ROAD EQUIVALENT TARIFFS

Another Approach to Ferry Fares

CCFAC, March 2008

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1. Fares, Fairness and Road Equivalent Tariffs

Fares – People living in ferry-dependent communities accept their obligation to pay at least part of the cost of their essential ferry service. These costs depend on several factors such as:

- Service level (frequency and capacity)
- route length
- proximity to other ferry-dependent communities
- sea conditions – (open ocean, wind susceptibility, ice)
- availability and quality of docking sites

The portion of costs recovered from fares is a matter of public policy, history of the route and user capacity to pay. The spectrum runs from free ferry service to full user-pay, which can include a profit for the operator. Every route has its unique profile.

Fairness – While ferry users agree they should pay for part of their ferry service, they also believe the 'whole' community, the government, should pay the balance to support this public transportation service. But how much should the government reasonably be expected to pay, or 'what's fair?'. Fairness, like beauty, depends on your perspective. Some of the variables are:

- history (how much has the government been paying if it's an in-place service?)
- existing commitments re fares and service levels
- degree to which ferry service is a life-line for the community
- cost of providing the service
- contribution of the ferry-dependent community to the broader community (taxes, tourism, industry, employment)
- public policy (support for rural communities, fiscal issues, life-line access)
- opinions of those who don't use the service but pay part of the cost through taxes.

One approach to fairness is highway equivalency, or road equivalent tariffs.

Road Equivalent Tariffs – There are at least two approaches to highway or road equivalent tariffs. Both are limited by a silliness cap – you wouldn't build a road or a ferry service to serve a handful of people choosing to live in splendid but remote isolation. There will always be underlying viability.

The first approach has government supporting the ferry system to the same extent it would fund roads between points of comparable distances. Ferry users would pay the difference.

The second has the users paying what they would pay to own and operate a car over equivalent distances to the ferry routes, with the government paying the difference.

Neither is perfect, but both offer a definable, measureable model. As well, both address the issue of people requiring marine access not being unduly penalized compared to their neighbours connected by roads. The model provides an equity test.

As an example of the first approach, the BC Government long ago committed to fund and operate a comprehensive ferry system to the same extent they would pay to build and maintain 'two-lane paved highways in hilly country' between points the same distance apart as the ferry system destinations. They bought companies operating existing routes and established new routes. They invested in robust ferries designed to safely and reliably meet the challenges of the west coast. The highway equivalency formula provided necessary transportation at a reasonable cost and the coastal communities developed as hoped. This model has since been abandoned.

The second approach is illustrated by the Scottish and the Newfoundland and Labrador (NL) ferry systems. The Scottish system is about to start on a 30-month pilot program with fares based on the equivalent cost to the operator of operating a car on roads of the same length as the ferry journey. The NL provincial system adjusted their fares to a road equivalent tariff in April, 2007. Substantial fare reductions are anticipated in the Scottish system and have already been realized in the NL system.

2. The What . . .

Scotland – The Scottish Government, in August 2007, engaged an independent consultant to:

- study approaches to fare setting for public service ferries in other countries, including the Road Equivalent Tariff (RET) approach,
- offer definitions of RET that could be applied to all the subsidized routes throughout the system
- provide an initial analysis of the potential economic and social impacts of introducing an RET approach
- make recommendations on the design and implementation of a pilot study applying RET on one or more of the routes connecting the mainland to the western isles, including choice of route(s), anticipated costs, start date, length of pilot program and operational or capacity constraints that may emerge
- carry out baseline studies for purposes of monitoring results of pilot program.

The study has just now been completed (Feb/08). The pilot program will be put in place on four identified routes for a period of thirty months starting this October. Fares, derived from information from the Royal Automobile Club and the Automobile Association, will be as follow:

- passengers: Core rate of C$4.00 plus RET rate of C$0.20 per mile
- cars/light trucks: Core rate of C$10.00 plus RET rate of C$1.20 per mile
- commercial: Core rate of C$40.00 plus RET rate of C$0.36 per metre per mile.

These rates represent fare reductions of up to 50%. No fares shall be increased.

The operator on the pilot program routes, Caledonian MacBrayne (CalMac) is presently assessing the necessary financial and operational adjustments.

At the end of the program, the results will be assessed and the RET program will be expanded, amended or, conceivably, cancelled.

