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The Minus Touch – COMMENTARY BY PATRICK BROWN

Years ago, BCFerries told us to ‘follow the birds to Victoria’. Now those seagulls have come home to roost. BCFerries is the next piece of our essential public infrastructure to fail privatization.

Throughout the world, the organs of capitalism have trumpeted the virtues of privatizing government functions. The government’s monopoly power to set prices without concern for competition is highly valued, and enables handsome returns to be guaranteed to private investors, without risk on their part. For governments, it offers a tempting way to take credit for essential works without borrowing, added taxation, or accountability.

Everything King Midas touched, you may recall, turned to gold. Unfortunately, BC had Premier Minus.

Privatization in BC

The current provincial government, in power since 2001, has pursued privatization of its public services with ill-considered enthusiasm. First it was BC Rail, ‘sold’ to CN in a transaction which remains surrounded by thick clouds of suspicion. This has been followed by BChydro: too big to be swallowed whole, it has been contracted out in piecemeal fashion, leaving it with billions of dollars in future obligations to private corporations. Highways and bridges in BC continue to be built through what is termed a ‘public-private partnership’, in which the government guarantees that the private partner will enjoy a perpetual monopoly and handsome returns on its investment.

BC Ferries, unable to attract a buyer, was transformed in 2003 by the *Coastal Ferries Act* into a government-owned private corporation. It, too, is a monopoly. The Ferry Commission, mandated to ensure its financial soundness, guarantees its pricing power.

The entire structure—BC Ferries Services Inc, the Ferry Authority, and the Commission—was said to prevent ‘political interference’ with the ferry service. But its creation

was, in itself, an act of long term political interference, together with dollops of deception and/or incompetence.

BCFS Set Up to Fail

It was, in fact, set up to fail. The business plan was based on a December 2001 report by Fred R Wright, CA, which anticipated fare increases at 75% of the Consumer Price Index (under 2%), operating cost increases at 1.4% per year, fuel cost increases at 1% per year, and traffic increases at 1.3% per year for passengers, and 1.4% for vehicles.

Despite these optimistic assumptions, Mr Wright clearly warned that the company would not be able to finance the capital costs of renewing the fleet and upgrading its terminals.

The government plowed ahead regardless, no doubt attracted by the prospect of getting both ferry debt and ferry users off its back. But it also adopted the concept of ‘user pay’ (another mainstay of privatization), guaranteeing that, if Mr Wright was wrong, ferry travelers would assume the burden.

Wrong, Unfortunately

He was wrong, and between 2003 and today travelers have assumed a crippling burden: a 47% increase in fares on the main routes, and 80% on the minor routes (with higher increases on some fares).

Mr Wright, of course, had projected fare increases at levels which were unlikely to provoke customer reaction. But the Commission, following the government’s mandate, authorized fare increases far above those levels.

Ferry travelers did not immediately cut back their travel plans in response. But year-after-year of increases have resulted in steady declines in ferry traffic. For the fiscal year 2010-2011, estimates made in 2001 anticipated a BC Ferries total of 23,911,000 passengers and 9,028,000 vehicles; the actual numbers are 20,746,000 passengers and 8,120,000 vehicles. Traffic hasn’t grown; it is 10-15%

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less than forecast.

Financial Chaos

Traffic is down; fares are up; revenue is up, but operating expenses are up more; debt is maxed out. And debt interest and capital amortization are up substantially. BC Ferries Services only just made money last year; this year, with traffic down even more, a loss of \$35 million is expected.

Clearly, the original business plan did not anticipate that fares would have to be raised so much that traffic would drop so drastically. But then the original plan was probably a prime example of spreadsheet-itus. It stretched simple assumptions and the resultant projections well beyond credibility.

This disease is not unusual.

But what is hard to believe is that CEO David Hahn and the management of BCFerries did not warn the BCFS Board of Directors or the Ferry Commission that this was happening; and that the Board of Directors did not warn the BC Ferry Authority (which represents the sole shareholder, the government) and that the BC Ferry Authority did not advise the Minister of Transportation, and that the Minister of Transportation did not advise the cabinet, who did not advise the Premier, who did not do anything about it. Or maybe they did, but nothing was done.

Cutting Service

Mr Hahn says, 'Who's going to pay? These problems can't be resolved by the company alone.' He blamed everything except fare increases. He now proposes to cut service.

In fact, the original business plan was a ticking financial time bomb. It is becoming a ticking political time bomb, just like BC's other privatizations.

A Very Private Company

Not very long ago, public anger and dismay was raised at the revelations of the generous salaries, bonuses, pensions, and other perks paid to BCFerries' top executives.

But these rewards were not so surprising; they thought they were running a private corporation, which would

logically justify its increased fares, and their increased pay, by providing a more luxurious level of service, or 'experience', complete with 'branding', and marketing to hockey fans. And that sort of stuff has to be paid for.

Nobody told them that the object of the coastal ferry service was to provide, in the words of the mandate of Washington State Ferries, 'to provide safe, reliable, and efficient marine transportation for people and goods...' An additional hint: WSF's vision statement is: 'to be the most efficient and affordable, customer-focused ferry operator in the world.'

Nobody told BCFerries. The politicians never told them. Their various boards and commissions (appointed by the government) didn't tell them.

But now the customers have told them. Maybe now we need the most basic kind of political interference. Big time.

Four Ferry Routes: Comparing 2010/11 to 2003/04

Route 1: Tsawwassen-Swartz Bay

Vehicles – almost the same volume
Passengers – up 3.0%
Tariff Revenue* - up 37.6%
Fare levels – up 42%

Route 5: Swartz Bay-Southern Gulf Islands

Vehicles – down 3.2%
Passengers – down 5.3%
Tariff Revenue* - up 50%
Fare levels – up 70%

Route 9: Tsawwassen-Southern Gulf Islands

Vehicles – down 10.0%
Passengers – down 11.4%
Tariff Revenue* - up 45.1%
Fare levels – up 70%

Route 23: Campbell River-Quadra Island

Vehicles – down 13.4%
Passengers – down 10.1%
Tariff Revenue* - up 65.0%
Fare Levels – up 70%

* including social programs, in which the government pays the fares for seniors on weekdays, schoolkids, etc.