NORTHERN BC FERRY SERVICE

CLIENT:
TOURISM PRINCE RUPERT

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TABLE OF CONTENTS

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1 EXECUTIVE SUMMARY

INTRODUCTION AND OBJECTIVES

BC Ferries Northern Routes consist of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. BC Ferries markets these routes as the Inside Passage, Central Coast-Bella Coola, and Haida Gwaii schedules. The Central-Coast-Bella Coola schedule is not included within the scope of this study, which focuses on the following schedules:

- Inside Passage Spring-Summer Day Cruise (Route 10);
- Haida Gwaii/Queen Charlottes, Fall-Winter-Spring and Summer (Route 11); and
- Haida Gwaii Skidegate-Alliford Bay.

Stakeholders' recent experience with changes to the level of ferry service on the Northern Routes has highlighted an urgent need for improvements to the service; taking into consideration the tourism and regional development impacts of ferry service is crucial to this process. To help address the need for improvements, Tourism Prince Rupert commissioned an independent research project with the following objectives:

- Identify and demonstrate that BC Ferries is the critical component in creating economic development opportunities for Vancouver Island and Northern BC;
- Identify and develop the rationale for a commitment from the Province to 5-year schedule cycle, so that international tour operators can have certainty regarding high season schedules and be able to develop itineraries for groups and independent travellers;
- Assess the socio-economic rationale for reinstating the previous levels of summer sailings schedules for North Coast Ferry service; and
- Identify a mechanism and develop recommendations for the North Coast Ferry Advisory Committee to have improved dialogue with the Provincial Government and BC Ferries.

RESEARCH METHODOLOGY

To set the context for a detailed exploration of the provision of BC Ferry services on the North Coast, an analysis of the structure of the regional economy, including the tourism sector, was conducted. This review involved examining regional transportation linkages, trends and traffic levels. Specific lines of investigation included: operational analysis of BC Ferries Northern Routes; trends in monthly demand/traffic; traffic seasonality, pre- and post- service changes; passenger to vehicle ratio analysis; and additional freight and food issues of relevance to the Business and Tourism sectors.

To tap into the wealth of expertise and insights of the Business and Tourism sectors, and to capture the voice of the BC Ferries Northern Routes customer, an online survey was administered, and the results used to inform an examination and analysis of stakeholder and customer satisfaction by ferry route/schedule.

The investigation into the socio-economic considerations that influence ferry service was informed by factors that are important to tourism enterprises. For example, the length of performance term contact between the provincial government and BC Ferries determines the minimum level of ferry service for only a four-year period. With respect to developing the rationale for peak season sailing (and other scheduling enhancements), both the stakeholders' perspective and factors that would typically influence a ferry operator's perspective were taken into consideration. Key information regarding aspects of the provision of ferry service in other jurisdictions was also used to provide a comparison with existing BC Ferries practices.

The role of the Provincial Government, the BC Ferry Commission and BC Ferries itself in improving the responsiveness of ferry service governance were all considered from a Tourism perspective.

FINDINGS AND RECOMMENDATIONS

BC Ferries and Economic Development

The current profile of the average tourist customer travelling on the Inside Passage Spring-Summer Day Cruise (Route 10) and the Haida Gwaii/Queen Charlottes, Fall-Winter-Spring and Summer (Route 11) clearly demonstrates the need for an extended ferry service season. There is latent demand for enhanced service in the late spring and early fall shoulder seasons. Seasonal extension of the ferry service would support both Adventure Tourism and Indigenous Tourism, which rank among the highest opportunity segments of the Tourist sector. Adventure Tourism and Indigenous Tourism include activities such as bear viewing and whale (and other marine mammal) watching, which align with the late spring and early fall shoulder seasons.

In addition, enhancement of peak season ferry service would contribute positively to the overall development of the Tourism Sector. With improved ferry service throughout the year, there is opportunity for the Sector to become a year-round, full-time employer. Further, market opportunities indicate that a high proportion of current year-round operations could increase the number of full-time, ongoing employees that they hire.

International travellers and visitors from the United States represent two tourism segments that are important to Northern British Columbia. In particular, the potential market development opportunities associated with attracting more international visitors are promising for the region and for BC Ferries Northern Routes. Customers who travel from farther away generally spend more than local or regional tourists. The current economic behaviour profile of tourists using Routes 10 and 11 indicates that a very high proportion spend in excess of $250 per day.

It takes time for the economic opportunities associated with improvement to ferry services – and expanded accommodation and tourism experiences for travellers – to become fully realized. It would be challenging in the short-term to grow ferry traffic volumes based on the size of many of the businesses in the region, since small firms need to scale up their operations over time. However, making a strategic connection between opportunities for tourism growth and BC Ferries service levels, and taking a proactive approach to expanding ferry service, could over the longer term support BC Ferries to meet their target utilization rates. Indeed, it could be argued that reduced ferry service has contributed to a situation where some local businesses have been unable to grow and scale up their operations.

A striking feature of the factors that are influencing changes in the demand for marine tourism and ferry services is that none are aligned with the old paradigm that a ferry service is simply an extension of the highway system. In the current marketplace, ferry operators need to be highly attuned to which customer segments are driving demand for service. Considering the needs and perspective of the tourism customer when designing a modern ferry service is vital; and a deep understanding of the important role that the various segments of the Tourism sector plays in the economic success of a modern ferry system is beneficial to decision making at both the operating and policy making levels.

- **Recommendation 1**: Government policy decision makers need to recognize explicitly that BC Ferries plays a critical role in supporting economic development for small and medium-sized tourism enterprises on Vancouver Island and in Northern BC.

  The current ferry schedule and service levels limit the size, scale and scope of business investment in the Tourism sector in these regions, and this in turn has a negative impact on economic growth and employment stability in communities. The outcomes of this study support the conclusions of a February 2014 report prepared for the City of Prince Rupert, *Beyond Hope: BC Ferries and Northern British Columbia*, which identified the economic impacts of the service cuts to BC Ferries Northern Routes.

Socio-economic Rationale for Reinstating Enhanced Summer Sailings Schedules for North Coast Ferry Service

Many, if not most, of the Destination Marketing/Management Organizations (DMOs) in British Columbia (including Destination BC and various regional and community DMOs) are currently reallocating promotional resources away from the peak summer travel season to the shoulder and low seasons, since the incremental opportunities to grow demand and market share are considered to be stronger during these non-peak periods. One of the main challenges facing tourism businesses is related to labour and the issue of inter-seasonal retention of employees. Most companies experience tremendous difficulties with attracting seasonal staff to return year after year and find it easier to recruit year-round staff. Extending their operating seasons is therefore key to retaining employees. In view of the fact that the Tourism sector is making considerable inroads into extending the peak tourism season. Reductions to ferry service during the traditional shoulder and low seasons are therefore hampering the sector’s expansion efforts and are counterproductive. Such reductions run contrary to the aims of other economic public policy and development efforts currently underway, including the objectives of British Columbia's Rural Economic Development Strategy.

The findings of this research project suggest that, while ferry service frequency is also important to year-round businesses, it is especially vital to the success of seasonal operations. Data on international visitor origin, the size of the travelling party, the length of stay, and the average daily spending profile all point to the fact that the communities and businesses served by BC Ferries Northern Routes are tourism destinations. Service issues such as delays, or cancelled ferry sailings are particularly problematic for seasonal tourism businesses as they have such a negative impact on the overall quality of a tourist's experience. The data suggest that users of the ferry system view delays in ferry service as an opportunity cost – an obstacle that prevents them from fully engaging in the experiences that they specifically travelled to the region to take part in. Tourism customers with a high average daily spending profile are typically trading money for time. A delay in ferry service is equivalent to a customer at a mountain resort being unable to obtain timely repair, for example, to their skis or mountain bike.

A 2015 *Performance Review of BC Ferries Vacations*, conducted by the BC Ferry Commission, found that BC Ferries Vacations had developed an extensive list of active partners in the region and that the Northern Routes accounted for 19 percent their sales volume in that year. The review concluded that there were widespread incremental economic benefits had been generated in Coastal communities as a result of BC Ferries Vacations' services. The review also identified that investment in tourism marketing programs by BC Ferries was essential for building demand for tourism in communities that have limited marketing resources.

- **Recommendation 2**: The peak season for ferry service on the North Coast routes needs be extended. Extending the peak summer season sailing schedule into June and September, which would increase service capacity during these periods - similar to the peak season schedule that was in place prior to 2014. In the absence of an extended peak ferry service, the Tourism sector in Northern BC is at a competitive disadvantage compared to other regions in British Columbia.

  The benefits of an extended ferry service peak season will not only be enjoyed by the immediate ferry-dependent communities but by the inland communities and areas that can only be accessed if ferry services are a reliable component of tourism transportation infrastructure.

  Reducing ferry service at the same time that most businesses and marketing agencies are trying to develop shoulder- and off-peak travel experiences is counterproductive.

Rationale for a Commitment from the Province to 5-year Schedule Cycle

The current North Coast ferry market in BC can be characterized as one that requires an investment in tourism infrastructure and marketing over a number of years. Tourism operators need many months of advance preparation to develop their businesses because of lengthy marketing and sales cycle required by some of the North Coast most important tourism markets (i.e. long distance and overseas travellers). The current four-year cycle for ferry service levels acts to discourage investment in tourism marketing and product development.

Visitors to Northern BC tend to book their travel in advance. With respect to booking time frames for non-seasonal businesses, the data indicated that customers most frequently made their purchase decision between 7 days to one month in advance, and on the same day or less than a week in advance. This contrasts with planning and decision-making lead times for customers booking with seasonal businesses: one to six months in advance and more than six months in advance were the timelines most frequently cited for seasonal operations.

International tour operators and their local partners need to have certainty with respect to seasonal ferry schedules if they are to have the necessary confidence to invest in travel itineraries for groups and free independent travellers. Since tour operators' marketing and sales cycle is longer than other industries, they need an extended time to recoup their investment and expand their activities. BC Ferries does not generally add extra sailings to the North Coast routes; therefore, there are little to no in-season opportunities for tour operators to adjust itineraries to mitigate any delays that travellers may experience. Thus, the need for certainty with respect to service frequency is more acute in the Northern Region than it is for areas served by BC Ferries' major routes. To make the most effective use of their marketing and sales resources, small and medium sized firms need to know what the ferry schedule and service levels will be well in advance.

An international inbound tour operator can require up to 18 months to plan, market and sell their tour packages. A 5-year ferry service guarantee would allow for three complete marketing and sales cycles. This would enable businesses to make use of positive customer reviews in their marketing efforts for the subsequent year.

Over 60% of respondents to the Business and Tourism sectors survey developed for this research project indicated that, if former peak session ferry service levels were restored, they would be able to achieve stable peak visitor volumes within 12 months. Just over 35% of respondents indicated that they would be able to achieve stable peak season demand over a period of two or more years. Results from Indigenous and seasonal Adventure Tourism respondents broadly mirror the overall findings. Forty-three percent of respondents with annual revenues over $5 million indicated that it would take two years.

- **Recommendation 3**: Consideration should be given to providing a five-year service guarantee for BC Ferries Northern Routes. Tourism business development takes time and requires such certainty. A five-year service guarantee would reduce the possibility of government cuts to sailings and service frequency after tourism operators have sold their products to the market.

Improved Dialogue with the Provincial Government Ferry Commissioner and BC Ferries

The overarching message from this research study is that all the parties involved in ferry governance need to consider new tools and approaches for addressing the business interests of the Tourism sector. None of the survey respondents indicated that they considered the current Ferry Advisory Committee process to be effective. Rather, respondents suggested that greater use of both electronic communication tools and in-person stakeholder meetings is needed.

The current dialogue structure lacks a "voice of the customer" process – something that facilitates recognition and consideration of both the stated and unstated needs of the customer. It is essential for governments and ferry service providers to recognise that tourism customers have different needs, and a different perspective, from local stakeholders. A lack of customer satisfaction data, and little to no sharing of market insights on changing customer trends, mean that ferry service decisions are being made in an information vacuum. This state of affairs has not served BC's North Coast communities well in the past and nor will it in the future. Changes must be made.

The "voice of the customer" process is frequently used in Six Sigma and other quality management processes. It is used to capture feedback from the customer (internal or external) in order to help to provide the customer with a "best in class" service or product. Feedback can be gathered in a variety of ways (e.g. through interviews, surveys, focus groups, observation, field reports, complaint logs, etc.) A "voice of the customer" process supports an industry to be proactive and innovative with respect to meeting customer requirements as they change over time.

Past efforts by the Province and BC Ferries to engage customers and stakeholders in consultation (for example, consultations leading up to the schedule refinements made in April 2014) appear to have functioned as "one-off" initiatives. Sustained, collaborative market development efforts are what is required.

- **Recommendation 4**: As many of the issues/challenges involved in tourism development would be better addressed through information-sharing and collaboration, it would be beneficial for Chambers of Commerce, Destination Management Organizations, and officials from the Provincial Ministries of Tourism and Transportation to come together in regular meetings.

2 INTRODUCTION

2.1 Study Objective & Scope

BC Ferries Northern Routes consist of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. BC Ferries markets these routes as the Inside Passage, Central Coast-Bella Coola, and Haida Gwaii schedules. The Central-Coast-Bella Coola schedule is not included within the scope of this study, which focuses on the following schedules:

- Inside Passage Spring-Summer Day Cruise (Route 10);
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Needs

Stakeholders' recent experience with changes to the level of ferry service on the Northern Routes has highlighted an urgent need for improvements to the service; taking into consideration the tourism and regional development impacts of ferry service is crucial to this process. To help address the need for improvements, Tourism Prince Rupert commissioned an independent research project with the following objectives:

- Identify and demonstrate that BC Ferries is the critical component in creating economic development opportunities for Vancouver Island and Northern BC;
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- Identify a mechanism and develop recommendations for the North Coast Ferry Advisory Committee to have improved dialogue with the Provincial Government and BC Ferries.

2.2 Coastal Ferry Service Review 2018 Objectives

In late 2017, after Tourism Prince Rupert initiated their study, the Province of British Columbia (as represented by the Minister of Transportation and Infrastructure) announced a Coastal Ferry Services Review. The Terms of Reference for that review are as follows:

- Review the Coastal Ferry Services Contract and the provision of coastal ferry service in British Columbia to ensure that the model is operating in the public interest. The reviewer will:

  - Examine BC Ferries' operations, including operating and capital expenditures, business processes, practices and policies to assess whether the services are being provided for in a manner that supports the public interest in affordable fares;
  - Consider what changes to the price cap and regulatory model would ensure the ferry system is working as efficiently and effectively as possible for all British Columbians, ferry users, and communities who depend on this essential service; and
  - Identify opportunities and recommend actions to enhance ferry service delivery and/or reduce costs without impacting existing service.

The Provincial Terms of Reference called for the following processes to be included in the reviewer's methodology:

- Review previous relevant studies and reports;
- Seek input from or interview the BC Ferries Commissioners, the BC Ferry Authority Board, the BC Ferries Board of Directors, BC Ferries' senior staff, and Ministry of Transportation and Infrastructure staff, and others as determined by the reviewer; and
- Oversee and engage with technical experts who may be required and retained by the reviewer to conduct detailed studies, research and analysis (e.g., financial review including debt management), as deemed appropriate to support the review process.

There is considerable alignment between the objectives of the Provincial Review and those of the current study commissioned by Tourism Prince Rupert; this alignment is clearly shown in the recommendations presented in Chapter 10 of this report. Therefore, the findings and recommendations arising from this study can not only usefully inform dialogue with BC Ferries and the BC Transportation and Infrastructure Minister, they can also inform the Provincial Review process (the findings of which are to be submitted to the Minister by June 30, 2018).

3 ECONOMIC DEVELOPMENT & FERRY SERVICE

KEY MESSAGES

Over the last twenty years, the communities that form the focus of this study have experienced significant population loss. These communities are proactively trying to adjust to the changes in their regional economies.

The role that BC Ferries plays in providing transportation services is vital to facilitating the necessary economic transitions that First Nations, private businesses, not-for-profits, and Government are undertaking.

Given that these communities have a lower local population base than they did when the Coastal Ferry Service Contract was initiated, it is unlikely that increased ferry usage by local residents will have a noticeable impact on vessel utilization levels on BC Ferries Northern Routes. More likely, growth in ferry traffic will come about as local businesses respond to tourism market development opportunities from markets outside of the region.

The primary needs/concerns of local ferry users do not necessarily coincide with the needs of tourist customers visiting the region. The local stakeholder Ferry Advisory Committee process is at best an incomplete way of engaging the customers that are required to sustain and grow the market.

The Province should more formally consider two distinct types of interests – those of local residents and those of tourists – when establishing ferry service levels and the length of the service contracts (and other policies).

Customers that rely on Route 10 ferry service area comprised of: individual tourists undertaking self-directed travel; tourists with group tours organized by travel wholesalers; individuals visiting friends and family; government; and corporate. The market for this route can be characterized as highly dependent (65%) on the travel decisions of discretionary tourists from overseas, from the United States, or from other parts of Canada. Travellers from British Columbia and the local region account for 35% of the customer base.

The most important types of customer for Route 11 were: travelling parties visiting family and friends; tourists with group tours organized by travel wholesalers; individuals undertaking self-directed travel; government; and corporate clients.

Since ferry traffic growth associated with the Tourism sector is likely to be incremental in the short-term, it is vital that Tourism investor confidence in the region be restored. Businesses are reluctant to significantly engage with market development opportunities that would lead to the expansion of their operations (and in turn more ferry traffic) when the memory of ferry service cuts is still fresh in their minds, or when there is no long-term service-level certainty.

BC Ferries' singular focus on ferry asset utilization levels was the driver of service cuts in 2014. The service cuts were successful in improving asset utilization but have likely caused the communities in the study area to lose some tourism sales opportunities in the short-term.

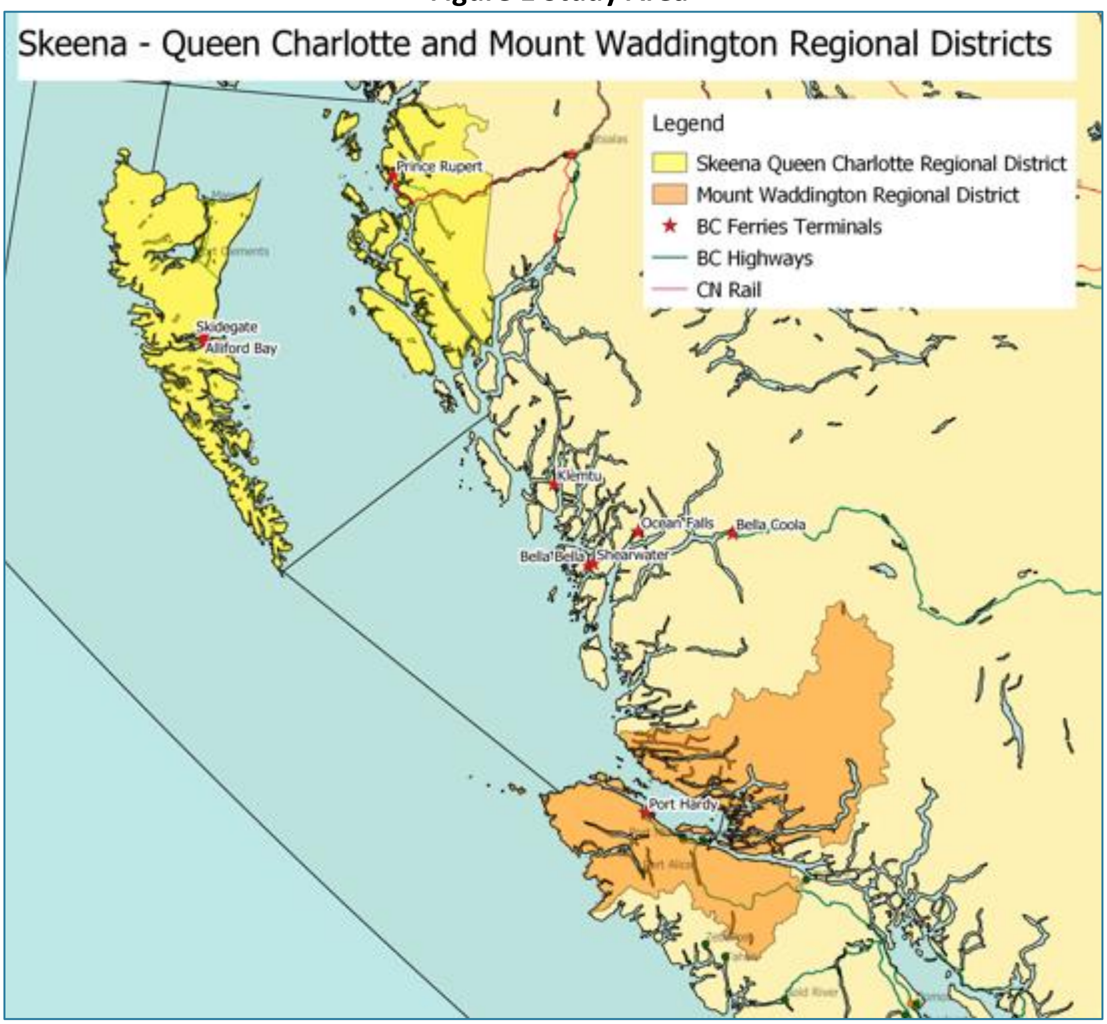
3.1 Structure of Regional Economy

3.1.1 Regional Economic Profile

Over the last twenty years, the communities in the study area (Skeena-Queen Charlotte Regional District [SQCRD] and Regional District of Mount Waddington [RDMW]) have faced major headwinds. The communities are proactively trying to adjust to changes in their regional economies that have resulted in significant population losses. The role of BC Ferries transportation services to coastal communities is vital in facilitating the necessary economic transitions that First Nations, private businesses, not-for-profits, and Government are undertaking.

The material below provides a brief overview of the two major regional districts and discusses some of the possible implications related to ferry service.

Figure 1 Study Area



The SQCRD is a partnership of four electoral areas and five municipalities that provide local government services to residents living on the north coast of British Columbia and Haida Gwaii, within the traditional territories of the Tsimshian and Haida First Nations.

In 1996 the population of the SQCRD was 24,795 people; 70% of the regional population was located in Prince Rupert/Port Edward. By 2016 the SQCRD population had dropped to 18,133 people. Today, the population of Prince Rupert/Port Edward is 12,687 – down from 17,414 twenty years ago.[1] However, Prince Rupert/Port Edward's share of the regional population is unchanged from 1996, confirming that the City of Prince Rupert remains the epicentre of the communities served (and impacted) by North Coast ferry service.

Currently, the main economic activities within SQCRD are forestry, fishing, tourism, transportation and (more recently) natural gas/propane development. Resource industries are complemented by the Government, Education, and Health Care sectors. Direct tourism related employment within the SQCRD and the City of Prince Rupert accounts for about 11% of the jobs, with Accommodation and Food Service, Arts, Entertainment and Recreation, and Information and Cultural industries being the leading sectors.[2]

The Regional District of Mount Waddington (RDMW) comprises the lower Central Coast region (centred on the Queen Charlotte Strait coast of northern Vancouver Island) and the adjoining parts of mainland British Columbia. In 1996, RDMW had a population of 14,601; by 2016 this had gone down to 11,035. Port Hardy and Port McNeill have maintained their shares of the regional population, together accounting for 56.2% of the population in 1996 and 58.6% in 2016.[3] The District of Port Hardy provides services to approximately 1,050 area residents, including three First Nations bands: the Kwakiutl, Quatsino, and Gwa'sala-'Nakwaxda'xw.

The largest generators of employment in the RDMW are: Forestry; Manufacturing; Retail Trade; Health Care; and Social Assistance and Public Administration. These sectors account for 50% of jobs in the region.[4] Tourism-related employment accounts for about 8% of the jobs, with Accommodation and Food Service, Arts, Entertainment and Recreation, and Information and Cultural industries being the leading sectors.

Compared to the RDMW overall, tourism-related employment is more important to the District of Port Hardy, where it accounts for about 12% of the jobs, with Accommodation and Food Service, Arts, Entertainment and Recreation, and Information and Cultural industries being the leading sectors.[5] Port Hardy has strong potential with respect to conventional, eco-based, and cultural tourism opportunities. The implementation of an Additional Hotel Room Tax (AHRT) has enabled the District to support local and regional

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[1] http://www.bcstats.gov.bc.ca/StatisticsBySubject/Census/2016Census/PopulationHousing/MunicipalitiesByRegionalDistrict.aspx

[2] https://www.britishcolumbia.ca/invest/communities/

[3] http://www.bcstats.gov.bc.ca/StatisticsBySubject/Census/1996Census/RegionalDistrictElectoralAreas.aspx

[4] https://www.britishcolumbia.ca/invest/communities/british-columbia/vancouver-island-and-coast/mount-waddington/

[5] https://www.britishcolumbia.ca/invest/communities/british-columbia/vancouver-island-and-coast/mount-waddington/port-hardy/

efforts to market the area's spectacular natural setting and related recreational activities.[6]

Ferry service in the SQCRD and the RDMW will remain vital to local residents. However, growth in ferry traffic will more likely come about as the region's businesses respond to market development opportunities. "Market development" refers to the expansion of the total market for a service by (a) increasing usage per customer, (b) converting non-users into users and/or (c) entering new segments of the market. Since the region has a smaller population base than it did when the Coastal Ferry Service Contract was entered into in 2003, it is doubtful that increases in ferry usage by local residents will result in a meaningful increase in vessel utilization levels on BC Ferries Northern Routes. Rather, increased incremental demand for ferry service will arise primarily from tourism market development opportunities driven by markets located outside of the region. Further, the primary concerns/needs of local ferry users will not necessarily coincide with the needs of tourist customers visiting the region. Therefore, the local stakeholder Ferry Advisory Committee process is at best an incomplete way to engage the customers that are required to sustain and grow the market.

This suggests that the Province should more formally consider two distinct types of interests – those of local residents and those of tourists – when establishing ferry service levels and the length of the service contracts. The costs, timing and duration of peak season service may be as important (if not more important) than non-peak season ferry service schedules.

Since ferry traffic growth associated with the Tourism sector is likely to be incremental in the short-term, it is vital that Tourism investor confidence in the region be restored. Businesses are reluctant to significantly engage in market development opportunities that would lead to the expansion of their operations (and in turn more ferry traffic) when the memory of ferry service cuts is still fresh in their minds, or when there is no long-term service-level certainty.

These issues will be explored more deeply in subsequent sections of this report.

3.1.2 Business Profile from Stakeholder Survey

Ferry services along an existing transportation corridor have the potential to influence the existing industrial and employment structure. However, different private sector commercial enterprises, First Nations businesses, public sector institutions, and non-profit organizations will have varying degrees of dependency on the ferry service.

An online survey of businesses impacted by BC Ferries' North Coast service was implemented in order to develop a more nuanced understanding of the type, size, and location of firms in the region. The survey findings have been used to support an analysis of the potential structural and spatial impacts of North Coast ferry service. The baseline

[6] http://porthardy.ca/business/economic-development/economic-development-plan/

information generated has also been helpful for distinguishing between potential short-term impacts and potential longer-term structural impacts on the local economy.

The businesses surveyed were not intended to offer a representative sample of the enterprises that comprise the economic structure of the study area. Private sector organizations in the Accommodation, Recreation and Entertainment, Transportation and Warehousing, Retail Trade, Food and Beverage, and Professional Services sectors accounted for the largest number of survey respondents. First Nations respondents indicated they are engaged in the Accommodation, Retail Trade, Health Care and Construction sectors. The high participation rates from these sectors suggests that these respondents view ferry service levels as important to their success. The relatively high number of respondents from the Public Sector (particularly, Education and Health Care) also highlights the fact that ferry service is essential to non-commercial sectors of the economy in the region.

Figure 2 Types of Organizations

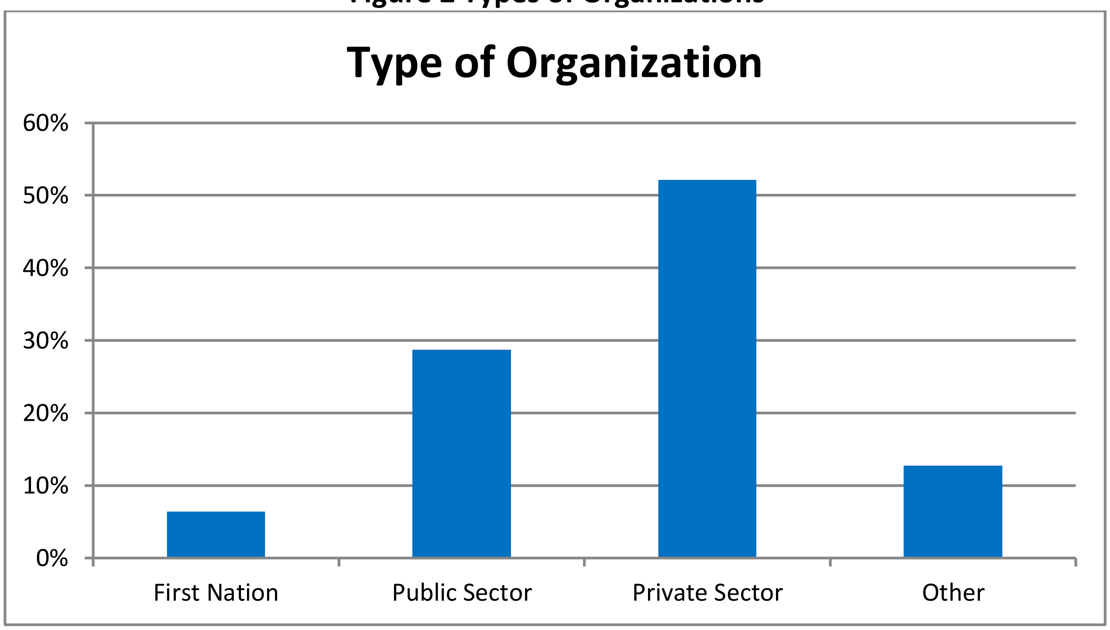
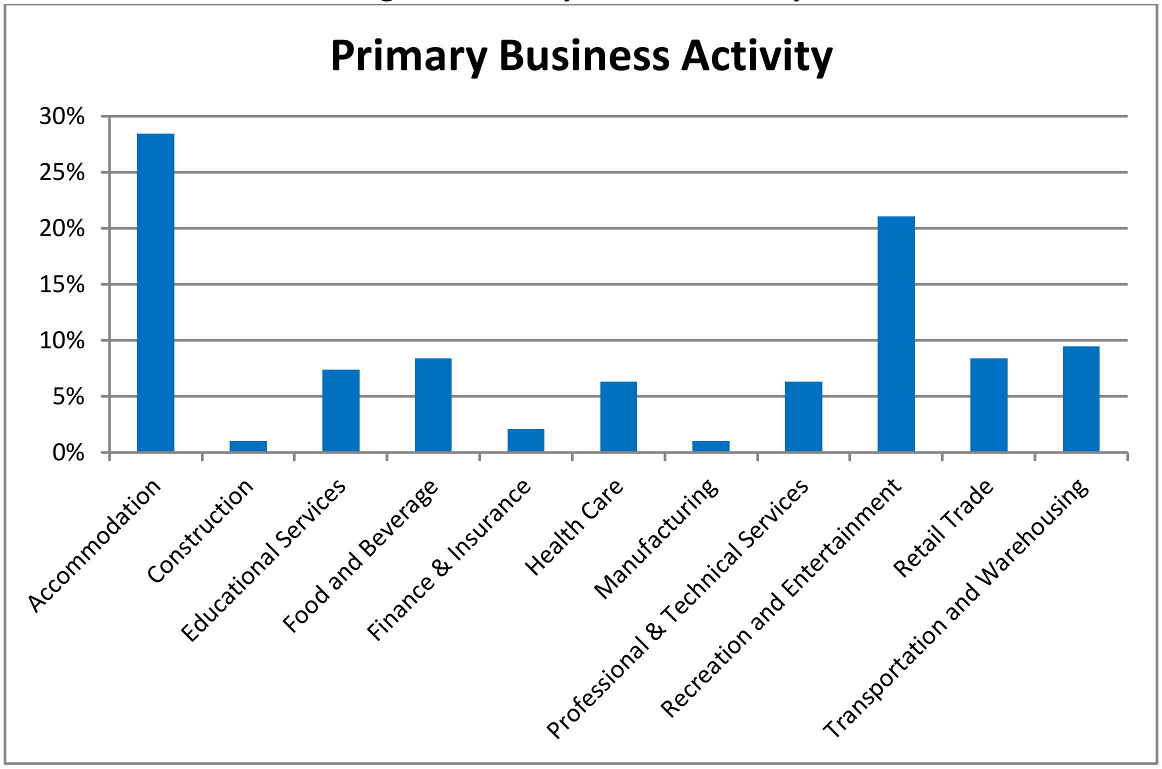


Figure 3 Primary Business Activity

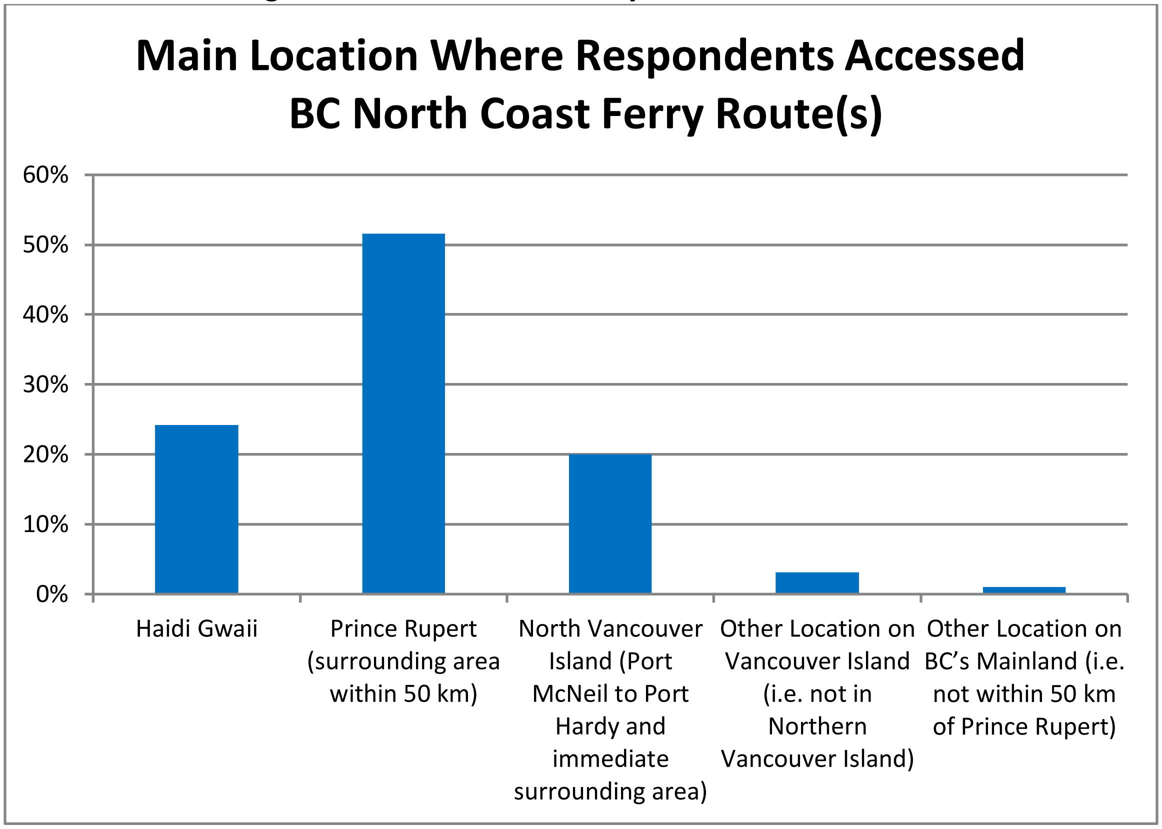


Prince Rupert, Haida Gwaii and Northern Vancouver Island were the geographic locations that accounted for the highest number of survey respondents. There was a higher concentration of respondents from the Accommodation sector in Prince Rupert and northern Vancouver Island (compared to results overall). Over 50% of all survey respondents indicated that they are mature firms that have been at their present locations for over 20 years.