Newfoundland and Labrador – In March of 2007, the Newfoundland Labrador Government cancelled a proposed 5% fare hike and implemented a Road Equivalent Tariff for the 2007/08 fiscal year. This tariff is based on Canadian Automobile Association calculated rates of $0.572/km for vehicles and $0.1907/km for passengers.

The result of this tariff is that 14 of 70 passenger rates decreased while six of 14 vehicle-plus-driver rates decreased. No rates were increased. The anticipated net result will be a 17% fare reduction this fiscal year compared to the previous year. While this hasn't been fine-tuned, it is thought to be a reasonable approximation of the benefit provided to customers in ferry dependent communities.

3. . . . and The Why.

The governments of Scotland and 'Newfoundland and Labrador' saw the standard of living in their ferry-dependent communities (islands, outports and remote peninsula towns) falling well behind their mainland counterparts as a result of high and higher transportation costs. The result of these high costs was an exodus of young people and businesses from these slowly dying communities. They recognized and responded to the need for intervention.

Scotland – High ferry rates have been seen by many as a barrier to economic growth on the islands. Lowering the fares to a level analogous to mainland traffic costs could act as a boost to island economies by reducing freight costs to local businesses, lowering the cost of living for island residents and making the islands more attractive to tourists.

Quoting Scottish Transport Minister Stewart Stevenson:

> *For years, our remote and fragile communities have been expressing concerns about the affordability of ferry travel and the impact this has on islanders. Expensive fares can be damaging, not only to local economies, but to our national economy, and this Scottish Government wants to take action. We believe the way forward is to consider the benefits of introducing a Road Equivalent Tariff (RET) approach to setting fares. This pilot will examine that case – delivering cheaper fares for islanders, tourists and businesses.*

Newfoundland and Labrador –

Quoting Danny Williams, Premier of Newfoundland and Labrador, 12Mar2007:

> *Today's announcement is a significant investment for rural communities in Newfoundland and Labrador, and a meaningful demonstration of our government's commitment to ensuring that the people using our ferry system have fairness and equity. The reduction in ferry rates will benefit individuals who live in smaller communities especially those who commute to work. It will also provide more cost-effective access to private and public sector services. Additionally, it will stimulate our tourism sector, as lower fares will encourage our tourists to use the ferry system to see even more of our beautiful province.*

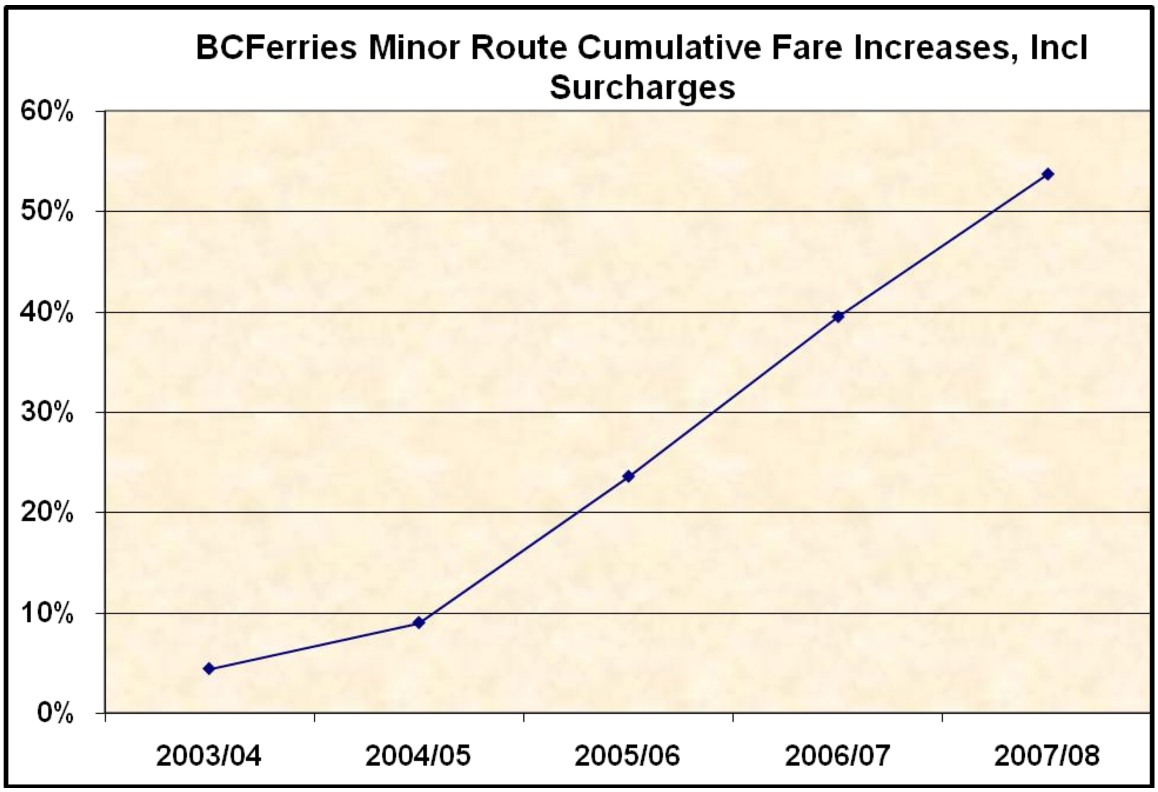
From John Hickey, Newfoundland and Labrador Minister of Transportation and Works:

