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A Strategy for the Future of Marine Atlantic Inc.

31 March 2005

Minister of Transport's
Advisory Committee on
Marine Atlantic Inc.

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**To: The Honourable
Jean-C. Lapierre Minister of Transport**

March 31, 2005

Dear Minister:

The Advisory Committee on Marine Atlantic Inc. is pleased to submit its final report titled "A Strategy for the Future of Marine Atlantic Inc." When the Committee set out in November 2004 to examine the many issues facing the corporation, it had a primary objective of improving this important ferry service for its many users. The Committee believes it has struck the right balance between addressing the needs of the various stakeholders with whom the Committee consulted.

The recommendations contained within this report are based on the Government of Canada's commitment to fulfilling its obligation to Newfoundland and Labrador in providing this essential transportation link. The recommendations seek efficiencies where feasible and promote measures to improve the timeliness and quality of the service; stabilize the rates charged to users as well as the subsidy provided by the Government of Canada; while establishing partnerships with stakeholders. The Committee is confident that these measures are achievable and when fully implemented would create a ferry service that is responsive to the realities of the 21st century.

Sincerely,



Captain Sidney J. Hynes
Committee Chair



Roger Jamieson
Committee Member



Emile Di Sanza
Committee Member

Minister's Advisory Committee on Marine Atlantic Inc.
"A Strategy for the Future of Marine Atlantic Inc."
The Committee's Report - 31 March 2005

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SUMMARY

The Committee's review of Marine Atlantic Inc. (MAI) was an opportunity to refocus and confirm the federal government's commitment to maintaining a safe, efficient and affordable ferry service for all Canadians.

The Committee has taken a balanced approach in considering stakeholder views while taking into account the realities of the fiscal environment alongside the requirements and constraints of operating a complex ferry service. The Committee sees great potential in the ferry service and has formulated its recommendations with the goal of ultimately achieving a modern and effective service that is responsive to user needs.

The Committee's key recommendations are in the areas of operations and service, fleet configuration and renewal, as well as long-term funding and pricing strategies, all of which the Committee judges as essential for improving and stabilizing MAI's ferry service.

The Report contains other recommendations concerning quality and level of service, operational efficiencies, alternative service delivery, and partnerships. The Committee considers these as extensions and enhancements, many of which will flow from implementation of the key recommendations.

The Committee has welcomed the opportunity to be of service to the Minister in preparing this Report. Although relatively short, the time to conduct the review and prepare a report has been sufficient to address the Committee's mandate and put forward recommendations that are in the best interests of the federal government, MAI, and, more importantly, the ferry users.

MAI fulfills a constitutional mandate by providing a guaranteed passenger and freight ferry service between the province of Newfoundland and Labrador and mainland Canada. It is generally recognized that MAI plays an essential role in the economic and social life of the province, carrying approximately 37% of all passengers and 65% of all freight (including 95% of all perishables), as well as hazardous goods. Tourists travelling on the ferry brought \$66.6 million to Newfoundland and Labrador in 2004.

However, MAI's operating expenses are continuing to increase, while passenger numbers have fallen. Many users believe the ferry is no longer a cost-effective means of travel to and from Newfoundland and Labrador. MAI's operating costs have increased significantly over the past several years, placing great pressure on the federal government to fund shortfalls, or take measures to increase revenues. MAI is projecting that these costs will increase.

Following extensive stakeholder consultations, the Committee's main recommendations are driven by the following fundamental stakeholder concerns:

- poor on-time performance;
- unsatisfactory quality and service levels;
- escalating operating costs;
- escalating costs for taxpayers; and
- unpredictable rate increases for users.

Simply put, the Committee finds that most users want to arrive at the ferry terminal, drive on the vessel, depart on schedule, travel in modest comfort, arrive on schedule and drive off. For that service they are happy to pay a fare they believe to be reasonable. The current service does not meet this expectation.

The main objectives of the Committee's recommendations are to:

- Recognize the ferry as an essential service.
- Renew MAI's governance.
- Invest in MAI's fleet and move to a three-vessel fleet on a phase-in basis between 2006 and 2011.
- Improve quality, timeliness, efficiency, cost effectiveness, and relations with users.
- Pass savings and efficiencies on to users with a rate reduction.
- Stabilize and predict future rates based on inflation.
- Stabilize MAI's base annual subsidy.

The economic importance of the MAI ferry service and the geographical realities of Newfoundland and Labrador are well documented. To follow-up on the Canada Industrial Relations Board's ruling of November 2003 that MAI's ferry services were essential to the health and safety of the people of Newfoundland and Labrador, the Committee recommends that the federal government officially recognize the essential nature of MAI's services through legislation.

In terms of governance, the Committee believes that members of MAI's Board of Directors require a certain set of qualifications, and should be fully representative of the experience and skills required to give strategic direction in the best interest of the corporation. To renew MAI's governance, the Committee recommends a review of Board of Directors composition, and director's qualification and compensation.

To substantially increase the efficiency in terms of costs to users and to taxpayers, the Committee recommends that MAI ultimately move to a three-vessel fleet, raising the overall level of service quality. This fleet, carrying passengers, passenger vehicles and driver-accompanied commercial vehicles, would provide:

- operating cost savings in excess of \$340 million between 2006 and 2020;
- a 15% rate reduction to users in 2006 with a 44% cost recovery to government;
- rate stabilization for the next 15 years;
- capacity to meet MAI's projected requirements beyond 2020 both for North Sydney-Port aux Basques and North Sydney-Argentina;
- redundancy in the event of one vessel being out of service;
- more efficient use of marine vessel equipment and port facilities;
- fuel savings including lower maintenance costs; and
- simpler and more economic drive-on/drive-off operations, with faster port turnaround times.

MAI's loan for purchasing the *MV Leif Ericson* has a negative effect on the corporation's ability to operate within its subsidy level. The Committee recommends that the cost of the loan be forgiven or removed from MAI's operating cost and be paid from the capital budget.

For unplanned operational costs the Committee recommends a contingency reserve fund for use on a case-by-case basis, subject to the Board of Directors input and approval, and with Transport Canada oversight. The Committee also recommends a Capital Fund for MAI to assist in funding future capital requirements and enhance the corporation's fiscal planning capability.

The Committee recognizes that the number of bargaining units within the corporation is a matter between management and workers. However, the Committee recommends that MAI develop a strategy to streamline aspects of the collective agreements, for example regarding vessel crewing levels.

The full effects of the Committee's recommendations will not be felt until a three-vessel fleet is fully operational. However the Committee recommends two operational changes that offer immediate improvement to MAI's service. These are: 1) in the area of commercial traffic, prioritizing tractor-trailers over drop-trailers, and 2) modifying the *MV Atlantic Freighter's* schedule so as not to conflict with the passenger ferries departure and arrival times.

As evidenced through stakeholder consultation, there is a consistent message regarding the cost of the ferry service and the need to hold or roll-back rates. Various groups stated their opposition both to the present cost, their resistance to further rate increases, and their belief that current rates are a disincentive to the use of the service. As a result of the efficiencies that would come from the Committee's recommendations, there should be a one-time rate reduction of 15% in 2006 to encourage use of the service and pass on to the users some of these cost-reduction benefits.

