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Island Tides
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Reprint from Volume 19 Number 20 October 4, 2007

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Ferries (and government) still on autopilot

If you thought this summer's ferry fares were high enough, they'll be 9.4% higher on the main routes next summer, and 8.1% higher on the other routes. And it won't stop there. By 2011, fares on the main routes will be 45-50% higher than in 2003; on the other routes they'll be 90-97% higher.

Almost double in eight years. And that doesn't count any further increases in fuel costs. Incredible.

This sort of inflation is what the provincial government thinks is a reasonable consequence of privatizing a public service. This is what the provincial government thinks is a reasonable impact on Island-dwelling British Columbians.

Three quarters of a million BC residents must take a ferry if they want to get to mainland Canada. (The other three and a quarter million have to take a ferry if they want to get to their capital, Victoria.) But the government figures that the cost of such access doesn't matter.

The Ferry Commissioner has produced a final report on the fares for 'Performance Term 2.' It's only slightly different from his preliminary report. He didn't have much choice. He doesn't really have any power to control fares, but only to calculate them according to the figures he is given by the ferry corporation and the government.

It wasn't until after the preliminary report that he invited public comment. There was plenty, both to the Commissioner and to the Minister of Transportation. Most of the emails, letters, and faxes ('with very few exceptions') were about the inexorable rise in fares, and raised three main points: the economic and social impacts of higher fares on Island communities, the consideration of all ferries as part of the highway system; and the level of user-pay for coastal ferries versus other transportation services such as Translink.

Fares continue to increase as the ferry system assumes the the multiple burdens of having to finance its own capital costs, increasing operating costs, no increase in subsidies, and unanticipated increases in fuel costs.

When the provincial government pretended to privatized the system in 2003, it was not clear how much fares would increase—the government implied that they expected fares to increase along with the cost of living. Since 2003, BC's Consumer Price Indexes (there are two alternative CPIs—take your pick) have increased at 2% per year, more or less.

The Main Routes - Increase by Half

Ferry fares on the main routes have risen at less than 3% per year, but fuel surcharges have added another 9%; so main route fares this November (the last increase in performance term one) will be about 25% more than they were when the *Coastal Ferry Act* came into effect in 2003. These are the increases for an unsubsidized ferry service, recovering its costs and a profit on a small equity of 14%.

For the next four years (performance term two) ferry fares will continue to rise at 3% per year (assuming annual CPI increases of 2%), and maybe 4% (if CPI increases at 4%). The result is that main route ferry fares will have increased by about half from 2003 to 2011. And this is providing there are no more fuel surcharges (what do you bet?). Still, these fare increases do bear a vague relationship to the inflation rates we know and love—or at least are accustomed to.

The Other Routes - Almost Double

But fare increases on the other routes are way over inflation. They have been rising at about 4.5% per year, plus very much higher fuel surcharges. Counting this November's increase, fares on the routes that serve the Gulf Islands and the north coast will already have risen by half from 2003.

New fares are calculated by multiply the the CPI by .73 but then adding *5.2% of previous rate*. So fares between now and 2011 will actually rise by between 7.2% and 8.6% annually— a far cry from 2%. Compounding year-by-year, they will be 90% to 100% more than 2003 by the summer of 2011 (not counting any more fuel surcharges).

A Two-Tiered Ferry Scheme

In fact, when the the coastal ferries were 'privatize' in 2003, the government created *two* ferry systems: one for the main routes between the Mainland and Vancouver Island, and one for all the other routes, including the north coast. The two parts have very different fares structure and no cross-subsidization.

Prior to 2003, profits on the main routes had helped to subsidize the other routes, and provincial and federal subsidies made up the rest, to keep fares at a reasonable level. And capital costs, for new ferries and terminal improvements, were paid out of the province's capital budget and funded by provincial bond issues.

The reasonable fares, modest increases, and capital expenditures all served a purpose: the economic health of the province and the coast.

The new BC Liberal government decided that this was not business-like, and passed the *Coastal Ferries Act*. It instructed its new (wholly government-owned) 'private corporation' that the main routes were no longer to subsidize the smaller routes, and profits were to be paid to the provincial government as owner!

The province would decide each year how much subsidy it would contribute, and ferry fares were to make up the rest. The whole scheme was to be run by a Ferry Commissioner, whose terms of reference were to ensure that the figures added up, but not to consider any objective other than the financial stability of the ferry corporation, and particularly not to consider the interests of the passengers, businesses, and communities that were dependent on coastal ferry services.

The new BC Ferries Services Inc (BCFS) was to finance its own capital costs, issue its own debentures, and fulfill a 'contract' with the province's Ministry of Transportation to provide ferry services. It was given an aging fleet of vessels, had its land (terminal) assets repossessed, and told to contract out as much of its business as possible. In fact, it had to start from scratch.

One thing that wasn't mentioned when the *Act* was being passed: the provincial government intended to hold its subsidy (now known as a 'service fee') at a constant dollar level; all cost increases were to be financed from fare increases.

Deliberately Screwed

Any ten-year-old with a computer could have predicted what would happen to these fares with inflation and the deliberate freezing of subsidies by the province—a government which is fond of announcing multi-billion-dollar surpluses.

You may recall that, when the ferries were 'privatized,' the government decreed that the minor routes were to become increasingly 'user-pay.' It was obvious even then that a completely 'user-pay' fare structure would be totally unacceptable.

Before that happened, the government clearly hoped that these routes could be contracted out to smaller operators who might be able to make a profit through cost reduction (and maybe non-union ferry workers).

Well, nobody's interested, despite the efforts made by BCFS to shed these smaller routes.

So, users are covering fuel costs, capital costs of updating long-neglected vessels and terminals, 14% return on equity for investors (the provincial government), all in addition to inflation in operating costs and interest on a debt that will soon exceed a billion dollars.

Coastal Ferry Committees Comment

Coastal residents have increasingly called on the government to consider how essential ferry transportation is to the existence of dozens of coastal communities. Their representatives, the 12 Ferry Advisory Committees and their chairs (FACC), note that the *Coastal Ferry Act* recognizes the necessity of government support for the smaller routes.

'We're more than ready to pay normal inflationary costs, as does any traveller on any of BC's highways,' says Jakob Knaus, of the Southern Sunshine Coast Ferry Advisory Committee. 'The trouble with this set-up is that we're also doing the equivalent of paying directly for the asphalt, the gravel, the abutments and the work crews' wages, in contrast to taxpayer-funded highways.'

The FACCs asked the government to moderate its push toward user-pay, and increase the service fees at a rate approximating the CPI, to help keep fare increases to a scale that families in small communities can bear. Nobody listened: the government wouldn't, and the commissioner isn't allowed to. The government did kick in a little extra money to help in the purchase of the *Northern Adventure* (when the insurance proceeds from the *Queen of the North* weren't enough) but that was about it.

Residents of British Columbia's coastal communities know that ferry service is a necessity, just like the highways that the inland citizens of this province take for granted. The Islands aren't just recreational spots; people live there. These fare increases are discriminatory and destructive.

But the government isn't listening, and insists on setting up long-term, continuing increases in fares.

Once again, on autopilot, and without any way of slowing the vessel down, we're deliberately screwed. No reversible pitch propeller on this ship. Well, at least we know who the skipper is, and it's not David Hahn this time. ✐

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