> *This standardization of ferry rates will benefit the province as a whole but most importantly those living in communities not accessible by road.*

4. Relevance to BCFerries in 2008?

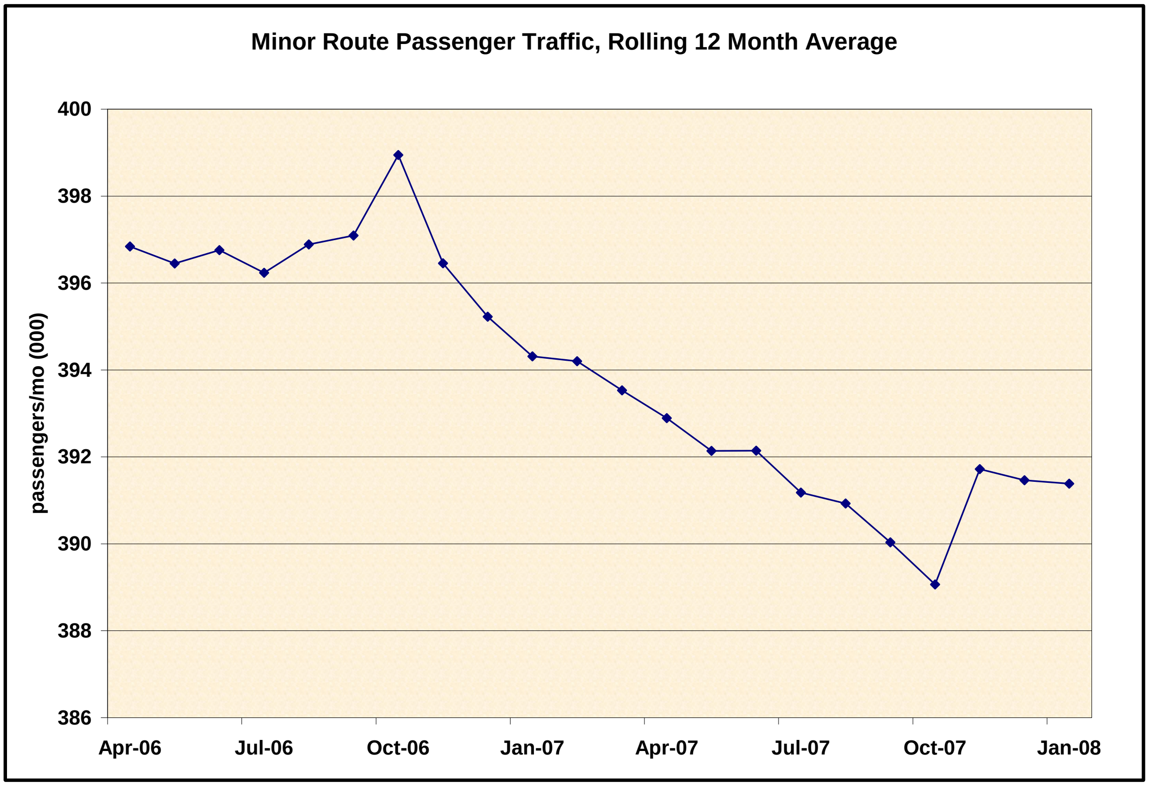
Scotland is on the other side of the world. Newfoundland is on the other side of Canada. Why should we care what's going on there?