First Nations individuals from communities in the Prince Rupert area and Haida Gwaii also participated in the survey. Over 80% of the First Nations respondents reported that they have been at their present location for over 20 years. Twenty percent have been in their communities between 10 and 14 years.

Just under 15% of all respondents indicated that they have been at their present location fewer than four years. The ferry service needs of these emerging entrepreneurial ventures have not been fully considered, since their inception post-dates the most recent round of ferry stakeholder consultation undertaken by BC Ferries/the Province.

Figure 4 Location Where Ferry Routes are Accessed



Almost 80% of all survey respondents indicated that they operate year-round; just over 20% indicated that they are seasonal enterprises. The pattern for First Nations respondents alone was similar.

Among the seasonal businesses, the Recreation and Entertainment sector accounted for 60% of survey responses, followed by Accommodation (20%), Educational Services (10%) and Food and Beverage, and Retail trades (at 5% respectively). Seasonal business respondents were more geographically disbursed. Thirty-five percent were from Prince Rupert and surrounding area, 30% were located on northern Vancouver Island, and 20% were based in Haida Gwaii. Other locations in British Columbia accounted for 15% of the seasonal business respondents indicating that they accessed BC Ferries North Coast ferry routes.

Overall, seasonal businesses that rely on North Coast ferry service routes have been at their present locations for a shorter time than businesses that operate year-round. Thirty-five percent of the seasonal business respondents indicated that they had been in operation for more than 20 years, 30% between 10 to 14 years and 20% less than four years.

Figure 5 Length of Time at Present Location

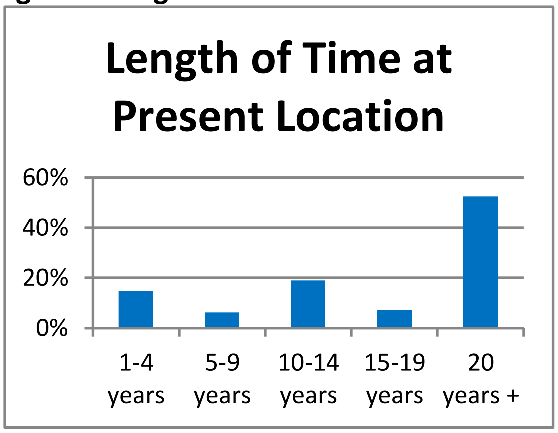
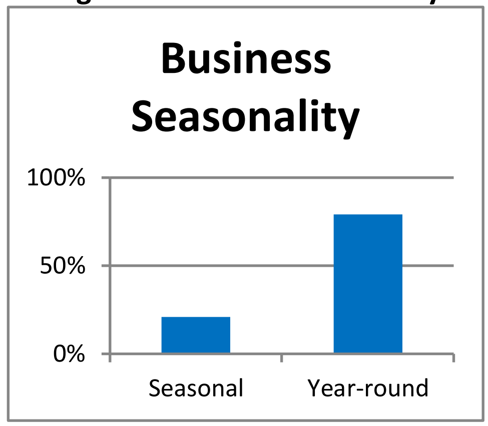
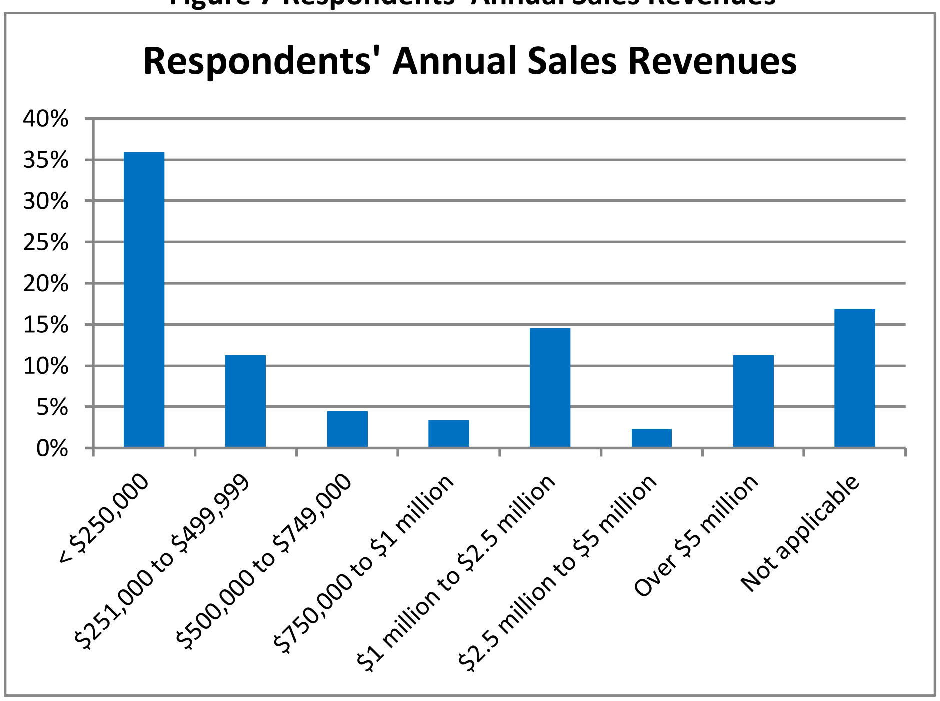


Figure 6 Business Seasonality



Approximately 35% of all respondents reported that they operate ventures that have annual sales revenues of under $250,000. For seasonal ventures, the proportion is 52%. Twenty-three percent of all respondents indicated annual sales revenues of between $1 million to $2.5 million. About 12% reported annual revenues of between $251,000 and $499,999.

Figure 7 Respondents' Annual Sales Revenues



Profile of Firms with Annual Revenue under $250,0000

Private sector enterprises in the Accommodation (31%) and Recreational and Entertainment (31%) tourism sectors accounted for the majority of firms with annual revenues of under $250,0000. These businesses are primarily located in Prince Rupert, Haida Gwaii, and northern Vancouver Island. Ferry service cuts have not (reportedly) impacted all of these firms equally. Forty-five percent of the respondents indicated that they had not been impacted. Findings for the length of time that these businesses had been at their present location reflected the overall survey findings. Seasonal businesses accounted for a larger share of firms with annual revenues of less than $250,000 than for the survey overall.

Profile of the Firms with Annual Revenue over $5 Million

Enterprises in the Accommodation (40%) and the Transportation and Warehousing (30%) sectors accounted for the largest share of firms with annual revenues greater than $5 million. Retail Trade, Professional Services, and Health Care each accounted for 10%. All respondents with annual revenues greater than $5 million indicated that they operate year-round. These enterprises are located in Prince Rupert and surrounding area (70%), Haida Gwaii (20%), and northern Vancouver Island (10%).

Respondents with firms with annual revenues of over $5 million indicated that the peak season schedule for Routes 10 and 11 is critical to the Tourism economy on the North Coast (including the Totem Circle Tour). Historically, September has been one of the strongest months for international visitors to the region. However, since the reductions to the peak season schedule, there has been a decline in travellers in the months of June and September.

Ferry service was also indicated as being important for non-tourism-related reasons for some of the enterprises with revenues greater than $5 million. For example, the Prince Rupert to Haida Gwaii Route 11 was mentioned as being very important to one company's business because approximately 25-30% of their territory's population is based in Haida Gwaii.

Eighty-six percent of the firms with revenues greater than $5 million indicated that changes to the peak ferry service schedule had impacted their business.

When asked what Tourism development opportunities could be pursued if there were improvements in ferry services levels, respondents from enterprises with revenues greater than $5 million provided a variety of suggestions. These included: fishing; boat tours; wild food gathering and education; and an increased ability for tourists to tailor their trips to fit with their vacation times and to pick the right time of year for seasonal activities.

Other respondents observed that enhanced ferry service would support increased opportunities (from the international market) for Free Independent Traveller and Group Tours. Some respondents indicated that improved ferry service would help reduce their use of helicopters and seaplanes to shuttle customers, and would help them control the cost of the passenger transport market by alternative watercraft.

3.2 Tourism's Contribution to Economy

3.2.1 Regional Tourism & Ferry Traffic

Tourism Activity Level in British Columbia

The past three years (2015-2017) represent the three strongest years with respect to tourism demand in British Columbia since Expo 86. Tourism in many communities in BC has grown dramatically since 2015. For example, Tourism tax revenue in the Kamloops Municipal and Regional District revenue was up by almost 20% in 2015 and 2016 (combined) – an historically unprecedented increase.

Prince Rupert has not seen this level of growth in the Tourism sector, and this suggests that several factors – including ferry service – may be constraining Tourism development in the region.

BC Ferries' singular focus on ferry asset utilization levels was the driver of cuts to service in 2014. These cuts were successful in improving asset utilization but have likely caused the communities in the study area to lose some Tourism sales opportunities in the short-term.

Role of North Coast Ferry Routes (10 & 11) and Minor Route (26) in Supporting Provincial Tourism

The BC Lodging and Campgrounds Association (BCLCA) recognizes that BC Ferries Routes 10, 11 and 26 are an essential element of the Totem Circle Tour route. The Totem Circle Tour is one of the most comprehensive tours in the province and covers roadways in the Vancouver Coast and Mountains Region, Vancouver Island, Victoria, the Gulf Islands Region and Cariboo Chilcotin Coast, as well as Northern British Columbia. The Tour is a 2,500 kilometre (1,550 mile) tour ideal for those interested in exploring the culture of British Columbia's First Nations peoples. Visitors travel over land through the heart of the province and sail the Inside Passage through the coast's fjords and rainforests. Completing the Totem Circle Tour route can take anywhere between one and two weeks.[7]

For example, Frontier Canada / Frontier Motorhomes offers a 17-night Vancouver Island, Inside Passage and Canadian Rockies one-way fly-drive holiday package that takes tourists from Vancouver, through Vancouver Island, up the Inside Passage, and along the Skeena River to Jasper and the Canadian Rockies. Visitors end their trip in Calgary. The geographic dispersion of the economic benefits associated with this itinerary is considerable and includes the communities of Vancouver, Victoria, Tofino, Port Hardy, Prince Rupert, Smithers, Prince George, Jasper, Banff and Calgary.[8]

Aboriginal Tourism BC also has a sample Totem Route itinerary that involves visits to Skidegate, Tlell and Masset on Haida Gwaii.[9] Additional tourism products offered in the

[7] https://www.travel-british-columbia.com/travel-resources/tours-drives/totem-circle-tour/
[8] http://www.frontier-canada.co.uk/holiday-type/motorhome-holidays-in-canada
[9] https://www.google.ca/search?biw=1647&bih=857&ei=HJehWu-1ENXsjwOA64DICg&q=totem+route+tourism+BC&oq=totem+route+tourism+BC&gs_l=psy-

market that emphasize the Totem Circle Tour include: Canada Dream[10], Canada Rail[11], Canada Vacations[12], Take Tours[13].

It is important to note that the various organizations that explicitly market the Totem Route (or Trail) use itineraries that begin in Vancouver and end at an inland location. HelloBC's website illustrates the main marketing message with the following text: "[T]ravel from Vancouver to Port Hardy by car and ferry. Explore seaside communities, world-renowned gardens, and underground caves. From Port Hardy, choose one of two BC Ferries routes: Inside Passage or the Discovery Coast Passage, both of which glide along BC's spectacular coast."[14]

It is possible that some structural changes have occurred in the market. In 2003, it was reported that there was stronger demand on Route 10 for south-bound travel than there was for north-bound travel. However, the importance of Route 10 to long-distance travellers has been known for a long time. In 2000, "International Tourists" accounted for 44%, "Other BC" 20%, "United States" 18%, "Other Canada" 10% and "Local Residents" 8% of the summer traffic.

There is always the possibility that the directional demand for ferry service will not be fully balanced, and that, therefore, the full economic benefits of any existing ferry capacity will not be fully realized. This is especially germane to periods of peak demand, when ferry capacity and BC Ferries operating practices may result in leaving some demand unfulfilled. Joint consideration of the needs (and travel flexibility) of independent travellers and the needs of group tours must be given to leverage existing tourist accommodation and ferry capacity.

BC Ferry Vacations

Since the introduction of BC Ferries Vacations (BCFV) in 2011, a more proactive sales strategy (if not a full market development) has been adopted by BC Ferries. In 2015, the BC Ferry Commission published their *Performance Review of BC Ferries Vacations*[15] and a number of findings from that review are of significance for this current study.

At the time of the Ferry Commission's review, BCFV's target market was primarily the British Columbia regional and short-haul markets. Generally, the customer demographics were found to be closely aligned with the overall traffic profile of BC Ferries. However, results of the business survey conducted for the current study suggest that the BCFV's

ab.3...1757.4295.0.4888.11.11.0.0.0.0.152.897.9j2.11.0....0...1.1.64.psy-ab..0.7.619...0i22i30k1j33i21k1j33i160k1.0.H7rztjDytZc

[10] http://www.canadream.com/

[11] http://canadarail.ca/packages/totem-rail-explorer-clockwise

[12] http://www.canadavacationtours.com/vacation/western_canada_totem_circle_tour_GRP06

[13] https://www.taketours.com/vancouver/13-day-totem-circle-tour-vancouver-in-vancouver-out-426-1576.html

[14] https://www.hellobc.com/british-columbia/transportation-maps/driving-routes/30/bc-ferries-route.aspx

[15] http://www.bcferrycommission.ca/regulations-probes/performance-reviews/

target markets are not so closely aligned with the customer profile of the Northern Routes.

The Ferry Commission's review found that an extensive list of active partners had been developed by BCFV and that the Northern Routes accounted for 19% of BCFV's sales volume in 2015. The review concluded that widespread, incremental economic benefits had been generated in coastal communities as a result of BCFV services. BC Ferries' investment in tourism marketing programs was also noted to be essential with respect to building demand in communities that have limited marketing resources.

Although BCFV has exceeded BC Ferries' initial expectations since its inception, several challenges were shaping the business in 2015, including: limited hotel inventory; a lack of market-ready products; and no new inventory developed in key areas such as Haida Gwaii, Port Hardy and Prince Rupert. Furthermore, BC Ferries was not on pace with industry trends such as, mobile apps for booking travel, and the use of smart phones for travel redemption.

The Ferry Commission's review concluded that, in 2015, BCFV had not yet reached a mature state. The report noted that BCFV had the potential to expand further with, for example, the availability of self-service options (as the new online reservations system was further developed). BC Ferries' annual reports, from 2014-15 onwards, suggest that BCFV is indeed maturing. For instance, the 2014-2015 *Annual Report* noted that, "BC Ferries Vacations continued to generate revenue, bringing in $4.3 million towards our bottom line, an increase of nearly 30 percent over last year. As the economy strengthens, we expect to see continued growth, leading to increased traffic volumes as well as strong financial performance from our non-tariff-based services." According to the *Annual Report* for 2016-2017*,* BC Ferries Vacations also increased its revenue, generating $6 million in fiscal 2017 – $500,000 more than the previous year.

Ferry Rates Structure and Travel Demand

While the specific scope of this study did not explicitly include an analysis of the impacts of price or rate structure changes within the study area, several of the research findings suggest that the matter of prices, and their possible impacts on travel demand, should be given some consideration.

On the topic of differential pricing, it must be noted that long-distance travellers tend to be less price sensitive than local travellers. Therefore, lower ticket prices for advance purchase of ferry trips on Route 10, for example, would not likely yield the highest return. Nevertheless, demand-based pricing is a very important tool for maximizing the use of assets, generating the appropriate return on capital, and helping to generate travel demand at periods, and within customer segments, where differentiated pricing is warranted.

Rate Structure

The BC Ferry Commission regulates ferry fare levels on 24 routes operated by BC Ferries. These routes are divided into three groups. The largest group has 18 routes, while the smallest group has only one route. Generally, the routes in a given group have common characteristics. For instance, the “major route group” comprises the busiest routes, which connect the BC Lower Mainland with Vancouver Island.

Every three months, BC Ferries must report to the Commission the actual average level of fares paid by its customers, reporting a single figure for each of the four route groups. Each figure is a weighted average for all the routes in the group, and is a complex calculation. The Ferry Commission directs BC Ferries with respect to the raw data, formulas and assumptions that must be used, and calculates a maximum permitted level of average ferry fares for each route group. This maximum is called the “price cap” for each group.

The Coastal Ferry Act set the initial cap at the level of the fares when the Act was passed. The *Act* allowed the price cap to rise annually by 2.8% for the major route group, and by 4.4% for the other six route groups, every November 1 through to the year 2007. For fares from April 1, 2008 (the start of the second performance term), the Commission set the caps for a four-year term (Commission Order 0701A of December 21, 2007).[16]

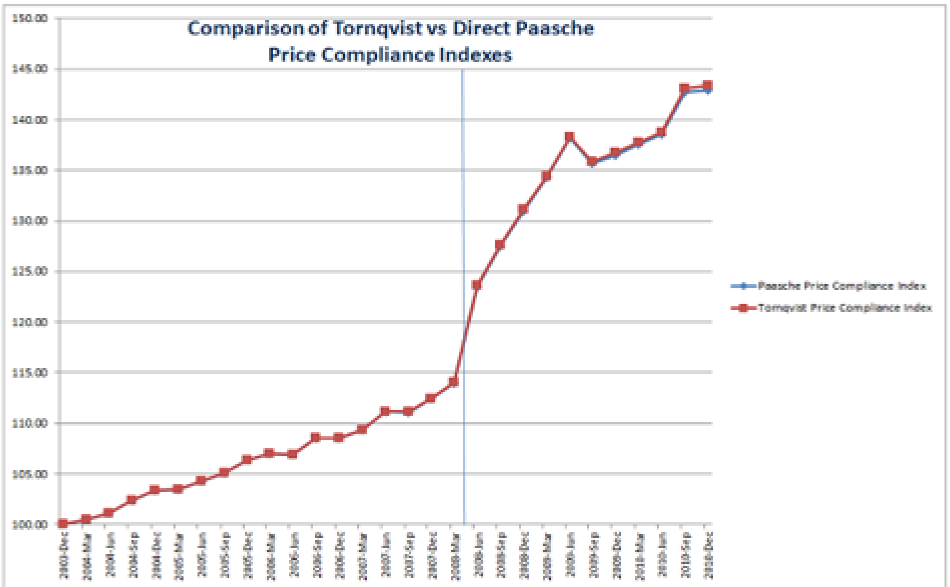
In 2013, the Commissioner requested verification that BC Ferries’ quarterly price cap compliance index calculations conformed to the Direct Paasche Index methodology approved by the Commission and that they reflected recent contractual and legislative changes. The Commission also requested that the computation of the index be prepared using two methodologies (the original Tornqvist Index, in place from 2005 to 2010, and the Direct Paasche Index that replaced the Tornqvist Index in April 2010) to determine if there were any detrimental differences to the operation of the price cap compliance process and/or to fare payers.

The information in the table below offers insights into the rate of price increases from 2003 to 2010. The figures clearly show the impact of general rates increases and of the Commissioner’s decision to make adjustments to the price cap when fuel prices took an extraordinary jump and BC Ferries applied to the Commissioner for relief. To date, BC Ferries has made several such applications, starting with an application for a fuel surcharge in June 2005.

An analysis of the work done on the indexing methodology does not suggest that the change in the indexing methodology negatively impacts BC Ferries’ Northern Routes. As stated in the Ferry Commissioners' decision, the differences between the two methods are very small.

[16] http://www.bcferrycommission.ca/regulations-probes/regulations/fares/

Figure 8 BC Ferries Price Compliance 2003 to 2010



Since the index is reset to 100 at the start of every performance term, the study team felt that it was not possible to construct a longer time series based solely on the data available the BC Ferry Commission website, and without direct access to BC Ferries' price data. However, the information in the table below offers insights into more recent price increases.[17] It clearly shows that the increase in prices has moderated as fuel prices have declined. A decline in fuel prices is important because Routes 10 and 11 are among the longest routes in the BC Ferry system.

Figure 9 BC Ferries Average Fare Index 2015 to 2017

BCFerries

Average Fare Index Summary

		PT3	PT4					
		Mar-2016	Mar-2016	Jun-2016	Sep-2016	Dec-2016	Mar-2017	Jun-2017
System								
	Cap	117.15	100.00	100.48	101.13	101.53	101.90	102.40
	Actual	115.85	98.87	99.55 *	100.68	101.35	101.53	101.44

- Price cap and price compliance indices are calculated in accordance with Commission orders 05-01, 11-03 and 15-03.

-The annual price cap increase for each fiscal year is phased in over four quarters. The amount phased in will vary from quarter to quarter as it is based on proportions of revenue received in the previous year for that quarter. The amount of the phase in for a particular quarter can vary from year to year due to variations in prior year revenue. Such variations can be caused, for example, by the timing of promotions and changes in the timing of Easter. (Easter occurs in either Quarter 1 or Quarter 4)

-Note that the price compliance index calculation may require restatment depending on the outcome of a challenge of a recent CRA audit finding. A CRA audit concluded that reservation fee revenue is a seperate supply from ferry travel and is subject to GST. In adherence to accounting principles, BC Ferries has recorded the GST payable in its financial statements. However, BC Ferries strongly disagrees with the finding and anticipates that it will be reversed, and as a result has not included this amount in the actual tariff revenue used in regulated reporting. If it is not sucesssful with its challenge, the price compliance index will be recalculated to reflect the GST payment and lower tariff revenue.

* Revised and Restated as of September 26, 2016

[17] http://www.bcferrycommission.ca/reports-press/quarterly-reports/

While the ferry price gap methodology renders the longer-term actual prices data opaque, the available public data show very clearly the dramatic escalation in fares starting in 2007/2008, especially during periods of high fuel prices. As such, the rate of increase in BC Ferries' fares has outpaced increases in costs to travellers in the Accommodation sector in northern British Columbia.

Of note, the BC Ferry Commission no longer reports separately on the Northern Routes; the Commission has moved to an aggregate system-wide report of rate increases. Therefore, it is not possible to generate more detailed findings or to make more specific observations for the study area.

Recent Ferry Travel Demand

According to BC Ferries' 2016-2017 Annual Report, "vehicle traffic increased 6.9% and passenger traffic increased 6.7% compared to the prior year on the Northern Routes. In contrast vehicle and passenger traffic levels in fiscal 2017, as compared to the prior year, increased 2.9% and 1.7%, respectively for BC Ferries overall traffic levels." These figures indicate that traffic growth on BC Ferries Northern Routes has been more robust than growth in highway traffic volume.

BC Ferries indicates that their total traffic volume has been favourably impacted by the lower Canadian dollar, and by continued increases in tourism and general economic activity in British Columbia (partially offset by the impact of more days of unfavorable weather in the last half of fiscal 2017 compared to the same period in the previous year). There were no Easter holiday weekends in fiscal 2017, while traffic levels in fiscal 2016 were positively impacted by two Easter holiday weekends.

From mid-November to mid-December 2016, BC Ferries offered a 50% vehicle fare discount on under-utilized sailings, and for approximately three weeks in March 2017 (a period that covered spring break), they offered a 50% passenger fare discount and free travel for children aged 11 and under. BC Ferries believes that these pricing promotions resulted in a slight increase in traffic.

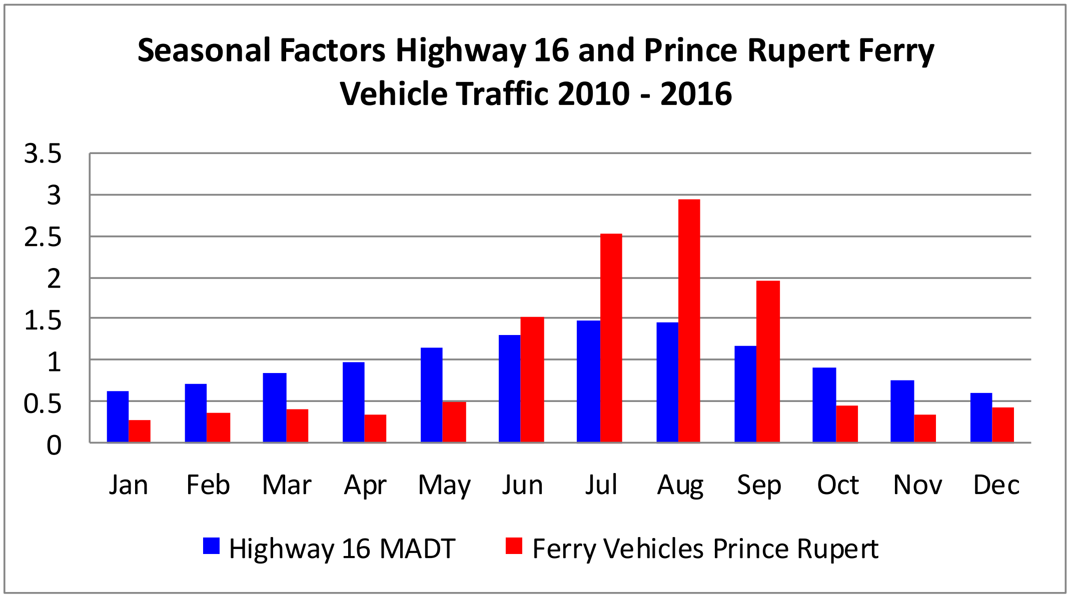
For purposes of comparison, Annual Average Daily Traffic (AADT) highway traffic volume increased 32% from 2007 to 2016 in the Prince Rupert area, representing an annual compound growth rate of 3.2% per year. Highway traffic on Northern Vancouver Island has been essentially stagnant, with an average compound growth rate of 0.4% from 2007 to 2016.

Time series analysis of highway and ferry traffic levels reveals that the seasonal pattern of demand for ferry service is much more pronounced than for highway transportation. Highway traffic is measured using Monthly Average Daily Traffic (MADT) data from the BC Ministry of Transportation and Infrastructure's permanent count station at Prince Rupert.[18] Prince Rupert ferry vehicle traffic data are taken from monthly statistics published on the BC Ferries website. Both data sets were analyzed using a Time Series multiplicative decomposition model, which separates out the trend and seasonal

[18] BC MOTI count station Prince Rupert P-51-1EW – NY.

components of each. The figure below shows the seasonal factors for highway traffic and for Prince Rupert ferry vehicle traffic.

Figure 10 Seasonal Factors Highway 16 and Prince Rupert Ferry



The peak period for highway traffic (i.e. when monthly traffic is above the annual average monthly traffic) is May through September. The peak period for ferry traffic is shorter – June to September – and the peaks are more pronounced than for highway traffic. The highway traffic pattern suggests that a BC Ferries differential pricing strategy between regular, shoulder and off-peak periods might boost traffic, based on latent demand in April and May (especially from local and regional travellers, which are relatively more important to the Prince Rupert – Haida Gwaii customer mix).

It should also be noted that the recent 15% fare reductions implemented by BC Ferries may lead to market stimulation. However, the communities served by the North Coast ferry routes are not likely to exploit the potential tourism sales benefits BC Ferries' Annual Report in fiscal 2017 due to the lack of market information on BC Ferries travellers. No "customer satisfaction" or "trip purpose" data related to the Northern Routes has been gathered or shared with stakeholders by BC Ferries since the inception of the Coastal Ferry Services Contract, even though customer satisfaction data has been available for the major routes.

The benefits of a proactive market research approach can be gleaned from the experience of one of the study team members, who has worked in marketing for a ferry service. The team member helped to introduce a system to collect the following customer:

- Age;
- Gender;
- Income;
- Markets;

- Party composition;
- Purpose of trip; and
- Work status.

This commitment to data collection and analysis revealed that the market was starting to shift towards empty-nesters and away from the traditional family vacation. The data collection also helped to support a proactive shift to better align the timing of peak ferry service. As a result, service levels were adjusted from (what had been) the traditional June 23 – Labour Day season to a mid-July – late October season to reflect the later start to summer weather and the magnificent autumn weather in the region in which the ferry service was operating.

This summary experience from a member of the current study team is provided to illustrate the fact that markets can and do change, and to underscore the fact that market conditions at the time of the introduction of the Coastal Ferry Service Contract (a decade-and-a-half ago) are not reflective of current (or future) market conditions and direction.

