

# St. John's Board of Trade

## Submission to the Standing Committee on Finance Parliament of Canada



August 15, 2008

### **Executive Summary**

The St. John's Board of Trade requests that the Government of Canada allocate capital funding of \$95-97 million to source a new vessel in the same class as the MV Atlantic Vision to bring into the Marine Atlantic service by summer of 2010, consistent with the initial five year lease of the MV Atlantic Vision. Operating, retrofitting and repair costs will decline significantly, environmental targets will be easier to meet, economic development will be sustained and improved in at least two provinces, and a number of employees which are the key to three towns and their adjacent areas will be able to provide quality service to many commercial and consumer interests. The Marine Atlantic ferry service is an economic facilitator for Newfoundland and Labrador, and a first point of contact for visitors taking in the 'Newfoundland experience' of which we are so proud and guard with great passion.

### **Recommendation**

The St. John's Board of Trade requests that the Government of Canada allocate capital funding of \$95-97 million to source a new vessel in the same class as the MV Atlantic Vision to bring into the Marine Atlantic service by summer of 2010, consistent with the initial five year lease of the MV Atlantic Vision.

For Marine Atlantic to truly fulfill its mission, the issues of environmental responsibility, quality service, reliability and cost-effectiveness must be addressed and can be addressed with the addition of a second new vessel similar to the MV Atlantic Vision. This submission will articulate the safety enhancements, environmental benefits, ability to provide enhanced quality and reliability, and cost-effectiveness that a new vessel will bring to the people of Newfoundland.

### **Context: Commitment to the province**

The Terms of Union between Canada and Newfoundland and Labrador, specifically Term 32.1 state that 'Canada will maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques, which, on completion of a motor highway between Corner Brook and Port aux Basques, will include suitable provision for the carriage of motor vehicles.' No less an authority than the Royal Commission on Renewing and Strengthening Our Place in Canada interpreted this as a clear requirement for the 'federal government to ensure the continuous operation of the service, without interruption, at a level of service that addresses demand for its use' (1).

Marine Atlantic's own stated mission is 'to provide a safe, environmentally responsible, and quality ferry service between the Island of Newfoundland and the Province of Nova Scotia in a reliable, courteous and cost-effective manner' (2). The St. John's Board of Trade contends that this commitment to the province, and the mission of Marine Atlantic, is not being fully met and that the addition of a second new vessel would have significant impact on meeting those government and corporate responsibilities.

### **Current issues**

In a newspaper article in The Telegram on August 7, 2008, the interim president and CEO of Marine Atlantic, John Roil, noted that while ferry traffic between North Sydney and Newfoundland was up 2% over the previous year, there was a decrease in the number of Marine Atlantic passengers. The overall increase is attributed to more commercial traffic, meaning that Newfoundlanders are buying more goods from outside the province and aiding other province's economies by bringing in additional goods, but are not seeing as many tourists spend their time and money on the Island. Mr. Roil was clear in his analysis of why the loss of customers occurred – 'we are not able to accommodate people on the crossings that they want so they're not coming, they're not using our service' (3). This speaks directly to the focus of this pre-Budget submission – the need for increased capacity on the Marine Atlantic service.

Further, Mr. Roil notes that the MV Joseph and Clara Smallwood and the MV Leif Ericson have had to slow down this summer – the Smallwood because of an engine on a vessel reaching its life expectancy being down, adding three or more hours to the crossing and the Ericson to accommodate regulated rest times for crew. There is currently a strain on existing resources; even as maintenance is being carried out on a regular basis with a \$30 million per year budget, vessels are breaking down at a rate which necessitates schedule changes (4). With crossing times changing frequently, a longer crossing period, and the inability to return to anticipated scheduling, it is clear that the current situation is untenable. Further, planning ahead will reduce costs to Canadian taxpayers in the long term; Marine Atlantic therefore cannot wait until the expenses of having safe and reliable vessels cause taxpayers significant financial trouble.