Another major concern of stakeholders is that MAI rates cannot be predicted. Consequently the Committee recommends that starting in 2007, MAI's annual increases be linked to the Consumer Price Index. In terms of the federal subsidies to cover the costs not borne by users, the Committee recommends that MAI's annual base subsidy be set at a level reflecting the costs of operating the service as restructured in this report.

Operators of other ferry services and modes of passenger transportation use practices that would also be applicable to MAI. These include innovative pricing strategies, discounts for large volume commercial customers, annual passes, books of commuter tickets, as well as reduced rates for frequent users, off-season rates and time-of-day pricing.

Safety is always the first priority. The Committee fully supports MAI's commitment to maintain high standards of safety management systems. Considering the Committee's fleet restructuring recommendations, and the forecasted increase in passenger numbers, it is expected that MAI will review its procedures, training and exercises to respond to unplanned events or emergency situations. Customer service training is also important, and on this issue the Committee recommends that MAI use nationally-certified training programs for all front line personnel.

Stakeholders are also greatly concerned about MAI's level of quality and service. The Committee's recommendations address the major concerns regarding waits, delays, on-time performance and costs, and considers quality and service matters such as catering and vessel cleanliness as the responsibility of MAI's Board of Directors as well as the President and CEO. The Committee recommends motivating MAI managers and supervisors through a results-oriented performance measurement system linked to a financial bonus.

There is evidence of poor communication between MAI and users of the service when there are changes to the schedule. The terminals do not always provide timely information concerning vessel arrival and departure times and the reasons for any delays. The Committee recommends that MAI improve communication with users onboard its vessels, at the terminals and through its reservation system.

The Committee reviewed the Argentia ferry in the context of MAI's overall operations, and finds no basis to discontinue the service. Further, a loss of this service would have a serious negative effect on tourism revenues in central and eastern areas of the province. The proposed three-vessel fleet can accommodate the existing Argentia service.

The Committee agrees with stakeholders that one way to address quality and service matters is for MAI to have an independent Ombudsman, responsible to the Audit Committee of the Board of Directors, reporting to Transport Canada semi-annually.

MAI should work closely with industry. At the government level, the Committee is of the opinion that the Atlantic provinces should work together with the federal government, and has recommended that roundtable sessions with major stakeholders, led by Transport Canada, be held annually.

To attract customers back to the service and to serve as an economic enabler for the tourism industry, MAI must significantly improve its marketing and customer service. The Committee recommends that MAI seek partnerships with user groups to create opportunities for cooperative marketing, greater efficiencies and improved quality of service.

The Committee supports the majority of stakeholders who were adamant that MAI should not be privatized, although many thought there may be areas where services could be out-sourced. The Committee believes that MAI's not-for-profit regime, coupled with the efficiencies associated with the private sector, results in the best-value service to the ferry user. MAI should continue working towards correcting a number of operational inefficiencies through new ways of doing business.

Finally, the Committee supports the position that moving the Head Office from St. John's to Port aux Basques, particularly in a new three-vessel operational environment, would be advantageous in terms of management availability, oversight, efficiencies and cost reduction.

I. INTRODUCTION

1.1 Marine Atlantic Inc.

Marine Atlantic Inc. (MAI) is a federal Crown corporation that fulfills a constitutional mandate, by providing a guaranteed passenger and freight ferry service between the province of Newfoundland and Labrador and mainland Canada. As an extension of the Trans-Canada Highway, it plays an essential role for the province in the import and export of goods, the province's tourism sector, and the movement of the province's residents.

1.2 Federal Commitment

The Government of Canada recognizes its commitment to stabilizing MAI and ensuring this important transportation service remains safe, reliable, efficient and affordable. The Minister of Transport has directed the Advisory Committee to examine the future of MAI and study a range of issues to identify long-term strategies for maximizing the efficiency of the ferry service operations.

1.3 Economic Importance of MAI

It is clear that MAI is a critical transportation link to Newfoundland and Labrador, since there are only two modes of access for passengers, and only one mode for vehicles. The ferry system carries approximately 37% of all passengers and 65% of all freight (including 95% of all time-sensitive goods, such as perishables), including hazardous materials¹ to and from the province. In 2004 MAI carried 419,548 passengers², including 126,200 non-residents to Newfoundland and Labrador, bringing an estimated \$66.6 million tourism dollars to the province.³

Stakeholders have noted that the MAI ferry service is vital to the social and economic well-being of Newfoundland and Labrador. Because of the ferry services large role in the transport of inbound and outbound freight, its societal impact extends into virtually all of Newfoundland and Labrador industries and, to a certain extent, into Canadian industries. With respect to commercial users, although the MAI ferry service is a critical element in the province's supply chain, it could be improved as an important link in just-in-time logistics, particularly for fresh products.

¹Transport Canada's Stakeholder Consultations on the Future of MAI.

²Information provided by MAI 19 January 2005.

³Department of Tourism, Culture and Recreation, Supplementary Information, MAI Committee, 7 March 2005, p.1.

The 1999 report, *On Deck and Below* by the Government of Newfoundland and Labrador, highlights the importance of MAI's service as the main surface link for the province. Its economy requires low cost, punctual and reliable transportation to be successful.⁴ Furthermore, the 2003 Royal Commission on Renewing and Strengthening our Place in Canada stated that the ferry service "...is an essential infrastructure component in strengthening the province's economy."⁵

1.4 MAI's Situation

MAI's operating costs have increased significantly over the past several years, placing considerable pressure on the federal government to fund shortfalls, or for the corporation to take measures to increase revenues by raising rates for users.

The pressure to increase revenues from rates is seen by many users as one of the primary reasons for the continuing decrease in passenger utilization of the service. MAI is no longer seen by many as a cost effective means of travel to and from Newfoundland and Labrador. MAI has projected that operating costs will continue to increase significantly.

2. ADVISORY COMMITTEE

2.1 Establishment

On 22 November 2004 Transport Minister, the Honourable Jean-C. Lapierre, along with Natural Resources Minister, the Honourable R. John Efford, announced the formation of an Advisory Committee to examine the future of MAI. The Committee was asked to provide the Minister of Transport with a final report by 31 March 2005.

2.2 Mandate

The Committee's mandate is to study a wide range of issues to identify long-term strategies for stabilizing the MAI's ferry service operations, focusing on:

- the economic importance of MAI and its services;
- fleet configuration and renewal;
- future capital requirements;
- efficiencies in MAI's operations;
- long-term funding solutions and pricing strategies;
- the quality and level of service required;
- ongoing partnership opportunities; and
- alternative service delivery.

⁴On Deck and Below: A Report on the Gulf Ferry Forum, Government of Newfoundland and Labrador, September 1999.

⁵Royal Commission on Renewing and Strengthening our Place in Canada, Government of Newfoundland and Labrador, 2003.

2.3 Process

The Committee consulted with stakeholders, who were invited to propose solutions for improving MAI, through submission of written briefs, individual meetings and roundtable discussions. In its deliberations, the Committee has taken into account the expectations and the intent of stakeholder recommendations.

