,373,576 |
| Professional and special services | **753,484** | 878,935 |
| Rentals | **214,589** | 234,707 |
| Utilities, material and supplies | **124,163** | 94,945 |
| Transportation, travel and hospitality | **101,802** | 72,996 |
| Communications | **71,797** | 58,296 |
| Maintenance | **36,723** | 30,648 |
| Financing Costs | **10,927** | 17,786 |
| Other | **312,295** | 236,120 |
| | **54,722,172** | 47,175,204 |
| **Net (loss) profit for the year** | **(3,387,079)** | 571,940 |
| Accumulated deficit, beginning of the year | **(3,543,659)** | (4,115,599) |
| Accumulated deficit, end of the year | **$(6,930,738)** | $(3,543,659) |

*The accompanying notes are an integral part of these financial statements.*

## LAURENTIAN PILOTAGE AUTHORITY

### Statement of Cash Flows
### for the year ended December 31

| | **2004** | 2003 |
|---|---|---|
| **Operating activities** | | |
| Net (loss) profit for the year | **$(3,387,079)** | $571,940 |
| Non-cash items: | | |
| Amortization | **499,154** | 408,256 |
| Increase in the provision for employee future benefits | **34,882** | 7,559 |
| | **(2,853,043)** | 987,755 |
| (Increase) decrease in accounts receivable | **(2,883,251)** | 684,491 |
| Increase in accounts payable | **3,920,042** | 1,170,035 |
| | **(1,816,252)** | 2,842,281 |
| **Investing activities** | | |
| Additions to property, plant and equipment | **(141,043)** | (162,307) |
| Proceeds of sales | **8,055** | -- |
| **Financing activities** | | |
| Repayment of bank loan | **(159,278)** | (148,877) |
| **Cash (Bank indebtedness and bank overdraft)** | | |
| (Decrease) increase for the year | **(2,108,518)** | 2,531,097 |
| Balance, beginning of the year | **681,501** | (1,849,596) |
| **Balance, end of the year** | **$(1,427,017)** | $681,501 |
| **Supplemental information** | | |
| Interest paid | **$98,722** | $113,452 |

*The accompanying notes are an integral part of these financial statements.*

# LAURENTIAN PILOTAGE AUTHORITY

**Notes to Financial Statements**
**December 31, 2004**

## 1. Authority and activities

The Laurentian Pilotage Authority was established in 1972 under the *Pilotage Act*. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall permit the Authority to operate on a self-sustaining financial basis and shall be fair and reasonable. In accordance with the new *Canada Marine Act* assented to on June 11, 1998 that modified the *Pilotage Act*, the Authority no longer has access to Parliamentary appropriations.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Authority is not an agent of Her Majesty and is exempt from income taxes.

## 2. Significant accounting policies

The financial statements of the Laurentian Pilotage Authority have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

*Property, plant and equipment*

Property, plant and equipment obtained from Canada when the Authority was established were recorded at the then assigned values. Property, plant and equipment purchased subsequently by the Authority are recorded at cost.

Property, plant and equipment are amortized using the straight-line method, at rates based on the estimated useful lives of the assets.

The estimated useful lives for the major categories of property, plant and equipment for the purposes of calculating amortization are as follows:

| | |
|---|---|
| Buildings | 10 and 20 years |
| Pilot boats | 10 and 15 years |
| Furniture and fixtures | 10 years |
| Communications equipment | 5 years |
| Computer equipment | 3 and 5 years |
| Boarding facilities | 15 and 20 years |
| Wharf improvements | 15 years |

*Contributed capital*

The values assigned to the property, plant and equipment obtained from Canada when the Authority was established and the net cost of capital assets financed from parliamentary appropriations are recorded as contributed capital.

*Pension benefits*

Employees participate in the Public Service Pension Plan administered by the Government of Canada. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Authority's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the financial situation of the Plan. These contributions represent the total pension obligations of the Authority and are expensed during the year in which the services are rendered. The Authority is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

Non-pension benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accounted for during the year in which the employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and its best estimates. Management assumes that employees will work for the Authority until their normal retirement date. These benefits represent the only obligation of the Authority that entails settlement by future payment.

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. This pertains chiefly to the useful lives of property, plant and equipment and liabilities related to future employee benefits and contingencies. Actual results could differ from those estimates.

## 3. Self sufficiency

The accumulated deficit as at December 31, 2004 was $ 6,930,738. When Treasury Board approved Authority's 2004-2008 Corporate Plan, it resquested that Transport Canada submit a strategy to ensure the future financial viability of the Authority, developed in consultation with the Authority. This strategy would allow the Authority to continue to comply with the *Pilotage Act* which requires that operations be self-sustaining and bars access to Parliamentary appropriations. Pending to the release of this strategy, Treasury Board and the Governor in Council have yet to approve the 2005-2009 Corporate Plan.

## LAURENTIAN PILOTAGE AUTHORITY

## Notes of Financial Statements (continued)
## December 31, 2004

**4. Property, Plant and equipment**

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net** | Cost | Accumulated amortization | Net |
| **Land** | **$9,300** | **$--** | **$9,300** | $9,300 | $-- | $9,300 |
| **Buildings** | **120,037** | **60,239** | **59,798** | 128,852 | 61,232 | 67,620 |
| **Pilot Boats** | **2,995,610** | **1,980,388** | **1,015,222** | 2,995,610 | 1,814,767 | 1,180,843 |
| **Furniture and fixtures** | **152,800** | **77,705** | **75,095** | 170,480 | 140,856 | 29,624 |
| **Communications equipment** | **53,390** | **43,713** | **9,677** | 65,489 | 54,131 | 11,358 |
| **Computer equipment** | **1,347,510** | **982,765** | **364,745** | 1,324,581 | 788,516 | 536,065 |
| **Boarding facilities** | **99,165** | **92,073** | **7,092** | 99,165 | 91,679 | 7,486 |
| **Wharf improvements** | **1,090,318** | **766,319** | **323,999** | 1,090,318 | 701,520 | 388,798 |
| | **$5,868,130** | **$4,003,202** | **$1,864,928** | $5,883,795 | $3,652,701 | $2,231,094 |

Amortization for the year is $499,154 ($408,256 in 2003).