## **Safety**

The existing fleet of Marine Atlantic vessels provides key service to the Island of Newfoundland yet is showing its age at an increasing rate. The vessels, on average, are at a point where significant improvement costs will have to be incurred to modernize the fleet. The MV Caribou, which entered service in 1986 as Canada's largest ferry, provides year-round service as does its sister vessel, the MV Joseph and Clara Smallwood, was commissioned in 1990. With the MV Leif Ericson being built in 1991 and MV Atlantic Freighter being built in 1978 and already in Marine Atlantic's service for 18 years, the four vessels in service are now an average of 22 years old. With the much-welcomed addition of the MV Atlantic Vision on the service shortly, the average age is still over 18 years. A second vessel being added – even another 6 year old vessel to remove for example the MV Atlantic Freighter from service – would significantly reduce the average vessel age to just under 14 years. Most ocean-going cargo ships have a life expectancy of 20-30 years; this would extend the average useful life of the fleet rather than have the average enter into declining years.

In its final report entitled 'Vessel Replacement Strategy' to the Government of Newfoundland and Labrador in March of 2006, BMT Fleet Technology Limited noted that 'typically, vessels more than 25-30 years old are unreliable and expensive to maintain. International and Canadian statistics also show that they are more likely to be involved in accidents, and the consequences of such accidents are more likely to be serious' (5).

### *Safety – Jurisdictional comparison*

While BC Ferries does not provide federally mandated service, it did have contributions of \$25.8 million in 2007-08 from a federal/provincial subsidy to fulfill the obligation of providing ferry services to coastal British Columbia (6). As it is an intra-provincial service for British Columbia, there are some parallels as this corporation does link an island off the coast of Canada to the mainland. BC Ferries has four vessels linking Victoria to Vancouver: the Spirit of British Columbia, the Spirit of Vancouver, the Queen of Saanich and the Queen of Vancouver. The Spirit vessels have greater capacity than the largest Marine Atlantic vessels currently on the service, while the Queen vessels are comparable in capacity to the MV Caribou and the MV Joseph and Clara Smallwood. It is acknowledged that the average age of these four vessels is 30 years; however it must be noted that the Queen vessels only operate on even-hour runs (i.e. 8:00 and 10:00 a.m. but not 9:00 or 11:00) or when the Spirit vessels are out of service (7). This means that the most often used vessels, the Spirit vessels which were built in 1993 and 1994, are in the middle-range for a useful life at 14-15 years.

It is also notable that this run between the mainland and Victoria is 24 nautical miles compared to 96 nautical miles from North Sydney to Port aux Basques or 280 nautical miles from North Sydney to Argentia (8). For additional context, it must be understood that the BC Ferries vessels are travelling in an area where low average temperatures range from 3-11.7 degrees centigrade in Victoria to 0-12.7 degrees centigrade in Vancouver (9). Marine Atlantic ferries navigate longer routes between points that have average temperatures of -8-11.7 in Port aux Basques, -4.7-13 in Argentia and approximately -5-15 degrees centigrade in North Sydney (10). With greater wear and tear from operating in such conditions, a vessel's life is shortened and the chance of an accident in North Atlantic seas increases considerably.

## **Environmental Responsibility**

Less than a year ago, in November of 2007, it was publicly noted that workers aboard that MV Atlantic Freighter were being advised to get tested for exposure to asbestos (11). While air quality tests came back clear and the asbestos was encapsulated, there is still the potential for people to be exposed to a highly toxic substance. The administrative and financial costs of testing current and past employees, as

well as addressing union and stakeholder concerns regarding a 30 year old vessel which is nearing its useful life cycle is an indication that change should be made.

The Board is encouraged that Marine Atlantic has a Green Plan and has committed to a full review of garbage generated and recycling efforts with a view to reducing or eliminating unnecessary waste, as outlined in the Corporation's 2006 annual report. Marine Atlantic can go green in a significant way by operating a new vessel which burns less fuel and can be fitted with greener facilities on board. Fuel issues are of great environmental consequence, and the potential impacts are discussed as cost drivers.

### **Quality Service**

*Effect on Tourism* – In June 2008, passenger travel on Marine Atlantic was off by approximately 2%, or 3,500 fewer visitors. This means over 10,000 fewer travelers spending money in Newfoundland and Nova Scotia this summer. In fact, the number of people travelling to Nova Scotia by road dropped a full 9%, exacerbating poorer results in that province as fewer Atlantic Canadians travel there (12). This has a ripple-effect on Nova Scotia, particularly in Cape Breton where many travel services are purchased.

