WORKING PAPER

In Turbulent Waters:
British Columbia Ferry Service Inc., 1985-2012

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CIRIEC N° 2013/05

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This working paper is indexed and available
in SSRN and RePEC

Ce working paper est indexé et disponible
dans SSRN et RePEC

ISSN 2070-8289

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[I look forward to readers' insights, comments and criticism on my work. As is standard for many conference papers, please do not cite or quote from without authorization from the author.]

> After living in central Canada for a number of years, I had returned home in the summer of 2003 to British Columbia (BC) to visit my parents. My visit included traveling on a BC Ferries vessel and prior to departure, I recall hearing the captain over the loudspeaker, he welcomed us aboard the ship, apologized for the slight delay and thanked us for travelling with BC Ferries. In all my time on spent on BC Ferries, I had never heard such an announcement, what had changed at BC Ferries?

Working paper CIRIEC N° 2013/05

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[1] Paper presented at the Seminar "Case histories of public enterprises: learning from success and failure", University of Milan, June 13-15, 2013, Research Project of CIRIEC International Scientific Commission on Public Services/Public Enterprises on "The Future of Public Enterprise - Mission, performance and governance: Learning from success and failures".

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Abstract

BC Ferries is a provincially owned and operated provider of marine transportation services in British Columbia on Canada's Pacific West coast. In 2012, it moved over 20 million people and 7.8 million vehicles and is a critical component of the provinces' transportation infrastructure. Almost one-third of the province's population is dependent on it services and as such both it, and its operations, are highly sensitive political concerns for the government of BC. It is a firm that faces significant challenges since it has large capital expenses, a very high and rigid operational cost structure and, most critically, its user rates have been stagnant for the last twenty years, due to structural factors outside of its control. As such, both its operational and subsidy costs have grown in proportion to its user numbers, and its fares, too, have increased considerably. Despite efforts to depoliticize this firm's operations, and to make it an independent operating entity, this is a futile exercise given the intense popular and political sensitivities surrounding its operations.

Keywords: State-owned Enterprise; Crown corporation; Institutional change; Institutional evolution; Ferry service provider.

Introduction

All that glitters is not gold. British Columbia Ferry Services Incorporated (BC Ferries) has greatly improved its customer service: polite on-board announcements are just one example, but new restaurants, clean bathrooms, vacation packages, and efforts to quantify customers' experience, among other improvements are, few would argue, positive developments for a public enterprise which carries over 20 million passengers and 8 million vehicles annually. These changes to BC Ferries' internal operations were accompanied by modifications to its governance model and its relations to its political masters, the government of British Columbia, in an attempt to create an more independent, and self-supporting public firm. These operational and governance changes initiated in 2003, best illustrated by the creation of new enabling legislation and a new external CEO largely in response to a failed attempt by the firm to build three specialized ferries in the late 1990s. But little can be done to redress the structural challenges this firm faces, the most critical of which is its static user rate which is roughly as it was in the early 1990s. Imagine a business where your customer base was the same as it was twenty years ago? Consider, too, the essential character of its services, over one-third of the province's population is dependent on it, and the inherent political nature of allocating such an important service, coupled with inflexible operational costs, extremely high capital costs, and one has a better sense of the enormity of the challenges that face this public enterprise.

This paper is an analysis of BC Ferries from 1985 to the present day. It will have nine sections outlining the condition of this contemporary Canadian public enterprise. Its first three sections will briefly identify this Crown corporation and will provide a short history of its creation, as well as an outline of public mission. It will then examine BC ferries' operations; its financial performance, and its governance regime with the BC government. A brief description of the federal government's regulatory framework will round out the paper's descriptive body. Some concluding remarks will illustrate the political processes that determine its tariff rates and the policy and political lessons that can be gleaned from analyzing this state-owned enterprise. Two tables in its appendix, one summarizing its operational and financial condition and the other its current vessel repertoire, are included at its end.

Its findings are derived from primary and secondary source materials, but its most critical insights, particularly those pertaining to the political dynamics surrounding its operations, come from five personal interviews with senior current and former executives of the Crown, relevant government ministries in addition to its unionized workers. The author would like to thank all participants for their time and insights, but would like to remind the reader that all arguments, statements, errors, and omissions are the sole responsibility of the author[3].

Its central premise is that BC Ferries is a public enterprise under a considerable amount of stress. Both it, and its political master, the government of British Columbia, must determine the allocation of marine transportation services, and the burden of associated costs of provision, in a sector where a private market is unable to provide sufficient coordination. Several critical factors contribute to this stressful condition. User rates of passengers and vehicles have been flat for twenty years, due largely to a host of structural factors beyond this firm's control. Its operational costs, however, have grown considerably and are considerable given stringent maritime regulations and an organized work force, so much so that its cost structure is difficult to reduce. Also pertinent, is the essential character of the services it provides to over one-third of the provinces' population and the high familiarity and visibility of this firm within the province, making its costs and service levels highly politically salient issues for the government. Both its public ownership and its monopoly position providing coastal ferry services, as will be explained, is the only politically viable option for the province, but such an institutional arrangement means that it is the government left to balance competing interests in this sector, most notably, between raising fares, offloading costs onto users, or conversely, providing a subsidy from the public coffers, offloading costs onto all BC residents.

In terms of its evolution, its central position is that BC Ferries was created to expand the province's infrastructure and that a market mechanism was unable to provide adequate levels of marine transportation service. Built for a political purpose, significant government control over its affairs was to be expected. Over the course of its 53 lifecycle, we have witnessed a gradual decline in the level of political control over its business operations. Its most significant shift in governance, however, occurred in 2003 when a new government, responding to the political fallout from the ill-fated Fast Ferry Project (FFP), revamped the accountability arrangement of this firm, complete with a new piece of enabling legislation, meaning BC Ferries went from being a Crown corporation to an independent operating entity. The new CEO, David Hahn, also set out to modernize much of its internal operations and focused on improving the customer's experience. While tangible efforts were made to separate this firm from its political masters through a revised system of governance and reporting, as well as the use of complex operating contracts, and using an external entity to set fares, these efforts were not, nor are not, able to fully separate this firm, and its operations, from the government of the day. Declining user rates have further exacerbated its challenges, and exacerbated its need for higher public subsidies

[3] Complete participant list is available from the author, upon request, as is a further explanation of this type of research methodology and some of its associated strengths and weaknesses. Malcolm G. Bird can be reached at m.bird@uwinnipeg.ca .

and higher fares to meet its operating costs. Despite these efforts, it is still, for all intents and purposes, a Crown corporation whereby financial and political culpability for its actions still reside with the government of BC. Its new governance arrangement and efforts to improve its service and its overall public image are unable to address the structural factors responsible for its declining user rates. Such changes, however, are an attempt to extract more revenues from users via on-board offerings and, at the same time, help to justify the increasing costs that both users and taxpayers bear to support this public enterprise.

A. Identification: British Columbia Ferry Services Inc. (BC Ferries)

2012: (Financial and operational numbers are stated in 000's)

Head Office	User Rev ($)	Operate Cost ($)	State Sub ($)	Capital Cost ($)	Employ (2006)	Ships	Pass.	Vehicles	Routes
Victoria, BC	555,731	682,651	182,446	115,304	3,406	36	20,170	7,838	25

British Columbia Ferry Service Incorporated (BC Ferries) is a provider of marine transportation service for passengers and vehicles on Canada's Pacific west coast in the province of British Columbia. It is headquartered in Victoria, British Columbia, Canada[4] and it provides three types of ferry services: its three major routes connect two highways between the Vancouver area, the province's main commercial city on the mainland to Vancouver Island, where the capital city, Victoria is located; second, it provides ferry services to small and remote communities located on both the mainland and small islands located between Vancouver Island and the mainland, and finally it provides service to northern communities located mid-way up the province and service to the Queen Charlotte Islands. A former Crown corporation, today it resembles a quasi-independent firm, governed by an independent board of directors, and it operates at an arms-length from specific direction from the BC government. It does, however, receive a significant amount of public resources in order to conduct its operations and in 2012 it received $182.4 million from both the federal and provincial governments. It raised $555.7 from its users to help cover its $682.6 million operational costs. Approximately one-third of BC's 4.4 million inhabitants (1.45 million) are regular users of its services.