BCFerries' fares, including fuel surcharges, on the non-major routes have risen at an extraordinary rate. Fares, including fuel surcharges, have risen over 54% (9% per year) between Apr 1, 2003 and Apr 1, 2008 across the Minor Route Group. See Graph 1. These sustained sharp increases have severely impacted residents and businesses in the coastal communities, driving up the cost of living and the costs of all goods and services purchased on or off island.

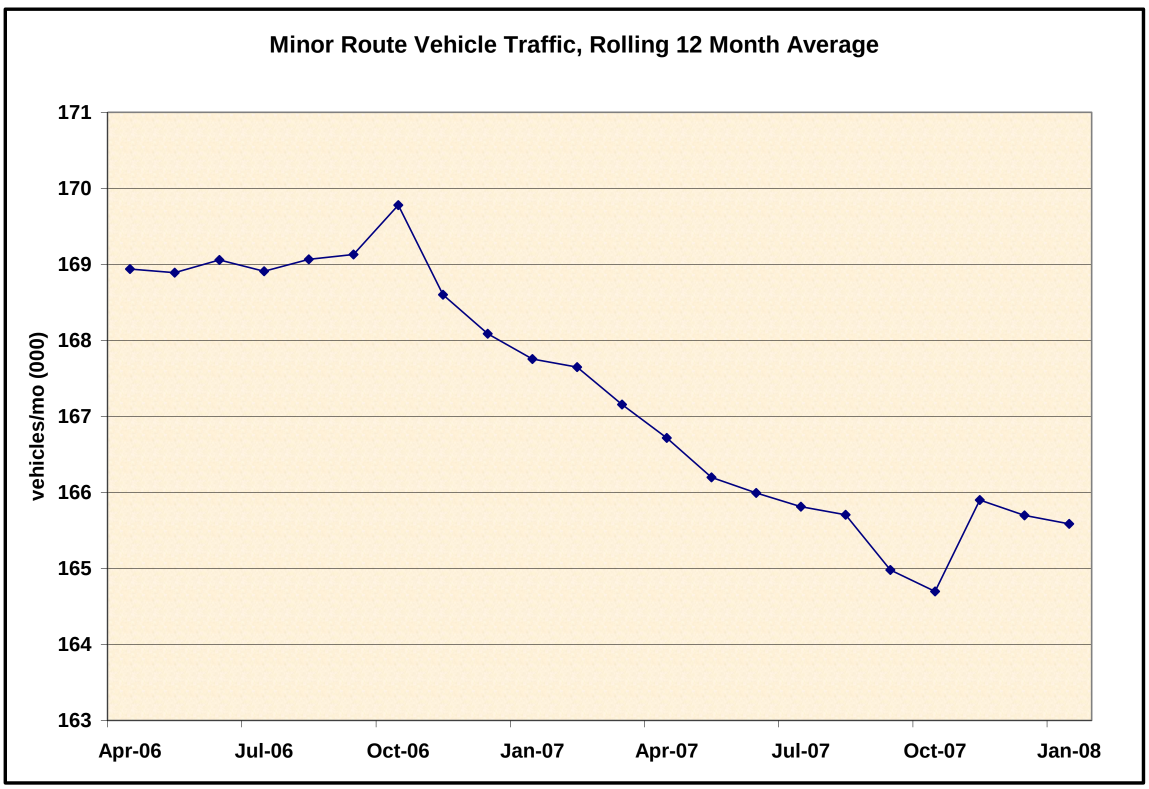


Graph 1.

The higher fares have been a major contributing factor to the traffic decline and the related tourism drop over the past three years. Loss of traffic is a surrogate for the decline in the economic and social well-being of the coastal communities. The people who make up the hearts of the communities, the emergency service volunteers, the clerks, the bakers and the tradespeople, are particularly hard hit by the rapidly rising fares. Graphs 2 and 3 illustrate the traffic drop.



Graph 2



Graph 3

The Scottish and 'Newfoundland and Labrador' governments have recognized the economic problems occurring in their rural ferry dependent communities. As in BC, ferry fares are not the only cause of these problems. They are, however, a major contributing factor. The governments have responded with the Road Equivalent Tariff as a means of reducing the fares while maintaining a sense of equity with other citizens who do their traveling on government funded roads and highways. There is an independently established baseline each year that the government can use to adjust fares, with everyone feeling fairly treated. Above all, the RET approach has had and will have the desired effect of reducing ferry fares to many fragile communities in distress. In both Scotland and 'Newfoundland and Labrador' the governments acknowledged the need for greater government support, if their ferry dependent communities are to survive.