The Committee met with MAI's Board of Directors and MAI's senior management who provided current information. External consultants were engaged to assist with the overall evaluations and enable the Committee to validate its findings.

3. ADVISORY COMMITTEE RECOMMENDATIONS

3.1 General

During its long history MAI and its predecessors have seen many changes, from oversize canoes (iceboats) on the Prince Edward Island service to today's superferries. Over the years, the ferry service has re-invented itself to adjust to the new realities and demands. After Newfoundland and Labrador joined Confederation in 1949, the ferry service introduced roll-on and roll-off capability with the arrival of the *MV William Carson*. In the mid-1980s another major advancement was the addition of two modern superferries the *MV Caribou* and *MV Joseph and Clara Smallwood*. The Committee believes it is time for an adjustment to the ferry service to meet today's needs for a more timely and efficient service, one that is more acceptable to its customers.

The Committee is confident that the recommendations presented will invigorate the corporation and meet the needs of the people of Newfoundland and Labrador, Nova Scotia, as well as all Canadians in the 21st century.

3.2 Main Recommendations

The Committee's main recommendations are driven by fundamental stakeholder concerns such as:

- poor on-time performance;
- unsatisfactory quality and service levels;
- escalating operating costs;
- escalating costs for taxpayers; and
- unpredictable rate increases for users.

Simply put, the Committee found that most users want to arrive at the ferry terminal, drive on the vessel, depart on schedule, travel in modest comfort, arrive on schedule and drive off. For that service they are happy to pay a fare they believe to be reasonable. This is far from the case at present.

Escalating deficits in the tens of millions of dollars annually have increased the corporation's financial requirements. This has resulted in unfavourable rate increases and financial pressure on the federal government that, if not addressed, would eventually jeopardize the service.

MAI's service has evolved in response to demand from users and has seen significant changes in the past two decades. However, some of these changes have led to the corporation operating a somewhat inefficient service that does not properly address the current and future realities. This is particularly evident in the service for the drop-trailer commercial traffic, which is negatively affecting the operation and cost of this important social and economic transportation link.

Drop-trailers are commercial trailers without a tractor (i.e. truck) or driver. They are driven to MAI's terminals by a commercial carrier, disconnected from the carrier's tractor, and then loaded on and off the vessel by MAI's equipment and personnel, and are picked up by the commercial carrier's tractor/driver after arrival.⁶

To address these concerns, the Committee has concluded that: 1) in order to achieve improved operational efficiencies, MAI's fleet must be reconfigured and renewed, and 2) MAI's operations need to discontinue carrying drop-trailers.

Discontinuing the carriage of drop-trailers would lead to a better service at much lower costs. This would allow MAI to move to a more efficient three-vessel operation instead of the current four vessels. A fleet of three larger, modern and interchangeable vessels with driver-accompanied freight and passenger capabilities (RoPax⁷) would raise the overall level of service quality and efficiency, address required redundancy and provide capacity until at least 2020.

Should future traffic grow faster than projected, and capacity is reached earlier than predicted, it is important to remember that any new demand that exceeds capacity would only occur during the peak summer months (June to September). If traffic exceeds expectations the Committee does not anticipate the requirement for any permanent additional vessel capacity once the proposed three new vessels are operational. If in later years demand exceeds projected capacity, this could be handled by a RoPax vessel chartered for the peak summer season only.

The majority of the Committee's recommendations hinge on the discontinuation of the drop-trailer service. Reductions in both rates and government subsidies as well as increased vessel utilisation can only be achieved if the drop-trailer service is discontinued.

⁶The tractor portion of the tractor trailer is what most lay-persons would call the truck section.

⁷'RoPax' - typically a 600 - 1000 passenger vessel where vehicles drive-on and drive-off, that is they 'roll-on and roll off'. The vessel is designed with high-headroom to accommodate primarily freight vehicles plus a sizeable passenger complement.

The recommendations are presented in Part 2 (Sections 7 to 15) with a compilation in Part 3, the main points being:

- Recognizing the ferry as an essential service.
- Replacing the *MV Atlantic Freighter* with a chartered RoPax ferry in 2006.
- Investing in a new three vessel fleet on a phase-in basis over the next six years (i.e. 2006- 2011).
- Improving the quality and timeliness of the ferry service.
- Continuing operational efficiencies and cost reductions.
- Improving stakeholder relations and partnerships.
- Passing savings and efficiencies to users with a rate reduction.
- Stabilizing and predicting future rates based on the rate of inflation.
- Stabilizing MAI's base annual subsidy.
- Renewing MAI's governance.

4. LEGISLATION

4.1 Constitutionality

In 1949 when Newfoundland and Labrador joined the Canadian confederation, the service was accorded special constitutional status under Term 32(1) of the Terms of Union (The Newfoundland Act, 1949). This term guarantees that Canada will “maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques, which, on completion of a motor highway between Corner Brook and Port aux Basques, will include suitable provision for the carriage of motor vehicles.”

The constitutional obligation of the Government of Canada is to maintain a ferry service that meets the traffic. The federal government could find itself in breach of this obligation should service levels fall below a regular year-round service. While the Terms of Union are silent on the charging of tolls and fares, it is recognized that these should be fair and affordable as to not deter from use of the service.

4.2 Legislation

The *Marine Atlantic Inc. Acquisition Authorization Act* (1986) established MAI as a parent Crown corporation with a mandate to operate a marine transportation service, which it does under contract to Transport Canada.

The *Financial Administration Act* (1985) requires that MAI's records, systems and management practices are maintained to ensure that assets and transactions are safeguarded and controlled, and that the financial, human and physical resources of the corporation are managed efficiently and effectively. The Act also sets out various reporting, governance and transaction authority provisions for Crown corporations.

4.3 National Marine Policy

The National Marine Policy of 1995 directed MAI to "substantially reduce its costs and increase efficiency" and to "commercialize its operations by exploring new vessel management and procurement practices, the commercial operation of vessels, and the streamlining of services".

MAI was downsized from eight to two services, with the coastal services along the southern coast of Newfoundland transferred to the Province with a one-time grant of \$55 million. The Labrador service was transferred to the Province for a one-time grant of \$350 million; responsibility for the Grand Manan island service was transferred to the Province of New Brunswick; the two Bay of Fundy services were commercialized in 1997; the Newfoundland Dockyard subsidiary was sold in 1996; and the MAI portion of the Prince Edward Island ferry service closed on construction of the Confederation Bridge in 1997.

As a result of these initiatives, reductions in MAI's reference level (base subsidy) started in 1991/92 and continued until 1995/96 when it reached \$36 million⁸. It has since been increased to \$37 million but additional funding has been required to cover operating deficits.

5. CROWN CORPORATIONS

5.1 General

Crown corporations play a vital role in key areas of activity such as transportation, where private enterprise was unwilling or unable to provide the necessary services. They are a mixture of public policy and commercial objectives, as well as being independent and non-partisan. While not losing sight of its public policy requirements, a Crown corporation is expected to operate in a commercial manner. There is no stated policy that assumes that Crown corporations should attain a certain level of cost recovery.