This case study was chosen for a number of reasons. It is an excellent sample of a public institution that is evolving, both in terms of its internal operations and its external governance regime, and struggling to meet the needs of a diverse group of stakeholders: users, citizens, employees, managers and the government, each of which, oftentimes, have competing interests. And its richness as a case study has both empirical and theoretical significance. On the empirical front, examining one organization over a long period of time provides a venue to

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appreciate the structural factors and political forces that are responsible for the institutional changes that we see at this public entity and how it, in turn, response to these external challenges. It is a big and complex multimillion-dollar organization that owns and operates a large fleet of vessels that provides an essential transportation services to the provinces' citizenry that, remarkably, has not been subject to much independent academic research.

In theoretical terms, particularly drawing from the historical and rational choice institutional perspectives that shape the author's views, this case study provides insights into the mechanisms that drive institutional change and adaptation. Institutional change is often characterized as a binary of either externally generated shocks (rational choice) or path-dependent consistency (historical institutionalism); This BC Ferries case study shows the importance of both types of forces, but has a tendency to favour the latter as it appreciates the profound impact that slow and steady incremental change can have on a public institution (Mahoney and Thelen, 2010). That being said, powerful interests, particularly those of the ferry using public and the interests of the government itself, play a seminal role in understanding the evolution of this public firm. Canadian state-owned enterprises, it is also worth noting, with some exceptions (Crisan and McKenzie 2013; Bernier, 2011; Bernier and Simard, 2008; Boardman et al., 2009; Campbell, 2002), have not garnered much academic interest, and so this is a modest attempt to fill this void. BC Ferries, and the reforms that were imposed in 2003, further, illustrate the limits to using market-oriented policy solutions and (partial)privatization efforts address some of its underlying structural problems that it faces. This case study also helps to illustrate the limitations of the effects of neoliberal-type governance reforms on Canadian Crowns (McBride, 2005) and the supremacy that practical political and policy considerations of a government have over any ideological disposition towards shrinking the state and utilizing private firms to deliver public services. Finally, case study examinations, such as this one, also help to illustrate the dynamics of governmental decision-making regimes within a provincial context. It is also a means to better understand how public firms and their governing masters strike a balance between the need for political direction from the government who bears ultimate responsibility for its actions with the seminal importance of operational independence for its state owned appendages.

B. A Short History of BC Ferries

BC Ferries started service in 1960 and was the creation of W.A.C. Bennett's Social Credit government. First announced in a speech by Premier Bennett on July 17, 1958, he made public his government's intentions of building and operating its own ferry service. Ostensibly, his actions were spawned by labour unrest at the two firms, American-owned Black Ball Ferries which ran the Horseshoe Bay to Nanaimo service and Montreal-based Canadian Pacific (CP) Ferries that provided service between the downtowns of Vancouver and Victoria. CP Ferries' workers had been on strike for over two months that summer and the federal government was unwilling to intervene to end the strike. Its reluctance to act on such a critical matter for a maritime province infuriated Bennett, and when workers at Black Ball threatened to go on a sympathy strike, Bennett invoked the Civil Defense Act, which empowered the province to seize the ships and operate them in the event of a strike (Obee, 2008).

While labour unrest (and federal government's indifference) is the commonly attributed central reason for Bennett's bold actions (Mitchell, 1983), and that he was 'reluctant' to create this public enterprise, a closer analysis reveals a divergent and, in fact, an entirely opposite set of motivating factors. Bennett sought to use a public enterprise to provide ferry service since this was the only viable means to provide reliable and effective marine transportation to the citizens of the province. The creation of BC Ferries was one key component of his efforts to engage in "province building" (Black and Cairns, 1966) and its creation illustrated his strong belief in the need for the provincial government to build and maintain transportation infrastructure in order for the province and its people to flourish. Bennett was a very successful businessman before becoming the province's visionary leader from 1951-1971 and, despite discussions – and pleas – with ferry executives for more frequent service and improved terminal infrastructure, they refused his requests. He understood, better than most, that these private firms had no intention of investing capital into their operations, as the costs would simply not be recoverable, let alone a means for maximizing profits. The creation of BC Ferries was not a default action, but rather was to be an activist state-owned enterprise, a central component of his post-war reconstruction efforts whereby the provincial government was to act as a state developer, investing in the province for the benefit of its people and the business community (Leonard, 2002).

Establishing a state-owned enterprise fit with the post-war time period whereby this was an acceptable policy solution, but it is also congruent with Canada's long history of using state-owned enterprises to meet political objectives. Railways and canals were some of the first instances of major public investments in transit infrastructure in the country, but it was the creation of Ontario Hydro in 1905, as an effort to provide reliable and cheap power to industrial users in the Ontario hinterland, that is often cited as the first modern Crown corporation used by the provincial state to facilitate economic development (Nelles, 1974). BC Ferries' creation echoes similar use of public enterprises by the Bennett government, most notably expanding BC Rail, nationalizing hydro-electrical assets and creating BC Hydro and developing a new west coast port, among other investments, to develop the province under the direction of its own government, not depending on the disinterested federal government in Ottawa (Tomblin, 1991). This was a part of a trend by post-war provincial governments to use state-owned enterprises, and other interventionist measures, to develop transportation infrastructure and resources, particularly in the West (Laux and Molot, 1986 and Pratt and Richards, 1979).

On the partisan front, state-owned enterprises are often thought of as being policy instruments of social democratic, left-of-centre governments, but in Canada it is Conservative, right-of-centre governments that have utilized such instruments to achieve political and policy objectives with as much, perhaps even more, enthusiasm. Its first prime minister, John A. MacDonald, a Conservative, used the federal government's powers to shape the market place to implement his "national policy" and other Conservative prime ministers, notably R.B. Bennett (no relation to W.A.C.), created the Bank of Canada and Canadian Broadcasting Corporation in the 1930s. Conservative governments have traditionally supported activist interventions in the nation's economic development "…so long as it was consistent with the fostering of business enterprise and general expansion" (Rea, 1985: 18). Under Bennett's watch, the provincial state did not limit itself to using public enterprises to develop the province, but invested heavily in building roads, highways, schools, universities and hospitals, and such an expansion of the provincial state was consistent with the growth of the public sector throughout other provincial jurisdictions during this time period.

In terms of operations, BC Ferries started providing ferry service in June of 1960 with two specifically built ships, MV Tsawwassen and MV Sidney, both of which were based on the Coho which was built for Black Ball Ferries in 1959. They provided service between BC's two main population centres, Vancouver and Victoria. They operated out of two new ferry terminals, the Tsawwassen ferry terminal, located south of Vancouver's city centre, and Victoria's Swartz Bay, located north of the provincial capital. In 1961, BC ferries purchased the Canadian assets of Black Ball Ferries. CP Ferries ceased its Vancouver to Victoria service in 1962 (Obee, 2008). In its first full-year of service in 1962, BC Ferries carried 2.04 million passengers and 697,000 vehicles (British Columbia Ferry Corporation, 1986: 32).