Year-to-date Newfoundland tourism statistics indicate that Marine Atlantic passenger movements in both directions were down by 2.8% over last year. Passenger-related vehicles were down 1.7%, with the number of non-resident automobile visitors decreasing approximately 2% over 2007. The number of residents exiting by automobile decreased around 8%, in addition to the 3% drop during 2007 (13).

This last statistic is particularly telling – an 11% drop in an 18 month time span by the people for who the service is meant. The St. John's Board of Trade would suggest that this drop in out-bound passenger trips could mean that residents have significant issues with accessibility, and we would argue also with price and service quality. As travel becomes more expensive overall, quality must be high to make the experience worth the price; this summer substantial delays and schedule changes have created a situation which has exacerbated a drop in pleasure traffic. The federal government should not take this lightly, considering that an 11% decrease in an 18 month period means 11% fewer Newfoundland tourists spending money on gas, accommodations, food, and other goods and services in Nova Scotia, New Brunswick, PEI, Quebec and Ontario – all popular driving tourist destinations for Newfoundlanders.

Newfoundland is seeing demand for tourist visits via cruises, to the tune of 28,700 visitors in 2007, part of an upward trend since 2003 (14). Newfoundland is a sought-after destination as indicated by cruise ship success with passenger volumes sustaining large ships; this supports a need for increased capacity at Marine Atlantic. Consumers are also getting accustomed to a vacation-like experience, and quality and service expectations must be taken into consideration as Marine Atlantic builds its future fleet.

*Effect on Business* – Marine Atlantic is a link for Newfoundland businesses. The impact of a few thousand Newfoundland businesses competing in Atlantic, Canadian and global markets can be underestimated by centric-thinking in policy making. However, cost prohibitive transport for the importation of Ontarian or Nova Scotian or Albertan products to a captive market of 500,000 people is difficult to ignore. It must be noted that while Marine Atlantic is a tool to help Newfoundland businesses, it is a tool for economic development, job creation and wealth development for the Maritimes and the rest of the country.

The Government of Canada would note the province's economic growth over the past few years and the forecasts for the next few years. There is the possibility of a number of 'mega-projects' coming on stream – by providing Newfoundland with reliable and cost-effective transportation, the province will have an opportunity to build projects which supply cleaner energy for mainland customers, contribute

to stability and independence in the Canadian oil supply, and an increase the wealth and financial capacity of people in a historically economically disadvantaged province. Businesses are already seeing the effects of shaky reliability – the movement of perishables onto the island affects quality and pricing at the grocery store, for instance, and the export of our famous quality seafood is at risk in international markets such as Boston and New York as a result of fundamental concerns about time-to-market.

The federal government has noted that economic development is a key driver for its transportation investments. It recently provided \$19.1 million in funding for the Digby-Saint John interprovincial ferry and \$3 million for the Digby Harbour Port Association for operationally necessary repairs to the wharf and port. The federal Transportation Minister stated ‘by providing financial assistance to extend the ferry service, we are promoting a more productive economy, encouraging long-term competitiveness and sustainability, and improving the quality of life for our communities’ (15). This lends credence to the argument that investments in such infrastructure for provinces which have only marine and air transportation options available are vital to economic and community development.

### **Reliability**

Significant provincial infrastructure investments in tourism, culture and hospitality are enhancing Newfoundland’s attractions and create opportunities for expanded product development in 2008 and beyond. In particular, provincial infrastructure priorities have been identified and include upgrading the provincial highway system and improving highway signage to enhance intra-provincial access and the core sightseeing experience. Marine Atlantic is a feeder for tourists and other users of provincial transportation infrastructure; the province requires a strong feeder system to ensure that on-going improvements to the complete tourism package are maintained and strengthened.

Any investments in infrastructure on the Island require support for commercial transport or tourists; if there is no economical method by which to get people and goods to and from an area, there will be no need for improving outdated infrastructure or developing tourism or other industries for employment and economic development. In fact, hundreds of tour buses have been delayed this summer alone.

