Reprint
Island Tides

Visit www.islandtides.com to read the current edition and more find more interesting articles on other BC, national & international topics in our extensive archive of newspapers and articles.

Reprint from Volume 20 Number 15 August 7, 2008

Without strategic change ferry service will collapse, says advisory committee ~ Patrick Brown

'A strategic approach is urgently required both to immediately mitigate the impact of excessive fare-shock and to develop a transportation service that will be resilient to anticipated changing conditions. The absence of such an approach will likely lead to a collapse of BC Ferries' business plan for the routes in question and to irreversible damage to the vulnerable coastal communities they serve'—Ferry Advisory Committee Chairs' (FACC) were responding to massive fuel surcharges implemented on August 1.

At 17.6% on minor routes, these are the largest fare increases ever seen on BC Ferries, and come on top of accumulated increases and surcharges of 49.9% from April 2003 to April 2008, with some prepaid fares rising more than 80%. The FACC expects that annual fare increases over the next four years will be at least 7.2%, with the possibility of further fuel surcharges as well. Traffic, particularly of visitors to the Gulf Islands, is showing a marked decline; but Island residents and businesses have little alternative to paying the fares.

The new fuel surcharge is also applied to traffic on the main Vancouver Island-Mainland routes at 10.3%, and Route 3 to the Sunshine Coast at 9.2%.

Without any government intervention this will have a substantial impact on 750,000 BC residents. Truckers, in particular, will 'experience the difference'.

Capital Costs to Come

The FACC also commented on the high cost of fleet and infrastructure renewal for the minor routes and have expressed their concern that BC Ferries will have difficulty financing renewal—'These added costs and resulting changes in travel patterns may render the routes serving ferry-dependent communities unsustainable and could threaten the viability of the whole ferry system, while causing substantial, and irreversible, economic and social trauma to coastal communities.'

The FACC points out that a government strategy has already been agreed for the Northern Route Group 'with provincial government financial assistance assured through increases to the northern service fee to cover higher infrastructure costs as new replacement vessels and terminal upgrades are commissioned.'

These actions show that the provincial government may be prepared to consider modifications to the original business plan for the 'privatized' BC Ferries in the face of circumstances much different from what was originally assumed.

Early Warnings

Even in the original 2003 business plan, there were warnings. The following paragraphs appears under the heading '2.6–Current Business Model Risks' in the planning study for the 'corporatization' of BC Ferries.

'To support the financial component of the plan, a number of assumptions are made. These assumptions, on an individual basis, are credible. However, if several of the assumptions are over-stated, the cumulative impacts pose significant financial risk. For example, the traffic demand forecast estimates a 25% increase over the next 15 years. The plan also assumes fuel costs will not exceed 41¢ per litre.

'If the traffic demand forecast fails to materialize, fuel costs rise beyond the rate of inflation, and the capital program proves one-third more expensive than currently estimated, then the taxpayers of British Columbia will incur additional public debt of approximately $1 billion.'

Plan Gone Awry

However, the government's plan have been upset by a perfect storm: fuel costs have risen to *$1.33 per litre*, and nearly all the increased costs have been passed on to ferry users through massive surcharges; traffic demand has *not increased and is expected to decrease further*, (it is lagging 8% behind the forecast); the estimated capital program costs at the time of the original study were $1.8 billion. They are currently estimated at $1.95 billion in 2007 dollars, not counting future inflation.

The Subsidy Effect

While fares have increased on the main profitable routes, the subsidized minor routes have experienced much larger percentage fare increases because there has been no

Island Tides, Box 55, Pender Island, BC, Canada. Phone: 250-629-3660. Fax: 250-629-3838.
Email: islandtides@islandtides.com. Website: http://www.islandtides.com

accompanying increase in the traditional government subsidy, so all increased costs are translated into increased fares. (For example, say it costs $20 per car to run a ferry on a certain route. If the route attracts a 50% subsidy, the fare is thus $10. If the cost increases to $25 per car, a 25% increase in costs, and the subsidy is not increased, the fare becomes $15, a 50% increase in the fare.)

Diminishing Subsidy

The province has been stubbornly successful in freezing the subsidy. However, it has deviated from this policy when it appeared that the costs on the Northern Routes (which included the costs of a new secondhand ship to replace the sunken *Queen of the North*) would result in crippling fare hikes.

In calculating its diminishing subsidy, the province has included the inflation-indexed federal contribution, payments made to BC Ferries for fares for students and for BC seniors on weekdays, and those traveling for medical reasons (all of which *do* rise as ferry fares go up).

The province has not contributed in any way to the increased cost of fuel on the main routes and the minor routes, so all the increase has fallen on the fare-paying ferry user.

