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Ferry fares keep adding up ~ Patrick Brown

On June 22, BC Ferries received approval from the Ferry Commissioner to implement its biggest fuel surcharge yet: 3.2% for the main routes, and 9.6% for the smaller routes. The result: main route ferry fares are now 18% more than when the ferries were 'privatized' in March 2003; fares on the smaller routes are now 36% more.

The new increases are justified by continuing increases in the price of fuel. Information provided by Ferry Commissioner Martin Crilly blames a new fuel supply contract which changed the basis of pricing from Edmonton to Vancouver, an increase of 20% in the per-litre cost.

The fuel surcharges are expressed as a percentage of regular fares, which are themselves subject to regular increases under the contract put in place by the government under the *Coastal Ferries Act*. Without the fuel surcharges, fares on main routes would be 109% of March 2003 levels, while on the smaller routes they would be 114% of March 2003 levels, with another increase coming in November 2006.

Ferry fare increases
March 2003 - March 2008

Date	Increase Source	Main route Multiplier	Small route Multiplier	Main route Cumulative	Small route Cumulative
Mar-03	Base			100.0	100.0
Nov-03	Regular	1.028	1.044	102.8	104.4
Nov-04	Regular	1.028	1.044	105.7	109.0
Jul-05	Fuel Surcharg	1.04	1.06	109.9	115.5
Nov-05	Regular	1.028	1.044	113.0	120.6
Jan-06	Fuel Surcharg	1.015	1.03	114.7	124.2
Jun-06	Fuel Surcharg	1.032	1.096	118.3	136.2
Nov-06	Regular	1.028	1.044	121.7	142.2
Nov-07	Regular	1.028	1.044	125.1	148.4

Without Fuel Surcharges:

Date	Increase Source	Main route Multiplier	Small route Multiplier	Main route Cumulative	Small route Cumulative
Mar-03	Base			100.0	100.0
Nov-03	Regular	1.028	1.044	102.8	104.4
Nov-04	Regular	1.028	1.044	105.7	109.0
Nov-05	Regular	1.028	1.044	108.6	113.8
Nov-06	Regular	1.028	1.044	111.7	118.8
Nov-07	Regular	1.028	1.044	114.8	124.0

Smaller Routes Pay More, and More

The fuel surcharges are consistently higher for the smaller routes. On the main routes, says the Commissioner, fares cover 100% of the costs, there is no provincial government subsidy involved, and therefore fares go up at the same rate as costs go up. On the smaller routes, however, he says fares cover, on average, one-third of the costs, and therefore percentage fare increases must be three times percentage cost increases, since there has been no increase in the contribution to costs from the Province. (see box).

The Commissioner has provided projections of ferry fares up to the end of the first 'performance term' in March 2008. Using the same assumption, that the provincial contribution will not increase, he sees main route fares being 25% higher than the base year 2003 rates, and smaller route fares being nearly 50% higher. This, of course, assumes that fuel oil prices do not further rise. They are currently around $100 Canadian per barrel (with West Texas Intermediate crude oil at $70 US per barrel).

Gulf Islanders who must use the smaller routes were set up for higher fare increases by the contract that the government wrote for itself under the *Coastal Ferry Act*. The contract fixed the government's contribution to each of the smaller routes for five years, and permitted a 4.4% annual increase in fares. Even without the fuel surcharges, fares were destined to rise 24% in the five year period to March 2008.

In writing the contract, the government effectively insulated itself from any unexpected cost increases. Neither the government nor BC Ferry Services Inc., the government-owned private corporation that now operates the ferries, could have anticipated the run-up in oil prices that has occurred over the past three years. The government has, however, shown absolutely no interest in increasing its contribution to mitigate the almost 50% increase in fares that will have occurred by March 2008.

The Next Service Period

Discussions have now started on the contract between the government and BC Ferry Services Inc. over the government's contribution to smaller route operating costs for the next 'performance term.' Gulf Islanders are understandably

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apprehensive that the government will try to reduce its contribution further, and that ferry service for Island residents will become even more expensive. The Commissioner has endorsed recommendations by Island Ferry Advisory Committees that they be involved in these discussions. However, the elaborate structure that has been set up provides no room for Islanders to negotiate with either the government or BC Ferries on this point.

Fares Go Up - Does this Affect Ridership?

The Commission has not compensated in its calculations for any possible reduction in ridership resulting from these significant increases in fares. The possibility is explored, however. Using figures from a 1997 price elasticity study, the Commission has speculated on the possible financial loss to BC Ferries due to implementation of the fuel surcharges. Assuming that a 10% increase in fares leads to a 5% decrease in ridership on the main routes, and a 3% decrease on the smaller routes (where ferry riders have less choice), BC Ferries could suffer a $25 to $35 million reduction in revenues over the period from July 2005 to March 2008 when the surcharges were in effect. This could come close to a year's profit. ✐

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