5.2 Cost Recovery

In the case of MAI, the corporation fills a constitutional obligation on behalf of the federal government to maintain a ferry service. Before the federal government took responsibility for the ferry service in 1949, a certain level of cost recovery was used to fund its operations. According to its 2003 Annual Report, MAI's cost recovery level was 57.7%. In comparison to other Crown corporations that receive Parliamentary appropriations, MAI's cost recovery is higher than the average of 46.9% (see Appendix A).

⁸MAI's base subsidy increased by \$0.378M in 1998/99, \$0.105M in 2000/01 and \$0.437M in 2001/02.

6. STAKEHOLDERS

6.1 General

At all times the Committee has taken an approach of openness and fairness in their dialogue with stakeholders. Several stakeholders requested the opportunity to review the Committee's report prior to submission, but understood that the Committee's duty is to present the report directly to the Minister.

6.2 Transport Canada Consultation

On 21 October 2004, Transport Canada brought together in St. John's stakeholders from industry and the Governments of Newfoundland and Labrador and Nova Scotia, as well as MAI senior managers, to discuss the current circumstances and future directions of MAI. The Background Paper outlined the perspective of Transport Canada. "The Minister of Transport is committed to stabilizing MAI and ensuring that the important transportation services it provides remain safe, reliable, efficient and affordable. Transport Canada is also committed to including stakeholders in the development of a long-term strategy and to improve the dialogue between the department, MAI and those who depend on its services."⁹

The roundtable discussion was seen as an opportunity to bring together governments, MAI and stakeholders to discuss the major issues and concerns with the ferry service. The main points made by stakeholders at this session were:

- The service is a constitutional obligation upon which many sectors of the economy depend.
- Rates are high and are a disincentive to use the service.
- Rate increases need to be predictable.
- Quality and level of service remain issues to be addressed.
- Greater transparency is needed in terms of the governance of MAI.
- Greater stakeholder consultation is required with MAI and the federal government.
- Need to balance the needs of passengers and commercial traffic in terms of amenities, schedule and capacity on vessels.

6.3 Stakeholder Consultations

The Committee invited 42 stakeholder groups, including municipalities, industry associations, labour organizations and government to a stakeholder consultation meeting on 13 January 2005 in St. John's. The purpose of the meeting was to hear stakeholder views regarding long-term strategies for stabilizing MAI's ferry service operations.

Fifty stakeholders participated in the session. The Honourable Tom Rideout, Minister of Transportation and Works, Government of Newfoundland and Labrador, and the Honourable

⁹Transport Canada Stakeholder Consultation on the Future of MAI, 21 October 2004, p.1.

Cecil Clarke, Minister of Mines and Energy, Government of Nova Scotia gave opening remarks. Observers from Transport Canada, MAI, Atlantic Canada Opportunities Agency, and the Government of Newfoundland and Labrador were also in attendance.

Stakeholders submitted 33 written briefs with many recommendations for improving MAI's service. The Committee has examined each of these recommendations. Stakeholders' common themes of poor on-time performance and escalating costs have been specifically addressed in the Committee's recommendations.

The key points raised by stakeholders in their briefs and during the session in January 2005 were similar to those raised during the earlier Transport Canada consultations and include:

- Constitutional obligation of the federal government as part of the Trans-Canada Highway.
- Ferry service as an economic "enabler" crucial to the regional economy.
- MAI is important to local economies in terms of jobs, etc.
- Tourism industry is heavily dependent on the service.
- Majority of goods coming to and from Newfoundland and Labrador depend on MAI.
- Passenger and freight aspects of service have different needs.
- On-time performance is not acceptable and delays are a primary concern.
- Rates are too high and impact on the use of the service.
- Future rates and schedules need to be predictable.
- Better communications and greater stakeholder consultation is needed.
- MAI should form partnerships with key industries to improve service.
- Capital costs should not be passed onto users.
- MAI needs right fleet configuration.
- Efficiencies should be passed onto users by lowering rates.
- MAI should not be privatized in its entirety.
- Federal government needs to renew its commitment to the service.

A complete list of the stakeholders, who were consulted, is provided in Appendix B. A more detailed summary of the stakeholder session as well as all briefs is available upon request on CD-ROM.

6.4 Government of Newfoundland and Labrador

During the Committee's session in January 2005, the Government of Newfoundland and Labrador presented a strong and consistent message that the federal government continues to have a constitutional obligation to provide the Gulf ferry service.¹⁰ This obligation is an enduring one and is vital to the health and well-being of people in the province, moving over 90% of all perishables and time sensitive goods. Additionally, it delivers the province's exports to markets and is a vital element that drives the province's growing tourism industry. The Province emphasized that improvements are absolutely critical.¹¹

¹⁰The Hon. Tom Rideout, Minister of Transportation and Works, presented the Province's position to the Committee on 13 January 2005.

¹¹Summary Notes, Minister's Advisory Committee, Stakeholder Consultation Meeting, 13 January 2005, St. John's, Newfoundland and Labrador p.2.

On 11 March 2005, the Committee met representatives from the Government of Newfoundland and Labrador and the Department of Transportation and Works, the Department of Tourism, Culture and Recreation, and the Department of Intergovernmental Affairs. The provincial government noted the economic importance of the ferry service as a link for tourism, exports and movement of goods and as the highway to the rest of the country. In terms of rates, the Province is pleased with the two-year freeze but stresses that there is a need that user fares ensure the service remains accessible and affordable with a level of predictability. Potential disruptions, or the threat of such, is another primary concern of the Province as this affects traffic levels and deters tourists and others from using the service. The essential nature of the service should be recognized by the federal government.

6.5 Government of Nova Scotia

The Government of Nova Scotia also participated in the stakeholder session on 13 January 2005, and shared its experience in operating its own ferry services and appreciates the realities of rising costs and other complexities.¹² The Province stated that the answer is not just more financial investment, rather stakeholders must be partners in maintaining service levels; maintaining equitable employment opportunities; increasing traffic flows through transportation connections; creating the right fleet configuration; and, responding to competing transportation modes which are having an impact on MAI.¹³

On 7 February 2005, the Committee met representatives from the Nova Scotia Government Department of Transportation and Public Works. The Province noted that stakeholders' input had many commonalities, although there was confusion regarding the federal government's share of cost recovery. Comparisons to other ferry services were not felt to be appropriate because of the uniqueness of MAI's service. The Nova Scotia Government had issue with the way the federal government generally views marine transportation as a revenue generator.

Regarding rates, users were looking for predictability. The important question is what should go into fares. Nova Scotia's position is that capital costs should not be passed onto users. Other issues raised by the province were tourism; new vessels (with stakeholder input); transportation links (especially for truckers); and an expanded terminal building in North Sydney. Matters of concern were delays, costs, and the possible privatization.

¹² The Hon. Cecil Clarke, Minister of Energy presented the Province's position on 13 January 2005.

¹³ Summary Notes, Minister's Advisory Committee, Stakeholder Consultation Meeting, 13 January 2005, St. John's, Newfoundland and Labrador p.2.