In terms of governance, initially BC Ferries operated as a division of the British Columbia Toll Highways and Bridges Authority and (I suspect) was subject to a relatively high degree of political interference in its business operations. This would include the setting of its schedules and its fares as well as capital expenses in the arenas of building new ships and new terminal infrastructure. Such a fact was both characteristic of Canadian provincial governments and their Crown appendages for this time period, but might have been also relevant to BC Ferries since its specific purpose was to build transportation infrastructure and marine transit services as part of its role in building the province. Its operations, most likely, were under the direction of Premier Bennett who was known for his close interest in much of the government's policies and such a fact is also characteristic of the structure of Canadian provincial governments where key decision-making power is focused in the Premier's office (White, 1988). There was good reason, in other words, to refer to BC Ferries as "Bennett's Navy".

Throughout the 1960s and 1970s, BC Ferries expanded its service area through the development and acquisition of new routes and new vessels, as well as the necessary terminal infrastructure required for such expansion. (See table 2 for a list of current vessels, many of which were acquired during this expansionary time). Rising user rates, were characteristic of this time period and by 1969, for instance, it carried 4.77 million passengers and 1.73 million vehicles; ten years later in 1979 those numbers more than doubled with BC Ferries carrying 10.4 million passengers and 3.76 million vehicles (British Columbia Ferry Corporation, 1986: 32). These strong numbers were both the result of and a key factor for further expansion of its services, and corresponding vessels and infrastructure required to meet those demands. Also noteworthy, is that by the end of the 1970s and early 1980s, BC Ferries acquired its largest ferries yet with the introduction of the "Cowichan" class of ferries (Queens of Cowichan, Coquitlam, Alberni, Oak Bay and Surrey) each capable of carrying between 290-360 vehicles and between 1200 and 1500 passengers.

It was only on January 1, 1977 that BC Ferries officially became a Crown corporation with the introduction of the *British Columbia Ferry Corporation Act 1976* (Penny, 2000: 14). With the introduction of this *Act*, it officially altered the structure of BC Ferries, it is unclear (and would be difficult to independently verify) specifically how the relationship between the government and this Crown had changed. What is key, however, is that BC Ferries became a Crown corporation, with its own board of directors, an official legislated mandate and, in the abstract, this should have made it, and its operations, more independent of the government and the Cabinet. The 1976 *Act* is relatively short at only 14 pages (particularly when compared with its successor, the *Coastal Ferry Act 2003*, that replaced it) and it reads much like many other enabling pieces of legislation for Canadian Crowns. What is also critical to note is that most of the key decisions regarding service levels and especially fares, prior to the introduction of the new 2003 *Act* still lay with Cabinet, and not with the ferry corporation itself. Again, relative to today there was a greater potential for political interference in its operations and its procurement policies. Also noteworthy, is that in 1985, BC Ferries took over the ferry routes and ships of the Saltwater Branch of the B.C. Ministry of Transportation and Highways that consisted of a number of short, coastal routes and a number of smaller ferry vessels.

There are two central points to note regarding the history of BC Ferries. First, is that for its initial quarter century from 1960 to 1985, with the exception of one year, BC Ferries enjoyed strong and consistent year-over-year growth in its passenger and vehicle user rates. This helped to keep both its fares and required subsidy amounts relatively low. By 1986, after having assumed the Saltwater Branch (which added approximately a million passengers and 500,000 vehicles annually) BC Ferries carried 13.5 million people and 5 million vehicles (British Columbia Ferry Corporation, 1986: 32). Second, the creation of this public enterprise was in response to the market's failure to provide adequate service levels and to invest in ferry and terminal infrastructure. The creation of a public enterprise to redress this deficiency meant that it is ultimately the state, through its Crown appendage, that must be the arbitrator that allocates ferry services; this was true in Bennett's time and is still pertinent today.

C. The Public Mission of BC Ferries

The public mission of BC Ferries is relatively straightforward and has changed little over the course of its 53 year lifecycle. Drawing from its mission statement on its website, BC Ferries mission is "To provide safe, reliable and efficient marine transportation service which consistently exceed the expectations of our customers, employees and communities, while creating enterprise value" (British Columbia Ferry Services Inc., 2013). It operates and manages an ocean going fleet of ferry vessels and terminals to move people, vehicles and the goods they carry around the province of BC in a manner that is as cost effective as possible, dependable and safe. To some extent, it can be considered to be an extension of the highways and road system that forms a central component of any regions' ground transportation infrastructure. In terms of cost effectiveness, its goal is to provide the lowest cost to both ferry users, who pay direct costs via fares, and the BC taxpayers, who pay for ferry services via the provincial, and to some extent, the federal government's contributions to this public firm.

This function has changed little over its lifecycle, but it does require some further explanation. Initially, of course, in order for BC Ferries to be able to provide transportation services, it had to build the required infrastructure and vessels to be able to carry out its mandate. In this regard, such large-scale public investment had important consequences for the province as a whole in that it generated jobs, business opportunities and general economic activity that is often derived from these types of projects. But this was a positive side effect of such investments, not a primary goal of creating this entity. An additional positive side effect of creating BC Ferries was its efforts to develop and maintain a strong BC-based ship building industry employing individuals constructing new ships and refurbishing existing ones. Again, this was not an explicit mission of this firm, but a residual effect of its operations. Until the last ten years, it was government policy to have all ships built within the province even though this added considerably to the cost of acquiring ships. The Liberal government, elected in 2001, ended the buy-BC policy in the aftermath of the failed Fast Ferry Project and the significant political fallout from it. As a result of eliminating this policy, the three "Coastal" class ships where built in Germany on fixed price contracts and delivered in 2007. This was a conscious effort by the Liberal government to outsource their construction to a foreign ship building firm in order to provide distance between themselves and the construction of these ships and any potential negative technical and/or financial repercussions, such as poor performance or cost over-runs, and the political fallout that might accompany these problems.

Finally, a central component of BC Ferries' mission is to provide safe, i.e. incident-free, marine transportation services to the citizens. Obviously such a goal is understandable for any firm, public or private, but it has a particular resonance for a public enterprise such as BC Ferries since it is under a heightened amount of public and media scrutiny, any accidents or incidents are well-publicized in the popular press, for instance. Such coverage, not surprisingly, reflects poorly on both the firm itself and the provincial government. Despite its best efforts any large and sophisticated transportation organization will inevitably have to manage serious incident involving loss of life and property damage, one such event is worth noting for its political significance to both BC Ferries and the provincial government.

Just after midnight on March 21, 2006 on a calm, clear and cool night, the Queen of the North carrying 101 passengers was travelling from Port Hardy on Vancouver Island to Prince Rupert when it failed to make a turn and ran aground in Wright Sound. It sank in one and half hours and all but two passengers got off the ship safely. This accident was due to human error whereby the deck hand at the helm was "distracted" by an interaction with an ex-intimate partner and failed to make the turn. Both the deck hand and his ex-partner were fired (the former was convicted of criminal negligence causing death, as well) and the captain and fourth officer were also relieved of their positions (Keller and Canadian Press, 2013). The sinking of any passenger ship is a politically significant event, but it is further magnified when the ship is owned and operated by a public enterprise. The sinking of the Queen of the North illustrates the direct connection between this firm and the provincial government. When the accident occurred both the CEO of BC Ferries, David Hahn, and then the Premier, Gordon Campbell, were roused from their beds; both were responding to media questions and overseeing the rescue efforts in its immediate aftermath. Despite the efforts of the Liberal government to insulate itself from the operations of this firm by reorganizing its governance arrangement, this is simply not possible.