For example, on February 6, 2018, BC Ferries sent a notice to its tourism partners showing current limited or at capacity volume for bookings on the new direct service from Port Hardy to Bella Coola (Central Coast on the Northern Sea Wolf). At that time, BC Ferries was still accepting reservations for the July through September dates, and placing all requests on a waitlist until further notice. It is important to note that the new Northern Sea Wolf vessel has a smaller capacity than the 71% average utilization for the only direct daylight sailing on the same route in 2013 (on a vessel with 115 AEQ capacity). Another sailing on the same route achieved a 46% average utilization rate over the entire year (with 115 AEQs). These operating results were attained prior to the official recognition of the "Great Bear Rainforest."

Making use of after-the-fact ferry utilization levels without an understanding of market conditions can lead to a misallocation of capacity and lost economic development opportunities. The analysis and discussion above makes a strong case for additional regional data development and market research to make up for more than a decade of neglect in these matters by the Provincial Government, the BC Ferry Commission, and BC Ferries.

Regional Tourism Development and Enhanced Shoulder Season Ferry Service

Discussions with a representative of Tourism Vancouver Island revealed that, for northern Vancouver Island an increase in highway traffic correlates with an increase in visits to the North Island as the destination point. Vancouver Island North Visitor Centres' statistics are up and revenue from the Municipal and Regional District Tax (MRDT) Program (launched September 1, 2015) has been significantly higher than expected.

Some influences for the most recent growth in visits to northern Vancouver Island include the 2017 forest fires in the Interior (deterring visitors to that region) and the opening of the Kwa'Lilas Hotel (a First Nations hotel) in Port Hardy. There are also an increasing number of tourism offerings in the region, and these are making a positive contribution to the length of time that visitors are staying.

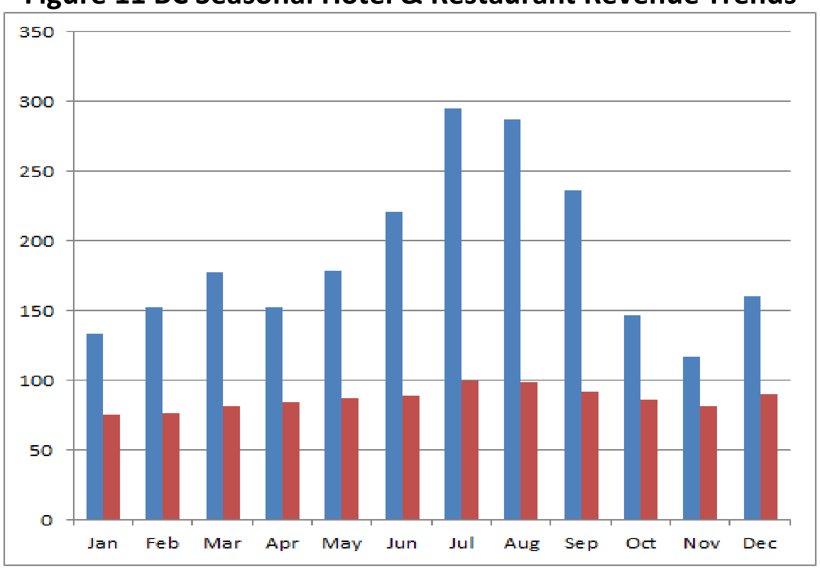
Rates of tourism activity during the shoulder seasons on northern Vancouver Island had remained static until recently. But the opening of the Kwa'Lilas Hotel has brought additional high quality accommodation and meeting space to Port Hardy and, generally, there is emerging development of tourism products and experiences for the shoulder and off seasons – as well as the human resources to support them.

The available evidence (including the results of our business survey) suggests that there is, indeed, an upswing in demand on the Tourism sector in Northern Routes region and a sound argument for an expanded peak season for ferry service – an expansion that will be satisfied by additional tourism and destination development over time.

Ferry Traffic and Hotel Revenue

Hotel revenues are considered a strong proxy for tourism revenue overall. The chart below provides seasonal insights into patterns in hotel revenues (blue) and restaurant revenues (red) for British Columbia.

Figure 11 BC Seasonal Hotel & Restaurant Revenue Trends



The data indicate that the overall peak travel season in BC begins on the Victoria Day Long Weekend in May and runs until the end of September. Early May can be quiet in terms of overall travel demand, but the Victoria Day Long Weekend drives a massive travel surge. Consequently, the May Long Weekend functions as the de facto start of the summer travel season for most tourism businesses.

The study team acknowledges the fact that the location of some accommodation properties makes it more challenging to sell rooms in early May. However, many properties are fully occupied by the May Long Weekend and experience periods of highest occupancy right through to early October. September is a particularly strong month and June is also strong.

To explore some of the possible economic impacts of changes in ferry service on the North Coast Routes, the study team performed an analysis of hotel room revenues, ferry passenger numbers, and highway traffic volumes. The results indicate that there is a very strong relationship between room revenue and monthly traffic on Highway 16. In addition, room revenue is positively correlated with number of ferry passengers, but ferry traffic has much more seasonal variation than highway traffic. Therefore, the capacity of the ferry service is not likely to be the primary or sole demand-driver influencing total hotel revenues in the study area.

The results of a multiplicative decomposition model (shown below) for Prince Rupert, pre- and post-2014 service changes, reveal no clear impact from the ferry changes or in the seasonal pattern of usage.

Figure 12 Prince Rupert Hotel Revenue Trends

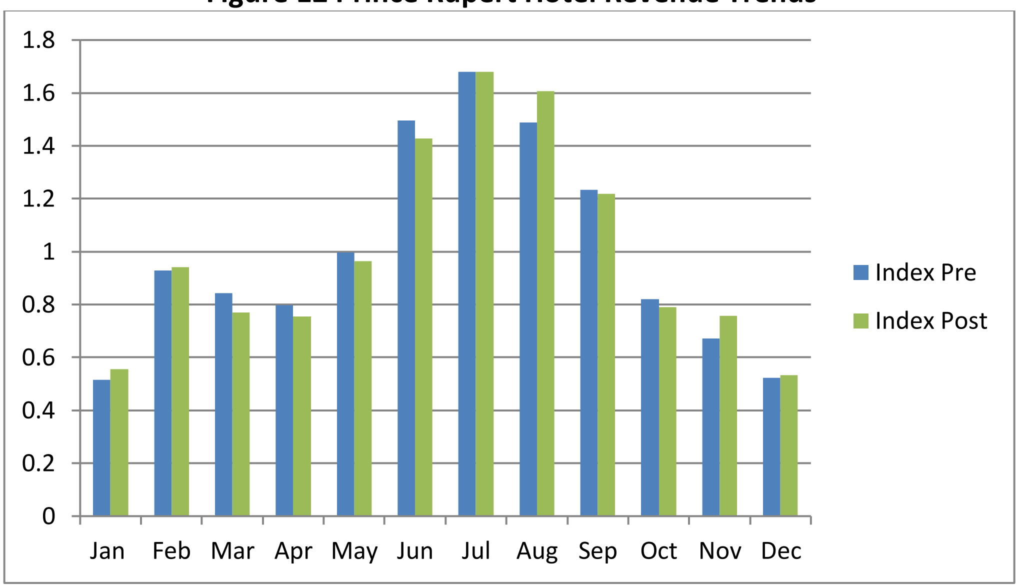


Figure 13 Prince Rupert Room Revenue & Ferry Passengers

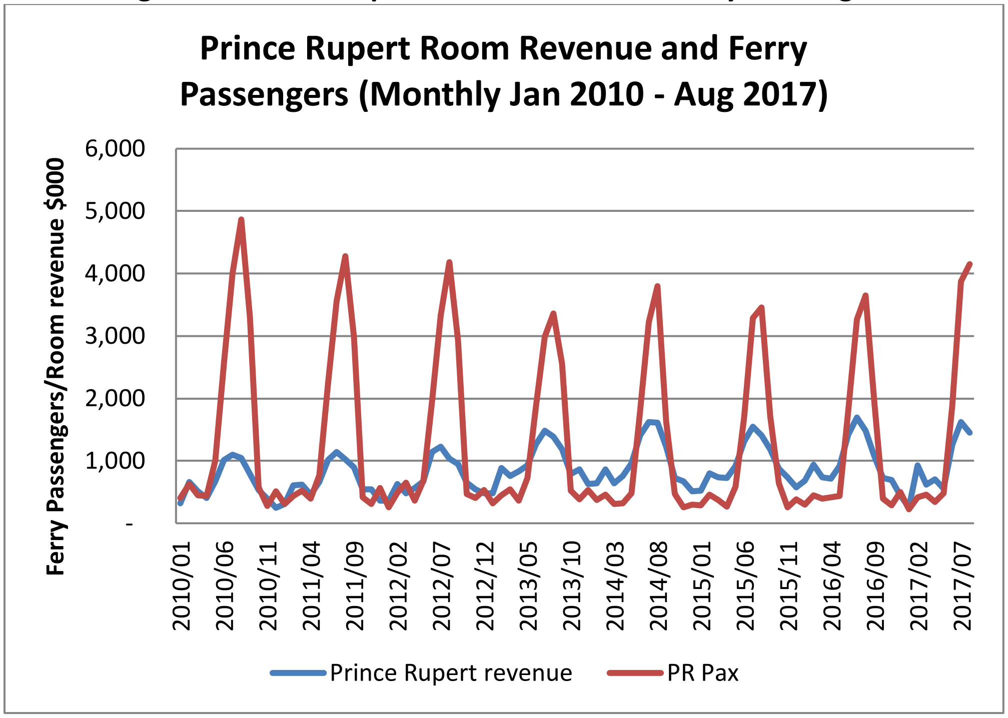


Figure 14 Prince Rupert Room Revenue & Highway Traffic

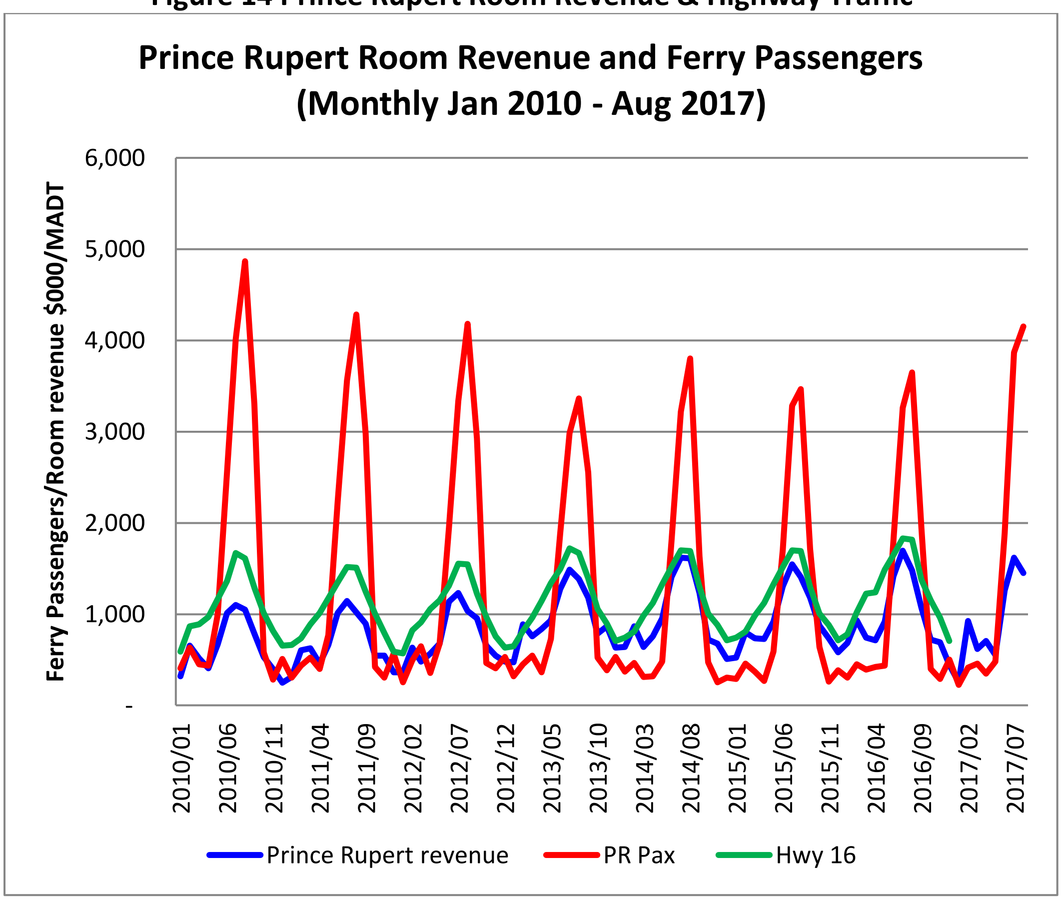
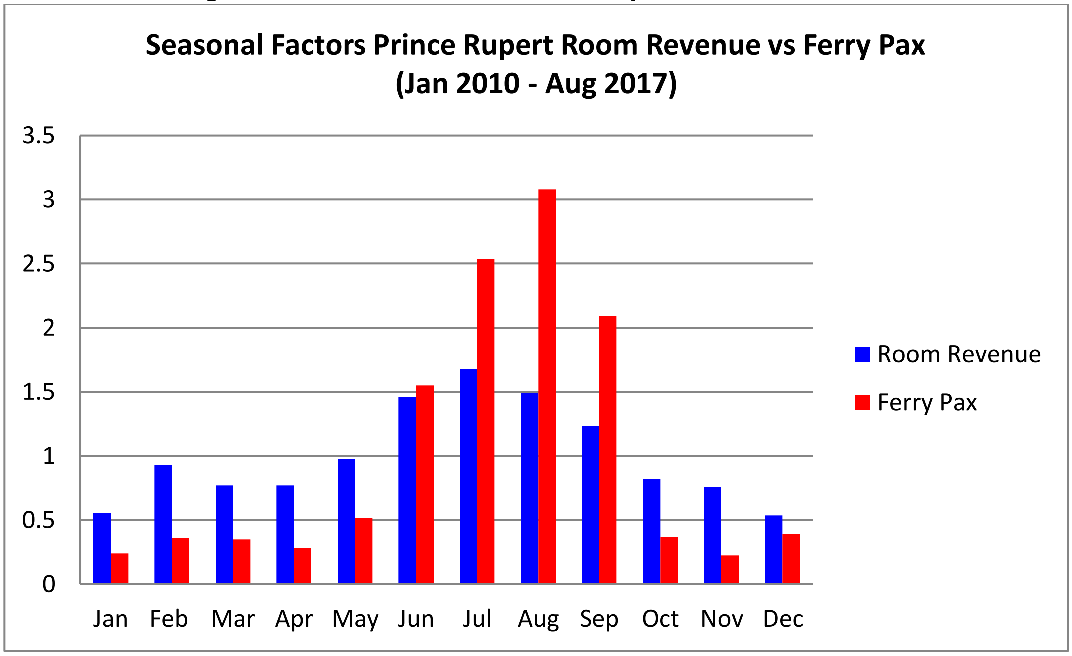


Figure 15 Season Factor Prince Rupert Room Revenue

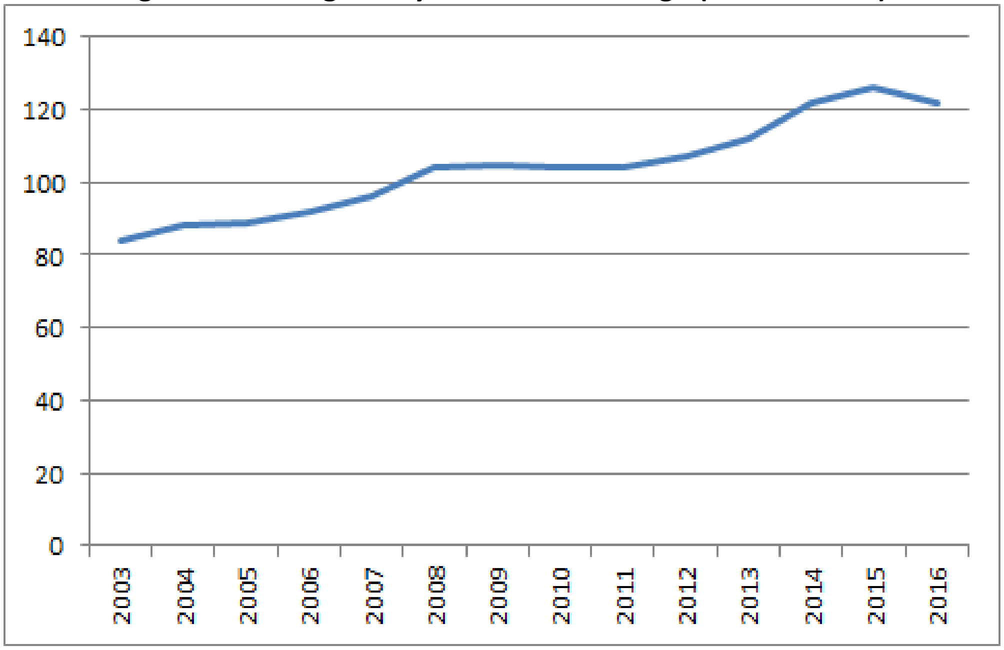


Given the importance of the ferry service to the Tourism sector, an analysis of the trend in average hotel prices was performed. This information is useful for demonstrating how changes in hotel and ferry prices compare.

For the northern region, the only community that has been reporting hotel rates consistently is Prince George and these data can be used as a reasonable proxy for rates in Prince Rupert and the rest of the north. (Although, Prince George is not quite as sensitive to trends as a very small community, such as Smithers or even Prince Rupert, where a single new property can dramatically shift the average daily rate [ADR] and occupancy levels.)

Since 2003, hotel rates in Prince George have increased by 45 percent. (In the absence of specific data from other communities within the study area, it is the study team's judgement that room rates in Prince Rupert would likely be similar to those in Prince George, with some element of difference attributed to the unique characteristics of the specific accommodation markets.) By way of comparison, the ADR in Greater Vancouver grew by 49.6% in the same period (from $117 in 2003 to $175 in 2016).

Figure 16 Average Daily Rate Prince George (2003 to 2016)



While not all visitors staying in tourist accommodation use the BC Ferries system, it is instructive to note that many discretionary travellers will be aware of general price trends in the travel market and will make judgements about the reasonableness of ferry fares in relation to other price benchmarks in the marketplace. In British Columbia, the Accommodation and Food Service sectors account for about 35% of annual tourism revenue, Transportation 30%, Retail Services (27%) and Other Services (8%). Within the study area, ferry rates have risen proportionately considerably more than accommodation costs since the Coastal Ferry Service Contract was introduced.

Information Technology Trends Impacting Tourism and Transportation

Kos-Labedowicz and Urbanek's (2017) research indicates that near "universal access to Internet, ever cheaper computers, mobile phones, and other mobile devices – connected with the development of e-commerce and e-services – influences changes in behaviour of both individuals and enterprises. Consumers use the possibilities provided by e-commerce increasingly often, in any time and place convenient for them. […] Changes in consumer behaviour result in changes in demand for passenger and freight transport."[19] In fact, information and communication technologies have been affecting consumer behaviour and trade to a greater degree every year.

Consequently, information and communications technologies are becoming a major tool for the selling and integration of services; they are used by transport companies that provide passenger transport and freight transport. The development of information and communications technologies, and their increasingly common application in all branches of the economy, gradually transforms the way of conducting business activities, reshaping

[19] *Do Information and Communications Technologies influence transport demand? An exploratory study in the European Union.*

the relationships between participants in markets, and changing the rules that govern the functioning of those markets.

Drosos et. al (2017) in their research report, *The Strategic Role of Information Technology in Tourism: The Case of Global Distribution Systems,* observe that:

> "… during the last two decades of the digital era millions of people are using web technologies to communicate with other people around the world. The development of Information Technology (IT) and particularly the use of web technologies has turned the world into a much smaller place and opens up the possibility of new forms of engagement and relationship. On the other hand, IT has a major role in every organisational aspect. Through the use of IT and the internet, it is likely that in the coming years all organisations will be reshaped and will come across new challenges. […] IT is the lifeblood of the travel and tourist industry. It connects travellers, the travel industry and suppliers. IT is essential for the efficient and timely processing and distribution of information and has dramatically enhanced the efficiency and accessibility of travel industry organisations."

The results of this current research study are consistent with the findings of other research on ferry customers that shows that ferry travellers constitute several distinct market segments, and that tourism businesses (including those in BC North Coast Region) use a variety of information technologies to market their businesses and interact with their customers (including the use of electronic reservation tools/platforms).

Members of the current study team are aware of ongoing public discussion regarding BC Ferries reservation practices and yield management initiatives on the major routes (as encouraged by the BC Ferry Commissioner).[20] The team respectfully suggests that it would be desirable, and even beneficial, to have a discussion on the strengths and weaknesses of potential approaches to ferry reservations and the use of information technology – separately from a discussion of the issue of ferry prices.

The fact remains that a prudent ferry operator should have access to all available tools to manage capacity effectively and to adjust to changing consumer expectations with respect to online tools for booking, ticketing and travel that are enabled by smart phone and other technologies. For this reason, it is important that BC Ferries continue to implement its new reservation system to improve efficiency on the major routes and to consider how such a system could be used effectively on the Northern Routes.[21]

It is erroneous to think that the clock can be turned back on the use of such technologies in the Transportation and Tourism sectors. Arguably, a robust and open discussion with tourism businesses and stakeholders on the impact of vehicle reservations (including for

[20] http://www.timescolonist.com/news/b-c/transportation-minister-not-keen-on-b-c-ferries-plan-for-airline-like-reservations-1.23206554

[21] https://www.nanaimobulletin.com/news/b-c-ferries-ceo-says-new-reservation-system-will-improve-efficiency/

commercial vehicles) is vital for fully ensuring that the maximum benefits for tourism and economic development are considered alongside the needs of some of the local residents who view the ferry system as simply an extension of the highway system.

Adopting a singular perspective that represents only a proportion of ferry customers, and not fully considering the changing market environment experienced by all tourism businesses may potentially be politically popular in the short run. However, such an approach would fail to address the overall needs and demands of the current and future market opportunities that drive ferry growth. Ferry service decisions makers must take into proper consideration the impact of the changes that have occurred in the marketplace since the introduction of the Coastal Ferry Service Contract over a decade-and-a-half ago.

3.2.2 Tourism Profile from Stakeholder Survey

During the course of the study, the study team found that there is little to no information on the specific traveller characteristics of customers using the North Coast ferry routes. Consequently, the team developed and implemented a business survey with a tourism focus, with the goal of generating some insights into ferry service that reflect stakeholders' businesses interests.

The survey methodology explicitly made use of proxy respondents (i.e. Tourism sector business owners) to gain insights into the tourist customers that use the ferry system. Using proxy responses was necessary because the project budget, scope and schedule did not allow for contacting tourism customers directly.[22] Eighty percent of the survey respondents indicated that they serve tourists, a figure that lends the survey findings rigour and credibility as baseline data.

Number in Travelling Party and Average Spending Per Day

The data in the graphs below indicate that just under 69% of the respondents reported that the number of tourists in a typical party visiting their establishment was between two and four individuals. About 30% reported that they serve parties of more than five individuals. Thirty-three percent of seasonal business respondents reported serving a typical travelling party of more than five individuals. The majority (79%) of Accommodation sector respondents reported that a typical travelling party consists of two to four individuals.

The average amount of money that respondents reported was spent at their establishments per day (per travelling party) ranged widely. The most frequent response (40%) was that travelling parties were spending $100 to $250 per day. Accommodation sector respondents reported slightly higher spending. With respect to seasonal business respondents, 17% reported that they had parties that spent more than $750 per day; 25% reported parties spending $251 to $500, $100 to $250, and less than $100.

[22] http://methods.sagepub.com/reference/encyclopedia-of-survey-research-methods/n413.xml

Figure 17 Number of People in Traveling Party

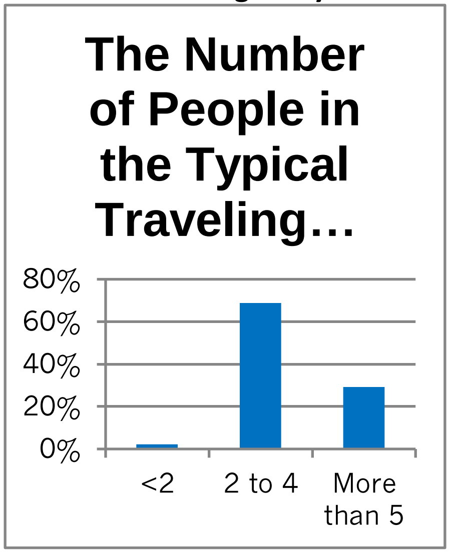
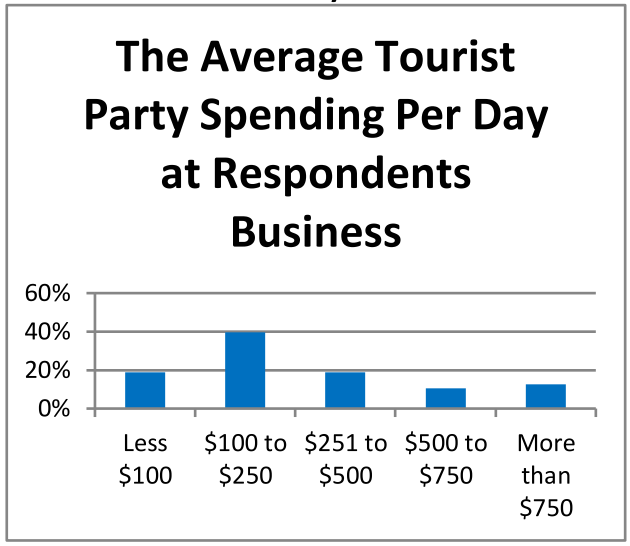


Figure 18 Average Tourist Party Spending Per Day



Length of Traveller Visit

The data in the graphs below highlight the importance of ferry service frequency and the length of peak season to tourism-related businesses that operate in the region. The graphs compare the length of stay of travellers served by businesses that operate year-round with those served by seasonal businesses.

Year-round businesses had a wider dispersion of length of guest stays than seasonal firms including more single night visits. One possible implication of the findings is that year-round businesses in the Accommodation sector would benefit from both increased ferry service frequency and an extended peak season as these respondents indicated that one-third of their customers typically stay for one night.

Seasonal operations face greater market exposure from a shortened peak ferry schedule as this has a greater impact on the number of guests that they can accommodate. The Accommodation sector would also benefit from an extended peak season ferry schedule as over 50% of respondents indicated that about half of their customers stay between five and ten nights at their establishments, and a substantial number stay for more than 10 nights.

Figure 19 Typical Length of Stay for Tourists – Year-Round

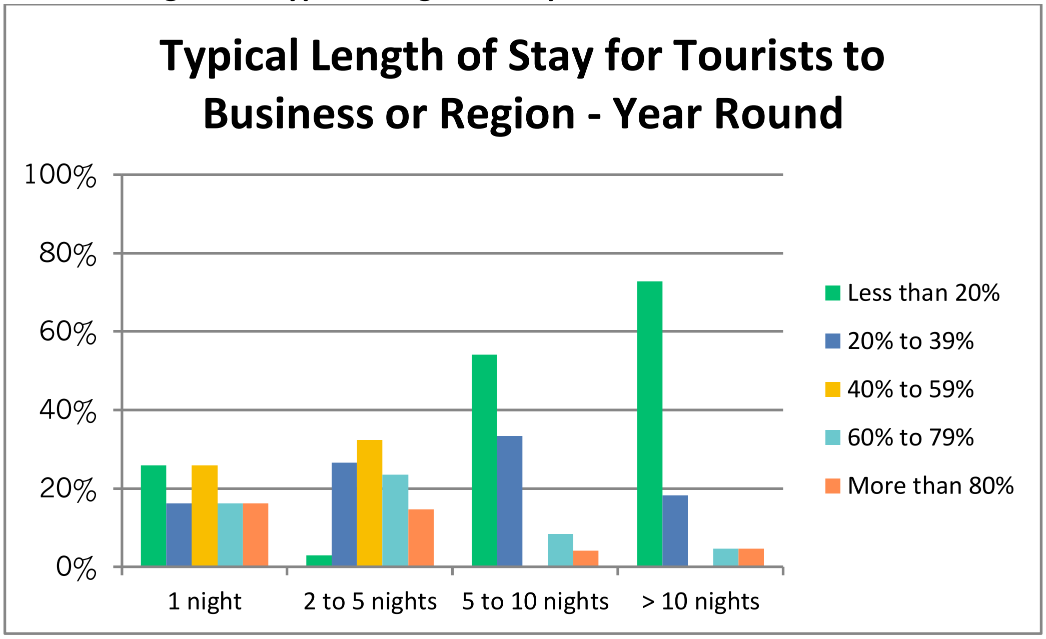
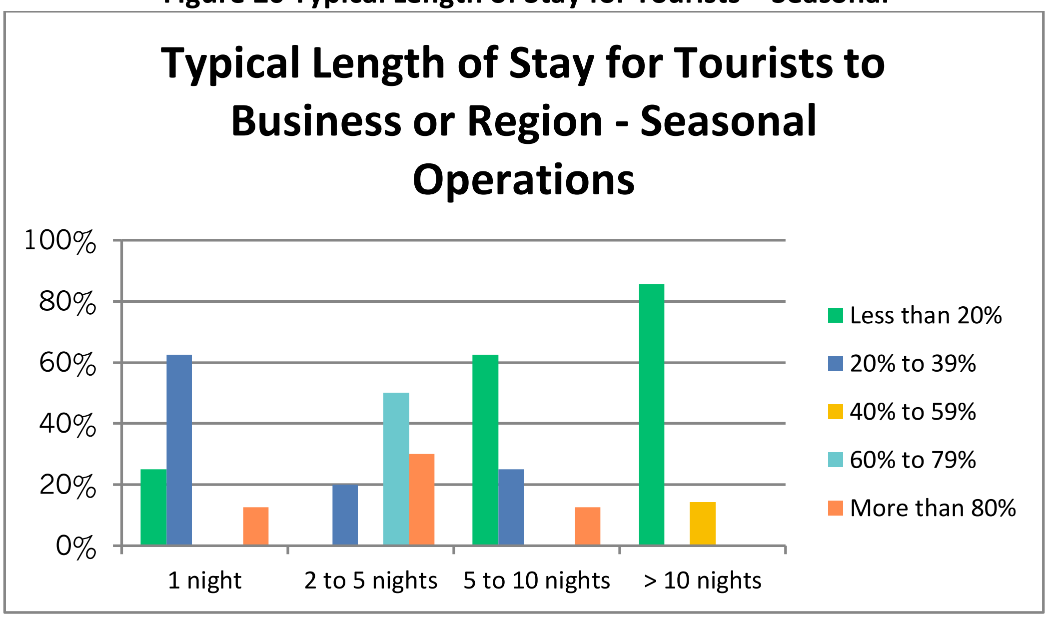


Figure 20 Typical Length of Stay for Tourists – Seasonal



Regional Importance of Each Ferry Route

Eighty percent of the tourist-serving businesses that responded to the survey reported that they track the geographic origin of their customers. These data provide insights into the geographic markets of importance. Given the large number of survey respondents from Prince Rupert and the larger population centres on northern Vancouver Island, it was perhaps not surprising that over 80% of respondents who serve tourists indicated that their customers use BC Ferries Route 10 (Inside Passage Port Hardy to Prince Rupert).

Sixty-six percent of the tourism respondents indicated that their customers use Route 11 (Prince Rupert to Haida Gwaii). There were no marked differences in the customers' use of BC Ferries Routes 10 and 11 for enterprises that operate year-round and those that operate on a seasonal basis. However, a higher percentage (71%) of Accommodation sector respondents reported that their customers use Route 11.