7. ECONOMIC IMPORTANCE

7.1 General

The geographical realities of Newfoundland and Labrador are well understood by the federal government. The economic importance of the MAI ferry service is also well known in terms of perishable and other materials entering Newfoundland and Labrador. Not so well publicized is the value of manufactured (i.e. non-resource) goods exported from the province, estimated at \$3 billion in 2004.¹⁴

The Committee believes that economic importance should also be considered from another point of view, that of the passengers who arrive by bus and “walk on” (up to 150 persons in a crossing). These passengers include students, and persons who perhaps do not own a vehicle, to whom the ferry fare is a very significant item. It is important to note that in 2000, the average income in rural Newfoundland and Labrador was the lowest of the four Atlantic Provinces at \$15,529.¹⁵ The MAI ferry service is the only affordable means to travel to and from the mainland for many residents.

7.2 Essential Service

In August 2002, one of MAI’s unions applied to the Canada Industrial Relations Board (CIRB) to determine whether there was “any question with respect to the application of the *Canada Labour Code* subsection 87.4(1).” This section of the Code provides the CIRB with the authority to ensure that essential services or operations are maintained in certain strike or lockout situations.

In November 2003, the CIRB ruled that MAI’s ferry services were essential to the health and safety of the people of Newfoundland and Labrador. In April 2004, the CIRB further ruled that there can be “no reduction in the level of Marine Atlantic’s regular ferry service between Newfoundland and Nova Scotia at any time of the year.” The ruling highlighted the immediate threat to public safety and health should the service be reduced.

¹⁴Non-resource based manufacturing in Newfoundland and Labrador involves approximately 400 firms, employing about 17,000 people, and in 2004 accounted for \$3 billion in manufactured exports annually, that is, 17% of the province’s GDP. Brief to the Committee from the Canadian Manufacturers and Exporters (CME), 13 January 2005.

¹⁵Statistics Canada Publication, The Rural and Small Town Canada Analysis Bulletin, December 2004, v5 #7.

The Committee strongly recommends the following:

Recommendation 1: That an amendment be included in the 1986 MAI Acquisition and Authorization Act, or other legislative instrument, to recognize the essential nature of MAI's services.

8. GOVERNANCE

8.1 Statement of Purpose

The November 2001 Joint Committee on Corporate Governance stated “The objective of good governance is to promote strong, viable and competitive corporations. Boards of directors are stewards of the corporation’s assets and their behaviour should be focused on adding value to those assets by working with management to build a successful corporation and enhance shareholder value.”¹⁶

8.2 MAI's Board of Directors

In 2004, the Office of the Auditor General of Canada (OAG) conducted a five-year Special Examination of MAI.¹⁷ The OAG Report concluded that there were issues faced by MAI that must be addressed urgently, calling for political and management solutions. It found that one of the two significant corporation deficiencies was that there was no “...reasonable assurance that its operations are efficient and economical. In order to have this assurance, it needs to define performance expectations and put in place performance indicators and targets to measure the extent to which expectations are met. The corporation also needs to develop and implement plans to accomplish critical aspects of its strategic plan. Two important examples include a long-term plan for collective bargaining and a comprehensive plan for vessel replacement.”¹⁸

The 2004 OAG Report continued “In recent years, the expectations of the roles and responsibilities and of the performance of boards of directors have increased. We observed that the Marine Atlantic Board of Directors has adopted many good practices and is improving its performance.”¹⁹

The Committee understands that board members have received governance training, and that best governance practices for this area have been implemented.²⁰ Furthermore, the Committee has considered and supports the measures proposed in the recent review of Crown corporation governance.²¹

¹⁶Beyond Compliance: Building a Governance Culture, Joint Committee on Corporate Governance, November 2001.

¹⁷There are references to the OAG throughout this report.

¹⁸Special Examination Report 2004, Office of the Auditor General of Canada, p. 2.

¹⁹Ibid. Sec. 104, p. 18.

²⁰Correspondence from MAI's Corporate Secretary, 17 March 2005.

²¹Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, President of the Treasury Board, February 2005

8.3 Core Governance Solutions

MAI's Board of Directors is currently made up of twelve members with the position of Chairperson being filled on an acting basis since December 2003. Appointments to the Board have in the past taken into account a mixture of professional skills and experiences, as well as regional considerations.

The Committee believes that members of MAI's Board of Directors require a certain set of qualifications. Among those already in place, qualifications should include:

- leaders in their Industry as recognized by their peers;
- experience in directing companies of the size and scope of MAI;
- knowledge of the transportation, marine, trucking and or tourism industry;
- visionary and demonstrated sound business judgement; and
- high ethical standards and integrity.

In addition, MAI's Board of Directors should be fully representative of the experience and skills required to give strategic direction that is in the best interest of the corporation and its users, specifically to:

- explicitly assume responsibility for the stewardship of the corporation;
- ensure effective communications with the Crown, other stakeholders and the public;
- ensure independence;
- develop an effective working relationship with management;
- periodically assess the CEO's position, set challenging performance targets and evaluate the CEO's performance;
- monitor and approve performance standards, including regular evaluations for all senior management including the heads of departments;
- assess its own effectiveness, realizing the skills required for the Board to function effectively;
- develop the corporation's approach to governance issues; and
- provide new directors with orientation and education programs.

The Committee reviewed the current compensation for directors and have determined that to attract directors with the necessary skill sets, an increase in remuneration is required. One option would be to raise the level of MAI from a level 5 to a level 7 Crown corporation.

In determining the composition of the Board of Directors, consideration must be given to the fact that MAI operates in smaller communities. This can create tremendous pressure on directors from local communities to bring local issues and desires to the board table, which is not always necessarily in the best overall interests of the corporation.

Recommendation 2: That MAI's Board of Directors be comprised of nine to twelve persons, the majority of whom should reside in Newfoundland and Labrador, including the Chairperson. The primary users of the service, namely the trucking and tourism industries, should be represented on the Board.

Recommendation 3: That the Chairperson and Directors be remunerated at a level comparable to directors of private sector corporations of similar size in Atlantic Canada.

9. FLEET CONFIGURATION AND RENEWAL

9.1 General

The Committee's mandate includes reviewing and making recommendations regarding MAI's long-term fleet requirements. To significantly reduce MAI's operating costs, any long-term fleet plan must include a level of operational efficiencies in terms of labour, fuel and maintenance costs. New approaches and new technologies could introduce a number of efficiencies with the possibility of reducing operating costs.

The Committee met with the Board of Directors Acting Chairman and senior MAI Managers to discuss fleet configuration, refits, traffic projections, capacity, redundancy, vessel types, operating costs, crewing, replacement schedule and availability/capacity of suitable shipyards for new vessel construction.

Based on information provided by MAI, and considering stakeholder recommendations, the Committee developed criteria for long-term fleet planning. The Committee considered viabilities, practicalities and consequences, in terms of vessel design to meet MAI's needs until 2020.

9.2 Ferry Types

In their considerations of fleet renewal, the Committee took into account the different type and number of ferry vessels, including:

- a so-called 'cruise ferry' - typically a large 2000-passenger and vehicle vessel with extensive accommodation and entertainment facilities;
- a 'RoPax' - typically a 600 - 1000 passenger vessel where vehicles drive-on and drive-off, that is they 'roll-on and roll off'. A RoPax specifically designates a RoRo vessel (see below) designed with high-headroom to accommodate primarily freight vehicles plus a sizeable passenger complement;
- a 'RoRo' - typically a vessel primarily for carrying roll-on and roll-off traffic, with very limited passenger capacity; and
- a 'fast ferry' - typically a high-speed double or single hull vessel carrying both passengers and vehicles, and of smaller and lighter construction than a conventional ferry.