It is also worth noting, that this event was wholly avoidable and that it could have been much, much worse. The Queen of the North had a capacity of 115 cars and 700 people and had it been full or conditions worse or the response of the crew less effective, many more people could have lost their lives. Also worth mentioning, is that despite the human errors that contributed to the accident, the captain and the crew responded to the accident with a high level of professionalism that minimized the loss of human life; all BC Ferries' crew members, in addition to their regular tasks directing cars and serving food, for instance, are well-trained in emergency management and response in order to effectively manage marine incidents and fires while at sea.

D. The Operations of BC Ferries

BC Ferries is a large and complex organization. In 2012, it carried 20.1 million passengers and 7.84 million vehicles over its 25 service routes, 47 terminals and the 36 vessels of its fleet. Its 25 routes, as mentioned, are divided into three categories of the majors, minors and the northern routes. In terms of its evolution, the most prominent feature of this firm is that its user rates have stagnated, and in some cases, declined, over the last twenty years. (Please see the table 1 in the appendix that will help to illustrate some of these trends). This downward trend, as we will see, is at the root of the problems that face this public enterprise. To provide some specifics, in 1992 BC Ferries carried 20.52 million passengers and 7.97 million vehicles and to provide service to these customers it cost $281.1 million and it earned $250.9 million from its operations. To help cover its operational shortfall and its capital investments it received a combined subsidy from both the federal and provincial government of $48.5 million and it employed 2,945 full-time individuals. Twenty years later, in 2012 it carried 20.17 million passengers and 7.83 million vehicles and the cost of providing these services was $682.6 million and it received a total of $555.7 million from its operations. In order to cover its deficit, service its debt and cover its capital expenditures it received a $154.9 million from the provincial government and $27.5 million from the federal government, for a combined total of $182.4 million. These numbers, and the policy and political realities that they help to form the foundation for, largely speak for themselves. Among the most significant effects is that this has meant that fares have had to rise at rates far in excess of inflation, since 2003, for instance, fares on the northern, major and minor routes have increased by 80%, 40% and 70% respectively (Ferry Advisory Committee Chairs, 2011:2). The subsidies, too, must rise at rates far in excess of inflation as well and a simple glance at table 1 will illustrate such a phenomenon.

In 2006 (the last year statistics are available) it employed 3,406 people. The British Columbia Ferry and Marine Workers' Union represent almost all of its workers and they are governed by a collective agreement. They are a relatively militant group of workers and are willing to use labour disruptions to improve their contracts. Governments, however, are reluctant to permit any work stoppages and this fact means settlements can be relatively generous in the workers' favour. Not surprisingly, this means that its cost structure is relatively high and inflexible.

BC Ferries owns and operates 36 vessels. (Please have a close look at table 2 in the appendix which will provide further specifics on the size, capacity, date and place of construction of the vessels in its fleet) A few critical points regarding its fleet are worth mentioning. First, note how old the fleet is and that many of the ships have been is service over 30 years. With the acquisition of the new Coastal class of ships in 2007, BC Ferries' has reduced the average age of the ships that run on its major routes from 33 years to 19. The small and intermediate vessels that serve on its minor and northern routes, however, have an average age of 36 years (British Columbia Ferry Service Inc., 2012: 38).

The second noteworthy point is the high cost of acquiring new ships. The three Coastal class ships cost just over $108 million each when BC Ferries signed a $325 million contract with a German ship builder in 2006. Even the smaller, intermediate sized ferries are expensive to build, the Island Sky, for instance, which is capable of carrying 125 vehicles, cost $45.5 million to build and was delivered in 2008 (British Columbia Ferry Services Inc., 2008).

The causes for the declining passenger and vehicle user rates for BC Ferries are wide and varied and, of course, are difficult to causatively pinpoint. There are a number of factors, among them is a high Canadian dollar and difficult economic times in the United States, particularly since 2008 that have reduced the number of American tourists coming to the province and using BC Ferries to move about (British Columbia Ferry Services Inc., 2010: 32). Difficult economic times, more generally, have reduced the number of foreign tourists from other nations and help to contribute to a decline in the number of BC residents using the ferry system as well, particularly for recreational purposes. Changing demographics, population growth (or lack there of) and land use restrictions, likewise, are also key contributing factors. As populations age, retirees replace daily commuting workers, many of whom when they were working, resided on coastal islands and commuted to larger metropolitan centres for work on daily basis. Restrictive land use development policies which is the official mandate of the Island Trust (a government appointed regulator of land-use throughout much of the gulf islands) has helped to contribute to soaring land values on may coastal communities. This phenomenon has been exacerbated by wealthy individuals purchasing vacation homes on these islands, all of which has reduced the number of young, working families on many of these islands and coastal communities. Full-time residents with children, not surprisingly, are more likely to be regular users of BC Ferries than part-time residents (Vancouver Sun, 2009). Of course, there are opposing views, many of whom blame rising fares for reducing the number of travellers on BC Ferries. This view is popular among individuals from ferry dependent coastal communities, particularly those covered by the Island Trust, and they advocate for more money from the provincial government to cover BC Ferries' costs, and thus reduce the fares users must pay (Island Trust, 2011). The central point to this discussion, however, is that BC Ferries ridership rates are static and the causes for the decline are both highly contested and structural in nature and, therefore, largely out of the control of this public firm.

E. The Performance of BC Ferries

BC Ferries is not able to fully recover either its operational or capital costs through the tariffs that it charges for its transport services or through its ancillary sales. It has made efforts to increase its non-tariff revenues over the past ten years, it is not possible, nor would many argue, desirable, for this to be a self-financing public agency. It receives an annual subsidy from both the federal and provincial government, and carries a significant amount of debt on its own books.

In 2012, BC Ferries' operational expenses were $682.6 million and it recovered $555.7 million from its users in the form of fares and the sale of ancillary services, mostly comprised of on-board food. To help cover this short fall and its capital expenses for that year, which were $115.3 million, it received $154.9 million from the provincial government and $27.5 million from the federal government, for a combined total of $182.4 million from both levels of government. It also carries a significant amount of debt and in 2012 its total liabilities were approximately $1.51 billion of which $1.28 billion was owed in loans, mostly outstanding bonds (British Columbia Ferry Services Inc., 2012: 62 and 68). Since it carries its own debt, it is difficult to separate the amount of the subsidies that go towards operations from that which go towards capital expenditures. Also noteworthy, since BC Ferries is no longer a Crown corporation, but rather an "independent operating firm" the subsidy is referred to as either a Social Program Fee, which is used to support low use routes, or a Ferry Transportation Fee, which helps cover the costs of all routes. Regardless of the terminology, these are revenues from the state to a public enterprise to help cover its costs and have been lumped together for the purposes of this paper.

It is also critical to note the breakdown of BC Ferries' revenues from its different service routes and that its earning are largely derived from its four most popular routes which earn 83% of its total revenues. Route one from Victoria (Swartz Bay) to Tsawwassen is responsible for 40% of its revenues with route two between Horseshoe Bay and Naniamo contributing 22% of its total operating revenues. Two other routes, route 30 between Tsawwassen and Naniamo and route three between Horseshoe Bay and Langdale contribute 14% and 7%, respectively, to BC Ferries' bottom line (Coastal Ferry Services Contract, 2003: 1, 7, 12 and 17). Only routes 1 and 2 are revenue positive and all of the other 23 routes run operational losses. This is significant because it is the positive revenues from these two routes that are used to cross-subsidize its other route offerings and this makes privatizing any individual routes impossible since it is only the revenue positive routes which would be attractive to private interests, leaving BC Ferries with the residual, money losing routes.