In British Columbia, no such independent baseline exists. The legislation which governs ferry service in BC, the *Coastal Ferry Act,* requires the BC Ferry Commissioner to regulate ferry services and tariffs in accordance with the principle that "the designated ferry routes are to move towards a greater reliance on a user pay system to as to reduce, over time, the service fee contributed by the government." There has been no process in place to address the impacts upon the communities, the region or the province in general that may result from this legislated requirement.

The recently established Coastal Community Ferry Advisory Committee provides a starting point for addressing such impacts.

The Scotland and Newfoundland and Labrador models, and the rationale supporting them, may well warrant consideration in BC.

5.

BACKGROUND:

Scotland

1. David MacBrayne Ltd is the wholly government-owned operator of almost all of the Scottish ferry system. Private operators provide service on a few minor routes. Within the David MacBrayne Group, Caledonian MacBrayne (CalMac) operate ferries in the Firth of Clyde and to the Hebrides, while NorthLink Ferries, a much smaller organization, provides service to the Orkney and Shetland Isles. NorthLink has been part of the David MacBrayne group for only part of the last year. Accordingly, much of their data is for a partial year and thus has not been included.
2. CalMac operates thirty-two vehicle/passenger ferries. NorthLink operates four ferries.
3. CalMac has 1294 employees.
4. CalMac annual turnover (revenue) for 2006/07 was C$170,000,000
5. CalMac 2006/07 traffic: 4,732,000 passengers, 1,068,000 cars, 12,000 coaches and 98,000 commercial vehicles
6. Recent annual and cumulative fare increases for CalMac:

2003/04	2004/05	2005/06	2006/07	2007/08
2.5%	2.5%	2.0%	2.2%	1.8%
2.5%	5.1%	7.2%	9.5%	11.5%

7. There were no fuel or other surcharges beyond the posted fares despite fuel prices rising at similar rates to those in North America
8. Government (Scottish Ministers) contribution to CalMac as percentage of total revenue:

2002/03	2003/04	2004/05	2005/06	2006/07
30.0%	35.5%	34.0%	37.6%	n/a*

   * as a result of CalMac restructuring
9. The proposed RET fares (car, driver, commercial) for each route would replace the various fares – single, multi-journey, 5 day saver – presently in place. No additional discounts beyond the RET fare.
10. While it hasn't been mentioned in the report, commercial fares would also be revised to a RET fare schedule, based on vehicle length on each route.
11. The Scottish fare structure based on a core fare plus mileage reflected the fact that some fares would be so low as to not cover the cost of collecting them and would overlook the substantial investment in fixed terminal costs.

Newfoundland and Labrador

1. Wholly owned and operated by the Ministry of Transportation and Works, Government of Newfoundland and Labrador.
2. NL Ferries operate 14 vessels serving the coastal communities of Newfoundland and Labrador, but not including service to Nova Scotia.
3. Recent annual and cumulative fare increases:

2003/04	2004/05	2005/06		2006/07	2007/08
10.0%	5.0%	5.0%	est	-17.0%	0.0%
10.0%	15.5%	21.3%	est	0.7%	0.7%

4. There were no fuel or other surcharges beyond the posted fares
5. Government contribution as percentage of total revenue:

2004/05	2005/06	2006/07
82.0%	83.5%	NA

British Columbia

1. Recent annual and cumulative fare increases*, non-major routes:

2003/04	2004/05	2005/06	2006/07	2007/08
4.4%	4.4%	13.4%	14.0%	11.0%
4.4%	9.0%	23.6%	39.5%	53.8%

*Including fuel surcharges and Apr/08 4% fare increase

Notes:

a) 2003/04 incl Nov/03 4.4% increase
b) 2004/05 incl Nov/04 4.4% increase
c) 2005/06 incl Nov/05 4.4% increase plus Jun/05 and Feb/06 6% and 3% fuel surcharges
d) 2006/07 incl Nov/06 4.4% increase plus Jun/06 9.6% fuel surcharge
e) 2007/08 incl Nov/07 estimated 7% increase and Apr/08 4% increase

2. BC Government contribution to BCFerries as percentage of total revenue:

2003/04	2004/05	2005/06	2006/07
18.0%	17.1%	16.6%	16.0%

3. BC Government contribution to BCFerries as percentage of Minor Route Group revenue:

2003/04	2004/05	2005/06	2006/07
49.9%	48.5%	47.9%	46.3%

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