Figure 21 Customer's Use of BC Ferries Route 10

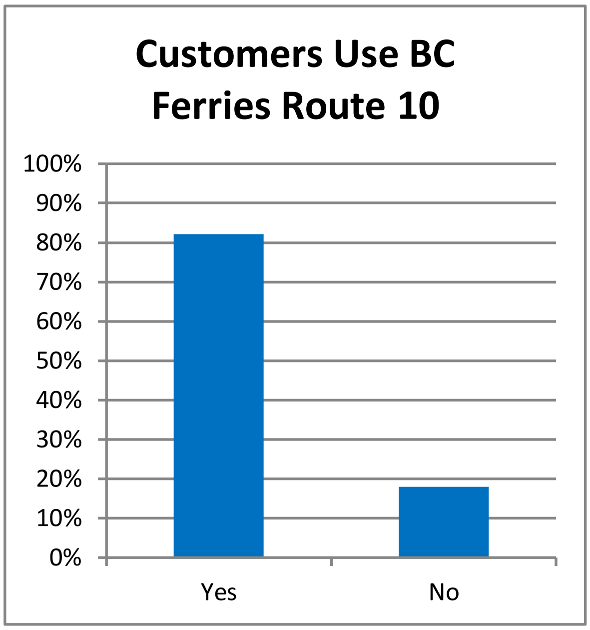
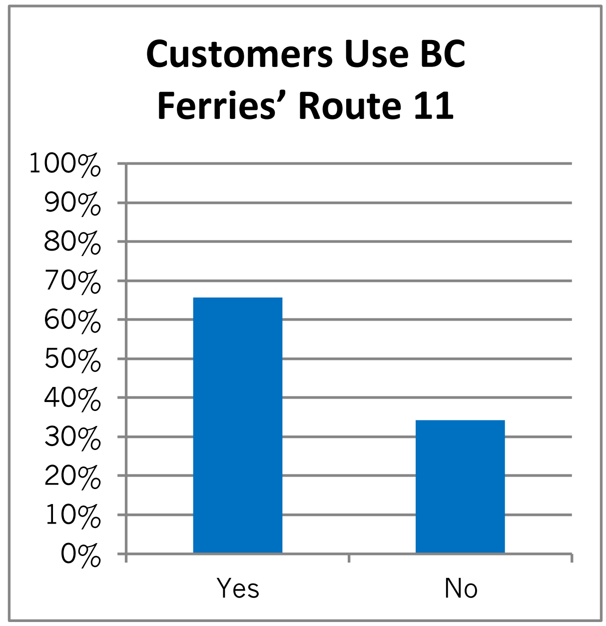


Figure 22 Customer's Use of BC Ferries Route 11



Tourism Customer Market Segments

The survey data shows that the tourism market segments that rely on Route 10 are (in order of magnitude): individual tourists undertaking self-directed travel; travellers on group tours organized by travel wholesalers; individuals visiting friends and family; government; and corporate clients. (Details are provided in the graphs below.) The market can be characterized as being highly dependent (65%) on the travel decisions of discretionary travellers from overseas, from the United States, and from other parts of Canada. Nevertheless, travellers from British Columbia and the local region accounted for 35% of the customer base. The same pattern of responses held true for both year-round and seasonal enterprises.

By contrast, the most important tourism market segments using Route 11 are (in order of magnitude): travelling parties visiting family and friends; travellers on group tours organized by travel wholesalers; individuals undertaking self-directed travel; corporate clients; and government. Seasonal businesses reported a higher ratio (22%) of corporate customers using Route 11 than the year-round operations (11%).

Route 11 ferry customers were drawn from (in order of magnitude): local/regional areas; other BC communities; overseas; other parts of Canada; and the United States. Local /regional customers were slightly more important to the seasonal enterprises.

Figure 23 Guest Type that Depends on Route 10

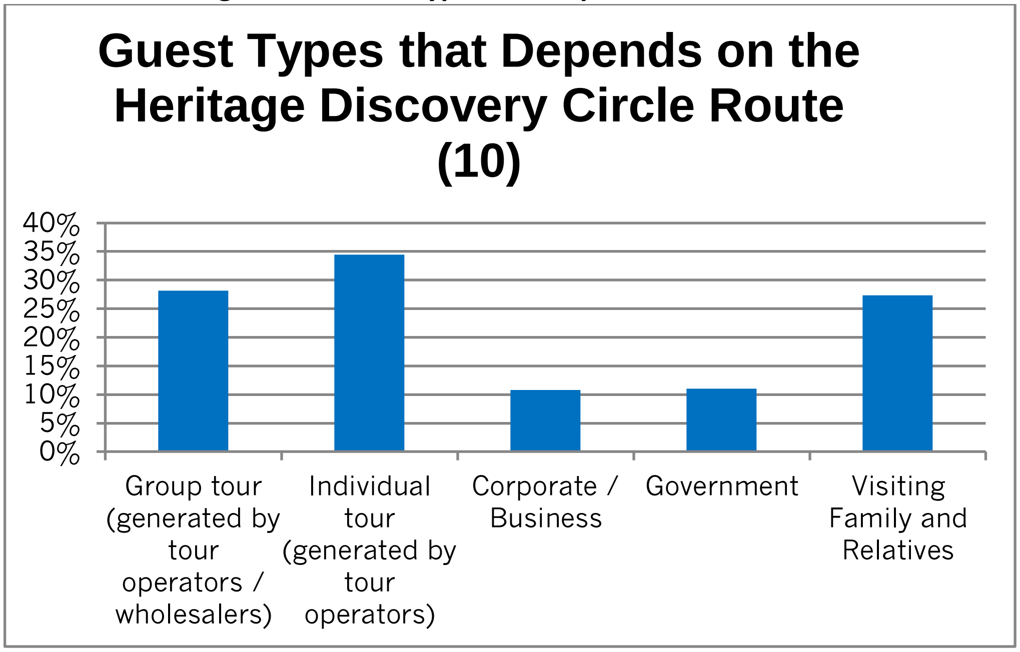


Figure 24 Guest Types that Depend on Route 11

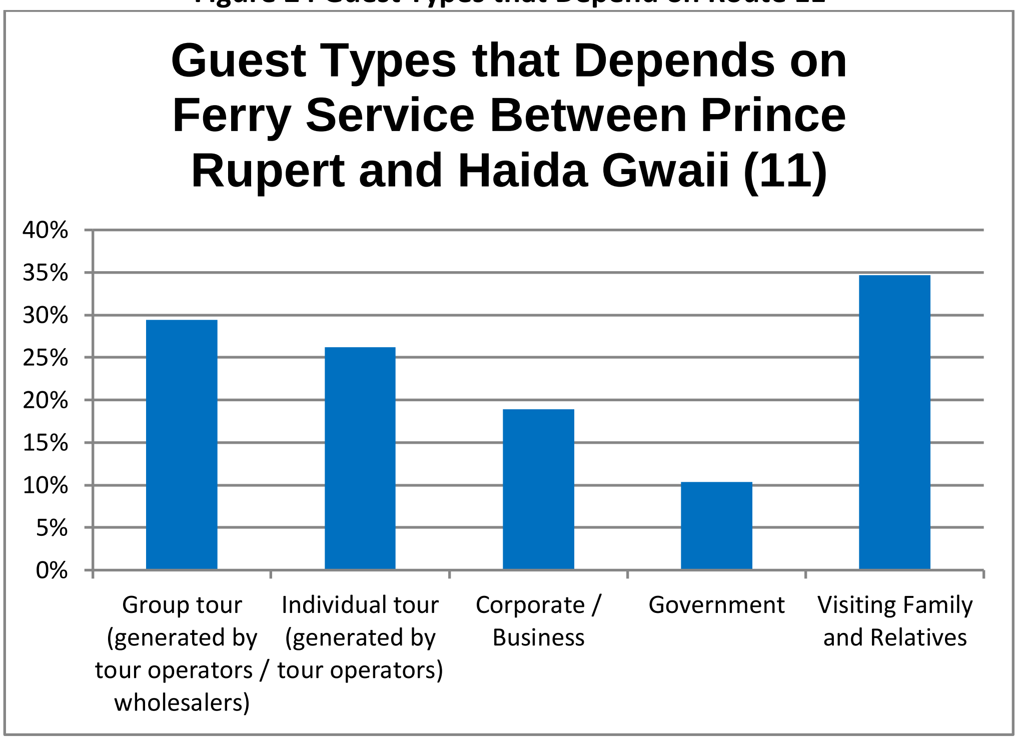


Figure 25 Geographic Location of Guests that Depend on Route 10

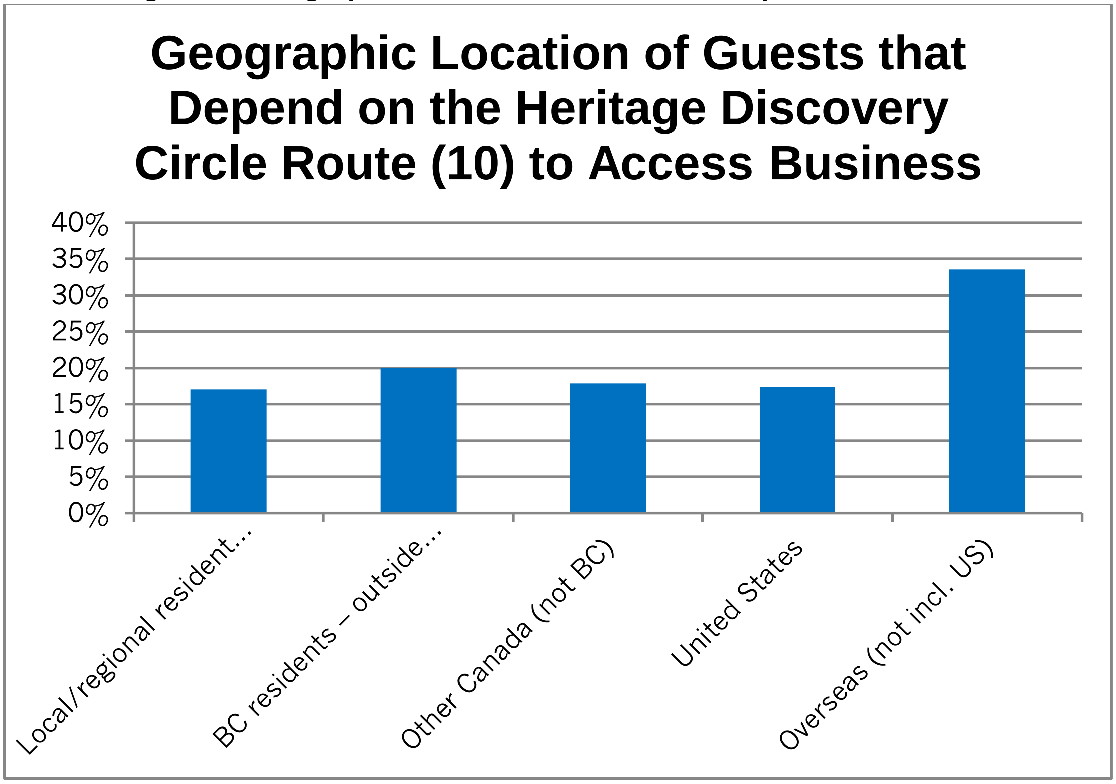
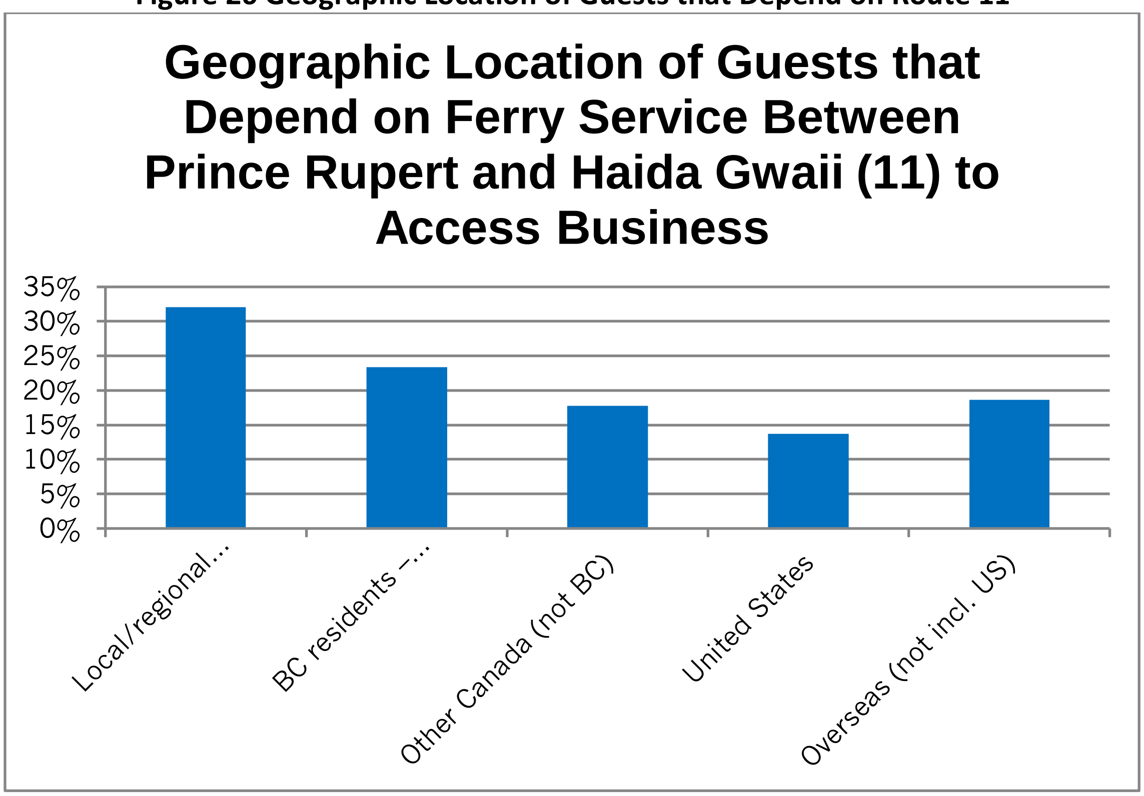


Figure 26 Geographic Location of Guests that Depend on Route 11



4 Transportation Trends

KEY MESSAGES

Many people touring the Northern Routes region originate in Vancouver, travel over to Victoria, head north to Campbell River and then to Port Hardy, before travelling through to Prince Rupert. Some customers then choose to travel to Haida Gwaii or Alaska, or continue travelling through Northern BC to Smithers, Prince George, and then down to the Cariboo Chilcotin and BC's Interior, or east to Banff and Jasper. Consequently, in addition to serving as a key transportation service, BC Ferries Northern Routes are an enabler for key segments of a larger regional tourism economy.

According to the BC Ferries 2016- 2017 annual report, in fiscal 2017 "vehicle traffic increased 6.9% and passenger traffic increased 6.7% compared to the prior year on the Northern Routes." By contrast, vehicle and passenger traffic levels increased 2.9% and 1.7%, respectively for BC Ferries' overall traffic levels. Thus, recent traffic growth on BC Ferries Northern routes has been more robust than growth in highway traffic volumes.

The BC Ferries terminal in Prince Rupert has direct access to Highway 16 (the Yellowhead Highway), which connects Prince Rupert to communities to the east. Annual Average Daily Traffic (AADT) volume in the Prince Rupert area increased 32% from 2007 to 2016, representing an annual compound growth rate of 3.2% per year. By contrast, highway traffic volume on northern Vancouver Island has essentially been stagnant: an average compound growth rate of 0.4% from 2007 to 2016.

Monthly Average Daily Traffic (MADT) data for the Prince Rupert area shows that traffic is highly seasonal, with pronounced peaks starting in May through the summer months and into September and low volumes in the winter. Monthly highway traffic patterns for northern Vancouver Island indicate a later start (June) to the peak season build up and a more rapid drop off in the fall compared to the Prince Rupert area.

The study area is served by scheduled air services (primarily connecting to Vancouver). Scheduled services operate into Port Hardy, Bella Bella, Klemtu, Bella Coola, Prince Rupert, and Sandspit (on Haida Gwaii/Queen Charlotte Islands). Charter air services (fixed wing and rotary), both land and water based, operate throughout the area.

Prince Rupert is the only community in the study area with direct rail access. Canadian National Railway's (CN) mainline provides the rail line for the Jasper to Prince Rupert Via Rail service. Traffic on this route has essentially been stagnant.

4.1 Ferries

BC Ferries Overview

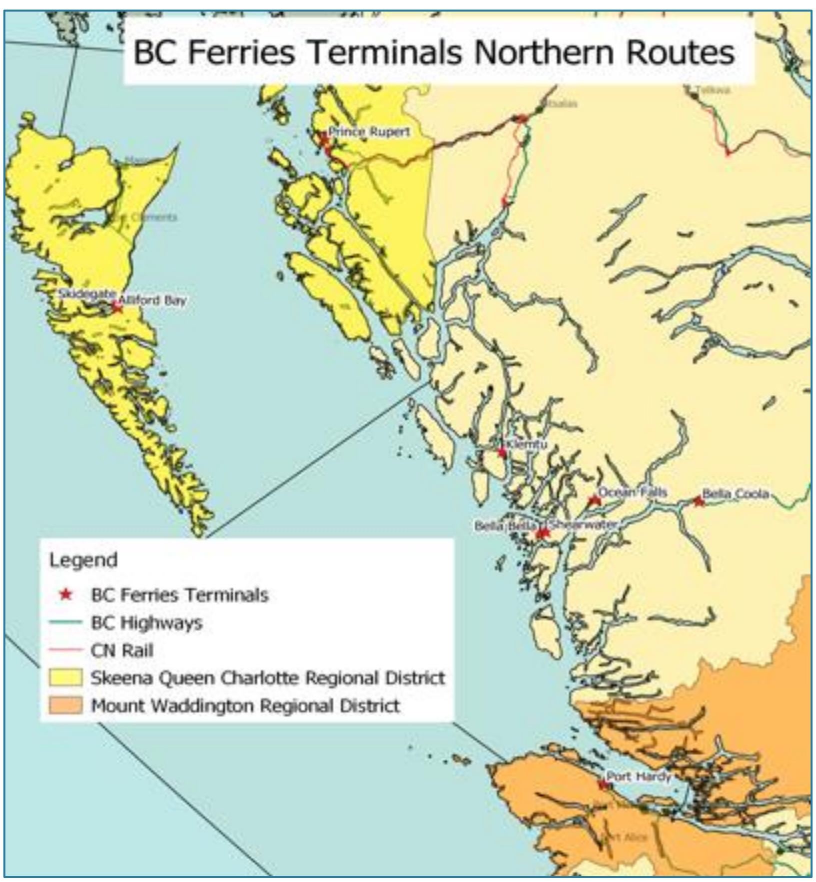
BC Ferries Northern Routes consist of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. There is also one minor ferry route within the study area.

Many people touring the region originate in Vancouver, travel over to Victoria, head north to Campbell River and then to Port Hardy before travelling through to Prince Rupert. Some customers then choose to travel to Haida Gwaii or Alaska, or continue travelling through Northern BC to Smithers, Prince George, and down to the Cariboo Chilcotin, or east to Banff and Jasper. Consequently, in addition to serving as a key transportation service, BC Ferries is an enabler for certain segments of a larger regional economy.

For many communities on Haida Gwaii and south of Prince Rupert, BC Ferries plays a critical role in the transportation of basic needs (e.g. groceries) and may be the only method of transportation to and from their community for such essentials as medical items.

The material below addresses passenger and vehicle traffic characteristics as well as considerations related to freight and goods movement. Note that the study team only had access to BC Ferries' publicly available data.

Figure 27 BC Ferries in Study Area

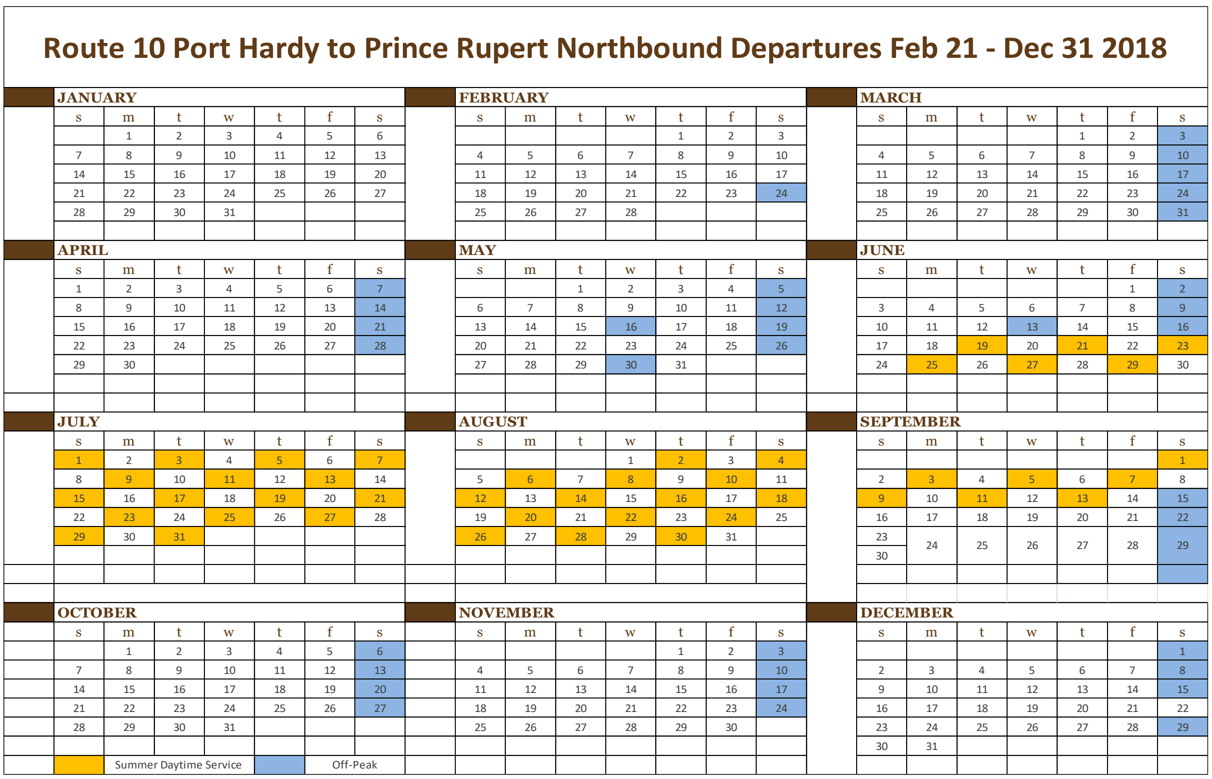


Route 10 Description

Route 10 connects Prince Rupert to Port Hardy (on the northern tip of Vancouver Island). For the BC Ferries 2018-19 fiscal year, the summer Inside Passage – Day Cruise service starts on June 19 and ends on September 13. Service consists of one round trip between Port Hardy and Prince Rupert every two days, with one stop in either Bella Bella or Klemtu. Mid Coast communities are served from Port Hardy. BC Ferries has added a direct service between Port Hardy and Bella Coola for the summer of 2018.

Winter service on Route 10 follows a similar pattern with a frequency of once a week, and an additional three sailings in May and June. In the winter season, Mid Coast communities (Bella Bella, Klemtu, Ocean Falls, Shearwater and Bella Coola) are served via the Mid Coast Connector service, which uses a smaller vessel on a route connecting to Route 10 at Bella Bella.

Figure 28 BC Ferries Route 10 Schedule



Route 11 Description

Route 11 connects Prince Rupert to Skidegate on Haida Gwaii. For 2018-19, the Haida Gwaii summer schedule starts on June 19 and ends on September 13. The general schedule is shown below; minor schedule adjustments are made to provide a connection southbound with the Prince Rupert to Port Hardy route.

Figure 29 BC Ferries Route 11 Schedule

Haida Gwaii Summer Schedule 2018							
Westbound				Eastbound			
Leave Prince Rupert		Arrive Skidegate		Leave Skidegate		Arrive Prince Rupert	
10:00 am	Sun	5:00 pm	Same day	10:00 am	Mon	5:00 pm	Same day
10:00 pm	Mon	6:00 am	Next day	10:00 am	Tue	5:00 pm	Same day
10:00 am	Thu	5:00 pm	Same day	10:00 pm	Thu	6:00 am	Next day
10:00 am	Fri	5:00 pm	Same day	10:00 pm	Fri	6:00 am	Next day
10:00 am	Sat exc Jun 23 & Sep 8	5:00 pm	Same day	10:00 pm	Sat exc Jun 23 & Sep 8	6:00 am	

In the winter season, the Haida Gwaii service offers two round trips per week.

BC Ferries also operates a service linking Skidegate on Graham Island to Alliford Bay on Moresby Island. (Graham and Moresby are the two major Haida Gwaii islands.) The crossing time is 20 minutes and the distance is 3.5 nautical miles. The schedule provides eight daily crossings with some additional crossings on Tuesdays, Thursdays, Fridays and Saturdays. Some of the sailings are devoted to Dangerous Goods shipments and carry no passengers.

The current schedules are the result of reductions in services implemented by BC Ferries in March 2014. These changes were estimated to result in a 32% reduction to round trips on the Inside Passage route (Port Hardy-Mid-Coast-Prince Rupert) and a 27% reduction in round trips to the route connecting Haida Gwaii and Prince Rupert.

Route 26 Description

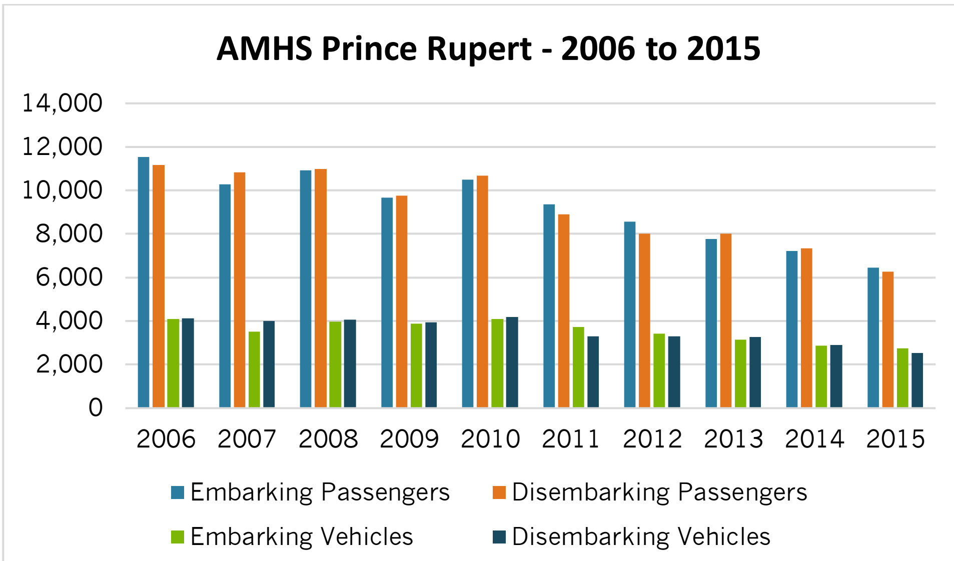
Route 26 services connect communities in Haida Gwaii. It is a 2.2 nautical miles crossing between Alliford Bay (on Moresby Island) and Skidegate (located at the south end of Graham Island).

Alaska Marine Highway System

The Southeast Alaska Marine Highway System (AMHS) is divided into two subsystems: the “mainline” routes (which typically take more than one day for the ship to travel); and shorter routes (on which vessels depart from their home port in the morning, travel to destination ports, and then return to their home port on the same day). During the summer, the mainline routes carry a high percentage of tourists (and their vehicles). The AMHS connects with the continental road system at Bellingham in Washington State, at in Prince Rupert in British Columbia, and at Haines and Skagway in Alaska. Along the way, the ships stop in Ketchikan, Wrangell, Petersburg, Sitka, Juneau, and Haines. During 2015, four out of the five largest AMHS vessels were used on the Southeast mainline routes.[23]

The chart below shows the AMHS traffic at Prince Rupert. Traffic on the route has dropped substantially both in terms of overall numbers of passengers and vehicles. The ratio of passengers to vehicles has also declined during the period 2006 to 2015 from about 2.8 to 2.4.

Figure 30 AMHS Traffic, Rupert



4.2 Highway Transport

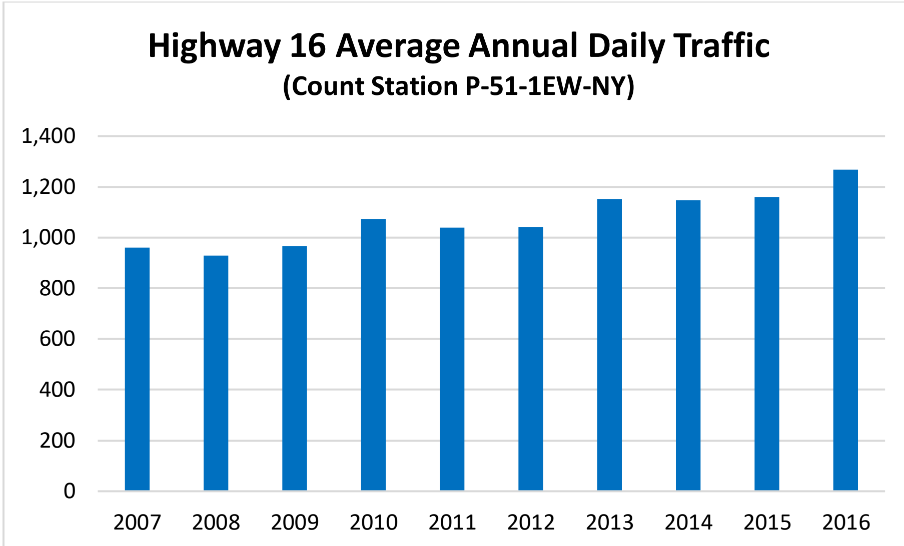
Traffic data from the British Columbia Ministry of Transportation and Infrastructure provide insights into both annual and seasonal traffic volumes in the region.[24] An understanding of the trends in seasonal traffic patterns is especially important when determining the most alignment between the BC Ferries peak season service and overall road travel demand.

The BC Ferries terminal in Prince Rupert has direct access to Highway 16 (the Yellowhead Highway), which connects Prince Rupert to communities to the east. Annual Average Daily Traffic (AADT) volume in the Prince Rupert area increased 32% from 2007 to 2016, representing an annual compound growth rate of 3.2% per year.

[23] Alaska Marine Highway System, 2015 Annual Traffic Volume Report. http://www.dot.state.ak.us/amhs/reports.shtml

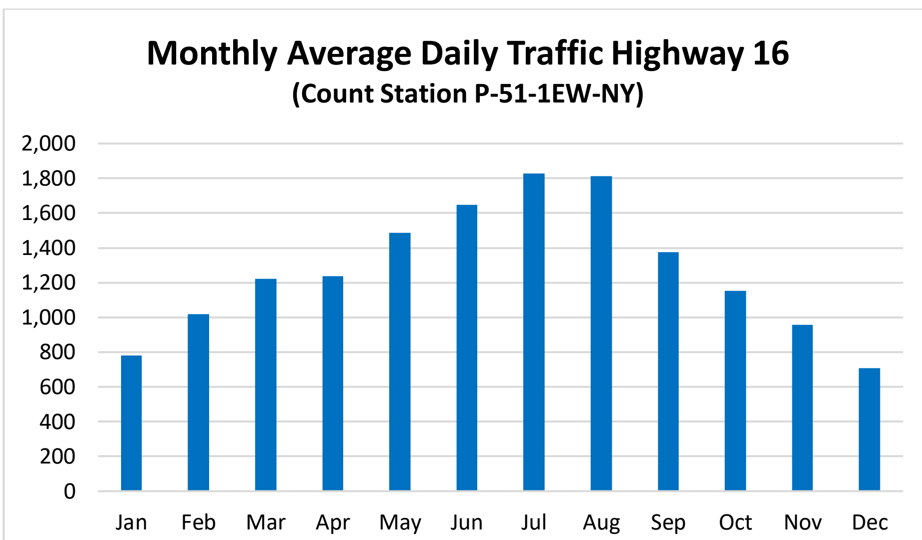
[24] http://www.th.gov.bc.ca/trafficData/tradas/tradas.asp

Figure 31 Annual Average Daily Traffic Highway 16 – Prince Rupert



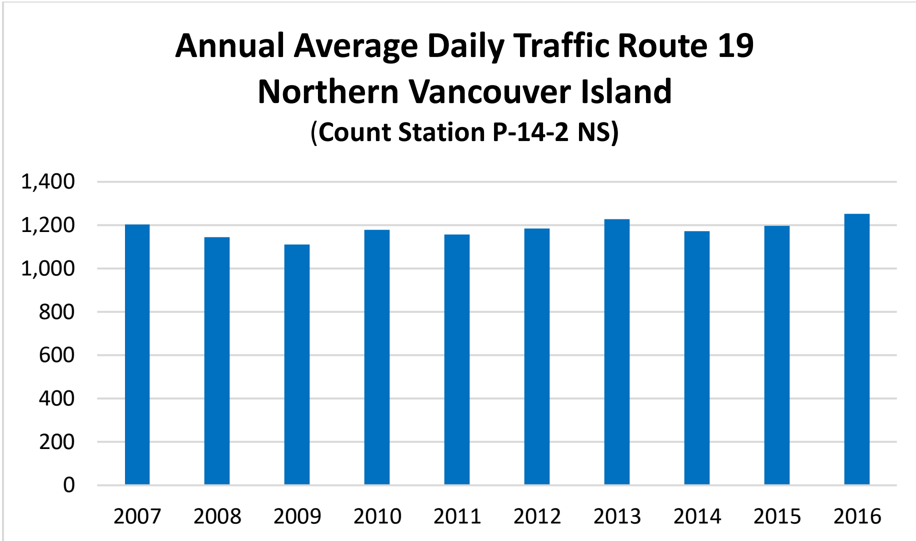
Monthly Average Daily Traffic (MADT) data for the Prince Rupert area is depicted below. Traffic is highly seasonal, with pronounced peaks in the summer months and low volumes in the winter.