The federal government provides an annual subsidy to BC Ferries. The annual grant agreement dates from 1977 and replaced a previous arrangement whereby the federal government provided $4 million dollars annually to five different private ferry service providers in the province whose routes BC Ferries eventually acquired. Initially, the grant was set at $8 million annually and it is indexed to the Consumer Price Index for Vancouver, B.C. (Transport Canada, 2005). Originally, the grant was provided to the province that then sent it to

BC Ferries as a component of its own operational grant, but in 1996 this changed and the grant is now given directly to the firm. The terms of the agreement are set in perpetuity and can only be altered with the mutual consent of both governments. The $27.5 million allocated to BC Ferries in 2012 goes into its general revenue and is not earmarked for a particular purpose. From the federal government's perspective, the subsidy is not provided to support the national highways system since the two main routes between Vancouver and the Island are revenue positive, nor are they obligated to provide the subsidy on Constitutional grounds since it is not specifically targeted towards remote communities, some of which the federal government is obligated to support. In fact, if the federal government had its wish, it would eliminate the subsidy entirely since it is in contradiction with its National Marine Policy (NMP) and would replace it with targeted funding for meeting the transportation needs of specific remote communities (Transport Canada, 2005: 9). Its continuation, then, is partly justified by the political need to aid BC Ferries in providing effective and reasonably priced marine transportation services and their partial obligation to aid remote communities, but it is solidified by their contractual obligation to the province which can't be altered without the province's approval. Not surprisingly, this is unlikely to occur since any reduction in the federal government's subsidy would have to be made up by provincial government (or would have to be recovered from user tariffs) neither of which is a politically viable option for the BC government.

The firm receives its most significant subsidy from the provincial government. Before discussing it in detail, a little background on its evolution. In the late 1970s, BC Ferries had a very unusual subsidy relationship with the provincial government (Roueche, 1980). The provincial subsidy was based on a "Highway Equivalent" concept whereby the amount provided to BC Ferries for its routes was congruent with the moneys required to maintain a similar length of highway, including the amortization of its capital costs. The subsidy helped to cover the firm's annual operating deficit and any moneys over and above this deficit were kept by BC Ferries for use to purchase capital assets, without the government's approval. It was granted without any defined policies on user rates or service levels from the firm as well. It was a problematic arrangement since ferry route and highways costs are largely incompatible, nor did it take into account service frequency, among other deficiencies (Roueche, 1980). It is not clear from either the documentation or participant interviews, when this subsidy arrangement changed, but it was replaced in 2003 when the governance structure of the firm was overhauled. Today, Cabinet determines the subsidy amount annually, in consultation with the Ministry of Finance and BC Ferries. The previous subsidy regime is a small indication of the fact that for much of BC Ferry's lifecycle it operated in a manner that was inconsistent with modern public management or accounting practices.

It is the subsidy that BC Ferries receives from the provincial government that is much more significant in terms of its total amount and its growth over the last twenty years. This astonishingly high growth rate of the subsidy constitutes a major political problem for the government and, ultimately, is at the centre of all debates regarding BC Ferries' operations in terms of setting fares and schedules, procurement of capital assets and the overall operations of this public enterprise. To start, the provincial subsidy has grown considerably in absolute and relative terms when compared to its operational costs and moneys received from the federal government. In 1994[5], for instance, the province provided BC Ferries with $17.9 million or 49% of its total subsidy, with the remainder, $18.4 million or 51% coming from the federal government. Put another way, the subsidy from both levels of government was equal to 13.1% of the amount the enterprise earned from its users through its operational revenues that were $277 million for that year.

In 2012, things looked much different. The provincial subsidy of $154.9 million comprised 85% of the firm's total state subsidy of $182.4 million with the remainder, $27.5 million or 15% coming from the federal government. Put in terms of a percentage of operational revenues, the total state subsidy was 32.8% of the amount of the money coming from the ferry system's users of $555.7 million. In terms of growth, the federal subsidy is tied to the Vancouver Consumer Price Index, which would make it a reasonable proxy for inflation and it has grown by approximately 53% over the 18-year period between 1994 and 2012. The provincial subsidy has grown by over 860% during this same time period. Remember that the system carried fewer passengers, 21.5 million and 8.3 million vehicles in 1994 versus 20.2 million passengers and 7.8 million vehicles in 2012; it also had approximately 300 more full-time employees. These facts, again, largely speak for themselves and illustrate the effect that its declining user rates have on this firm and the significant increase in funds from the provincial government that are required to continue the operations of this state-owned enterprise.

In terms of comparative analysis of this ferry service provider and those in other jurisdictions, there is some evidence on this subject, but, as will be explained, it is largely irrelevant to our discussion here. During the late 1990s, one participant, the Chairman of the Board at the time, did some research on other ferry firms and found that BC Ferries and its operations, fares and overall effectiveness compared favourably with other companies. One published report by the (partisan) BC Taxpayers foundation published in 2000 noted that BC Ferries paid significantly higher wages when compared to Washington State Ferries, its immediate American counterpart, and that its operating and capital expenses, as well as fares, were rising at unacceptable rates (Penney, 2000: 52 and 53). The author suggests that BC Ferries analyze privatizing some routes

[5] 1994 was used since previous to that date, the provincial and the federal government subsidies were not separated in the firm's annual reports.

and/or reducing service levels, but these are not practically feasible in the case of the former (as will be explained in the following section) and service reductions, while they are occurring, are an extremely sensitive issue that cause significant political problems for both the Crown and the government of BC. Comparisons with other ferry service providers, or of using alternative service delivery methods, is largely moot because there is little, if anything, that can be done to alter the manner and context, both operationally and politically, that BC Ferries functions within. As will be discussed shortly, the provincial government has seriously considered changing the structure of BC Ferries and the ways in which it delivers its services, but there was no plausible way to implement any real changes to how it operates. Also pertinent to this discussion, and the central thesis of this essay, are the significant structural constraints that limit this public enterprise's capacity to alter significantly how it conducts its business.

F. Governing BC Ferries

The governance regime of BC Ferries can be divided into two distinctive phases that reflect the evolution of this public firm. The first period started from the time of its inception in 1960 and runs until 2003, and the second phase runs from this year till the present day. Such a sharp demarcation in the evolution of the governance regime of this firm is possible since in 2003 it received a new piece of governing legislation, *The Coastal Ferry Act 2003* that set out to completely overhaul how this enterprise related to both its political masters and its citizen customers. Such a fundamental change was an attempt to establish distance between the government and this Crown entity by reducing the degree of political interference in its operations and to improve its customer focus and the quality of service it provides (which it was partly successful in doing) with the overall goal to make it resemble a private sector firm which would be less dependent on government subsidies.

Before moving forward, it is critical that we briefly analyze the ill-fated Fast Ferry Project (FFP) of the late 1990s in order to appreciate its significance in the governance evolution of BC Ferries. Its effect was to help motivate the incoming Liberal government of Gordon Campbell, who replaced the previous New Democratic Party (NDP) government, to fundamentally alter the governance structure of this Crown to ensure that such an event would not occur again. This motivation was derived from the intense political blowback – much of it emanating from the opposition Liberals – from this failed project and its contribution to ending the NDP's ten-year rule of the province from 1991 to 2001. The FFP was a project initiated in 1994 to build three-high speed, aluminium-hauled, catamaran vessels that would provide service from the mainland to the mid-point of Vancouver Island (Nanaimo), as well as be a means through which to revitalize the BC ship building industry.

The three ferries were delivered years late and their costs had more than doubled the original projections, totalling $463 million for the three completed ferries, accompanying ferry terminal infrastructure and industry investments. For a variety of reasons, they were unable to perform as promised and were sold for $19.4 million by the Liberal government in 2003 (Stewart, 2008).