A Special Summer Request

While fuel-cost surcharges were anticipated in the administrative arrangements made for fares under 'Performance Term Two' (which started this April), the increase which took effect on August 1 was the result of a special request by BC Ferry Services Inc to the Commissioner.

Paraphrasing BC Ferries' request: 'If we delay the fuel surcharge until November, when it would normally happen, it would be 14.1% on the main routes, 13.5% on Route 3 (Horseshoe Bay/Langdale), and 25.4% on the minor routes.' (Because the provincial government has been contributing to fuel costs on the Northern Routes, they were not included in this request.) 'However,' continues the ferry corporation, 'If we start the surcharge on August 1st, we would be able to charge less: 10.3% on the main routes, 9.2% on Route 3, and 17.6% on the minor routes (including the other two Sunshine Coast routes, Earls Cove/Saltery Bay and Powell River/Comox).'

This offer was promptly endorsed by the Ferry Commissioner, who, after all, is statutorily responsible for the financial health of the ferry corporation, and not for the public interest.

What's A Surplus For? $49 Million In The Kitty From Ferry Fuel

'We had no choice,' claimed BC Ferries. They were correct; the Ferry Commissioner also had no choice, as the rules are written. The choice lay with the provincial government, who chose once again not to contribute to the increased costs. This despite a multi-billion dollar budget surplus, a good part of which came from royalties on crude oil production. These royalties are about 30% of the selling price of crude oil, and on the amount of crude it takes to run the ferries, would be about $49 million.

The new surcharges are designed to yield some $68 million in a year's ferry operations; this is a bit more than the anticipated $54 million increase in this year's fuel costs. So ferry users are not only paying the royalty, but they are also paying the new carbon tax, and other taxes, plus a bit of catch-up on previously deferred fuel costs. But clearly, the provincial government has the choice of making a bigger contribution.

Transportation Minister Kevin Falcon's take on the basic ferry subsidy was that it only benefited a few people who chose to live—inconveniently for themselves and for the provincial government—on Islands, and that nowhere else in the province did it cost so much per person (he says $2,300) to provide transportation. However, in an interview with Christy Clark, Falcon could not provide any comparative figures to back up his claim.

Reasons for 'Privatization'

In 2003, the objects of 'corporatization' were to distance the provincial government from responsibility for BC Ferries; to freeze and eventually reduce the annual subsidy; to finance the entire corporation with borrowed money and recover for the province the value of the previous Crown Corporation's capital

Examples of Fare Increases

A family of four traveling to Hornby Island paying cash* fare...

A family of four traveling between Vancouver Island and Hornby Island will have to fork out a $93.60 cash fare for two short ferry trips to Denman and then to Hornby Island, a total of 2.4 nautical miles. That's $19.50 per nautical mile for a round trip. The same family of four would pay only $2.40 per nautical mile for passage between Tsawwassen and Nanaimo.

A couple going to Cortes Island paying pre-paid* fare...

A couple driving to Cortes Island will see $53.90 deducted from their prepaid card account for a round-trip from Campbell River that includes riding the Quadra ferry. That's a 20.3% increase from $44.80. The same trip cost $26.17 in 2003.

* BC Ferries offers cash fares and cheaper prepaid fares (available by loading a minimum amount to the Experience Card). Because BC Ferries is applying the fuel surcharge at a flat rate, cash fares are going up by 12-13% while prepaid fares will increase by as much as 21.3%. (To comply with the Commissioner's ruling fare increases must average out at 17.6% on the minor routes.)

'This article was published (August 7, 2008) in 'Island Tides'. 'Island Tides' is an independent, regional newspaper distributing 17,500 print copies in throughout the Gulf Islands and the Canadian Strait of Georgia from Tsawwassen to Campbell River, BC.'

Island Tides, Box 55, Pender Island, BC, Canada. Phone: 250-629-3660. Fax: 250-629-3838.
Email: islandtides@islandtides.com. Website: http://www.islandtides.com

assets; to ensure that BC Ferries' apparent profits were enough so that it could borrow its entire capital needs on the open market without ever again depending on the province; and to fund all future costs from fare increases.

New Government Involvement?

Minister Falcon has now been quick to suggest that 'levels of service' on the minor routes should be examined, or maybe a 'separate card or fee that can be for those that live fulltime on island-dependent (sic) communities.' He referred to the possibility of 'reducing frequency, particularly when it's not peak'.

Suggestions like this, coming from the Minister of Transportation & Infrastructure, suggest that the government is not going to 'distance' itself from BC Ferries for much longer. ✐

Island Tides, Box 55, Pender Island, BC, Canada. Phone: 250-629-3660. Fax: 250-629-3838.
Email: islandtides@islandtides.com. Website: http://www.islandtides.com