Figure 32 Monthly Average Daily Traffic Highway 16 – Prince Rupert



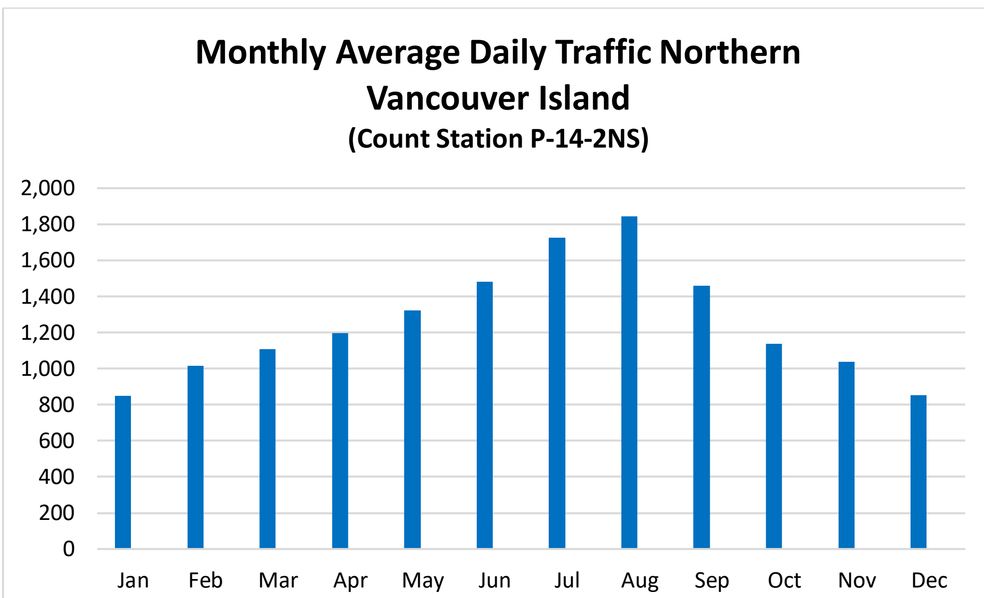
Comparable figures for highway traffic on northern Vancouver Island are shown below. Traffic volume has essentially been stagnant on this route, with an average compound growth rate of 0.4% from 2007 to 2016.

Figure 33 Annual Average Daily Traffic Highway 19 – Northern Vancouver Island



The chart below shows Monthly Average Daily Traffic (MADT) volumes for northern Vancouver Island. Seasonal patterns are similar to those in the Prince Rupert area.

Figure 34 Monthly Average Daily Traffic Highway 19 – Northern Vancouver Island



4.3 Rail Transport

Prince Rupert is the only community in the study area with direct rail access. Canadian National Railway's (CN) mainline provides the rail line for the Jasper to Prince Rupert Via Rail service.[25] Traffic on this route has essentially been stagnant, attracting 16,784 passengers and 17,365 guests in 2016 and 2015 respectively. This traffic represents an average of 323 to 334 passengers per week. According to Via Rail's annual reports, the annual subsidy per passenger-mile was $1.35 in 2016 and $1.66 in 2015.

4.4 Air Transport

The study area is served by a number of scheduled air services (primarily connecting to Vancouver). Scheduled services operate into Port Hardy, Bella Bella, Klemtu, Bella Coola, Prince Rupert, and Sandspit (on Haida Gwaii). Charter air services (fixed wing and rotary), both land and water based, operate throughout the area. Air traffic data for the study area is not available.

4.5 Community Transportation Linkages

A summary of the transportation linkages within the study area is provided in the table below.

Figure 35 BC North and Mid Coast Transport Linkages

BC Mid Coast Transport Linkages			
Community	**Marine**	**Air & Rail**	**Road**
Prince Rupert	BC Ferries: Ro-Ro Alaska State Ferry: Ro-Ro Barge Service Water Taxi	Fixed wing: Scheduled Float plane Rotary Rail service Helicopter: charter	Highway #16
Port Hardy (Vancouver Island)	BC Ferries: Ro-Ro Barge Service (reefer) Water Taxi	Fixed wing: Scheduled Float plane: Scheduled Rotary Float plane: charter	Highway #19
Klemtu (Swindle Island)	BC Ferries: Ro-Ro Barge Service (reefer)	Float plane	No highway access
Bella Bella (Campbell Island)	BC Ferries: Ro-Ro Barge Service (reefer)	Fixed wing: Scheduled Float plane: Scheduled	No highway access
Ocean Falls	BC Ferries: Ro-Ro Barge Service (reefer)	Float plane	No highway access
Shearwater	BC Ferries: Ro-Ro Barge Service (reefer) Water taxi	Float plane	No highway access
Bella Coola (end of Burke Channel)	BC Ferries: Ro-Ro Barge Service (reefer)	Fixed wing: Scheduled Rotary Helicopter: charter	Highway #20 (unpaved portion)

[25] http://www.viarail.ca/en/explore-our-destinations/stations/rockies-and-pacific/prince-rupert

5 NORTH COAST FERRY SERVICE

KEY MESSAGES

Seasonal demand for tourism traffic is influenced by a combination of the service offering, the origin of the customer, and the nature of the product offering. Prince Rupert is the terminus location for both Route 10 and 11 and is the community in the study area that receives the highest passenger and vehicle ferry traffic volume.

The demand for ferry service in the study area is affected by economic conditions in the wider economy. Therefore, it is reasonable to assume that the potential demand for ferry service could experience an upswing as a result of improving economic conditions and the relative value of the Canadian dollar (which influences the financial attractiveness of the ferry service to foreign tourists).

As a result of the cuts to the number of round trips offered on the Northern Routes (implemented in March 2014), Route 10 experienced a 31% drop and Route 11 a 19% drop in ferry service levels (compared to 2012/13 service levels).

Analyses performed for this study indicate that (currently) Route 10 traffic is much more seasonal than Route 11 traffic. The reason for this is due (in part) to the higher percentage of local and regional traffic that depends on Route 11 and the impact of the ferry service cuts. A time series analysis was conducted to assess traffic patterns on Route 10 and 11 prior to and after the 2014 service cuts. The results show that traffic seasonality declined somewhat following the service reductions; the lower seasonal figures for June and September may indicate some negative impacts on tourism traffic as a result of the reduction in the length of the summer service schedule.

Analysis of the trends in passenger to vehicle ratio is important for several reasons. It supports: identification of any structural changes in the market associated with the size of travelling parties; a determination of the impact that BC Ferries' reservation policies for larger vehicles may be having on overall traffic volume; and provision of market insights into how to make the most effective use of existing ferry assets.

It would be possible to encourage more group travel in one direction of Route 10, to coincide with the capacity of the Accommodation industry. Independent travellers could be given marketing information encouraging them to explore tourist destinations in the opposite direction, which would mitigate the potential conflicting demand for accommodation capacity (since increasing that capacity will take time).

The ratio of passengers to vehicles (as a proxy measure for the size of the travelling party) has decreased slightly over the last few years and exhibits some month-to-month variation. The change in the passenger to vehicle ratio on Route 10 is slightly higher than the ratio for the Alaska Marine Highway System (AMHS) traffic that arrives/departs from Prince Rupert. The passenger to vehicle ratio on the AMHS route declined during the period 2006 to 2015 from about 2.8 to 2.4. The efforts of BC Ferries Vacations to promote the Northern Routes has no doubt contributed positively to the slighter higher passenger to vehicle ratio.

5.1 BC Ferries Northern Routes Operational Analysis

BC Ferries Northern Routes consist of two regulated routes (Routes 10 and 11) operating on the British Columbia coast from Prince Rupert and from Port Hardy (on Vancouver Island). The table below provides the most recent available data on the routes' operating performance. The ratio of passenger to vehicles remained constant at 2.77 to 1 in 2017 and 2016.

Figure 36 Northern Routes Operational Analysis

Operational Performance	2017	2016	Increase/Decrease
Vehicle Traffic	31,120	29,101	2,019 6.9% increase
Passenger Traffic	86,304	80,868	5,436 6.7% increase
Number of Round Trips	233.5	226	6.5
On-time Performance	84.4%	91.0%	2.6% decrease
Capacity Provided (AEQs)	54,429	52,886	1,543
AEQs Carried	38,009	35,449	2,560
Capacity Utilization	69.8%	67.0%	2.8% increase

Figure 37 Northern Routes Average Tariff Analysis

Years ended March 31	2017	2016	Increase/Decrease
Average Tariff ($)			
Vehicle Tariff ($000's)	8,633	7,955	
Vehicle Traffic	31,120	29,101	
Average Tariff Per Vehicle	277.41	273.36	4.05%
Passenger Tariff ($000's)	7,240	6,664	
Passenger Traffic	86,304	80,868	
Average Tariff Per Passenger	83.90	82.41	1.48%

Figure 38 Northern Routes Financial Analysis

Revenue ($ Thousands) (Years ended March 31)	2017	2016	Increase/Decrease
Direct Route Revenue			
Vehicle Tariff	8,633	7,955	678 8.5%
Passenger Tariff	7,240	6,664	576 8.6%
Fuel Rebates	(333)	-	(333)
Net Retail	1,383	1,172	211 18.0%
Social Program Fees	1,016	1,151	135 (11.7%)
Stateroom Rental	1,533	1,390	143 10.3%
Hostling & Other	209	196	13 6.6%
Total Direct Route Revenue	19,681	18,528	1,153 6.2%
Indirect Route Revenue			
Ferry Transportation Fees	59,070	54,633	4,437 8.1%
Federal-Provincial Subsidy	7,481	7,372	109 1.5%
Total Route Revenue	86,232	80,533	5,699 7.1%

The following information from BC Ferries' 2016-2017 Annual Report is pertinent:

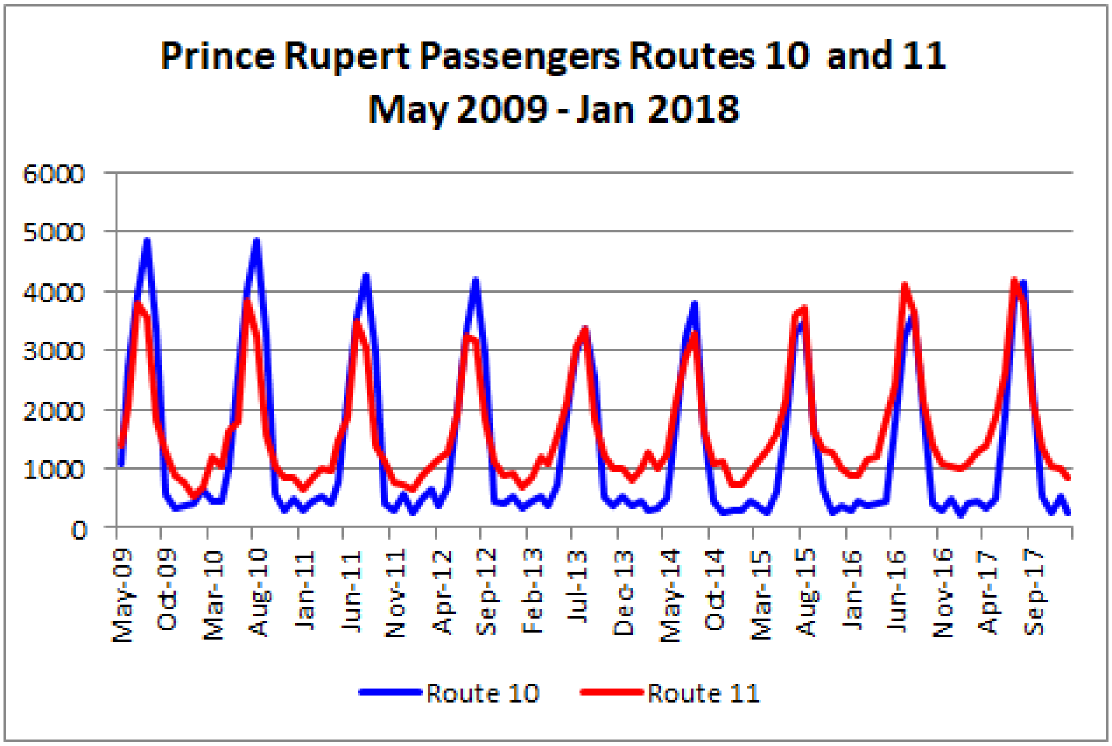
- "In fiscal 2017, average tariff revenue per vehicle increased $4.05 or 1.5% and average tariff revenue per passenger increased $1.48 or 1.8% compared to the prior year. The increase in average tariff revenues reflects tariff increases, the impact of our passenger fare discounts on under-utilized sailings and the impact of the change in the proportion of traffic on routes with lower versus higher tariffs. The average tariff per vehicle also reflects an increase in revenue from reservation fees due to higher traffic and higher usage. The increase in traffic levels and in average fares resulted in a total tariff revenue increase of $1.3 million compared to the prior year."
- "Capacity utilization during fiscal 2017 was higher than the prior year as a result of a higher number of AEQs carried, partially offset by increased capacity provided due to an increase in the number of round trips."
- "On April 1, 2016, due to lower fuel prices, coupled with the fact that we had through our fuel hedging program, locked in pricing for a significant portion of our forecast fuel consumption to the end of 2017, we implemented a fuel rebate of 1.9% on our Northern Routes."

  Note: There were no fuel surcharges or rebates in place on Northern Routes in fiscal 2016.
- "Revenue from net retail services increased 18.0% in fiscal 2017 compared to the prior year, mainly as a result of higher passenger levels."
- "Stateroom rental revenue increased 10.3% due to higher passenger levels and increased utilization."
- "Ferry transportation fees received from the Province increased $4.4 million compared the prior year as a result of additional funding from the Province, which includes BC seniors' discounts."

5.2 Trends in Monthly Northern Route Traffic Demand

The demand for travel on BC Ferries Passenger traffic on Routes 10 and 11 from residents and local freight delivery (year-round and seasonal) is shown below. Traffic is highly seasonal, and shows a slight downward trend from May 2009 to September 2017. The higher traffic levels in previous periods suggests that the demand for ferry service in the study area is affected by economic conditions in the wider economy. Therefore, it is reasonable to assume that demand for ferry service could also experience an upswing as a result of improving economic conditions as well as the relative value of the Canadian dollar (which influences the financial attractiveness of the ferry service to foreign tourists).

Figure 39 Routes 10 & 11 BC Ferry Passengers Traffic Levels



5.3 Traffic Seasonality Pre and Post Service Changes

The impact of the 2014 service cuts on the number of round trips offered on the Northern Routes is shown below.[26] The data indicate that since the 2012/12 season, Route 10 experienced a 31% drop and Route 11 19% drop in ferry service levels.

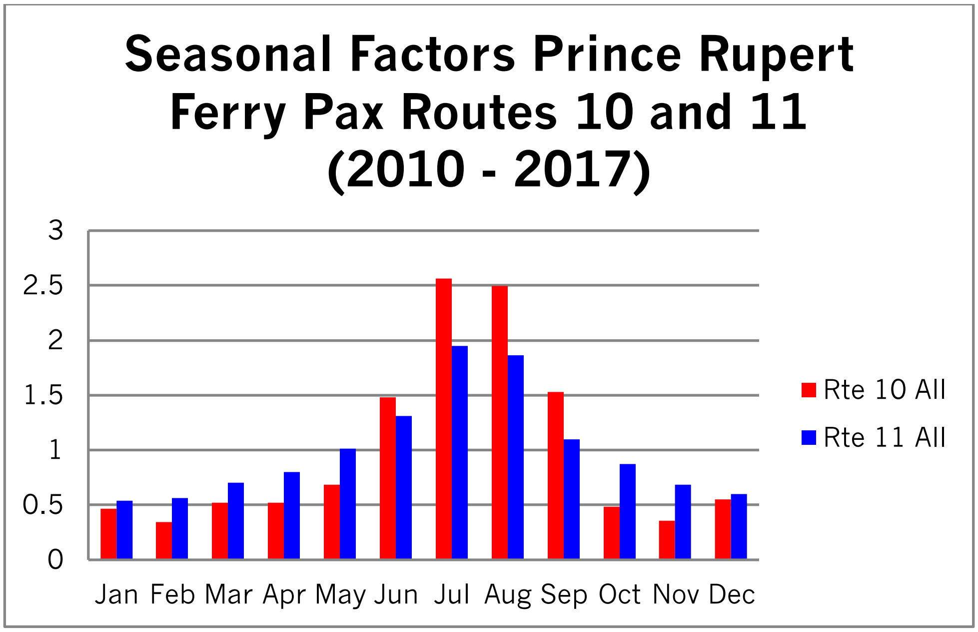
Figure 40 BC Ferries Northern Routes Service Reduction

BC Ferries Annual Round Trips Northern Routes 2012/13 to 2016/17					
	2012/13	2013/14	2014/15	2015/16	2016/17
Route 10	124	121	87	84	85.5
Route 11	183.5	188	139.5	143	148

The results of the study team's analysis (see graphs below) indicate that, currently, Route 10 traffic is much more seasonal than Route 11 traffic. The reason for this is due (in part) to the higher percentage of local and regional traffic that depends on Route 11 and the impact of the ferry service cuts.

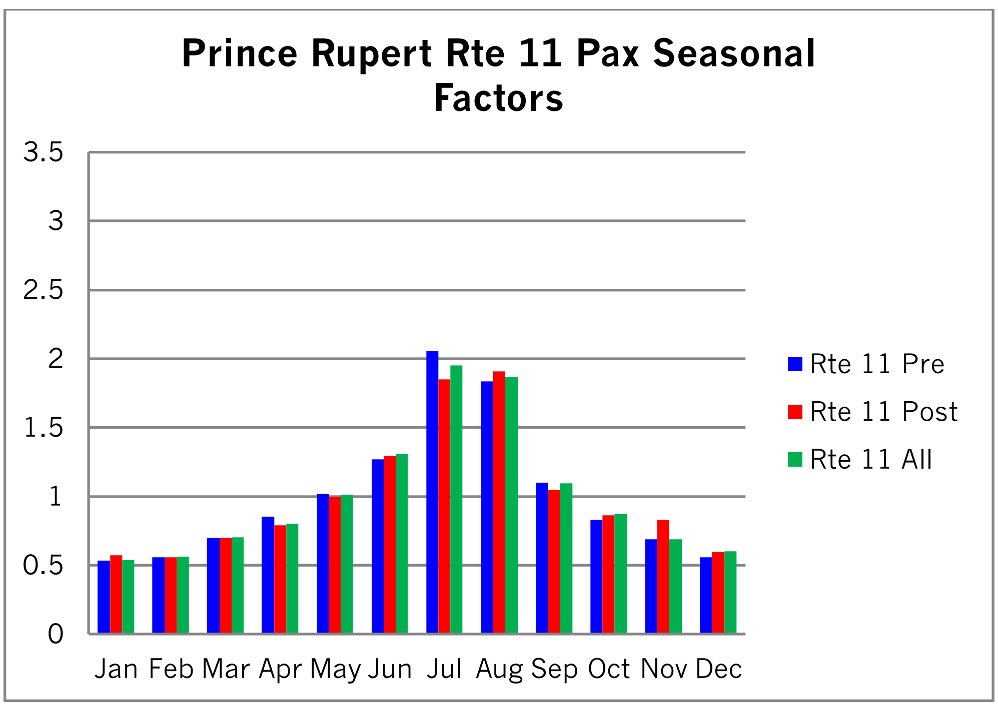
[26] Source: BC Ferries Annual Reports to the Ferries Commissioner various years.

Figure 41 Route 10 & 11 Passenger Traffic Seasonal Factors



The results of our analysis of Route 11 suggest that prior to the 2014 cuts to ferry service, the route had a slightly higher peak seasonal passenger profile during the month of July.

Figure 42 Route 11 Passenger Traffic Seasonal Factors

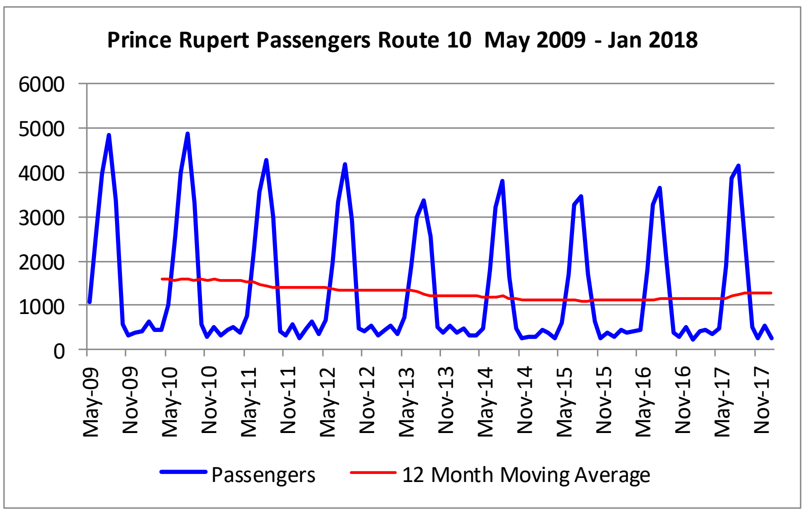


The seasonal demand for tourism traffic is influenced by a combination of the service offering, the origin of the customer, and the nature of the product offering. Prince Rupert is the terminus location for both Route 10 and 11 and is the community in the study area that receives the highest passenger and vehicle ferry traffic volume. Consequently, it is necessary to determine whether or not there are community specific aspects of ferry service demand that need consideration in the study's analysis.

The figures below illustrate the results of a time series analysis that was conducted to assess traffic patterns on Route 10 and 11 prior to and after the cuts to service that took effect in March 2014. The analysis uses a multiplicative Time Series Decomposition model, which decomposes the data into seasonal and trend components.

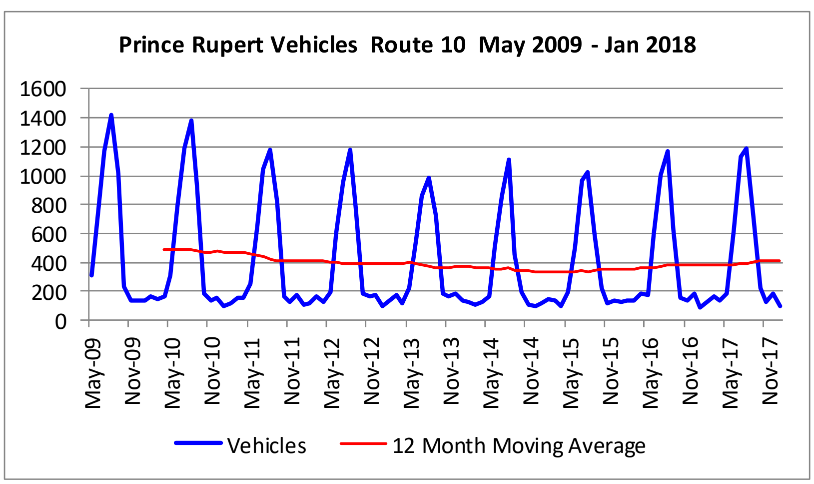
The figure below shows the estimated seasonal factors for Route 10 ferry passenger data at Prince Rupert from January 2010 to December 2017. The data indicate that traffic seasonality declined somewhat following the 2014 service reductions; the lower seasonal factors for June and September may indicate some negative impacts on tourism traffic due to the reduction in the length of the summer service schedule.

Figure 43 Route 10 Passenger Traffic Monthly May 2009 – Jan 2018



Vehicle traffic on Route 10 followed a similar pattern of seasonal variability.

Figure 44 Route 10 Vehicle Traffic Monthly May 2009 – Jan 2018



5.4 Passenger to Vehicle Ratio Analysis

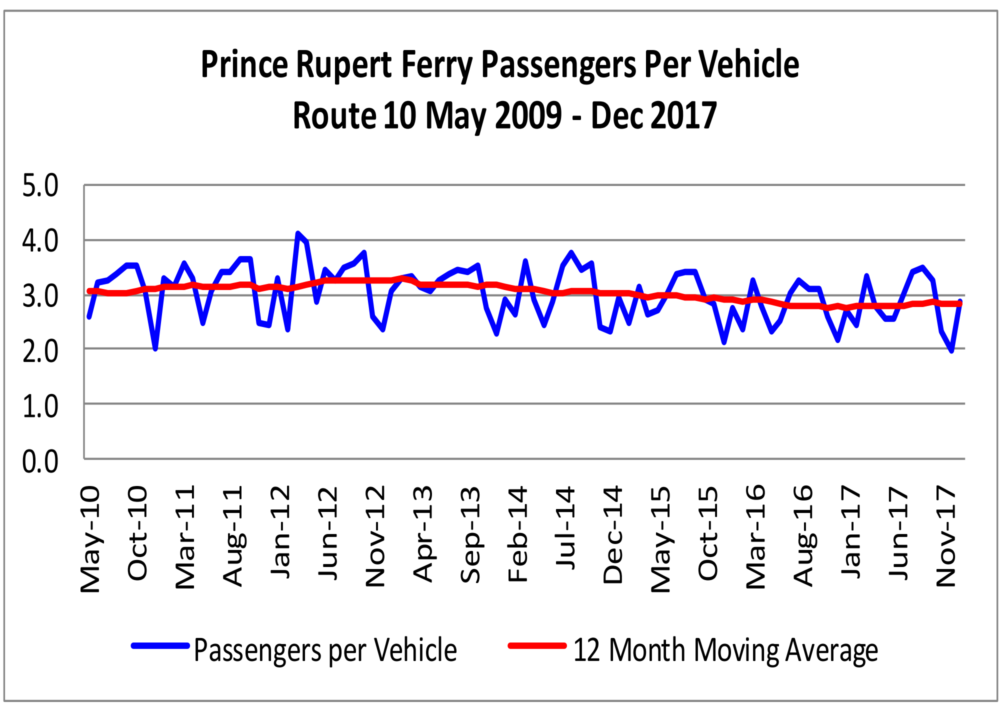
Conducting an analysis of the trends in passenger to vehicle ratio is important for:

- Identifying any structural changes in the market associated with the size of travelling parties;
- Determining the impact that BC Ferries' reservation policies for larger vehicles may be having on overall traffic volume; and
- Providing market insights into how to make the most effective use of existing ferry assets.

With respect to the last point, for example, increased group travel might be encouraged in one direction of the sailing on Route 10 to coincide with the capacity of the Accommodation sector, and independent travellers might be encouraged to explore the tourism destinations in the opposite direction to mitigate the potential conflicting demand on accommodation capacity (which takes time to grow and develop).

Data provided in the graphs below indicate that the ratio of passengers to vehicles (size of the travelling party) has decreased slightly during the period 2009 to 2017, and exhibits some month to month variation. The change in the passenger to vehicle ratio on Route 10 is slightly higher than the ratio for the Alaska Marine Highway System (AMHS) traffic that arrives/departs from Prince Rupert. The passenger to vehicle ratio on the AMHS route declined during the period 2006 to 2015 from about 2.8 to 2.4. The efforts of BC Ferries Vacations to promote the Northern Routes has no doubt contributed positively to the slighter higher passenger to vehicle ratio.

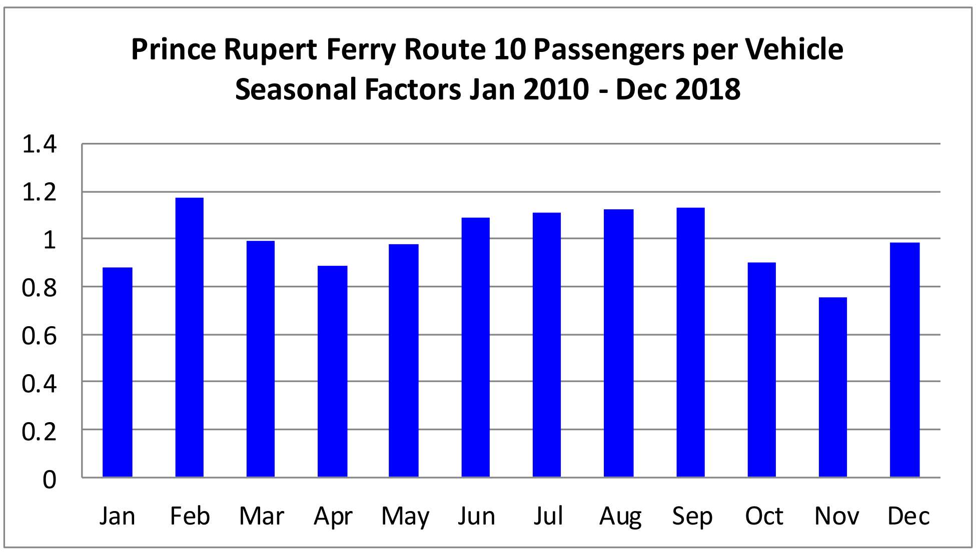
Figure 45 Route 10 Passenger to Vehicle Ratio



The monthly variation in the passenger to vehicle ratio suggests that there are periods of the year on Route 10 when a sales strategy aimed at encouraging group travel may be warranted, especially at times of important local events (for example, the All Native Basketball Tournament, which occurs annually in February). Seasonal promotions to encourage group travel during Easter or in November warrant further exploration by both destination management organizations and BC Ferries.

Seasonal changes in the ratio of passenger to vehicles also suggests that discussions with Tourism sector stakeholders is warranted with regard to peak season travel needs and capacity allocation for group tours. The declining ratio of passenger to vehicles on the AMHS suggests that if group travel enterprises are not given opportunities to grow their market, they will design tourism itineraries and products for communities where capacity constraints are not an impediment to business growth. This dynamic represents an economic loss to some of the communities in the study area.

Figure 46 Prince Rupert Passenger to Vehicle Ratio, Seasonal



The changing passenger to vehicle ratio also suggests that BC Ferries Northern Routes are also experiencing the impact of structural changes in the tourism market, which is seeing an increase in independent travellers. (These structural changes are also affecting other ferry operators.) The profile of the independent traveller suggests that many of them are interested in the tourism products offered within the study area and, in particular, in those activities that would best align with an extended peak ferry service. The changing demographics of travellers supports the finding from the business survey that there is a latent demand for ferry travel in the region.

6 Customer and Stakeholder Satisfaction by Route Analysis

KEY MESSAGES

Section 6.01 of the Coastal Ferry Services Contract (CFSC) requires BC Ferries to conduct and report out on an annual customer satisfaction tracking survey (CST).