The new governance model for BC Ferries was largely motivated by the political fallout from the FFP and the need to further separate this Crown from interference from the political sphere. Fred Wright, summarizing the finding of two reports on the project, noted that despite BC Ferries' efforts to implement some of the recommendations of the 1999 Morfitt Report, "BC Ferries remains vulnerable to influence that is inspired by decidedly non-commercial motives", his central recommendation was:

> We recommend that the Province amend the BC Ferries enabling legislation to vest the powers in a truly-accountable, independent board of directors with responsibility for governing, exempt from political and bureaucratic interference. Under this model, BC Ferries would receive a clear mandate and understanding of the Province's expectations and would annually present its business plan, through the Minister of Transportation, to the Legislature, and would report quarterly on the results of its operations. (Wright: 2001: 10)

The Liberal government set about to reorganize this entity and they did this by first passing *The Coastal Ferry Act 2003*, which came into effect on April first of that year.

Under the previous governance regime governed by the *British Columbia Ferry Corporation Act 1977*, the government of the province, usually represented by the minister whose department was responsible for BC Ferries, was responsible for appointing the board of directors of the firm. There were no specifications in the *Act* as to how long a board member could serve, nor how the CEO of the Crown corporation was selected (Stewart, 2008). This, not surprisingly, meant that the choice for CEO and the members of the board served at the discretion of the ruling government. The previous *Act* was relatively short and vague on specifics as to the functioning of this public firm. What is critical to note regarding this former governance arrangement, as the FFP illustrates, is that there was significant political interference in BC Ferries' operations in the arena of procurement, as well as other aspects of its operations. Cabinet (which often times means the Premier's office, in this context) had a direct hand in determining fares and schedules, in many instances. Other types of problematic interference from the political sphere included direct political involvement in collective bargaining processes; the creation of fare categories to favour very specific groups of users; irrational discount structures; weak business cases for new routes and under investments in infrastructure, among other problems (British Columbia Ferries Services Inc., 2011: 10 and 11).

The new governance regime has four major components: an independent ferry authority (British Columbia Ferry Authority); a commercial operating company (British Columbia Ferries Services Inc.); an independent regulator (The British Columbia Ferry Commissioner) and a long-term service contract (The Coastal

Ferry Services Contract). The general theme of this arrangement is that BC Ferries is now owned and managed by and reports to the BC Ferry Authority, which is regulated by the BC Ferry Commissioner who sets and monitors fares, routes and service levels as they are outlined in the service contract between the provincial government and BC Ferries (Stewart, 2008: 14).

The BC Ferry Authority holds one voting share in BC Ferries which was converted to a commercial company (hence the change from British Columbia Ferry Corporation to British Columbia Ferry Service Inc). It is the holding company that ensures that BC Ferries operates independently from the government. It is the selection and composition of its board of directors, and their expanded powers that solidifies this independence from the government (Stewart, 2008: 15). It has nine directors, two of whom are appointed by the province, four of which are selected from nominees from communities heavily-dependent on ferry service, two at-large members are appointed by their fellow board members and one member is from the union that represents BC Ferries' workers. The members can only be removed by a vote of their fellow board members and they are all limited to two, three-year terms. The board selects the Chair of the Authority. The Authority is responsible for hiring and evaluating the performance of the CEO of BC Ferries (Stewart, 2008: 16).

Next, the operating company, British Columbia Ferries Service Inc., has its own board of directors which is appointed by the Authority. As section 21.1 of the *Act* states, its nine members must: "… select individuals in such a way as to ensure that, as a group, the directors of BCFS are qualified BCFS candidates who hold all of the skills, and all of the experience needed to oversee the operation of BCFS in an efficient and cost effective manner." Also, the *Act* stipulates that an officer of the company may not be Chair of the board and the CEO cannot be a director on either board. The government owns 75,000 non-voting shares which entitles them to an annual "dividend" of 6 million dollars from BC Ferries. BC Ferries is now permitted to access private capital via the bond market without the government's specific approval and the government also changed the ownership of the terminals to an independent entity, The British Columbia Transportation Financing Authority, with BC Ferries leasing these facilities and is responsible for their maintenance and upgrading. Some debt, too, was offloaded onto BC Ferries during this time as well (Stewart, 2008: 18). It is also worth noting that in 2000, $1.08 billion in BC Ferries debt was assumed by the province (British Columbia Ferry Service Inc., 2001: 3). (It is bit unclear to the author the extent to which the transferring of debt and terminal assets over this period of time had on both the governments and BC Ferries' balance sheets; as we will see, such transfers are irrelevant given the intricate, and inseparable, relationship between the two entities). What is key to note is that BC Ferries through its governance regime is insulated from direct political interference in its day-to-day operations.

The BC Ferry Commissioner is a quasi-judicial regulatory agency which is comprised of two individuals, the Commissioner and the Deputy-Commissioner, whose central responsibility is to regulate ferry fares of BC Ferries (British Columbia Ferry Commissioner, 2013). It four guiding principles is to balance the interests of ferry users, taxpayers and BC Ferries (or, “ferry operator”, in its terminology); encourage a “commercial approach” to BC Ferries; encourage alternative providers of service on ferry routes and finally to encourage innovation without compromising safety. Its other functions are to monitor BC Ferries’ adherence to the Coastal Ferry Services Contract, approve capital expenses and handle customer complaints (British Columbia Ferry Commissioner, 2013). It issues rulings/decisions and publishes an annual report. It is easiest to think of the BC Ferry Commissioner as a congruent entity as a public utilities board that are charged with regulating prices of electricity and natural gas. In political terms, the function of the Commissioner is to offload difficult and unpopular decisions regarding fares and service levels to an entity that is at arms-length from the ruling government.

The Coastal Ferry Services Contract (CFSC) is 60-year formal operating agreement between the province and BC Ferries. It is a comprehensive 163 page document that outlines most of the pertinent components of the relationship between the province and BC Ferries. While under the previous governance regime and the relatively brief *BC Ferries Act 1977* much of the relationship was unspecified and informal, and thus leaving room for politicized interference in the firm’s operations; this is an attempt to formalize every aspect of the relationship and to eliminate as much discretion as possible. It reads much like a piece of legislation with general provisos and definitions, and outlines key aspects of BC Ferries’ operations, such as: required service levels on designated ferry routes; terminal leases and vessel management; service fees (provincial subsidies) and federal subsidies; price caps; processes for “service adjustments” (read reduction in services) and route discontinuance; service schedules and the requirement of BC Ferries to conduct customer service surveys, among many other key points of BC Ferries’ operations. It then goes through each of BC Ferries’ 25 routes, providing an overview of the route, specifying service levels (schedules) and complete route-specific vessel information. It also provides a comprehensive breakdown of the passenger and vehicle utilization rates, annual demand variations, and a comprehensive outline of pertinent financial information on each route: costs, fare prices, profits, losses and utilization rates and the like. It also includes a listing of major capital expenditures for each route in terms of ship and terminal maintenance and renewal. It is an earnest attempt to both quantify and make public all of the costs of providing ferry service in terms of operational and capital needs of each individual ferry route.