For reasons elaborated below and in considering a number of different factors such as the physical environment, operating costs, practicality, etc., the Committee determined that the RoPax type was most suitable for MAI's future requirements.

The Committee considered the use of a fast ferry (high speed craft or HSC) as suggested by some stakeholders. MAI has some experience in operating such vessels. In 2000, the HSC Max Mols was chartered as a short-term solution.

This Danish double-hull vessel operated during the summer peak season. There were significant challenges maintaining a schedule with the operating weather limits imposed on HSCs in the Cabot Strait. HSCs, in general, are very expensive to operate (due to high fuel consumption) and maintain due in part to their aluminum construction.

9.3 A Three-Vessel Fleet

When they were introduced about twenty years ago, the "superferries" *MV Caribou* and *MV Joseph & Clara Smallwood* were state-of-the-art vessels designed especially for both MAI's service and the North Atlantic environment. Since then there have been many ferry evolutions as new technologies were incorporated, new regulations were enacted, and as designs were changed to meet the user needs of the time.

The Committee analyzed several fleet options relating to three and four vessel fleet configurations. The Committee also reviewed options developed by MAI and sought external advice on fleet renewal. The conclusion is that MAI should move to a three-vessel fleet instead of the present four-vessel operation. A fleet of three larger, modern RoPax ships would raise the overall level of service quality and efficiency, and dramatically lower operating costs.

The discussions leading to the Committee's recommendation for a three-vessel fleet focus on the following key elements:

- safety and reliability of service;
- operating physical environment (weather, ice conditions etc.);
- traffic projections and variations;
- ferry utilization;
- on-time performance;
- vessel mechanical reliability;
- carriage of restricted (hazardous) materials;
- drop-trailer service;
- effects of a complete driver accompanied commercial traffic system;
- capacity until 2020;
- new regulatory requirements;
- physical port limitations (particularly in Port aux Basques);
- international ferry trends and developments;
- international commercial ferry configurations; and
- capital and operating costs from 2006 to 2020.

9.4 Traffic Projections and Variations

To predict future passenger and vehicle traffic growth by direction, passenger and vehicle type, MAI utilizes simple linear regression to project future trends based on past volumes. Previously traffic volumes were compiled on a weekly basis for yearly periods (1996 – 2003) to assist in the estimation of traffic volumes. A peak season three-week moving average was utilized to determine the maximum capacity requirements for the year. This information formed the basis for the traffic analysis and assisted in the estimation of expected percentage traffic increases over the planning period. In 2004, MAI revisited this weekly approach, with analysis focused on seasonal periods within the operating year.

Based upon these analytical methods, MAI's forecasted traffic growth is shown in Appendix C. These growth forecasts are percentage increases above expected 2004 levels and assume no restraints imposed by capacity limitations.

Over the next five years, MAI projections for average annual growth on the Port aux Basques service are:

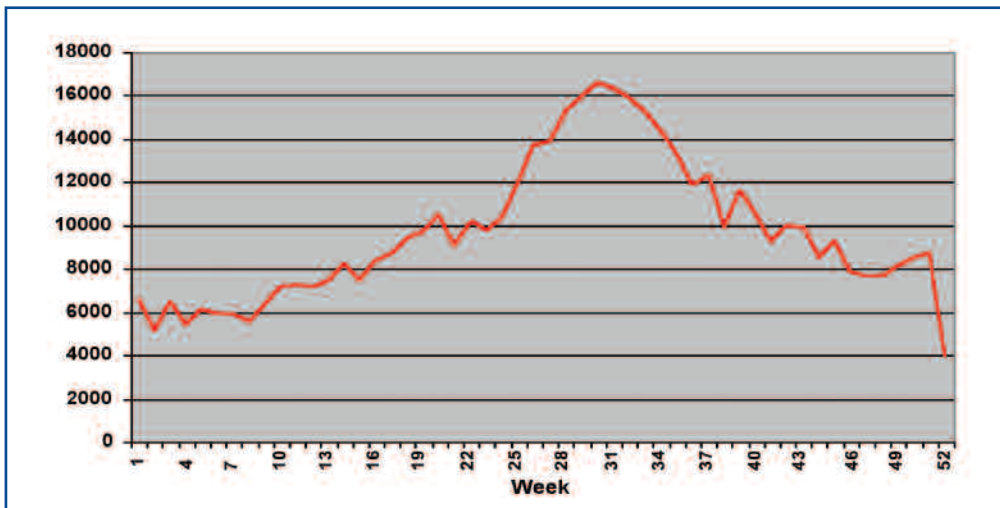
- 2.1% for passengers
- 2.8% for passenger vehicles
- 2.4% for commercial vehicles

On the Argentia service, the average annual growth projections are:

- 1.8% for passengers
- 1.9% for passenger vehicles
- 0.1% for commercial vehicles

The traffic flowing through MAI is not uniform throughout the year. Passenger and vehicle traffic fluctuates depending on the time of day, time of week or time of year. The following graph illustrates the seasonal peaks and lower usage periods throughout 2004 for auto-equivalent units (AEU's)²². Appendix D provides more detailed information on passenger usage in 2004.

Table 1: Total AEU's 2004²³



Regarding traffic projections and variations, the Committee concludes that MAI's methods of estimating future traffic are suitable, and accepts MAI's forecasts as provided.²⁴

9.5 Competitive Realities

Starting in the spring of 2005, Oceanex, a private direct water-carrier company, is expected to increase its capacity between Montreal and St. John's by over 50%, with a second Ro-Ro container vessel between Halifax and St. John's adding 44% capacity on that service. This is a competitive option for the trucking industry, so the Committee believes that some of MAI's current commercial traffic may be diverted, particularly to the Halifax – St. John's service. The trucking community has indicated they are expecting to continue to use the best valued transportation solution.

²²Vehicles are measured in Auto Equivalent Units (AEU). MAI uses AEU as a way of standardizing the measurement of the various types of vehicles carried. i.e., a vehicle space measuring 20ft (3.281m) in length would be equivalent to one AEU. From 1 September 2004 MAI revised the AEU factors. Tractor trailers increased from 4.0 to 4.8, and trailers increased from 3.0 to 3.53 (information provided by MAI 10 January 2005).

²³Information provided by MAI 10 January 2005.

²⁴In accepting MAI's forecasts the Committee notes variations in measurements. For example, the *Caribou's* original specification allowed for the carriage of 370 17-foot vehicles, requiring 1918 lane-metres. MAI's measurement of vehicle deck space on the *Caribou* is 1932 useable lane-metres. On the same vessel MAI allows for the carriage of 350 20-foot vehicles that would require 2134 lane-metres. However with the 20-foot (6.1m) criteria and the actual 1932 lane-metres the vessel can only carry 316 vehicles, that is, 316 AEU's. In practice the *Caribou* regularly accommodates 350 AEU's. The Committee believes that this 10% measurement difference is very significant when discussing fleet configuration and renewal.