### 5. Credit facility

The Authority has an operating line of credit of up to $2,100,000 available at an interest rate equivalent to the bank's prime lending rate per annum. This line of credit is available to the Authority as required and is renewable annually. As of December 31, 2004, the Authority had used $930,000 (nil in 2003). This amount appears in the balance sheet under bank indebtedness and bank overdraft.

**6. Bank Loan**

| | | **2004** | 2003 |
|---|---|---|---|
| Loan to finance the acquisition of a pilot boat matures in 2008 and bears interest at a rate of 6.54%. The capital repayments are calculated based on an amortization period of 10 years, guaranteed by a first maritime mortgage on a pilot boat with a net book value of $959,505 ($1,119,341 in 2003). | | **$1,366,268** | $1,525,546 |
| Less : current portion | | **171,116** | 160,167 |
| | | **$1,195,152** | $1,365,379 |
| As at December 31, the capital repayments of this loan for the following years are as follows : | | | |
| | 2004 | **--** | 160,167 |
| | 2005 | **171,116** | 170,227 |
| | 2006 | **181,699** | 181,699 |
| | 2007 | **193,945** | 193,945 |
| | 2008 | **819,508** | 819,508 |
| | | **$1,366,268** | $1,525,546 |

# LAURENTIAN PILOTAGE AUTHORITY



Interest expense in the amount of $95,202 ($105,603 in 2003) related to the bank loan to finance a pilot boat is recorded in the item " Operating costs of pilot boats ".

## 7. Employee future benefits

### Pension Plan

The Public Service Pension Plan required the Authority to contribute to the Plan. The Authority contributes $2.14 ($2.14 in 2003) for every dollar contributed by an employee. If an employee's annual salary is greater than $105,900 ($100,100 in 2003), the portion of the employee's salary above this amount is subject to an employer contribution of $7.90 ($15.00 in 2003) for every dollar contributed by the employee. Contributions during the year were as follows:

| | 2004 | 2003 |
|---|---|---|
| Authority | $303,939 | $376,010 |
| Employees | $143,973 | $148,737 |

Other employee future benefits

The Authority provides severance benefits to its employees based on their years of service, accumulated sick leave and their final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan measured as at the balance sheet date, is as follows:

| | 2004 | 2003 |
|---|---|---|
| Accrued benefit obligation, beginning of year | $1,015,502 | $923,159 |
| Cost for the year | 131,814 | 203,858 |
| Benefits paid during the year | (182,654) | (111,515) |
| Accrued benefit obligation, end of year | $964,662 | $1,015,502 |
| Short-term portion (included in accounts payable) | $162,191 | $247,913 |
| Long-term portion | 802,471 | 767,589 |
| | $964,662 | $1,015,502 |

## 8. Contingencies

**a)** The Authority remitted a claim to one of its clients for pilotage charges in accordance with section 44 of the *Pilotage Act*. A ship subject to compulsory pilotage was being in transit without being under the conduct of a licensed pilot or the holder of a pilotage certificate. On one hand, the Authority has claimed pilotage revenues in the order of $1,600,000 (excluding taxes) over a period of 15 years. The Court has rendered its decision in 2004.

The client and the Authority contest the decision in appeal. The case should be heard in 2005.

On the other hand, one of the pilotage service provider had claimed fees from the Authority for this situation as stipulated in the service contract. The claim covers a period of 15 years and represents a sum of about $673,000. The case should be heard in arbitration in 2005.

There is a possibility that the period considered by the Court of appeal and the one considered by an arbitrator is different. In such circumstance, it could have a financial advantage or disadvantage for the Authority. The final outcome of this claim cannot be determined at this time. The impact on pilotage charges and on pilot fees will be recorded in the year where the situation will be resolved.

b) In connection with its operations, the Authority is the claimant or defendant or otherwise involved in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Authority. No provision has been recorded in the accounts in this regard.

**9. Commitments**

The future minimum payments under an operating lease related to the rental of premises are as follows:

| | |
|---|---:|
| 2005 | $191,550 |
| 2006 | 194,000 |
| 2007 | 196,523 |
| 2008 | 199,122 |
| 2009 to 2014 | 1,129,429 |

During the year 2000, the Authority signed a contract for the lease of a pilot boat that was delivered in the spring of 2001. The lease contract has a seven-year term from May 2001 to April 2008. Monthly payments are of $29,121. The future minimum payments under this contract are as follows:

| | |
|---|---:|
| 2005 | $349,455 |
| 2006 | 349,455 |
| 2007 | 349,455 |
| 2008 | 116,485 |
| | $1,164,850 |

## 10. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties.

## 11. Fair values of financial instruments

The transactions related to accounts receivable and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

On December 31, 2004, the fair value of the bank loan is estimated at $1,434,534 ($1,606,020 on December 31, 2003) while the book value is $1,366,268 ($1,525,546 on December 31, 2003). This estimate is based on the future principal repayments discounted at current interest rates for similar loans.


*The pilot boat « Charlevoix» in operation*
*Bateau-pilote « Charlevoix » en opération*


*Pilot disembarking from a containers ship*
*Pilote débarquant d'un porte-conteneurs*