This new governance regime is an attempt to formalize the relationship between the government and BC Ferries through the use of quantifiable cost, price and service measurements in a legal document. It is an effort to bring an open and transparent, rational process to the central question that plagues both this enterprise and its political masters: how to fairly and effectively allocate ferry service? Under a private, market-based system, of course, supply and demand are determined by the market place, but it is much different when it is a monopoly and the one firm is state-owned. Over the first thirty years of its lifecycle when its user rates and operational revenues were rising, it was relatively easy to allocate the ferry service, even though it was a partially politicized process – after all few people complain when more service is provided. With declining user rates and revenues, however, coupled with the political fallout of the FFP, these illustrated to the government the potential political liabilities emanating from this Crown, particularly those regarding raising fares and reducing service, and thus the need to attempt to distance itself from the operations of BC Ferries. Since its user rates have declined, it has put much more – upward – pressure on fares and has further restricted resources such that it is sometimes necessary to reduce service levels. Both of these are extremely unpopular policies to implement and they cause significant problems for the provincial government. One way to proactively address this issue is to establish a governance regime whereby culpability for change is distributed among a host of non-partisan actors that are guided by a set of rational, and quantifiable policies and procedures in order to further insulate the government from negative responses.

A few pertinent additional points regarding the governance of BC Ferries. First, *The Coastal Ferry Act 2003*, is a complicated and relatively long 65 page *Act* that provides a detailed outline of the aforementioned governance structure. But what is most interesting is that it provides a legal framework for the breakup of BC Ferries' operations and the contracting out of its ferry routes. It specifies, for instance, that the terminals are to be owned by The British Columbia Transportation Financing Authority (section 30), and empowers it to enter into leases with third parties (read: private ferry service providers, section 31). It also has special provisions for private operators of ferry services to use these facilities and even to cross over private property, if need be, in order to fulfil their contractual obligations (section 31). Other provisions allow for the transfer of employees between BC Ferries and potential new providers of ferry services (section 22), and for BC Ferries to establish a refit and maintenance subsidiary (section 23). This is why BC Ferries is rarely mentioned specifically in the *Act* and instead is referred to as a "ferry operator" (even the title of the *Act* itself further reinforces this notion). The goal of the new *Act*, and the new governance regime in general, was to try to establish a system whereby private firms could bid to operate specific ferry routes, while the government would operate the terminals and regulate the prices, schedules and service levels. Such a regime had all the hallmarks of a "neoliberal" inspired partial-privatization. Only one route, a small passenger-only route, was contracted out to a private firm (which operates a BC Ferries-owned vessel, however). This new regime was simply impossible to realize since BC Ferries cross-subsidizes almost all of its routes from revenues from its two most popular services, route one and two, between Vancouver and Vancouver Island.

Second, along with the new *Act* and governance regime, David Hahn, a former American aviation executive, was hired to run the company in 2004. He focused much of his energies on improving BC Ferries' image and its interactions with the public, as well as seeking out new forms of revenues. Under Mr. Hahn's direction BC Ferries improved its on-board food selection, adding a popular BC-based restaurant, for instance, and other amenities, and expanded its offerings in its gift shops. It also focused its energies on improving the customers' experience, ensuring that bathrooms and seating areas were clean and functional, for example. He ventured into new business lines for the firm such as starting to offer vacation packages and a commercial drop-trailer service (where by trucking firms could leave a loaded trailer at one terminal and BC Ferries would transport the trailer onto the ferry for final pickup at the terminus). Also notable about Mr. Hahn was his willingness to actively resist any attempts by members of the government to unduly shape how BC Ferries conducts its business. Under his reign, all aspects of political interference in its business operations came to an end. He retired in 2011 a year earlier than his planned departure date due to the political fallout of his perceived extravagant salary and pension package (Hunter, 2011).

G. Regulating BC Ferries

While the provincial government owns and operates BC Ferries, it is the federal government that dictates the safety regulations and staffing levels onboard all of its ships. This is a result of the division of powers sections in Canada's founding piece of legislation, the *British North American Act 1867*, that allocates to the federal governments all matters concerning "navigation and shipping". The regulations concerning BC Ferries are significant in that they prescribe the minimum number of crew members required to operate a vessel and these requirements are based on the ship operating at 100% of its capacity, even though they rarely operate at full capacity. This adds considerably to BC Ferries' operating costs and restricts its discretionary decision-making power with regards to its staffing levels and associated operational costs. They are also relatively onerous when compared to American regulations. For instance, two identical ships, one operating in Canada and the other in America, will have significantly different minimum crewing levels. For a particular mid-sized ferry, the Canadian vessel will require a crew of 30 and its American counterpart a crew of just 14 since ships operating in protected waters in the United States require fewer staff members than their Canadian counterparts (Roueche, 1976: 7).

H and J. Investing and Financing BC Ferries – Conclusions and Lessons Learned

In competitive markets, dominated by private firms, the state still has responsibilities to ensure that they operates effectively, but the allocation of the resources used and goods and services provided, however, are not for the state to decide, these are left to the supply and demand curves of the market. But once a collective action problem has been adopted by the public sector, through a public enterprise monopoly, ultimately, it is the state, and the government that is charged with running it, that must decide how to allocate the resources in this sector. This is a difficult task that this fraught with risks of all sorts. The decision to use a publicly owned mechanism to provide ferry service to BC residents was made by Premier Bennett some fifty years ago and it has been left to successive governments to manage it ever since. It thus has brought BC Ferries and the ways in which it operates its business and allocates ferry service into the political sphere and no matter how a government chooses to organize this firm or to govern its operations, it is impossible to escape the politicized nature of its operations.

BC Ferries is under a tremendous amount of pressure and it is seriously constrained in its ability conduct its business. The most basic source of which is the fact that its users demand ferry services and, like most citizens, are unwilling to pay the full cost of its provision and are largely unaware of (and unconcerned with) the full cost for providing it. Its costs structure is both high and extremely rigid. Its crewing levels are dictated by federal regulators as if its ships are operating at full capacity, which they rarely do. Its workers are unionized and governed by a collective agreement, and they are also relatively militant. The service that it provides is absolutely essential to over one-third of the province and many of its users are politically cognizant, organized into vocal user and interest groups, as well as being represented on the political superior's board of directors. It must always adhere to its schedule, even when its ships are woefully under utilized, and cannot cancel sailings on such grounds. Any service reductions are met with stern and organized resistance. Any fare increases, likewise, are not only well publicized, but are met with intense opposition. Its capital stock, exposed to harsh maritime weather, likewise, is prone to decay and it must maintain all of its terminals and ships to first-rate standard. Its customer base is in decline and there is little it can do to stem the tide.

Yet, it is not BC Ferries that is ultimately responsible or politically culpable for this condition, but rather its political masters, the BC government. This is because it is the government that determines the subsidy amount to BC Ferries and since its operational revenues are in a relative decline - they are only increasing because fares are rising at rates far in excess of inflation – it is that subsidy amount determines the fares that individuals pay and the level of service that they receive. Its rigid and high cost structure ensures that this is the case no matter how the governance regime is organized nor how open, transparent, rational, legal and quantifiable are its input costs and output prices. Like many decisions that must be made in this world, they are matters of allocating scarce resources amongst a diverse and never satisfied set of consuming groups. The service contract, the decisions of the Ferry Commissioner on schedules and fares are ultimately beholden to the financial bottom line of BC Ferries, and the provincial government and the amount of revenue it provides determines that bottom line.

This leaves the government, and us, with a simple political calculation that occurs annually in the Premier's office of British Columbia. It is here where all of the pertinent political considerations come to a nexus and this is where the vast majority of key decisions are made in a Canadian province. The decision-makers in the Premier's office, then, are left to make a difficult political calculation: they must balance the political value of the financial cost that the subsidy imposes on all taxpayers of the province with the political costs associated with the burden that BC Ferries' fares impose on the one-third of the province who are dependent on its services. It is here that the rubber hits the proverbial sea. With a subsidy that has increased over eight folds in twenty years and fares that are rising far in excess of inflation, it is unlikely that anybody will be satisfied with the outcome. Such choices and the evolution of BC Ferries more generally is yet another example of the difficult decisions and difficult resolutions to collective action problems that are left in the hands of the state and its publicly owned appendages.