### **Cost-efficiency**

This fall, Newfoundlanders and Labradorians will welcome Marine Atlantic’s new ferry. The St. John’s Board of Trade is pleased that it will be the largest vessel ever to enter Port aux Basques, because it means more passengers, vehicles, and goods can be carried to and from this province. With capacity for 1000 people in a modern environment, the Board welcomes the fact that the new ferry has in excess of 50 percent more vehicle capacity than either the MV Caribou or the MV Joseph and Clara Smallwood, which are currently the largest vessels in service. With capacity for approximately 531 cars compared to a limit of 350 cars for the MV Caribou, the opportunity to enhance trade and tourism is obvious.

However, the economic impact goes beyond the obvious when looking at long term operational cost benefits. Marine Atlantic has stated that, ‘on a per vehicle basis, the new vessel will be 34 percent more fuel efficient than either the MV Caribou or the MV Joseph and Clara Smallwood.’ Given the current fuel surcharge of 27.7% which acts as an economic disincentive to travel via Marine Atlantic, this on-going cost saving is significant. Marine Atlantic is stating that this new vessel will reduce the need for fuel by one-third; currently, the four vessels in service use 213,000 litres of fuel per day during peak summer months and that fuel costs have increased nearly 50% in the past four years (16).

Split evenly over four existing vessels, each vessel uses an average 53, 250 litres of fuel per day; multiplied by a price of \$1.25/litre, this results in a fuel bill of just over \$66,500 per vessel per day and a

total bill of \$266,000. The MV Atlantic Vision will save Marine Atlantic, on average, approximately \$22,200 per day in fuel costs alone. Assuming that five vessels would service the Island, the incremental increase in fuel would be 35,500, for a total of 248,500 litres per day, at a cost of \$310,625/day but with an average cost reduced to \$62,125. A second new vessel for the fleet, replacing an aged vessel, would actually lower the average daily fuel cost to \$230,750, a savings of over \$35,000 per day. And the average cost for the five vessel fleet of three older vessels and two new vessels would be \$46,150.

<b>Vessel</b>	<b>Average fuel use (peak)</b>	<b>Average fuel cost (est.)</b>	<b>% contribution to fuel bill (1 new vessel)</b>	<b>% contribution to fuel bill (2 new vessels)</b>	<b>Peak season cost (June 20-Sept 29)</b>
Smallwood	53,250 L	\$66,500	21.4	23	\$6,650,000
Caribou	53,250 L	\$66,500	21.4	23	\$6,650,000
Atlantic Freighter	53,250 L	\$66,500	21.4	N/A	\$6,650,000
Leif Ericson	53,250 L	\$66,500	21.4	23	\$6,650,000
Atlantic Vision	35,500 L (projected)	\$44,375	14.3	15	\$4,437,500
2 <sup>nd</sup> new vessel	35,500 L (projected)	\$44,375	N/A	15	\$4,437,500
<i>TOTAL (current with 'Vision')</i>	<i>248,500 L</i>	<i>\$310,375/day</i>	<i>100%</i>	<i>----</i>	<i>\$31,027,500</i>
<i>TOTAL ('Vision' plus 2<sup>nd</sup> vessel replacement)</i>	<i>230,750 L</i>	<i>\$288,438</i>	<i>----</i>	<i>100%</i>	<i>\$28,825,000</i>

### **Conclusion**

On a number of levels, the argument for the capital investment of \$95-97 million for a second new vessel for Marine Atlantic makes sense – operating costs will decline significantly as will retrofitting and repair costs, environmental targets will be easier to meet, economic development will be sustained and improved in at least two provinces, and a number of employees which are the key to three towns and their adjacent areas will be able to provide quality service to many commercial and consumer interests.

As a business organization, the St. John's Board of Trade has told Marine Atlantic, and is continuing to articulate that message to its shareholder, that the company has to operate more like a business, working constantly to improve service, control costs and manage against a plan with concrete metrics.

The Marine Atlantic ferry service is not only a facilitating tool for the economy of Newfoundland and Labrador, but a source of pride among the many hundreds of residents who run the service. It is something we own as a link to the rest of our country and a first point of contact in the 'Newfoundland experience' of which we are so proud and guard with great passion. The federal government, through Marine Atlantic, can make a conscious decision to help facilitate the growth that Newfoundland and Labrador is building through our economic actions, public policies, and daily interaction with the rest of the world. The St. John's Board of Trade would encourage that this decision be a positive one that has long-term effects on our economy, our visitors, and our residents as a whole.

## Sources consulted

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