While MAI's passenger traffic was down from 2003 volumes, both airport and cruise traffic have increased. Passenger movements in and out of the province by air account for the largest share of all traffic movements annually. Ferry passenger traffic was down 8% for the year and non-resident auto declined 10%. In contrast, to the end of December 2004, airport passenger movements were up 13%. With double digit increases at St. John's Airport, strong increases at Deer Lake and increases also at Happy-Valley Goose Bay and Wabush, non-resident visits overall increased over 2003. This overall provincial increase in non-resident visitation is thanks largely to a more competitive airline industry, which has also translated into a record convention year, which reported a 40% increase in 2004.²⁵

Table 2: Summary of Estimates of Non-Resident Tourism Visitation and Expenditures All Modes Newfoundland and Labrador 2003, 2004

Mode	2003		2004	
	Visits	Expenditures \$M	Visits	Expenditures \$M
Auto (MAI)	140,400	\$74.2	126,200	\$66.6
Air	269,900	\$224.7	305,400	\$262.1
Cruise	14,100	\$1.0	17,700	\$1.3
Total	424,400	\$299.9	449,300	\$330.0

Source: Department of Tourism, Culture and Recreation, Strategic Planning and Policy Division.
Notes: (All modes) subject to revision pending more results from exit survey program annual estimates

9.6 Ferry Utilization

In 2004, the ferry deck space utilization was 66% between January and April, and 80% between September and December (see Appendix E). The utilization percentage is the ratio between vehicle ferry space occupied and ferry space available. There are no figures for May to August when MAI refined the AEU factors to reflect the increased size of North American private and commercial vehicles, hence the greater percentage in the last quarter of 2004.

The Committee notes that Appendix E does not reflect the full fleet utilization capability, since it represents deck utilization rather than fleet utilization. That is, the ferries have the capability of completing more crossings and carrying more vehicles than presently, and certainly more if port turnaround times are shortened.

²⁵Department of Tourism, Culture and Recreation, Supplementary Information, Marine Atlantic Advisory Committee, March 2005.

Fleet utilization compares the number of crossings made to the number of possible crossings. For example in December 2004 the *MV Caribou* and *MV Joseph & Clara Smallwood* did 51 and 57 crossings respectively, against a capability of both these vessels to complete 88 crossings each month. On this basis, monthly fleet utilizations were about 58% and 65% for each vessel. Even if an additional figure of 10% loss due to weather is added the fleet utilization would still be only 68% and 75% for the respective ships.²⁶

Similarly in November and December 2004, the *MV Leif Ericson* did 48 and 20 crossings respectively while on stand-by. This vessel also has the capability to complete 22 crossings every week, or 88 every month. Consequently, the fleet utilization of the *MV Leif Ericson* in November and December 2004 was 55% and 23% respectively.

Regarding ferry utilization, the Committee's conclusion is that in the context of monthly crossings possible, the present fleet is under-utilized, and that fleet utilization can only improve if MAI operates without the drop-trailer service. This service greatly increases port turnaround time. As well, without drop-trailers there would have been no need for the *MV Leif Ericson* to have made extra trips in November and December 2004. Without drop-trailers, the extra traffic could have been transported by quicker turnarounds of the *MV Caribou* and the *MV Joseph & Clara Smallwood*.

9.7 On-Time Performance

Arriving and departing according to the schedule within given tolerances²⁷ (on-time performance) is critical to the success of any ferry operation. Firstly, there is the inconvenience for passengers arriving at the terminal to discover the ferry has been delayed or rescheduled. Passengers going on vacation are understandably upset if their holiday itinerary, including hotel reservations or other plans have to be changed. Secondly, delays leading to poor on-time performance are symptomatic of inefficiencies within the ferry operation. Thirdly, in terms of vessel utilization, poor on-time performance increases operating costs. The Committee considers on-time performance a key factor affecting operations, costs, fleet composition and level of service.

For 2003 and 2004, MAI's on-time performance has been below 65%, mainly attributed to lengthy port turnaround times and mechanical failures, resulting in frustration for the users and additional costs for MAI, mostly for overtime when vessels arrived or departed off-schedule and outside regular hours of work (see Appendix F for monthly on-time performance).

²⁶The combined capacity of the *Caribou* and *Smallwood*, assuming driver accompanied traffic only (i.e. no drop-trailers), three (one way) crossings every day, and a 10% loss due to weather, amounts to 162 crossings every month, or 55,890 AEU's (the two ferries carrying an average of 345 AEU's). In November and December 2004 only 35,699 and 31,368 AEU's respectively were moved, or about 60% average fleet utilization.

²⁷The ferries are considered and recorded to be on-time when the vessel departs within fifteen minutes of the scheduled departure time.

Table 3: On-time Performance 2004²⁸

Trips	Overall	Caribou	Smallwood	Freighter	Ericson
Made	1952	688	550	270	434
Rescheduled	101	41	23	14	23
Delayed	890	260	197	166	257
On-time ratio Av.	59%	67%	67%	19%	35%
Ratio range*	91%-33%	88%-37%	98%-25%	65%-19%	76%-16%

* Ratio range is for the highest and lowest months in 2004

Passengers generally are tolerant about delays caused by weather, and to a certain extent for delays caused by mechanical failure, although here they may make the connection between mechanical failure and maintenance levels. Passengers and commercial truck drivers, however, have little patience if they perceive the delays are unwarranted.

Table 4: Reasons for Delayed Trips 2004²⁹

Event ³⁰	Caribou	Smallwood	Ericson	Freighter	Totals	%
Heavy traffic	91	77	89	62	319	37%
Weather/Ice	47	54	31	20	152	18%
Mechanical	58	24	38	4	124	15%
Wait on berth	16	9	15	40	80	9%
Lashings	4	5	11	2	22	3%
Other	61	36	46	14	157	18%
Totals	277	205	230	142	854	

In assessing on-time performance for any particular vessel, the causes for delays must be considered. For example in June and September 2004, the on-time performance for the *MV Atlantic Freighter* was 11% and 20%. On the basis of the information provided, the main reason for these low percentages is that the vessel is frequently not loaded on time in North Sydney, departs late and is thus off schedule. This situation is exacerbated when other ships are also off-schedule, resulting in the *MV Atlantic Freighter* having to interrupt loading/discharging and vacate the berth for a passenger ferry.

²⁸Information provided by MAI 18/19 January 2005.

²⁹Information provided by MAI 15 February 2005. Trips delayed by more than 15 minutes. There may be minor differences through interpretation of MAI's records, which may account for the difference in "Total Delays" in Table 3. Some delays resulted from more than one cause, however the trends shown are clear.

³⁰Table 4 indicates the number of occasions the event resulted in a delay, not the total number of events over the year. The Table does not include the 101 occasions in 2004 when the vessels were "rescheduled".

Delays due to “Wait on berth”, is where a ferry was unable to dock due to the presence of another vessel, or where the vessel had to move off in order to accommodate another.³¹ The difference between the terminal ports is apparent, even allowing for varying interpretations of MAI records. The ferry terminal in Port aux Basques has one dock while the terminal in North Sydney has two, so any off-schedule event can cause problems with available dock space in Port aux Basques. When off schedule, a second vessel often arrives prior to the first completing its loading and unloading. Improved on-time performance and faster turnaround times are the most economical ways to alleviate this problem.