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Appendix A

Table 1 - Operations

Year	Pass. Carried (000s)	Vehicle traffic carried –AEQs (000s)	Expenses Operat, $ (000s)	Expen., Cap., $ (000s)	Revs., Operat., $ (000s)	Prov. Subsidy, $. (000s)	Fed. Subsidy, $ (000s)	Total Sub., $ (000s)	Employees
1985	11,912	4,460	125,308	12,456	125,530	43,000	Included	43,000	N/A
1986	12,169	4,524	146,245	68,219	134,900	40,000	Included	40,000	N/A
1987	18,235	6,525	182,616	1,817	166,573	57,000	Included	57,000	2,300
1988	17,014	6,491	176,083	9,292	168,488	57,000	Included	57,000	2,352
1989	17,919	6,885	181,830	7,559	187,599	51,000#	Included	51,000	2,537
1990	19,229	7,499	246,189	17,117	215,212	51,000#	Included	51,000	2,657
1991	19,775	7,707	256,740	101,286	230,419	48,450#	Included	48,450	2,808
1992	20,518	7,965	281,169	217,767	250,901	28,147#	Included	28,147	2,945
1993	20,533	8,029	313,970	178,360	265,249	36,300	Included	36,300	3,097
1994	21,529	8,383	355,983	64,171	277,122	17,900	18,400	36,300	3,140
1995	22,021	8,398	350,535	20,251	320,336	15,947	18,005	33,952	3,159
1996	22,512	9,053	374,568	60,251	340,487	9,352	21,322	30,674	3,272
1997	22,269	8,910	388,828	136,178	333,846	4,700	21,800	26,500	3,292
1998	21,799	8,779	396,650	128,187	356,810	4,700	21,931	26,631	3,374
1999	21,379	8,579	423,273	166,602	362,078	24,000	22,040	46,040	3,389
2000	21,381	8,668	389,084	114,590	356,169	64,913	22,150	87,063	3,390
2001	21,369	8,709	396,021	55,148	361,425	72,519	22,438	94,957	3,339
2002	21,251	8,890	453,381	54,805	376,889	71,706	22,953	94,659	3,380
2003	21,624	9,126	463,855	58,114	391,163	74,243	23,377	97,620	3,345
2004	21,367	8,292*	481,699	59,649	403,950	105,806	23,975	129,781	3,261
2005	22,026	8,557*	499,471	119,855	433,141	106,971	24,343	131,314	3,375
2006	21,729	8,543*	504,116	130,181	446,049	108,223	24,890	133,113	3,406

2007	21,665	8,521*	528,363	248,316	462,574	108,396	25,309	133,705	N/A
2008	21,788	8,578*	569,649	428,292	492,171	122,702	25,856	148,558	N/A
2009	20,727	8,130*	624,143	530,269	531,021	124,485	26,294	150,779	N/A
2010	21,035	8,255*	660,003	84,166	555,874	149,508	26,924	176,432	N/A
2011	20,746	8,119*	672,147	122,180	561,323	151,023	26,924	177,947	N/A
2012	20,170	7,838*	682,651	115,304	555,731	154,959	27,487	182,446	N/A

Notes: All statistics were derived from BC Ferries Annual Reports for the years 1985 to 2012. Employees are stated as full-time equivalent with total hours worked divided by 1,827, the standard hours in a work year. Prior to 1996, the federal subsidy flowed through the province and is included in its subsidy to the firm. Starting in 1996, the federal government gave the money directly to BC Ferries. In 1986, BC Ferries took over the operations of the Saltwater Ferries service of the Ministry of Transport and Highways, these additional numbers were not included in the 1986 year, but are included in the 1987 data and subsequent years. Operational expenses includes the cost of retail goods sold. In 2004, the province changed the subsidy regime, now giving BC Ferries Service Inc. a block grant referred to as a “Ferry Service Fee” in order for BC Ferries to provide services that are mandated by the province and/or are not commercially profitable, this includes the Contracted Route and Social Program fees as well. * indicates vehicles carried, not Automobile Equivalent Units, AEU, where commercial vehicles are counted as 3 units. 2003, for instance, is AEU = 9,126, but vehicle count is 8,321. Operational revenues do not include subsidies from either government and are comprised of route tariffs, retail sales and other revenues. # Denotes provincial subsidy in the years 1989 to 1992 that had both a capital and operational component, only totals are expressed here.

Table 2 – Active Ships

Ship Name	Year/place built (refurbished)	Displacement (tons)	Passenger Capacity	Car Capacity
Coastal Renaissance	2007 - Germany	10,034	1650	370
Coastal Inspiration	2007 - Germany	10,034	1650	370
Coastal Celebration	2007 - Germany	10,034	1650	370
Spirit of British Columbia	1993 - Vancouver/Victoria	18,747	2100	470
Spirit of Vancouver Island	1994 - Vancouver/Victoria	18,747	2100	470
Queen of Coquitlam	1976 - Vancouver (2003)	6,551	1466	362
Queen of Cowichan	1976 - Victoria (2004)	6,503	1494	360
Queen of Alberni	1976 - Vancouver (1984, 1999, 2007)	6,422	1200	290
Queen of Oak Bay	1981 - Victoria (2005)	6,969	1466	362
Queen of Surrey	1981 - Vancouver	6,969	1466	362
Queen of New Westminster	1964 - Victoria (1991, 2009)	6,122	1332	270
Queen of Nanaimo	1964 - Victoria (1969, 2006)	4,542	1163	192
Queen of Burnaby	1965 - Victoria (1972)	4,542	659	192
Northern Expedition	2009 - Germany	17,729	600	130
Northern Adventure	2004 - Greece/Victoria	9,925	600	101
Queen of Capilano	1991 - Vancouver	2,500	462	85
Queen of Cumberland	1992 - Vancouver	2,662	462	127
Island Sky	2008 - Vancouver	3,397	462	125
Queen of Chilliwack	1978 - Norway (1996) bought 1990	3,447	400	115
Skeena Queen	1997 - Vancouver	2,453	600	100

Powell River Queen	1965 - Vancouver (1979)	1,486	408	68
Mayne Queen	1965 - Vancouver (1979)	1,475	400	70
Bowen Queen	1965 - Vancouver (1979)	1,475	400	70
Howe Sound Queen	1964 - Quebec (2008)	921	300	70
Quinitsa	1977 - Vancouver (2008) (MHSW, 1985)	1,107	394	50
Quinsam	1982 - Vancouver (2010) (MHSW, 1985)	1,457	400	70
North Island Princess	1958 - Vancouver (1971)	804	293	49
Quadra Queen II	1969 - Vancouver (2010) (MHSW, 1985)	819	293	30
Tenaka	1964 - Victoria (MHSW, 1985)	618	150	30
Tachek	1969 - Vancouver (MHSW, 1985)	807	150	30
Klitsa	1972 - Vancouver (MHSW, 1985)	450	150	22
Kahloke	1973 - Vancouver (MHSW, 1985)	466	200	30
Kwuna	1975 - Victoria (MHSW, 1985)	347	154	26
Kuper	1985 - Utah (2006)	648	269	32
Nicola	1960 - Vancouver	255	133	16
Nimpkish	1973 - Vancouver	371	125	16

Notes: All BC Ferries are “Roll-on, Roll-off” or “Ro, Ro” in that vehicles enter in one direction and exit in that same direction. Displacement refers to the physical weight of an empty ship, measured in metric tons. Ships acquired in 1985 were transferred from the Salt Water Division of the Ministry of Highways to BC Ferries.

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