While Tourism sector stakeholders supported the need for customer satisfaction data, the absence of primary market research data has only recently been addressed as a result of the release, by the BC Ferry Commissioner, of the November 2017 BC Ferries' *Annual Customer Satisfaction Tracking Survey* report. This report indicated that, as "each route has its own distinctions in terms of ridership, schedules and available services, the data […] presented in the annual Customer Satisfaction Tracking Survey reports may not fully represent the views along with experiences of northern and other specific commuter-based passengers."

BC Ferries does not make public any data on the customer satisfaction results for their North Coast service. However, the BC Ferries online reservation system for the Inside Passage and Haida Gwaii routes now contains a customer satisfaction tracking survey option where people can agree to be contacted by the Mustel Group (the party contracted by BC Ferries to conduct the customer satisfaction surveys) for their feedback.

To date, BC Ferries had not indicated how and when it will share any customer satisfaction data generated as a result of passengers consenting to be surveyed through this online form. Of particular importance is the question of whether or not the customer survey data will include trip purpose and demographic data that will be of help to tourism market development and sales efforts.

Respondents to the survey implemented for the present study indicated that they are moderately dissatisfied with three out of the four ferry service characteristics measured, with respect to Route 11. Based on a 5-point Likert scale, the timing of the end of the peak season, the timing of the start of the peak season, and off-peak sailing frequency and were the areas that respondents reported most dissatisfaction with. Most respondents reported feeling "neutral" about sailing frequency during peak season. Overall respondents' satisfaction with Route 11 was lower than it was for Route 10.

With respect to Route 26, survey respondents were moderately dissatisfied with three ferry service characteristics measured: the latest available sailing; sailing frequency; and the earliest available sailing.

6.1 Customer Satisfaction Backgrounder

Section 6.01 of the Coastal Ferry Services Contract (CFSC) requires BC Ferries to conduct and report out on an annual customer satisfaction tracking survey (CST).

With respect to previous research on ferry service to the Central Coast, current study team members were among the first to recognize the importance of having customer satisfaction data for all BC Ferries routes, not just for the major destinations. While Tourism sector stakeholders supported the need for customer satisfaction data, it appears that BC Ferries most recent efforts to provide such data occurred in response to the BC Ferries Commission's release of BC Ferries' *Annual Customer Satisfaction Tracking* report in November 20, 2017. This release goes some way to addressing the absence of primary market research data. Yet the report indicates that since "each route has its own distinctions in terms of ridership, schedules and available services, the data as presented in the annual Customer Satisfaction Tracking Survey reports may not fully represent the views along with experiences of northern and other specific commuter-based passengers".

BC Ferries does not make public any data on the customer satisfaction results for their North Coast service. However, the BC Ferries online reservation system for the Inside Passage and Haida Gwaii routes now contains a customer satisfaction tracking survey option where people can agree to be contacted by the Mustel Group (the party contracted by BC Ferries to conduct the customer satisfaction surveys) for their feedback. To date, BC Ferries had not indicated how and when it will share any customer satisfaction data generated as a result of passengers consenting to be surveyed through this online form. Of particular importance is the question of whether or not the customer survey data will include trip purpose and demographic data that will be of help to tourism market development and sales efforts.

The sharing of pertinent customer information with Tourism sector stakeholders should not be viewed through the lens of commercial sensitivity or constrained by a corporate reluctance to share data because of the unclear benefits associated with so doing.

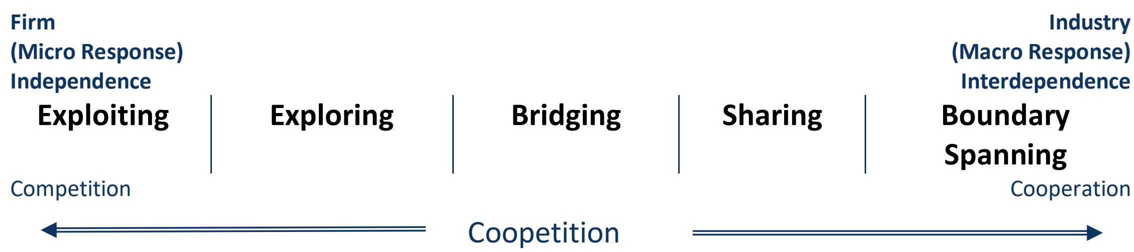
A 2018 paper by Hoi In Fong et al. entitled, *Developing institutional logics in the tourism industry through coopetition*, emphasizes the fact that an important argument underlying tourism research is that a "firm's individual strategies and performance are closely connected to the components of the destination." The paper continues:

> "The success of a destination is usually characterized by the distinctive nature of tourism stakeholders, encompassing suppliers, distributors, customers, focal tourism competitors and other institutions (both private and public). While engaging in coopetition, these autonomous stakeholders in a particular destination have to develop shared rules, norms and structures to act towards a common end of the same destination."

The information-sharing typology developed by Hoi In Fong et al. (shown in the figure below) suggests that North Coast ferry routes tourism stakeholders and BC Ferries could both benefit from a proactive sharing of data to support a better understanding of:

- How the marine tourism, accommodation and attraction markets are changing, and;
- The corresponding need for all stakeholders to collaborate (at some level) to make the necessary adjustments to realize the market opportunities.

Figure 47 Information Sharing in the Tourism Industry



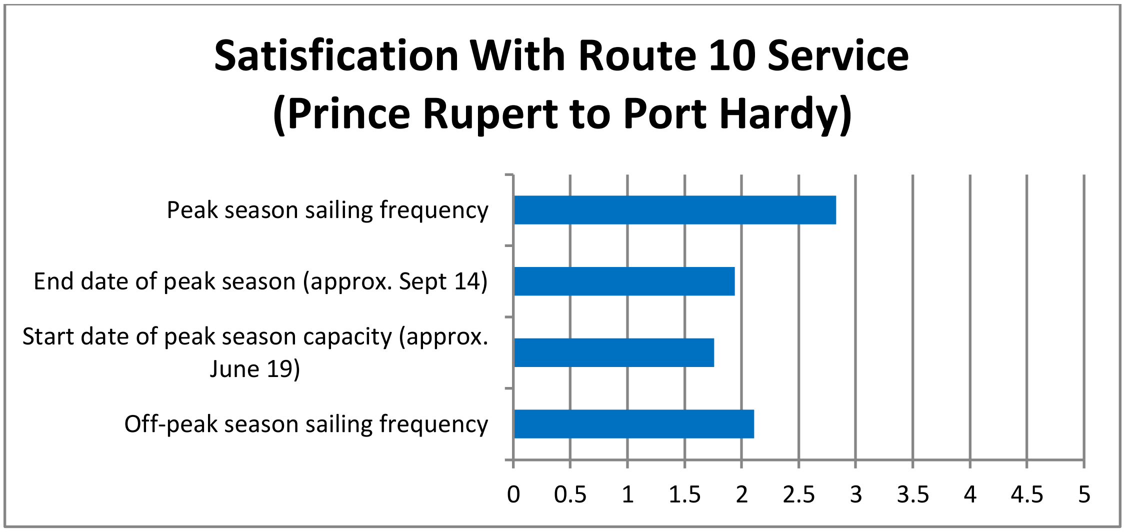
6.2 Stakeholder Satisfaction Findings from Survey

In addition to being asked as proxy respondents to provide insights into the types of traveller using the North Coast ferry service, respondents to the business survey implemented for this study were asked directly about their own level of satisfaction with various aspects of the service. Questions were designed using a five-point Likert scale with options from “very negative” (1) to “very positive” (5) to measure respondents’ satisfaction with particular aspects of the ferry service schedule for Routes 10, 11 and 26. Results are provided in the figures below. This portion of the survey was open to all respondents, not just those who indicated that they serve tourists.

The study team recognizes that the survey findings might not match the actual customer experience for each of the routes. Nevertheless, the findings do accurately reflect the survey respondents’ attitudes.

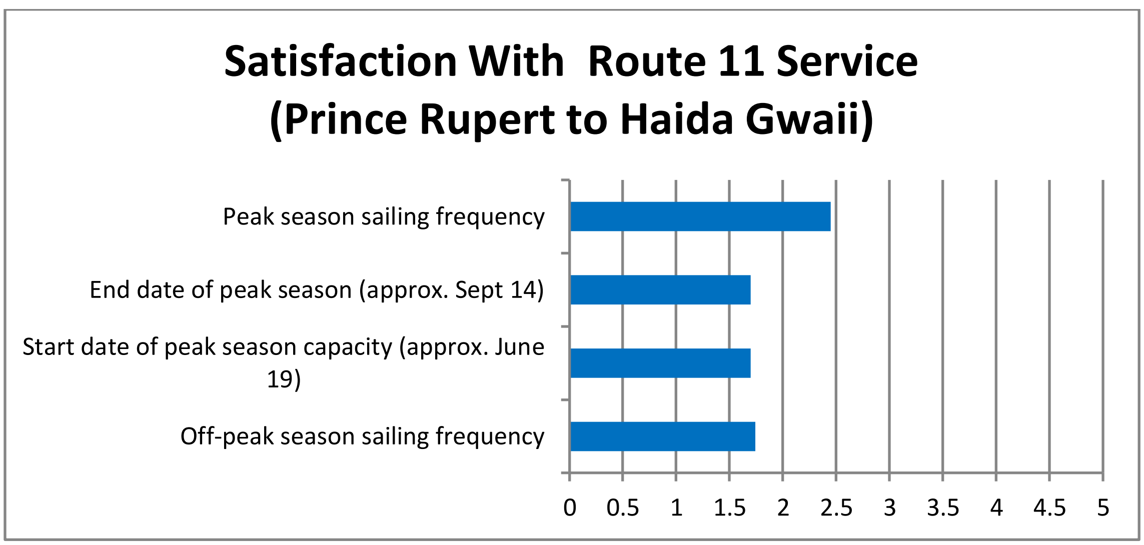
The chart below shows that respondents were moderately dissatisfied with three out of the four ferry service characteristics measured for Route 10. The aspects that respondents indicated most dissatisfaction with were: the timing of the start of the peak season; off-peak sailing frequency; and the timing of the end of the peak season. Peak season sailing frequency was the only aspect of the Route 10 schedule that received a neutral or slightly positive response.

Figure 48 Satisfaction with Route 10



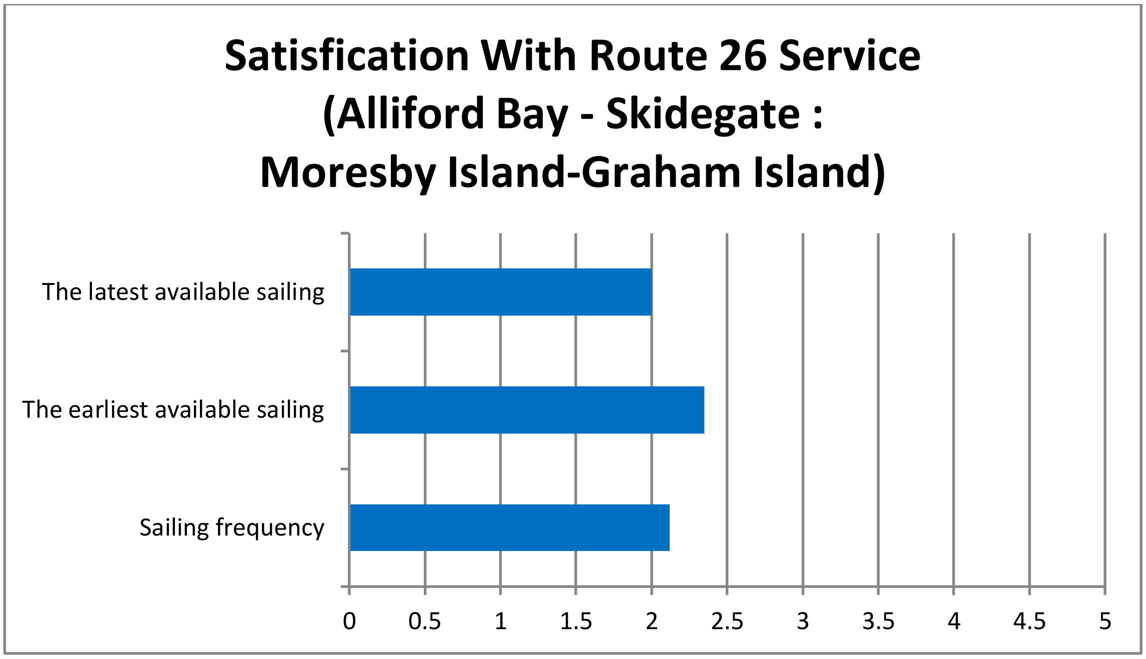
The chart below shows that respondents were moderately dissatisfied with three out of the four ferry service characteristics measured for Route 11. The aspects that respondents indicated most dissatisfaction with were: the timing of the end of the peak season; the timing of the start of the peak season; and off-peak sailing frequency. Peak season sailing frequency received a neutral response. Overall, respondents' satisfaction with Route 11 was lower than it was for Route 10.

Figure 49 Satisfaction with Route 11



The chart below shows that respondents were moderately dissatisfied with all three ferry service characteristics measured for Route 26. The latest available sailing, sailing frequency, and the earliest available sailing all received less than a "neutral" satisfaction response.

Figure 50 Satisfaction with Route 26



7 Cargo, Freight and Goods Analysis

KEY MESSAGES

Results of the business survey implemented for this study indicate that each community displays unique characteristics with respect to freight, passenger and tourism demand for ferry services. Residents also rely on the ferry service to transport personal goods or non-commercial freight items purchased outside of the community. These goods are frequently transported in personal vehicles, such as pick-up trucks, rather than commercial transport vehicles.

Some regional stakeholders have indicated that they are concerned by reduced freight capacity due to a reduction in ferry vessel size following the 2014 cuts to service. Data on the number of commercial vehicles that had to be rolled over to a subsequent BC Ferry sailing on the North Coast were not available at the time of this study.

Regional stakeholders have advised that residents of the Haida Gwaii communities are especially reliant on the ferry system for goods movement. It is very difficult to estimate this level of freight activity within the context of the current study. Yet, even without a quantifiable figure, it is important to note that the movement of goods by ferry is often relied on by some of the most price sensitive customers.

Seasonal businesses indicated that they rely on BC Ferries for their food orders throughout the year, as well as large purchases (items such as boats, bikes, hiking equipment, kayaks, vehicles, etc.) often made in the spring, before the start of the tourist season. Many of the seasonal businesses that responded to the survey were in the leisure/entertainment sector of the economy.

7.1 Cargo and Freight

When analyzing the role that the North Coast ferry service plays in meeting the demand for cargo, freight and goods movement, it is vitally important to distinguish between two types of traffic: cargo and freight that is transported in commercial vehicles; and goods required by local businesses and residents that is moved in personal vehicles on board the ferry.

The role that a ferry operator plays in the delivery of commercial cargo or freight is a function of the adjacent highway networks and alternative transport services (discussed more fully in earlier sections of this report).

In terms of the ferry system, BC Ferries define a commercial vehicle as any vehicle with a Registered Gross Vehicle Weight (GVW) of over 5,500 kg or 12,100 lb. This includes the following vehicle types:

- Commercial Vehicle (Registered 5,500 kg/GVW);
- Semi; and
- Semi A/B Train.

It is also important to note that the issue of “dangerous cargo” is often included in a discussion of cargo and freight service.

When reviewing the Ferry Advisory Committee meeting minutes for the North Coast, the study team noted that cargo issues were generally not discussed. Freight concerns do not appear to have arisen as major issue in the ferry stakeholder consultation initiatives that have been implemented in recent years.

With respect to Route 10, BC Ferries has reported that while freight transportation is insignificant between Port Hardy and Prince Rupert, it is highly significant for the mid-coast ports.

On Route 11, freight movements are important in both directions and represent approximately 15% of all vehicles carried. The level of demand for space for cargo vehicles is relatively stable throughout the year.

Alternative marine transportation services also operate throughout the coast, primarily for freight and primarily on charter terms. Almost all of this traffic takes the form of tug-and-barge or self-propelled barge systems.

7.2 Goods Movement Survey Results

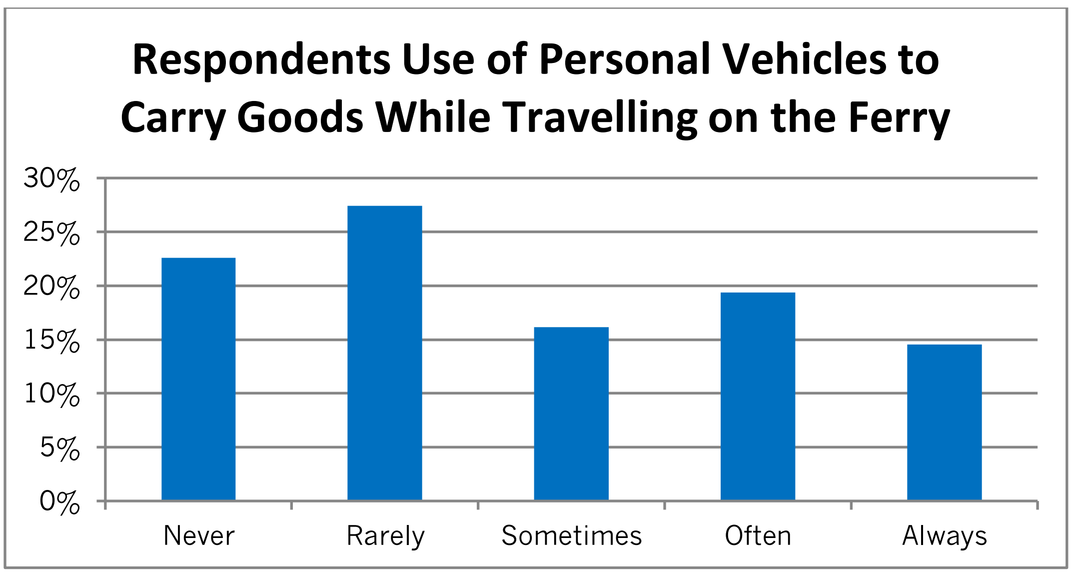
The results of the business survey implemented for this study indicate that each community displays unique characteristics with respect to freight, passenger and tourism demand for ferry services. Residents also rely on the ferry service to transport personal goods or non-commercial freight items purchased outside of the community to their homes. These goods are frequently transported in personal vehicles, such as pick-up trucks, rather than commercial transport vehicles.

Some regional stakeholders have indicated that reduced freight capacity due to a reduction in vessel size following the service cuts is a concern. Data on the number of commercial vehicles that had to be rolled over to a subsequent BC Ferry sailing on the North Coast were not available at the time of this study.

Regional stakeholders have advised that residents of the Haida Gwaii communities are especially reliant on the ferry system for goods movement. It is very difficult to estimate this level of freight activity within the context of the current study. Yet, even without a quantifiable figure, it is important to note that the movement of goods by ferry is often relied on by some of the most price sensitive customers. Residents of coastal communities take the ferry for a variety of reasons, and it is unrealistic to assume that there is a single trip purpose that corresponds exclusively to freight or to passenger service.

The data in the chart below show that approximately 50% of the survey respondents reported "rarely" or "never" using their personal vehicles for carrying goods while on the ferry. Approximately 35% of respondents indicated that they "often" or "always" carry goods.

Figure 51 Use of Personal Vehicle for Goods Movement



Seasonal business respondents indicated that they rely on BC Ferries throughout the year for their food orders, and also for large purchases (items such as boats, bikes, hiking equipment, kayaks, vehicles, etc.) often made in the spring before the start of the tourist season. Many of the seasonal business respondents were in the leisure/entertainment sector of the economy.

A small number of respondents who reported that their businesses had not been impacted by the 2014 cuts to ferry service indicated that they often carry goods for business on personal vehicles, when travelling on the ferry.

Enterprises with the largest annual revenues (greater than $5 million) were the group that was least reliant on carrying goods in personal vehicles on a BC Ferry.

8 SOCIO-ECONOMIC CONSIDERATIONS FOR FERRY SERVICE

KEY MESSAGES

The present ferry schedule and service levels limits the size, scale and scope of the business investment decisions in the Tourism sector, which in turn reduces the level of economic growth in communities as well as employment stability.

The current profile of the tourist customer on Routes 10 and 11 strongly demonstrates the importance of implementing an extension to the ferry service season (and other needed improvements).

The potential benefits of aligning ferry service with seasonal tourism opportunities are strongest for (perhaps) two of the highest opportunity tourism subsectors: adventure tourism (including bear viewing) and Indigenous tourism. Both of these segments would benefit most from an extension to the peak season ferry schedule.

In a ferry market, where building and maintaining customer traffic requires an investment in tourism infrastructure and marketing over a number of years, as well as many months of advance preparation due to the commercial relationship and nature of the contracts in the tourism industry, the current four-year window for ferry service levels acts to discourage investment in marketing and tourism product development. In the North Coast region, consideration should be given to providing certainty of service for up to a five-year period.

Customers of non-seasonal businesses most often make their purchasing decisions between seven days to one month in advance, followed by one month to six months in advance, and then more than six-months in advance. Customers of seasonal businesses tend to make their purchasing decisions longer in advance, with most making a decision one to six months in advance of travel (followed by seven days to one month, the same day, and fewer than seven days in advance).

A striking feature of the factors that are influencing changes in the demand for marine tourism and ferry services is that none are aligned with the old paradigm that a ferry service is simply an extension of the highway system. In the current marketplace, ferry operators need to be highly attuned to which customer segments are driving demand for service. Considering the needs and perspective of the tourism customer when designing a modern ferry service is vital; and a deep understanding of the important role that the various segments of the Tourism sector plays in the economic success of a modern ferry system is beneficial to decision making at both the operating and policy making levels.

How BC Ferries manage practices related to reservations and customer wait lists is also extremely important.

The survey data indicated that same-day and less-than-a-week customer purchase making decision timelines are important to enterprises that operate year-round. These findings show that it is very important for businesses to know the ferry schedule and service levels well in advance in order to ensure that their marketing and sales efforts are as effective as possible.

8.1 Certainty of Annual Service – Length of Performance Term

The key insights from the literature review, business survey, and comparative analysis of other ferry operations show that successful ferry operations have clear market, commercial, operational and policy objectives that are broader in perspective than the those represented in the *Coastal Ferries Service Act*. This holds true both for services requiring some level of government financial support and private sector operations.

In a ferry market, where building and maintaining customer traffic requires an investment in tourism infrastructure and marketing over a number of years, as well as many months of advance preparation due to the commercial relationship and nature of the contracts in the tourism industry, the current four-year window for ferry service levels acts to discourage investment in marketing and tourism product development. In the North Coast region, consideration should be given to providing certainty of service for up to a five-year period.

Timeline for Customer Purchase Decisions

The charts below compare the timelines for customer purchase decisions for year-round and seasonal businesses. Customers of non-seasonal businesses most commonly make their purchase decisions seven days to one-month in advance, followed by one month to six-months, and more than six-months. Purchase decision timelines for customers of seasonal businesses tend on the whole to be longer. One to six months in advance was the most frequently selected period of time, followed by seven days to one month, the same day, and fewer than seven days in advance.

The data indicate that it is very important for business owners/operators to know the ferry schedule and service levels well in advance in order to make the most effective use of their marketing and sales efforts.

Further, the findings suggest that, while ferry service frequency is also important to year-round businesses, it is especially vital to the success of seasonal operations. Data on international visitor origin, the size of the travelling party, the length of stay, and the average daily spending profile all point to the fact that the communities and businesses served by BC Ferries Northern Routes are tourism destinations. Service issues such as delays, or cancelled ferry sailings are particularly problematic for seasonal tourism businesses as they have such a negative impact on the overall quality of a tourist's experience. The data suggest that users of the ferry system view delays in ferry service as an opportunity cost – an obstacle that prevents them from fully engaging in the experiences that they specifically travelled to the region to take part in. Tourism customers with a high average daily spending profile are typically trading money for time. A delay in ferry service is equivalent to a customer at a mountain resort being unable to obtain timely repair, for example, to their skis or mountain bike.

Finally, the survey data also suggest that the way in which BC Ferries manage their reservation and customer wait list practices is also extremely important. Same-day and less-than-a-week customer purchase making decision timelines, for example, were important to enterprises that operated year-round.

Figure 52 Timelines for Customer Purchase Making Decision – Year Round

Figure 53 Timelines for Customer Purchase Making Decision – Seasonal

8.2 Peak Season Sailing Schedule Rationale

In their 2017 transportation and infrastructure advocacy material, the BC Chamber of Commerce noted that the rationale for reducing ferry sailings needs to take into consideration:

- The direct impact of reduced tax revenue as a result of lost business and lost jobs; and
- Factors such as declining revenue at provincial parks, and the increased dependence of community attractions upon public funds due to reduced gate revenue.

8.2.1 Stakeholders' Perspective

A significant number of ferry stakeholders are of the opinion that the summer sailing schedule for North Coast Ferry service must be restored to former levels of service. The current peak season schedule runs from June 19 to September 13. Historically, the high season daytime sailings ran from May 15 to October 10. September was traditionally the second strongest month of the year because of demand from European markets. Stakeholders engaged by the study team reported that over the past few years, demand for travel to Haida Gwaii has increased substantially.

Businesses Not Impacted by the Change in Ferry Service Levels Since 2014

Survey respondents indicating that their businesses had not been impacted by the 2014 ferry service cuts were located in Prince Rupert, on northern Vancouver Island, and on Haida Gwaii. Fifty percent (50%) of the respondents who serve tourists and who reported not being impacted by cuts, indicated that the average amount that travelling parties spent per day was over $500. Eighty percent (80%) of the respondents who indicated that their venture was not impacted by the reduction in ferry service did not have customers that use Route 10, and 75% did not have customers that use Route 11.

Fifty-four percent (54%) of seasonal business respondents indicated that previous BC Ferries service cuts had not impacted their business. Two factors account for this survey finding: 1) the seasonal nature of these businesses and 2) the higher percentage of seasonal ventures that had not started operations in 2014. Twenty-five percent (25%) of the firms that indicated “no impact” had been in business at their present location for only one to four years.

In addition, some firms with higher annual sales revenue over $1 million dollars also indicated that they had not been impacted by cuts to ferry service.

Changes in Peak Season Ferry Service Did Impact Local Businesses

The data provided in the charts below show that over 77% of respondents with ventures that operate year-round indicated that the changes to the peak season ferry service implemented in 2014 had impacted their business. A slightly higher number of respondents from the Accommodation sector (81%) and the Recreation/Leisure sector (57%) indicated that the changes to peak season service had negatively impacted their ventures. This is an important finding because the primary focus of tourism destination management and marketing (from Destination BC to nearly every regional and community DMO) has been to extend the shoulder and off-peak seasons in order to stabilize a year-round visitor economy and employment market.

Figure 54 Impact of 2014 Peak Season Service Cuts – Year-Round Ventures

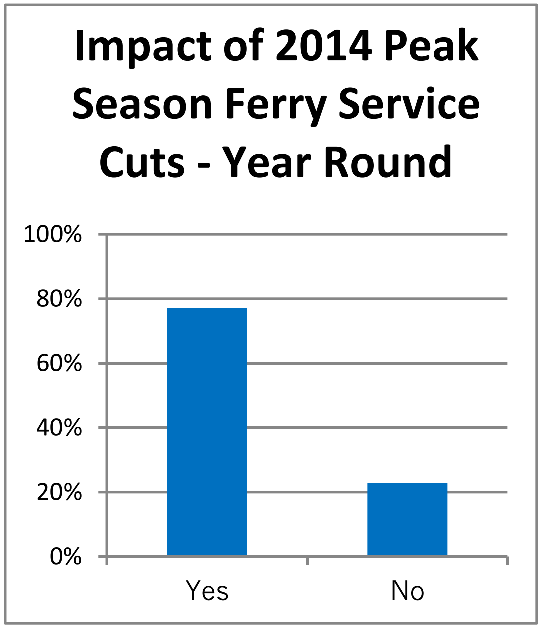
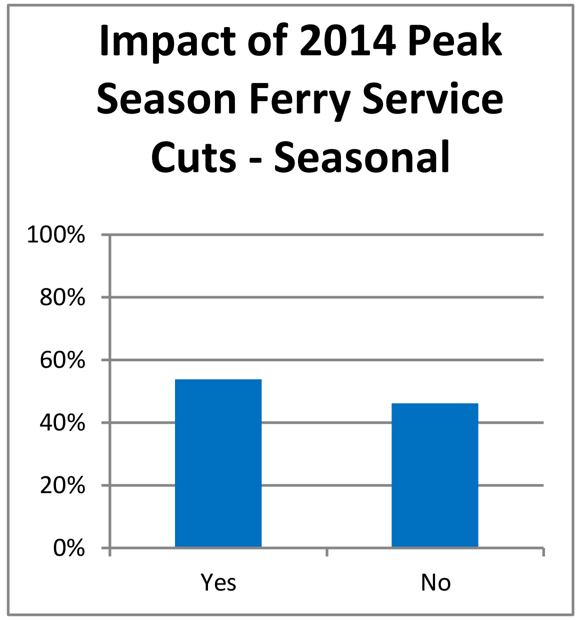
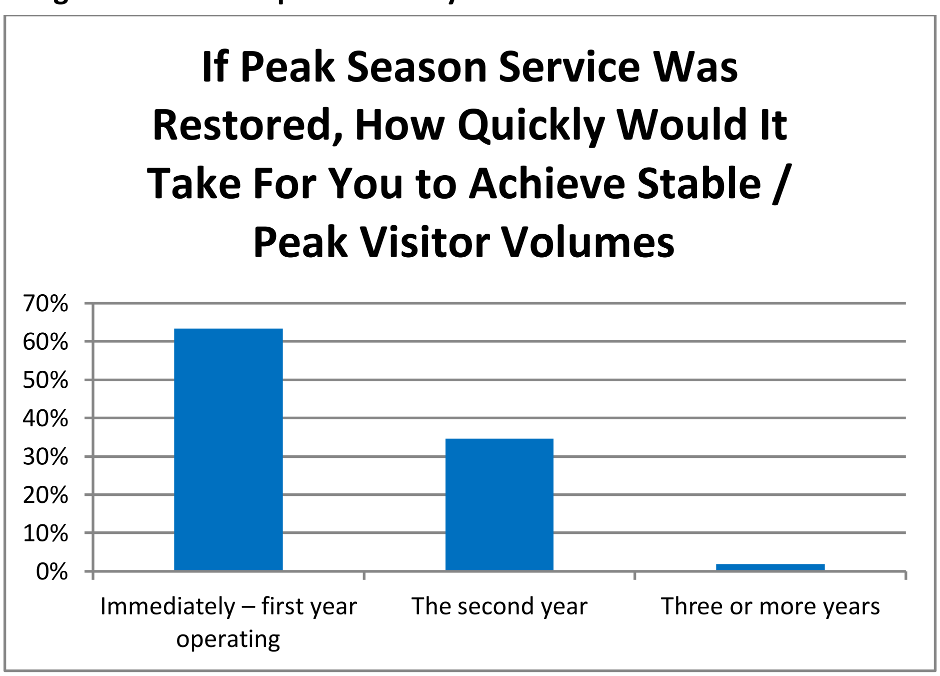


Figure 55 Impact of 2014 Peak Season Service Cuts – Seasonal Ventures



Over 60% of survey respondents indicated that if peak season service levels were restored, they would be able to achieve stable peak visitor volumes within one year. Just over 35% of respondents indicated that it would take two or more years to achieve stable peak visitor volumes. Results for the First Nations and seasonal venture respondents generally mirror the overall findings. However, 43% of the respondents with the largest annual revenues (over $5 million) indicated that it would take two years.

Figure 56 Time Required to Fully Recover from Service Restoration



How Businesses Would Respond to Changes in the Timing of Peak Season Service Levels

Respondents provided a range of perspectives on how changes to the peak season ferry service schedule might impact their operations. Just over 30% indicated that they would make no changes to their operation as a result of an earlier peak season ferry schedule. However, the vast majority of survey respondents indicated that they would open earlier or enter earlier into a busy period of activity. Approximately 50% of the firms indicated that they would react by ramping up their activities at least three to four weeks earlier or more. First Nations respondents who indicated how they would adjust their operations were evenly split between opening up to two weeks earlier and opening three to four weeks earlier. A preference for an early May start was expressed by First Nations respondents. Forty-three percent of enterprises with the largest annual revenues (over $5 million) indicated that they would open three to four weeks earlier, and 14% that they would start their peak season more than four weeks earlier.

By contrast, over 40% of respondents reported that they would make no changes to their operations as a result of a later extension to the peak season ferry service. Thirty percent reported that they would extend their actives to more than three to four weeks later. First Nations respondents were evenly split between making no changes to their operations or closing their operations two weeks later. Thirty-eight percent of enterprises with annual revenues over $5 million indicated they would extend their peak season to three to four weeks and 13% would extend their peak season more than four weeks.

Figure 57 How Businesses Would React to Earlier Peak Season

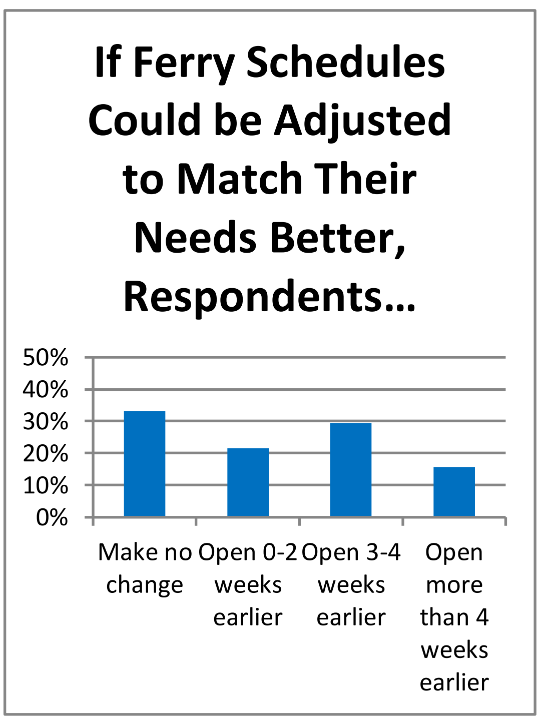
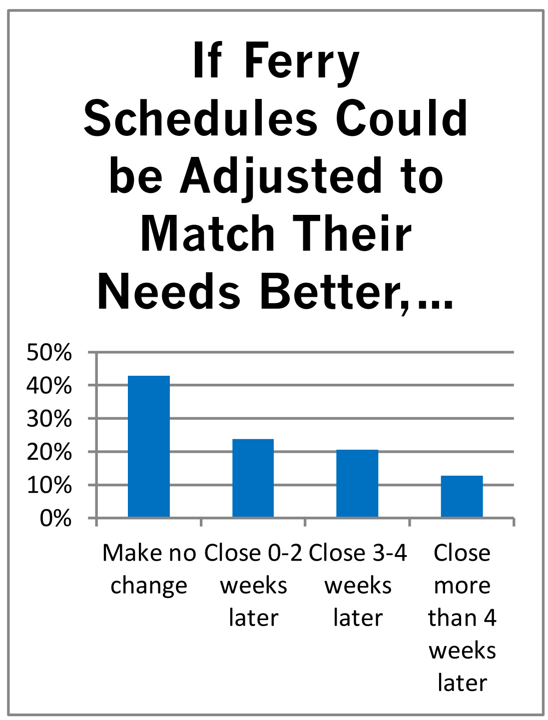


Figure 58 How Businesses Would React to Later Peak Season



These findings suggest that for some segments of the tourist market, the reduction in peak ferry service levels effectively amounts to a significant reduction in the time available to firms to serve travellers and tourists during the period when their businesses have the highest earning potential. For example, respondents indicated that improved service levels could lead to more accommodation nights being booked by European travellers, as travellers from Europe tend to be on tight schedules because of lower ferry service levels. Better alignment between the ferry service and other transportation modes, such as the airline service on Haida Gwaii, was also mentioned as being very important.

Respondents also provided open ended comments on how an extended peak season for ferry service could benefit the region. The replies indicated the importance of:

- Tourism product development (more mid-coast adventure, kayaking, and Indigenous tours);
- Marketing Vancouver Island and the North West Coast; and
- The ability to strengthen tourism capacity as a result of local firms being able to attract seasoned guides with the possibility of longer seasonal employment.

Seasonal Ventures Opening and Closing Time Periods

The earliest opening time period reported by a seasonal business was respondent was the beginning of March; a small number of other seasonal ventures reported opening at the start of April. The beginning of May and June were the most frequent starting months for seasonal businesses.

The earliest closing date reported by one seasonal venture was the end of August, with a large cluster of firms indicating the end of September. A few firms reported extended their operating season into early to mid-October.

Type of Regional Tourism Experience and Products that Would be Well Suited to an Increased Peak Season Ferry Service

The data in the graphs below show that seasonal alignment results are strongest for what are (perhaps) the region's two highest growth tourism subsectors: adventure tourism and Indigenous tourism. Both subsectors have the most to benefit from extending the peak season ferry schedule. An extended season would support further development of Indigenous cultural tourism, bear viewing, sport-fishing, sea kayaking, hiking, and other outdoor activities.

However, there was a pronounced difference of opinion with respect to seasonal alignment between different types of respondents. For instance, respondents from the Accommodation sector indicated that they believe that "meetings/event/sports tourism" and "health spa/resort tourism" have most to benefit from increased peak season ferry service in the period May through June. Enterprises with the largest annual revenues (over $5 million) indicated that "self-guided recreation", "land and water-based sightseeing tours", and "other adventure tourism opportunities" had most to benefit from an earlier peak season. Respondents from the Accommodation sector indicated that an extended peak season during the mid-September to October period would be well aligned with “meeting/event/sport tourism,” “water-based sight-seeing,” “bear viewing” and “health spa/resort tourism.” Enterprises with the largest annual revenues (over $5 million) indicated that “self-guided recreation” and “other adventure tourism” opportunities were most closely aligned with an later peak season.

Figure 59 Earlier Peak Season Tourism Benefits

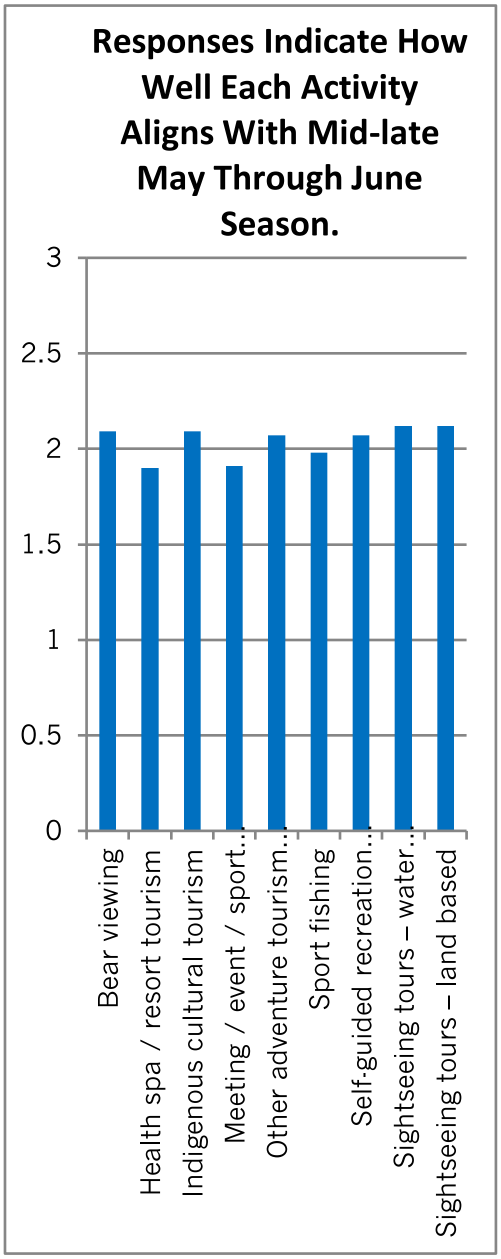
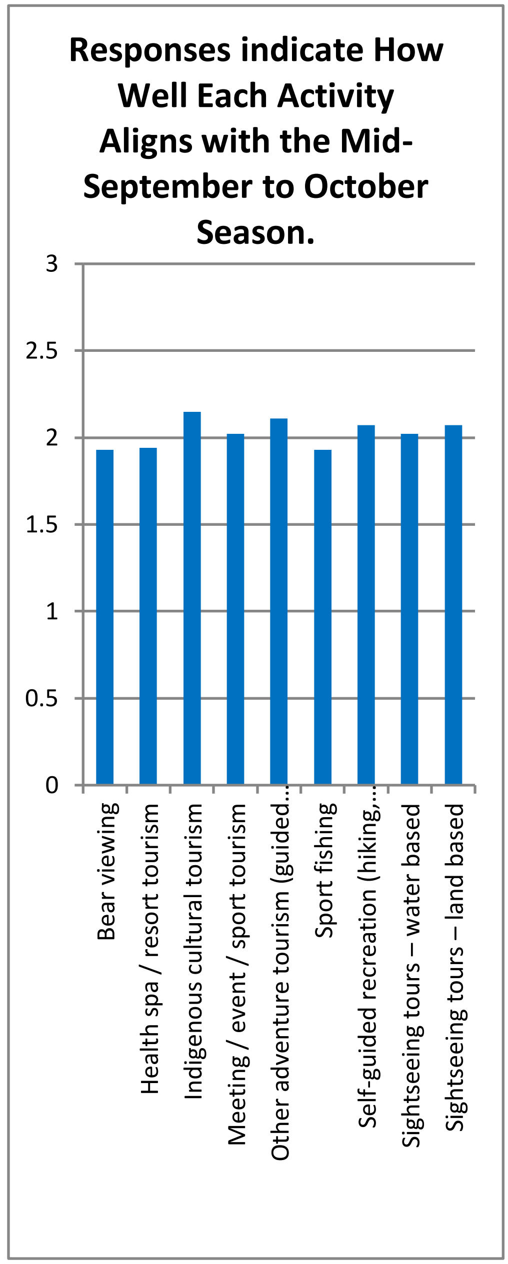


Figure 60 Later Peak Season Tourism Benefits



8.2.2 Ferry Operator's Perspective

In their 2017 paper entitled, *The segmentation of the demand for ferry travel – a case study of Stena Line,* Kizielewicza et al. observe that maritime transportation researchers generally agree that, initially, ferry shipping was seen to be an extension of roadways to cross the straits and channels, and that ferries were the floating bridges, and primarily met transportation needs. As such, ferry shipping was designed to extend land-based routes and to create the sea corridors for carriage of goods and passengers. Certainly, this perspective is consistent with the history of ferry service in British Columbia.

Transportation service markets have continually evolved and changed, and the ferry sector is not immune to forces that drive a need for innovation and change. For example, Kizielewicza (2013) identified the following the factors that drive a segmentation of the demand for marine tourism, including ferry travel:

- Competitive struggle for clients among ferry carriers;
- Desire of the ferry carriers to maintain a demand for marine travel;
- Growing popularity of ferry travel among various groups of tourists;
- Development of information systems (Internet, mobiles) and social networking;
- Social media (Facebook, Twitter, YouTube, Blogger, etc.) providing opportunities to organize joint expeditions, including marine cruises, by groups with various interests; and
- Changing shopping behaviours of people travelling by sea from passive to active.

A striking feature of the factors that are influencing changes in the demand for marine tourism and ferry services is that none are aligned with the old paradigm that a ferry service is simply an extension of the highway system. In the current marketplace, ferry operators need to be highly attuned to which customer segments are driving demand for service. Considering the needs and perspective of the tourism customer when designing a modern ferry service is vital; and a deep understanding of the important role that the various segments of the Tourism sector plays in the economic success of a modern ferry system is beneficial to decision making at both the operating and policy making levels.

The material presented in the following section is intended to help inform a deeper understanding of the ways in which a ferry service constitutes a distinct type of marine transportation service. The material is not intended to reflect BC Ferries' perspective on their operations. Rather it demonstrates that the supply of any marine transportation service is generally governed by two factors: the potential for utilizing economies of scale; and the potential for differentiating the service from that of competitors. This is important, as competition is often indirect – potential customers could choose to do something else instead of a tourist trip using the ferry system). The table below illustrates the general economic factors that characterize the marine transport industry.

Figure 61 Types of Shipping Markets

Degree of economics of scale		
	Contract Shipping Close customer relations Concentrated industry Fairly homogenous service Liquid second hand market vessel market Positive scale effects of fleet size	**Industry Shipping** Concentrated industry Difficult second-hand vessel market Positive scale effect of fleet size Tailor made customer service
	Fragmented industry Homogeneous service Liquid second hand market Little direct customer contact No scale effect on fleet **Commodity Shipping**	Difficult second-hand vessel market Direct customer contact Limited scale effects Local monopolies Specialized services **Special Shipping**

Degree of Differentiation

It is important that transportation policy decision-makers understand that the financial and commercial characteristics governing the provision of ferry services in British Columbia are not directly comparable to the economic characteristics that shape highway infrastructure investments. Rather, the economic characteristics of the industry determine the most effective range of tools or options to consider for evaluating the current situation from the ferry operator’s perspective.

The characterization of the different types of shipping markets indicates that a ferry service is in fact a hybrid model. There are some economies of scale that govern the provision of the service, but, at the same time, the ferry operator must provide a significant degree of product differentiation in order to attract the range of customer types needed to achieve the desired degree of vessel utilization, in order to offer an efficient level of service.

Vessel utilization in the ferry market is especially important because the nature of a roll-on-roll off ship makes it difficult to focus exclusively on offering a service based on economies of scale alone. Rather, a ferry provider’s primary competitive advantage comes from offering a flexible service that is attuned to the needs of more than one segment of the market. For example, the World Tourism Organization uses a customer segmentation model based on travel motives that includes the perspective of: tourists; visiting relatives; business/work related travellers; tourists and visiting relatives, tourists and business/work related travellers; and visiting relatives and business/work related travellers.

Kizielewicza et al. (2017) observes that, “every operator, including ferry carriers, should be aware that the lack of knowledge about the factors influencing consumers’ decisions about purchasing tourist products can be the cause of the inefficient management of the tourist market. Regular market research, tracking changes in consumer behaviour and evaluation of the reaction of consumers to new products, is an activity that should constitute an important phase of the marketing efforts in the enterprises, thereby giving them a competitive advantage in the market."

These research findings do not suggest that equity and fairness considerations should not be part of the discussion around any decision regarding public sector or taxpayer support for a ferry system, especially for the segment of the market for which ferry service is an extension of the highway system. However, the data analysis conducted for this study suggests that any increase in required service for the resident "commuter" traveller will only result in an increase in funding from the Provincial Government. Growth in summer peak and shoulder season travel will be required to generate the necessary revenue to fulfil off-season service requirements.

8.3 Ferry Service Operations and Practices

Operational questions are very germane to the research objectives of the current study for two reasons:

1. Operational issues reflect how ferry service is delivered and experienced by the customer; and
2. Operational issues impact travel behaviour.

Therefore, how operational issues are handled get to the very heart of potential economic impacts, especially in thin markets where schedule frequency, missed sailings, commercial no-shows, and the handling of reservations and wait lists impact the actual capacity of ferry service.

The study team sought to explore the following operational topics:

- *Commercial transportation reservation system practices:* Policies and procedures related to no-show commercial vehicles for the Inside Passage and Haida Gwaii routes, and how these might impact tourism.
- *BC Ferries wait list:* Is data collected on reservation requests that cannot be accommodated.
- *BC Ferries' operational plan for service recovery.*

BC's Ferries Operational Plan for Service Recovery

Information from BC Ferries' 2015 customer compliant reporting[27] includes the following:

> "Sailing delays have an adverse effect on the daily life of our many commuting customers. If sailings have to be cancelled or the vessel has to be taken out of service, every effort must be made to restore service as soon as it is safe to do so. BC Ferries has a Service Interruption Plan

[27] http://www.bcferries.com/contact_us/complaints_resolution.html

> that helps guide employees in managing delays and cancellations of service. However, each incident is reviewed and managed on a case by case basis to ensure the needs of the specific communities and customers are taken into consideration. The primary focus is always the restoration of full service as soon as possible."

The BC Ferries 2016-2017 Annual Report indicates that on-time performance on the "Major" and regulated "Other" routes is defined as the percentage of sailings **departing** within 10 minutes of the scheduled time. However, on-time performance on the Northern Routes is defined as the percentage of sailings **arriving** no later than 10 minutes after the scheduled time. In each case, on-time performance can be impacted by delays due to weather, vessel substitution, terminal dock maintenance or closures, and periods of unusually high traffic demand. The Annual Report states that,

> "Meeting customer service expectations in a safe and reliable manner is an important factor in our focus on on-time performance. In fiscal 2016, on-time performance decreased from 91.7% to 90.8% and in fiscal 2017, on-time performance decreased from 90.8% to 89.5% compared to the prior years, primarily due to the impact from increased traffic demand and delays due to weather. BC Ferries initiatives to improve on-time performance include adjusting and/or expanding sailing schedules, adjusting crewing schedules and refining vehicle loading processes during peak periods."

However, on the Northern Routes, in fiscal 2017, on-time performance decreased by 2.6% compared to the previous year, primarily due to the impact from increased traffic demand and unfavorable weather (according to BC Ferries Annual Report). The data on on-time performance for the Northern Routes indicate that reliability rates are lower than there are for the system overall.

It was not possible to gather any data on the causes of missed ferry sailings on the BC Ferries Northern routes. A BC Ferries representative indicated to the study team that operational issues are addressed through the existing Ferry Advisory Committee and other local processes, as well as by customer care processes. However, there appears to be some institutional aversion to sharing operational information; no practical details or insights were provided to the study team by BC Ferries. As such, the knock-on impacts of ferry operations in terms of tourism development appear not to be fully appreciated or understood.

In their 2014 paper, *Service Failure and Service Recovery in Tourism: A Review*, Ennew and Schoefer report that, "service failure has the potential to have a significant negative impact on organizations. In tourism, negative word-of-mouth may be a particular cause for concern because of the importance of personal recommendations." Developing a more robust understanding of such matters will help to determine whether there are substantive issues that could be addressed through improved consultation (or other processes).

Commercial Reservations – Other Ferry Operators

Marine Atlantic allocate five spaces for priority bookings. These five spaces have to be paid for in advance. If the unit is a "no show," the trucking company must still pay the full fare. The remaining spaces are allocated on a "first-come, first-served" basis. Ships are very large, with 2,840 lane-metre capacity (or room for the equivalent of about 140 x 65' trucks.) "Drops" and "live" units (with driver) are treated equally.

Northumberland Ferries have priority berthing for their Nova Scotia-Prince Edward Island service. As ticketing is one direction-only, this is only available on a return basis.

P&O Ferries operate on a "turn up and go" basis on their short sea routes (Dover-Calais, and one of the Irish Sea services). On longer routes, travellers can reserve. The reservation is held for up to three hours before sailing for a "trailer only" and up to one hour before for a "self-drive" unit. There is no penalty for "no shows," but P&O offer volume discounts and "no shows" would ultimately affect this discount.

Use and Limitations of Ferry Utilization Data as a Key Performance Indicator

Publication of monthly data on ferry vessel utilization rates (by sailing direction and in terms of car deck and passenger capacity used) would support more informed and relevant conversation between BC Ferries and community and tourism stakeholders. In addition, for forward-planning decision making, it is essential that BC Ferries share information on the breakeven point for existing and additional sailings, as well as data on the average expenditure per passenger (ticket fees and onboard spending). Making short- and long-term decisions regarding levels of ferry service based solely on average ferry utilization rates (as the key performance indicator) is unsatisfactory and insufficient.

Ferry Peak Capacity Constraints and Consideration of Overnight Trips

As noted in this report, BC Ferries Northern Routes can experience capacity constraints, particularly for larger vehicles and for group travellers during the peak season. Recognizing that peak season demand is significantly higher than demand during lowest periods of the winter months, it is necessary to consider ways to leverage the full use of existing ferry assets.

It may, for instance, be worth considering whether the introduction of overnight trips might lead to more effective use of the assets, as well as contributing to product differentiation (in terms of ferry service) and to an overall pricing mix. For example, the *Prince of Fundy* provided service between Portland, Maine and Yarmouth, Nova Scotia; it operated successfully for 40 years. The vessel left Portland at 21:00 and arrived in Yarmouth at 08:00 the next morning. The service was marketed with the tagline: "Drive on to a ship tonight, wake up in a foreign land."

An example of a day service is the Bar Harbor, Maine – Yarmouth, Nova Scotia service offered by Marine Atlantic (and Bay Ferries). The vessel left Bar Harbor at 08:00 and returned to Yarmouth on the same day at 21:00 hours. Marine Atlantic also operated between Saint John, New Brunswick and Digby, Nova Scotia. At one time, it offered three roundtrips per day, including overnight sailings. (However, changes in the transportation market in the region led to shifts in service offerings. Marine Atlantic now offers two sailings per day between Saint John and Digby – a 2.5 hour crossing.)

Currently, Marine Atlantic has two services that operate overnight sailings. The main service between North Sydney, Nova Scotia and Port-aux-Basques, Newfoundland has at least two nighttime sailings per day in each direction, at 11:45 and 23:45 hrs. The crossing is six hours. The overnight sailings are the most popular. During the summer, Marine Atlantic operate services between Argentia, Newfoundland (near St. John's) and North Sydney, Nova Scotia. This is a 16 hour crossing. Both sailings are overnight; 17:00 from Argentia and 17:30 from North Sydney.

In Norway, Hurtigruten operate 12 vessels connecting 34 ports along the coast from Bergen to Kirkenes, with daily service. Vessels are in port for short periods of time only and they sail during the day and night.[28] Elsewhere in Scandinavia, most ferry operators offer overnight sailings. Examples include: Helsinki-Stockholm, Helsinki-Tallin, Oslo-Kiel, Stockholm-Riga, Turku-Stockholm, Helsinki-St. Petersburg, and Stockholm-St. Petersburg.

On the North Sea, both Stena Line and P&O Ferries offer overnight sailings between the Netherlands and the United Kingdom. The world's largest ro-pax vessels operate between the Hook of Holland and Harwich (on the east coast of England) on both daytime and nighttime crossings. Sailings in both directions are at 09:00 and 23:00, with arrival at 17:15 and 08:00 respectively.

Most of the European ferry operators (Stena, Tallink, Viking, Color Line, St. Peter, Silja, and P&O), as well as Norway's Hurtigruten, use sophisticated yield management programs to maximize revenue and to attract passengers in off-peak periods. They also package their ferry sailings with hotel and other tourist offerings. Tallink owns four hotels in its network.

[28] https://www.hurtigruten.us/practical-information/sailing-plan/

9 IMPROVING THE RESPONSIVENESS OF FERRY GOVERNANCE

KEY MESSAGES

Communities and tourism interests on the North Coast have been poorly served by a lack of customer research data (customer satisfaction and trip purpose) that might have helped inform decision making with respect to ferry service.

By neglecting to collect and use such vital data, the BC Ferry Commission has effectively shortchanged tourism interests in communities and regions served by the Northern Routes. This is in stark contrast to BC Ferries Major Routes, for which these kinds of data are collected. There is no public policy rationale to support such unequal treatment.

Parties involved in ferry governance have been slow to adopt electronic tools (Internet, smartphones, mobile apps, etc.) that are now in common and widespread use in the tourism sector, and which respondents to the business survey implemented for this study identified as effective.

It is important to acknowledge that BC Ferries' complaint reporting process includes the public reporting and discussion of root causes, lessons learned, and actions taken. As such, the process provides important operational information that is consistent with the engineering and operations corporate culture that is exhibited by many shipping companies. However, as important as the Ferry Advisory Committee stakeholder and customer complaint processes are, they are not synonymous with a "voice of the customer" process that is often used in Six Sigma (and other quality management processes).

A "voice of the customer" process is used to capture the feedback from customers (internal and external) to support the provision of a best in class service/product quality. The process reflects a proactive approach to capturing the changing needs and preferences of customers over time, and a commitment to innovate in order to meet those needs. The data can be generated through a range of methods, including: direct discussion; interviews; surveys; focus groups; observations; field reports; and complaint logs, etc.

BC Ferries' complaint resolution process compares the top complaints during the current time period to the same time period in the previous year. Therefore, year to date comparisons and longer-term time series data, which would facilitate an analysis of customer complaints aimed at identifying changing customer expectations, are not readily available. This kind of analysis would support BC Ferries to make forward-looking, informed decisions with respect to the design and delivery of the ferry service.

9.1 Provincial Government

In 2003, the Government of British Columbia government implemented significant changes to the governance model for the coast-wide ferry system. Driving the changes introduced at that time was the very pressing need to deal with aging vessels and inadequate infrastructure. Studies had indicated that $2 billion were required to replace over half of the BC Ferries fleet and associated marine and terminal infrastructure. A variety of solutions were examined. The one that was chosen was described as "a commercial model governed by an independent authority that meets the objective of creating a modern, safe and reliable ferry system that will provide improved service and greater customer choice while protecting British Columbia taxpayers from further financial risk and debt burden." The British Columbia Ferry Commission was created to oversee the regulation of ferry fares, service levels, special decisions regarding alternative service providers, and monitoring of BC Ferries' public reporting.

BC Ferries offers ferry service under a service contract with the Province of BC. Through this contract, the Provincial Government pays BC Ferries a defined annual subsidy or "service fee" in return for making a minimum number of ferry sailings on specified routes. BC Ferries' service levels are set by the Province. The Major Routes (three routes between Vancouver Island and the BC Lower Mainland) are self-supporting and receive no service fee from provincial taxpayer funds.

The provision of a ferry service is fundamentally a decision on how best to meet the needs of various communities and market segments, either as a destination or as part of a route. Therefore, it requires the balancing of a number of competing interests that may not be "optimal" from the perspective of a single stakeholder group, or from a purely economic or customer segment perspective. In the North Coast region, which has been served by ferry travel for many years, past levels of service (and other issues associated with service) are inevitable subjects for discussion and debate. However, broadly speaking, it appears that much of this discussion – and associated decision making – has taken place in a context that fails to consider existing and latent customer demand.

The market development implications of existing trends in travel demand and tourism motivation are best understood in context. It is insufficient simply to measure a ferry service's operating performance based solely on average ferry utilization rates – an understanding of the reasons why customers are travelling is vital. Without gathering and widely sharing data on customer satisfaction and reasons for travel – and a willingness to act on findings from such data – it is next to impossible to move forward the conversation on how ferry service should evolve.

Communities and tourism interests on the North Coast have been poorly served by a lack of customer research data (customer satisfaction and trip purpose) that might have helped inform decision making with respect to ferry service. Such data have been available for the Major Routes. This inequitable situation will continue to deepen as BC Ferries roles out its "Fare Flexibility and Digital Experience Initiative". This initiative will see significant updates in point-of-sale, website and ticketing technologies over the next two years. Dynamic pricing will be offered on the Major Routes starting in 2018 (and for other reservable routes thereafter).

9.2 BC Ferry Commission

The Office of the BC Ferry Commissioner was enacted by the Province on April 1, 2003. The Commissioner establishes price caps for designated ferry route groups for the purpose of regulating tariffs. The Commissioner is also responsible for regulating the reduction of service, discontinuance of routes, and certain other matters.

The regulatory responsibilities of the Commissioner include:

- Consideration of the interests of ferry users;
- Regulation of reservation fees;
- Approval and public disclosure of the process for handling customer complaints; and
- Review and public disclosure of its:
    - Ten-year capital plan;
    - Plan for improving efficiency in the next performance term; and
    - Methodology for allocating costs among the regulated routes.

Amendments have broadened the Commissioner's role in regulating ferry transportation services in instances when the Commissioner determines that BC Ferries has an unfair competitive advantage. Amendments have also modified the process by which the Commissioner regulates BC Ferries' activities in seeking additional or alternative service providers on the regulated routes, and required the Commissioner to issue an opinion on its performance in carrying out its respective legislated responsibilities, as well as its performance in relation to the Coastal Ferries Service Contract.

In May 2012, in response to the Commissioner's Report, the Province enacted Bill 47. The amendments set forth in Bill 47 were designed to move towards striking a balance between the interests of ferry users, the interests of taxpayers, and the sustainability of the ferry operator. The changes covered a wide range of ferry related issues including:

- Allowing cross subsidization from the Major Routes to other routes;
- Changing the primary responsibility of the Commissioner from priority placed on the financial sustainability of the ferry operations to responsibility to protect the interests of ferry users, the interests of taxpayers, and the financial sustainability of the ferry operator;
- Expanding the Commissioner's authority and responsibilities, to include:
    - The authority to permanently reduce service in a manner and to a level consistent with the CFSC;

- The authority to order a temporary or permanent service reduction and/or deferral of a planned capital expenditure in response to an extraordinary situation, in addition to or instead of an approval of extraordinary price cap increases;
- The ability to require BC Ferries to seek the Commissioner's approval in advance of making certain capital expenditures;
- The responsibility to set price caps sufficient to enable BC Ferries to meet their debt obligations and maintain access to borrowing rates that in the opinion of the Commissioner are reasonable;
- Specific legislative authority to establish the deferred fuel cost accounts and the terms and conditions for their use, including fuel surcharges or rebates; and
- The authority to conduct routine performance reviews and to require BC Ferries to review their policies and undertake public consultation.

With respect to completing customer satisfaction tracking, on February 7, 2018 the BC Ferry Commissioner ordered BC Ferries to comply with the following[29]:

1. During 2018, conduct customer satisfaction surveys on at least five of routes 6, 7, 8, 10, 11, 12, 13, 17, 18, 20, 21, 22, 23, 24, 25, and 26; and by the end of 2019 complete surveys on the remaining routes, including route 28 when it comes into service;
2. Obtain advance approval from the commissioners on the intended methodology for the surveys ordered above;
3. Advise the commissioners as to the company's intentions regarding re-procurement of the CST contract before proceeding with the 2019 CST survey;
4. Provide evidence to the commissioners that commercial users are being surveyed on those routes where there is significant commercial business;
5. Provide the commissioners with a plan for addressing those recommendations in the MNP report, which are not dealt within this order, no later than June 1, 2018; and
6. Provide the commissioners with a plan for timely communication of actions taken in response to MNP's CST findings, no later than June 1, 2018.

However, the BC Ferry Commissioner gives no reason why:

- BC Ferries is not required to provide ongoing customer satisfaction reporting on all routes;
- BC Ferries has not been required to report on the Northern Routes since the inception of the Coastal Ferry Service Contract (a decade-and-a-half ago); and

[29] http://www.bcferrycommission.ca/reports-press/rulings/

- There is no requirement for a longer-term reporting plan.

In summary, the BC Ferry Commissioner has effectively permitted the tourism interests in the communities and regions served by the North Coast to be shortchanged with respect to vital ferry customer information. Such information is available for the Major Routes. There is no public policy rationale to support such an unequal treatment.

While there are costs to BC Ferries to conduct customer satisfaction research, the organization has not made full use of research practices and available technology that could reduce the cost of gathering this information.

It is also critical to note that one-off customer satisfaction data collection is of limited value. Rather, the value of the data is enhanced over time, when the cumulative information can provide insights into changing customer requirements and market development needs and can inform corrective action to improve current services and plan for the longer-term.

Further, the BC Ferry Commissioner should require BC Ferries to share the data that they do collect with tourism stakeholders and not to treat detailed findings as company confidential corporate information, especially since their sole shareholder is the Province of British Columbia.

9.3 BC Ferries

Avenues that BC Ferries uses to solicit feedback include: Annual General Meetings; a formal Complaints Process; Community Consultation Meetings; Customer Satisfaction Tracking Surveys (CST); Ferry Advisory Committee meetings; and Public Open Houses.

The analysis below focuses on the Ferry Advisory Committee (FAC) and Customer Complaint Process. The lack of customer satisfaction survey and trip purpose data for the Northern Routes has already been noted in previous sections of the report.

Ferry Advisory Committee

A summary of the North Coast Ferry Advisory minutes for the period 2015 through 2017 is presented in the table below. It provides insights into the breadth of the issues with the existing stakeholder engagement process.

Figure 62 North Coast Ferry Service Issues

North Coast Ferry Advisory Committee Minutes Issues Summary (2015-2017)		
Issue	**Year**	**Comments**
Demand Issues		
Commercial Traffic	2017	Freight delays/back-ups. Although BC Ferries has recently increased commercial no-show fees, there has been little effect with respect to the number of customers booking and not arriving for sailings. Discussions explore the idea of changing the penalty for a commercial "no-show" to loss of full fare.

North Coast Ferry Advisory Committee Minutes Issues Summary (2015-2017)		
Issue	**Year**	**Comments**
		BC Ferries to investigate options to reset commercial no-show fee, such that the frequency of no-shows will dramatically decrease. Who: BC Ferries Alana Gallagher Chief Financial Officer and Janet Carson Vice President, Marketing & Customer Experience. When: by end of 2017.
Marketing	2017	Route 10: request to BC Ferries to explore options for coordinating peak season schedules with Alaska Ferry Services if possible. BC Ferries and Alaska ferry reps have spoken before, but in general, the schedules of neither organization provide any notable flexibility to better coordinate connectivity. Reengage with Alaska ferry reps for possible packaging/coordinating opportunities. Who: Janet Carson Vice President, Marketing & Customer Experience. When: by Summer 2017. In related discussions, BC Ferries was asked how far in advance Northern Route schedules were published (answer: minimum of 12 months, goal is longer), and it was suggested to aim for a minimum of 18-24 months.
	2016	BC Ferries is continuing work on the “Fare Flexibility and Digital Experience Initiative” project, with significant updates in point-of-sale, website and ticketing technologies over the next two years. This will allow for dynamic pricing to be offered on the Major routes, followed by the other reservable routes, starting in 2018.
Rates & Fees	2017	BC Ferries and Ministry personnel have been meeting to discuss changes (fare decreases, increases to seniors discounts, etc.). announced by the Province. The Ministry has been asking for information/data behind BC Ferries operations, and BC Ferries will continue to work with them and the Commissioner to ensure relationships are productive.
Reservations & Bookings	2017	Reservations: customers have shared concerns about reservation wait times and some inconsistencies with respect to customer service messaging on standby likeliness. BC Ferries has to hear specific examples when this may happen, so they can ensure the customer call centers can be made aware of confusing messages. Dissatisfaction with the call-in reservation system (agents are unfamiliar, people on wait lists). BC Ferries noted there is a new (internal) reservation system that should improve accuracy of booking. Route 10 problems with respect to customers booking standard vehicles when there is still room available for over-height (which they sometimes book just to get on a sailing).
Traffic Levels	2017	All North Coast communities have seen an increased demand for Route 10 sailings, and Ferry Advisory Committee members note a great interest in extending the peak season. BC Ferries noted that due to the high cost associated with lengthening the season, this request would need to be presented to the Province.

North Coast Ferry Advisory Committee Minutes Issues Summary (2015-2017)		
Issue	**Year**	**Comments**
Supply Issues		
Auto Equivalent (AEQ)	2016	Definition: BC Ferries has recently standardized the calculation of the measurement of area on a deck used to approximate the average space of a vehicle – the AEQ (automobile equivalent). One AEQ is now 2.6 m X 6.1 m of deck space. The standardization will impact utilization figures, and this fact will be stated in the next report provided to the Ferry Commissioner. New AEQ's: • Northern Expedition: 115 • Northern Adventure: 87 • Kwuna: 16
Schedule	2017 2015	Seeing evening service restored to Route 26 is a primary concern. Route 11: during the past 12 + months, major projects (paving, hospital construction, etc.) on Haida Gwaii have restricted access to Route 11 sailings notably for other customers, with overloads and wait lists increasing. Route 26: the "shorter sailing day" (12 hours versus previous 18 hours) limits access for customers moving between the two islands, and there are concerns about limited emergency after-hours response. Ferry Advisory Committee members acknowledged that both issues are a result of the service level adjustment process, and that requests to consider restoring sailings that were eliminated in 2014 should go the Province. BC Ferries agreed, but added that they do have some discretion to consider adding "end of day" sailings on Route 26 if any overload occurs on the last sailing. Further discussion happened around how communities may be able to relay the significant effect of sailing reductions to the Province.
Service Levels	2017	The Province is already considering the community request to add a water taxi service to supplement Route 26. Provide BC Ferries with specific request related to water-taxi service being considered by the Province. Who: Greg Martin Advisory Council timeline as appropriate. BC Ferries had developed a process to allow Ferry Advisory Committees to submit requests for any notable service changes to BC Ferries, whereby BC Ferries will receive, analyze and reply to the request within 90 days. Part of this request is a form called the Significant Service Request (SSR) form.
Service Recovery		The BC Ferries Business Plan (Fiscal Year Ending March 31, 2011) indicates that in the past year the company integrated incident management and service recovery into their new Operations & Security Centre. An important safety strategy and tactic for BC Ferries was to continue proactive service recovery planning through the centre.

North Coast Ferry Advisory Committee Minutes Issues Summary (2015-2017)		
Issue	**Year**	**Comments**
Governance & Stakeholder Relations		
BC Ferry Commissioner	2017	The Commissioner regularly reviews various aspects of BC Ferries' operations, and these reports are publicly available.
BC Ferries	2017	Looking at refreshing Terms of Reference and improving awareness of how communities can communicate with BCF. Who: Darren Edgar FAC and BC Ferries Mark Wilson Vice President, Strategy & Community Engagement.

The existing BC Ferries Advisory Committee process has limitations, despite the high level of engagement by BC Ferries executives. For example, there appears to be limited analysis of/attention to how the topics discussed relate to BC Ferries Strategic Plan and how, in turn, the issues discussed have resulted in changed outcomes. The Committee rarely discusses the matter of the regular reporting of customer complaints nor how these complaints have been addressed. Further, meeting minutes are not organized by consistent topics – a process that would facilitate meaningful time series analysis (as outlined in the table above). At best, the Ferries Advisory Committee process can be described as more reactive than proactive.

Finally, the information generated by the survey implemented for the current study on variations in customer purchase decision making timelines for customers of year-round enterprises and those of seasonal businesses suggests that important market insights on how ferry service impacts customers and businesses that rely on the Northern Routes are missing from the Ferry Advisory Committee process.

It is more difficult for operators of seasonal tourism ventures to engage with the Ferry Advisory Committee because of their geographical dispersion and the fact that such engagement would take time and energy away from serving their customers (especially in the lead up to the peak season and during the peak season). This is true also for businesses that are relatively small in size.

BC Ferries Customer Compliant Process

The primary objective of the Customer Complaints Process, which has been in effect since 2005, is to support BC Ferries' Vision and Mission statement:[30]

> "To provide to our customers integrated marine transportation services that are safe, reliable and continuously improving, while delivering best value for money and operating in a manner that preserves our financial integrity."

Pursuant to the Coastal Ferry Act 219 Section 45.2, BC Ferries provides a Complaints Resolution Report to the BC Ferry Commissioner four times each fiscal year. As of February 2016, the most recent data on customer complaints on the BC Ferries website

[30] http://www.bcferries.com/contact_us/complaints_resolution.html

was for the period ending December 2015. Therefore, the publicly available information is more than two years out of date.[31] The BC Ferry Commission website only contains data on the approval of the complaint handling process.[32]

According to the 2015 data the top complaints system wide were related to:

- Value of fare/cards;
- Food and retail service;
- On the Web;
- Cancellations/Delays; and
- Staff Helpfulness.

No data on specific routes and no time series data are readily available. The latest Complaints Resolution report is dated September 30, 2017[33] in the "Reports Quarterly" section of the website.

According to the 2018 Q2 Ferry-Complaints data, the top complaints system wide were:

- Loading/Unloading;
- Staff Helpfulness;
- Reservations;
- On the Ship; and
- Cancellations/Delays.

9.4 Stakeholder Survey Findings

Survey respondents were invited to describe what they thought were the most effective mechanisms to ensure that communities and customers are properly engaged in decisions about ferry services. The word cloud below illustrates the frequency with which a specific word appeared in the open-ended answers. The bigger and bolder the text the more frequent the term in the feedback, reflecting the overall intensity of respondents' opinions.

[31] http://www.bcferries.com/contact_us/complaints_resolution.html
[32] http://www.bcferrycommission.ca/reports-press/governing-statute/documents-relating-to/
[33] http://www.bcferrycommission.ca/reports-press/quarterly-reports/

Figure 63 Stakeholder's Consultation Preferences

Survey respondents recognized that a balance of consultation methods is required for effective insights to be channeled into the ferry service decision-making process. Traditional methods such as meetings and community open houses could be used alongside electronic methods to gather insights from the customers and businesses that rely on BC Ferries' services.

It is interesting to note that only one survey respondent made a suggestion for the Ferry Advisory Committee process, and no respondents indicated that the Committee process is effective. The study team's review of the Ferry Advisory Committee process and the content of meetings suggest that activities have been performed largely to comply with the provisions of the Coastal Ferry Service Contact, and not as a proactive way of generating market insights.

Survey respondents identified a number of electronic tools that BC Ferries could make use of to enhance gathering of customer and stakeholder feedback. These include web-based tools and smartphone/mobile apps that are now in widespread use in the Tourism sector. The fact that BC Ferries is not using such tools suggests that the parties involved in ferry governance have been slow to adopt new technology in this regard and, in particular, on the North Coast service routes.

10 RECOMMENDATIONS

BC Ferries and Economic Development

The current profile of the average tourist customer travelling on the Inside Passage Spring-Summer Day Cruise (Route 10) and the Haida Gwaii/Queen Charlottes, Fall-Winter-Spring and Summer (Route 11) clearly demonstrates the need for an extended ferry service season. There is latent demand for enhanced service in the late spring and early fall shoulder seasons. Seasonal extension of the ferry service would support both Adventure Tourism and Indigenous Tourism, which rank among the highest opportunity segments of the Tourist sector. Adventure Tourism and Indigenous Tourism include activities such as bear viewing and whale (and other marine mammal) watching, which align with the late spring and early fall shoulder seasons.

In addition, enhancement of peak season ferry service would contribute positively to the overall development of the Tourism Sector. With improved ferry service throughout the year, there is opportunity for the Sector to become a year-round, full-time employer. Further, market opportunities indicate that a high proportion of current year-round operations could increase the number of full-time, ongoing employees that they hire.

International travellers and visitors from the United States represent two tourism segments that are important to Northern British Columbia. In particular, the potential market development opportunities associated with attracting more international visitors are promising for the region and for BC Ferries Northern Routes. Customers who travel from farther away generally spend more than local or regional tourists. The current economic behaviour profile of tourists using Routes 10 and 11 indicates that a very high proportion spend in excess of $250 per day.

It takes time for the economic opportunities associated with improvement to ferry services – and expanded accommodation and tourism experiences for travellers – to become fully realized. It would be challenging in the short-term to grow ferry traffic volumes based on the size of many of the businesses in the region, since small firms need to scale up their operations over time. However, making a strategic connection between opportunities for tourism growth and BC Ferries service levels, and taking a proactive approach to expanding ferry service, could over the longer term support BC Ferries to meet their target utilization rates. Indeed, it could be argued that reduced ferry service has contributed to a situation where some local businesses have been unable to grow and scale up their operations.

A striking feature of the factors that are influencing changes in the demand for marine tourism and ferry services is that none are aligned with the old paradigm that a ferry service is simply an extension of the highway system. In the current marketplace, ferry operators need to be highly attuned to which customer segments are driving demand for service. Considering the needs and perspective of the tourism customer when designing a modern ferry service is vital; and a deep understanding of the important role that the various segments of the Tourism sector plays in the economic success of a modern ferry system is beneficial to decision making at both the operating and policy making levels.

- **Recommendation 1**: Government policy decision makers need to recognize explicitly that BC Ferries plays a critical role in supporting economic development for small and medium-sized tourism enterprises on Vancouver Island and in Northern BC.

  The current ferry schedule and service levels limit the size, scale and scope of business investment in the Tourism sector in these regions, and this in turn has a negative impact on economic growth and employment stability in communities. The outcomes of this study support the conclusions of a February 2014 report prepared for the City of Prince Rupert, *Beyond Hope: BC Ferries and Northern British Columbia*, which identified the economic impacts of the service cuts to BC Ferries Northern Routes.

Socio-economic Rationale for Reinstating Enhanced Summer Sailings Schedules for North Coast Ferry Service

Many, if not most, of the Destination Marketing/Management Organizations (DMOs) in British Columbia (including Destination BC and various regional and community DMOs) are currently reallocating promotional resources away from the peak summer travel season to the shoulder and low seasons, since the incremental opportunities to grow demand and market share are considered to be stronger during these non-peak periods. One of the main challenges facing tourism businesses is related to labour and the issue of inter-seasonal retention of employees. Most companies experience tremendous difficulties with attracting seasonal staff to return year after year and find it easier to recruit year-round staff. Extending their operating seasons is therefore key to retaining employees. In view of the fact that the Tourism sector is making considerable inroads into extending the peak tourism season. Reductions to ferry service during the traditional shoulder and low seasons are therefore hampering the sector's expansion efforts and are counterproductive. Such reductions run contrary to the aims of other economic public policy and development efforts currently underway, including the objectives of British Columbia's Rural Economic Development Strategy.

The findings of this research project suggest that, while ferry service frequency is also important to year-round businesses, it is especially vital to the success of seasonal operations. Data on international visitor origin, the size of the travelling party, the length of stay, and the average daily spending profile all point to the fact that the communities and businesses served by BC Ferries Northern Routes are tourism destinations. Service issues such as delays, or cancelled ferry sailings are particularly problematic for seasonal tourism businesses as they have such a negative impact on the overall quality of a tourist's experience. The data suggest that users of the ferry system view delays in ferry service as an opportunity cost – an obstacle that prevents them from fully engaging in the experiences that they specifically travelled to the region to take part in. Tourism customers with a high average daily spending profile are typically trading money for time. A delay in ferry service is equivalent to a customer at a mountain resort being unable to obtain timely repair, for example, to their skis or mountain bike.

A 2015 *Performance Review of BC Ferries Vacations*, conducted by the BC Ferry Commission, found that BC Ferries Vacations had developed an extensive list of active partners in the region and that the Northern Routes accounted for 19 percent their sales volume in that year. The review concluded that there were widespread incremental economic benefits had been generated in Coastal communities as a result of BC Ferries Vacations' services. The review also identified that investment in tourism marketing programs by BC Ferries was essential for building demand for tourism in communities that have limited marketing resources.

- **Recommendation 2**: The peak season for ferry service on the North Coast routes needs be extended. Extending the peak summer season sailing schedule into June and September, which would increase service capacity during these periods - similar to the peak season schedule that was in place prior to 2014. In the absence of an extended peak ferry service, the Tourism sector in Northern BC is at a competitive disadvantage compared to other regions in British Columbia.

  The benefits of an extended ferry service peak season will not only be enjoyed by the immediate ferry-dependent communities but by the inland communities and areas that can only be accessed if ferry services are a reliable component of tourism transportation infrastructure.

  Reducing ferry service at the same time that most businesses and marketing agencies are trying to develop shoulder- and off-peak travel experiences is counterproductive.

Rationale for a Commitment from the Province to 5-year Schedule Cycle

The current North Coast ferry market in BC can be characterized as one that requires an investment in tourism infrastructure and marketing over a number of years. Tourism operators need many months of advance preparation to develop their businesses because of lengthy marketing and sales cycle required by some of the North Coast most important tourism markets (i.e. long distance and overseas travellers). The current four-year cycle for ferry service levels acts to discourage investment in tourism marketing and product development.

Visitors to Northern BC tend to book their travel in advance. With respect to booking time frames for non-seasonal businesses, the data indicated that customers most frequently made their purchase decision between 7 days to one month in advance, and on the same day or less than a week in advance. This contrasts with planning and decision-making lead times for customers booking with seasonal businesses: one to six months in advance and more than six months in advance were the timelines most frequently cited for seasonal operations.

International tour operators and their local partners need to have certainty with respect to seasonal ferry schedules if they are to have the necessary confidence to invest in travel itineraries for groups and free independent travellers. Since tour operators' marketing and sales cycle is longer than other industries, they need an extended time to recoup their investment and expand their activities. BC Ferries does not generally add extra sailings to the North Coast routes; therefore, there are little to no in-season opportunities for tour operators to adjust itineraries to mitigate any delays that travellers may experience. Thus, the need for certainty with respect to service frequency is more acute in the Northern Region than it is for areas served by BC Ferries' major routes. To make the most effective use of their marketing and sales resources, small and medium sized firms need to know what the ferry schedule and service levels will be well in advance.

An international inbound tour operator can require up to 18 months to plan, market and sell their tour packages. A 5-year ferry service guarantee would allow for three complete marketing and sales cycles. This would enable businesses to make use of positive customer reviews in their marketing efforts for the subsequent year.

Over 60% of respondents to the Business and Tourism sectors survey developed for this research project indicated that, if former peak session ferry service levels were restored, they would be able to achieve stable peak visitor volumes within 12 months. Just over 35% of respondents indicated that they would be able to achieve stable peak season demand over a period of two or more years. Results from Indigenous and seasonal Adventure Tourism respondents broadly mirror the overall findings. Forty-three percent of respondents with annual revenues over $5 million indicated that it would take two years.

- **Recommendation 3**: Consideration should be given to providing a five-year service guarantee for BC Ferries Northern Routes. Tourism business development takes time and requires such certainty. A five-year service guarantee would reduce the possibility of government cuts to sailings and service frequency after tourism operators have sold their products to the market.

Improved Dialogue with the Provincial Government Ferry Commissioner and BC Ferries

The overarching message from this research study is that all the parties involved in ferry governance need to consider new tools and approaches for addressing the business interests of the Tourism sector. None of the survey respondents indicated that they considered the current Ferry Advisory Committee process to be effective. Rather, respondents suggested that greater use of both electronic communication tools and in-person stakeholder meetings is needed.

The current dialogue structure lacks a "voice of the customer" process – something that facilitates recognition and consideration of both the stated and unstated needs of the customer. It is essential for governments and ferry service providers to recognise that tourism customers have different needs, and a different perspective, from local stakeholders. A lack of customer satisfaction data, and little to no sharing of market insights on changing customer trends, mean that ferry service decisions are being made in an information vacuum. This state of affairs has not served BC's North Coast communities well in the past and nor will it in the future. Changes must be made.

The “voice of the customer” process is frequently used in Six Sigma and other quality management processes. It is used to capture feedback from the customer (internal or external) in order to help to provide the customer with a “best in class” service or product. Feedback can be gathered in a variety of ways (e.g. through interviews, surveys, focus groups, observation, field reports, complaint logs, etc.) A “voice of the customer” process supports an industry to be proactive and innovative with respect to meeting customer requirements as they change over time.

Past efforts by the Province and BC Ferries to engage customers and stakeholders in consultation (for example, consultations leading up to the schedule refinements made in April 2014) appear to have functioned as “one-off” initiatives. Sustained, collaborative market development efforts are what is required.

- **Recommendation 4**: As many of the issues/challenges involved in tourism development would be better addressed through information-sharing and collaboration, it would be beneficial for Chambers of Commerce, Destination Management Organizations, and officials from the Provincial Ministries of Tourism and Transportation to come together in regular meetings.

11 APPENDIX A - STAKEHOLDER SURVEY

The survey implemented for this research study focused on businesses impacted by ferry services in Northern BC – principally those regions directly within and adjacent to the "Heritage Discovery Circle Route":

- Route 10 / 10S (Inside Passage – Prince Rupert to Port Hardy);
- Route 11 (Hecate Strait – Prince Rupert to Haida Gwaii); and
- Route 26 (Skidegate Inlet – Alliford Bay).

The online survey was distributed to stakeholders in the study area by Tourism Prince Rupert, Northern Tourism British Columbia, and Tourism Vancouver Island. In addition, local Chambers of Commerce within the study area were informed of the online survey and encouraged to share the information with their members. Twitter and Facebook social media channels were also used to promote survey awareness. Ninety-five people submitted completed surveys.

The main body of this report incorporates many of the findings from the survey responses. The material below provides details of the answers to the open-ended questions. Unless stated otherwise, answers are reproduced verbatim (with only minor edits for clarity).

How Ferry Schedules Impact Business

Survey respondents were invited to describe how ferry schedules impact their business operations or activities. Respondents' answers are summarized below by BC Ferries route number.

Route 10

Port Hardy to Rupert off season schedule is very unreasonable - only runs on weekend and creates extra costs.

Prince Rupert to Port Hardy route: Should begin early (May 1st) because of the interest in early Whale Watching and end later because the Grizzly Bear viewing season goes well into October. Difficult to build on the shoulder season when people can't get here from the north! (they would like to do a circular route).

The northern ferry route enables Europeans that travel by car or motorhome the ability to do a circular route and not retrace their steps. More expensive but much more preferred because, in their view, the fuel is cheap!

Route 11

The ferry from Prince Rupert to Haida Gwaii is a main mover of our clients, and we have had many instances (especially in the early part of the season) where they cannot find a ferry sailing to coordinate with their tour with us.

Haida Gwaii is the biggest attraction in this region. Not being able to efficiently access it means it doesn't get 'on the map' as it should rightfully be.

Route 26

The Skidegate/Alliford Bay ferry has had a huge impact on our business. As the first sailing is later than it used to be, and without a "backup" sailing after the last sailing at 5:35pm, we had to drastically change the logistics of our day tours, and ended up hiring a water taxi to take clients back over at the end of the day, as it was just too risky relying on the 5:35 sailing, for if there were any issues that through off the day's timing, it would mean clients stuck on the Moresby Island side. This is an added expense to our business, and it also complicates matters when clients wish to bring a vehicle back to Skidegate at the end of the day.

We have to hire a water taxi to bring our clients home at the end of the day because the ferry stops early, this is a significant expense to the operation. I cannot go home to see my family at the end of a day's work because the ferry is not running.

The Alliford Bay/Skidegate sailing schedule needs to be returned to a longer day. We have seen the huge negative impact the cut back in schedule had on Sandspit and Moresby Island, not just for locals but for visitors. We are seeing less visitors in Sandspit due to the inflexible, restrictive schedule and that is hurting many local businesses, and hindering new small business development.

Increase schedule for the Alliford Bay/Skidegate crossing.

Comments that Apply to More than One Route

A schedule that allows for arrival and departure on the weekend - events are held on weekends and the ferry schedule doesn't allow for timely arrival to participate

The Ferry schedule is extremely important to our business. We are a tourist attraction/museum and access to Prince Rupert is critical to our site. The ferry schedule needs to run from May through the beginning of October

If the ferry ran daily the hotels and B&B's would be full every day rather than every other day. There would be twice as many people to visit our region. It would make a very significant difference.

Late arriving guests, taking them time from late arrival to adjust.

It is important that the people booking the ferry know what our region has to offer, especially at Telegraph Cove where we have whale watching, grizzly tours, kayaking, hiking, dining, coffee shop and a super museum and whale interpretive center with large and small mounted whale and other sea life skeletons. They may want an extra day or two on their trip to visit our resort at Telegraph Cove, and other areas of the region. We appreciate the business the ferry brings, but at times people do not come in because they are unaware of us.

The owner of a competing ferry service observed that *all of BC Ferries' North Coast routes negatively impacted his business's operations.*

Tourism Development Possibilities

Survey respondents were invited to describe the possibilities for tourism development in the regions served by the North Coast ferry routes. The word cloud below illustrates the frequency with which a specific word appeared in the open-ended answers. The bigger and bolder a term, the frequently it appeared in the text, providing insights into the intensity of respondents' opinions.

Figure 64 Tourism Development Possibilities

Representative answers to the open-ended question on possibilities for tourism development are provided below. They include a) comments regarding the impact of an improved ferry service on existing businesses and b) comments regarding increased economic opportunities as a result of improved ferry service.

Impact on Existing Businesses of Improved Ferry Service

Additional bookings from travellers using the ferry and being able to access the region on a regular schedule

All aspects of the revenue generating operations would be enhanced by improvements in ferry services.

Activity providers, tours, cafes galleries and museums.

Better alignment with guided tours.

Ideally, it's to get tourists, especially coming or going onto ferry to stay in Port Hardy more than one night.

It would allow us in increase our tour schedule providing more tours to not only BC Ferries customers but also locals, train and vehicle customers. We could also increase our BC Ferries Vacations Packages to increase revenue for both parties. It will also help with our package deals that we have with local hotels and restaurants.

Longer season in spring for tourism.

More accommodation nights, due to more ferry schedules available to tourist, since European Travelers are always on a tight schedule due to less ferry services.

More opportunity for small pop up business during the summer, longer hours for our gift store creating more jobs.

Promoting approved accommodations.

Right now, to commit to seeing the islands, tourists have to book well in advance and be able to plan much more tightly than mainland destinations. Same day service is not something that often happens here, and many tourists are disappointed to find the lack of availability here (food, products, tours, services like gas, supplies, etc.). If the ferry services were improved, access to supplies would increase, potentially bringing in more people and services.

We could reduce our helicopter and seaplane ferry services and focus on controlling the passenger transport market by watercraft.

Work with other providers (tour companies / Hotels / Restaurants) to draw tourists to this area in the shoulder seasons.

Expanded Business Opportunities

Better restaurants, hiking trails, mountain bike trails, more sightseeing, volunteering. I *don't think we need to bring too many more people to Haida Gwaii, we'd just like to see a better service between Skidegate and Alliford bay. The PR Skidegate would benefit from a higher capacity in the summer for vehicles. If rental cars were more affordable, less people would drive on the ferry.*

Fishing, boat tours, wild food gathering and education More chances for tourists to tailor their trip to fit in with their vacation time and pick the right time of year for seasonal activities.

Improved opportunity with international market for FIT and Group Tours.

Improved ferry service would make opening a small tourism type business (e.g. cafes, land/water-based recreation, etc.) seem much more feasible in Sandspit.

More events, tours, packages.

More accommodation, meals, tours etc. for those who wish to spend more time in the area.

More people would travel to Haida Gwaii and through the northwest regional area using all regional services.

More tour activities in the peak season.

Most bear watching is in early spring and fall.

More mid-coast adventure, kayaking, indigenous tours, encouragement of marketing the Vancouver Island north west coast, we could attract seasoned guides with the possibility of employing them for a longer season.

Ocean-related activities would expand.

Road tours, kayaking, cycling, cultural activities, beach activities, hiking, camping.

We could have more services such as bike and camping equipment rental. More kayak and boat tour services, spa treatments, hiking adventures, beach combing adventures.

Impact of Past Ferry Service Reductions

Highlights:

- A number of respondents advised that the ferry service has minimal impact on their businesses.
- A number of operators reported reduced revenues corresponding to changes in ferry services scheduling.
- A number of operators reported using private water taxis to fill gaps in ferry service scheduling.

Demand for Ferry Service & Alignment with Tourism Market Opportunities

Highlights:

- Visitors to the region are seeking authentic outdoor experiences and getting off the beaten path.
- Local regional travellers often come to the North Coast region self-supported.
- In-bound international tourists appreciate high quality amenities and often need assistance in planning and executing these plans.
- Europeans are moving away from travel intermediaries towards more independent travel with increasing access to information through the Internet.
- There are indications of impacts of ferry service changes on in-bound and receptive operators, and RV rental companies.

Ferry Operations Impact on Tourism Service Delivery

Highlights:

- Ferry scheduling complicates tourism operations (e.g.: arriving 1:00am, etc.).
- Ferry schedule does not align with airline schedules.
- There is no contingency for missed sailings.
- The group most susceptible to poorly planned changes in ferry service appears to be the smallest sizes firms serving the tourism market.

Stakeholder’s Consultation Preferences

Representative answers from the respondents are summarized and/or cited verbatim below. Suggestions for who should be involved appear first followed by the various methods of consultation.

Who Should be Involved

Local Chambers of Commerce; town councils; Tourism Vancouver Island; Regional District of Mount Waddington.

We need to have a better form of engagement with BC Ferries and the Provincial government, so they can better understand how the ferry system impacts the economy on the North Coast.

Groups to Target with Communications

Communication of all kinds, talking to the people involved in the businesses effected by ferry traffic not just the travellers.

Communication with tourism stakeholders.

Countless studies have shown the economic impact of the reduced ferry services. They all show the same thing - reduced ferry schedule is severely affecting livelihoods on island. The most effect thing to do would be to restore ferry sailings and work with community leaders to adjust the schedule (CHN, NCRD, etc.).

More consultation with passengers.

More input from rural and remote communities through either open houses or surveys etc.

Research why people are coming to the Island and adjust the ferry schedule to fit the seasonal attractions. i.e. - Grizzly Bear tours would run well into November if more people saw this as an alternate time to come. (beat the crowds)

Understanding the needs of all communities affected.

Community Open Houses/Meetings

BC Ferry reps coming to Haida Gwaii for town hall meetings with the residents and businesses of Haida Gwaii.

Community consultations (in person meetings) often seem like they could be effective, but often they happen too late, when decisions seem to have already been made (and the consultations are held just to check a community involvement box), so then residents feel like they are not being heard and that it is fighting an uphill battle.

Community forums for discussion in communities most impacted by ferry traffic.

Community meetings and actually listen to what the business are asking for.

Facilitated community meetings could also be valuable, but I understand the logistical challenges.

Face-to-face community fact finding meetings with all stakeholders.

More responsive action to consultation - as limited as it is. Another - the Board of BC Ferries is picked from a variety of nominees, primarily from local government, and government appointees. There is a lack of "common people" being appointed - always seem business oriented or connected.

Open house discussion.

Electronic Media

A lot more advertising in this area perhaps we should team up with Terrace, Kitimat, and Smithers as well as Via Rail.

Create a website for feedback and look at it.

Internet service, emails, information updates.

Local community meetings and online communications such as this survey.

Surveys

More surveys.

Regular ferry surveys conducted by BC Ferries that focus on the needs of the communities and the businesses with results shared and action taken on the feedback

Surveys like this for both businesses and ferry users.

This survey helps.

This survey works, or a meeting with businesses and operators face to face would work as well.

12 APPENDIX B – TOURISM PRINCE RUPERT & BC FERRIES REVIEW OBJECTIVES

Work on current research project predated the start of the BC Ferries review initiated in late 2017 by the BC Minister of Transportation and Infrastructure. The table below provides a summary of the objectives of the current study and the provincial review. It also identifies the location of material and analysis in this report that is relevant to each of the topics.

Figure 65 Tourism PR & BC Ferries Review Objectives

<table>
<tr><th>Tourism Prince Rupert Objectives</th><th>Provincial Ferry Review Objectives</th><th>Location of Supporting Material in Report</th></tr>
<tr><td>Identify and demonstrate that BC Ferries is the critical component in creating economic development for Vancouver Island and Northern BC.</td><td>Examine BC Ferries' operations, including operating and capital expenditures, business processes, practices and policies to assess whether the services are being provided for in a manner that supports the public interest in affordable fares.</td><td>Chapter 3: Economic Development and Ferry Service

Chapter 4: Transportation Trends</td></tr>
<tr><td>Assess the socio-economic rationale for reinstituting summer sailings schedules for North Coast Ferry service to previous levels.</td><td rowspan="2">Identify opportunities and recommend actions to enhance ferry service delivery and/or reduce costs without impacting existing service.</td><td>Chapter 5: North Coast Ferry Service

Chapter 6: Customer and Stakeholder Satisfaction by Route Analysis</td></tr>
<tr><td>Identify and develop the rationale for a commitment from the Province to a 5-year schedule cycle so that international tour operators can have certainty with respect to high season schedules and develop itineraries for groups and FIT travelers.</td><td>Chapter 8: Socio-Economic Considerations for Ferry Service</td></tr>
<tr><td>Identify a mechanism and develop recommendations for the North Coast Ferry advisory committee to have improved dialogue with provincial government and BC ferries.</td><td>Consider what changes to the price cap and regulatory model would ensure the ferry system is working as efficiently and effectively as possible for all British Columbians, and in particular, ferry users and communities who depend on this essential service.</td><td>Chapter 9: Improving the Responsiveness of Ferry Governance</td></tr>
</table>

13 APPENDIX C: LIST OF FIGURES

WAVE POINT
CONSULTING