In the Committee’s view, the main non-weather related reason for poor on-time performance lies in the practice of combining drop-trailers and tractor-trailers on the service. The Committee believes that with improvements in operating practice and fleet configuration, non-weather related on-time performance should be above 90%.

9.8 Mechanical Reliability

Mechanical breakdowns on vessels that impact MAI’s schedule are those affecting key equipment³² where repairs cannot be carried out while in service.

When a mechanical breakdown occurs, the extent of the risk to the service is dependent upon the circumstances, i.e. weather, season, which vessel is affected and the availability of a replacement. For example, the *MV Caribou* and the *MV Joseph & Clara Smallwood* can suffer a main engine failure and still continue to provide a service due to having four main engines. The smaller *MV Leif Ericson*, with only two main engines, cannot maintain a regular service as the speed would be greatly reduced.

Appendix G gives the incidents of mechanical breakdowns during 2004³³. Although the vessels were sometimes out of service for a significant period³⁴ not all of the incidents caused an interruption to the service, due to either a replacement being available or a change to the schedule of refits or planned work periods.

Nonetheless, the mechanical failure rate is excessive and above the industry accepted norm. The industry acceptable level of risk for significant equipment failures for each vessel is 1 in 10,000 and for minor events 1 in 1,000. For example, two minor mechanical failures that would affect the sailing schedule annually should be expected.

With regard to mechanical reliability, mechanical breakdowns are generally the product of a poorly executed quality, inspection and maintenance program.

³¹“Wait on Berth” occurred 18 times in North Sydney and 62 times in Port aux Basques during 2004. Information provided by MAI March 2005.

³²Key equipment includes propellers and shafts, rudders, main engines, thrusters, boilers and electrical generating equipment.

³³During 2004 MAI’s fleet was out of service for a total of 796 hours, of which 403 hours (16³/₄ days) were mitigated (alternative arrangements made to keep the schedule) with 393 hours (16¹/₂ days) of “significant” delay.

³⁴MAI’s position is that a significant delay is one that lasts more than 12 hours (MAI Delay Policy and Procedure, Section 27.1.4.8)

Recommendation 4: That MAI review vessel inspection and maintenance procedures designed to minimize equipment failure and set clear objectives regarding mean time between failures.

9.9 Restricted Materials

The number of passengers on ferries carrying restricted (hazardous) materials are limited by regulation. With the Committee's recommended three-vessel fleet, the present restricted crossings can continue, but only for commercial vehicles, with those carrying restricted materials having priority. Only the truck drivers would be onboard as passengers.

It is possible to increase the number of passengers (truck-drivers in this case) carried during a restricted crossing, provided extra safety measures were put in place, such as a special briefing and the provision of ship-abandonment suits for all persons onboard.³⁵

Recommendation 5: That MAI make application to Transport Canada's Marine Safety Branch, to satisfy an equivalency ruling which would allow an increase in the number of truck-drivers (i.e. passengers) carried during restricted crossings.

9.10 Drop-Trailer Service

From 2001 to 2004, drop-trailer traffic increased by 11.1%. Measured differently, drop trailer traffic increased by 15.3% when comparing the month of July 2001 to the month of July 2004. During these same periods, tractor-trailer traffic (driver-accompanied) increased by 7.7% from 2001 to 2004, and increased by 5.4% when comparing the month July 2001 to the month of July 2004. Several drop-trailer operators have reported that this growth would continue and is attributed mainly to delays and the comparative advantages relative to utilization of equipment and drivers. Stakeholders told the Committee that trailers with a driver-driven tractor (tractor-trailer) often waited up to 24 hours for a crossing. Simply "dropping" the trailer at the terminal for MAI to put it on and off the ferry is advantageous for the truck owner, because although MAI's charge for loading and unloading is about the same as for carrying the tractor, the driver and tractor can be working elsewhere. In addition, the drop-trailer owners do not need to pay a driver to ride the ferry. The drop-trailer owners report that there is currently a shortage of drivers.

³⁵Conversation between the Committee Chairperson and the Regional Director Marine Safety, Atlantic Region, Transport Canada, February 2005.

The operation of the present drop-trailer service has considerable impact on MAI's overall operations in terms of cost, schedule adherence and customer satisfaction. The service is costly because of stevedoring, (i.e. charges to load and unload the trailer) together with maintaining the special tractors that manoeuvre the trailers on and off the vessel – costs in part borne by MAI and ultimately the taxpayer. When drop-trailers are loaded on the passenger ferries, the on-time performance of the service is negatively affected because of the time taken to load and secure the drop-trailers. This results in customer dissatisfaction, both from the tractor-trailer drivers and operators, and passengers subject to delays.

The Committee notes that it is uncommon for major ferry service operators in North America to carry drop-trailers. Furthermore, the carrying of drop-trailers on European passenger ferries has virtually ceased because of the high cost. It is uneconomic for a ferry operator to provide such a service for which the user is unwilling to pay the total costs.

Without drop-trailers, the service is a much less complicated and costly operation, with 45-60 minute port turnarounds possible when all vehicles simply drive-on and drive-off, as compared to three hours or more when drop-trailers are part of the traffic mix. For example, the Committee noted that on one occasion in February 2005, while MAI was operating on “load-and-go” basis to clear a backlog of traffic, the turnaround time was 4 hours in Port aux Basques and 5.5 hours in North Sydney.³⁶ Less time in port gives opportunity for more crossings thus achieving better vessel utilization and the ability to transport more traffic. As well, stakeholder complaints about unpredictable schedules and poor on-time performance are addressed.

The segment of the trucking industry that utilizes drop-trailers has reservations over discontinuing the drop-trailer service. The two main reasons, cited by the drop-trailer operators, were the lack of drivers available to spend time on the ferry and the comparative advantage relative to the utilization of tractor (truck) equipment.³⁷

The Atlantic Provinces Trucking Association provided information to the Committee from the Canadian Trucking Human Resource Council, indicating that over 37,000 new drivers are required annually by Canadian trucking companies between 2003 and 2008. No information was provided with respect to these targets having been met between 2003 and 2005.

The views of current owners of tractor-trailers (driver-accompanied) were also sought and they stated that in the absence of the drop-trailer service, there would be a better service with fewer delays and a quicker turn-around during busy peak operating times. Some trucking operators do not pay their drivers when they are transiting the ferry system, which adds to the low driver tolerance for ferry delays.

³⁶MAI website Arrivals and Departures, 3 February 2005.

³⁷The Committee Chairperson had several discussions with representatives from the commercial trucking industry. Discussions centered on the cost of the drop-trailer service and the negative impact for users, including the poor on-time performance.

Drop-trailer operators believe that this would require them to change the manner in which they do business with MAI, because they would have to change from drop-trailers to tractor-trailers. The Committee recognizes this would require some adjustments for the industry. Since all traffic arrives at MAI's terminals with a tractor and driver, the adjustment is that the tractor would have to stay attached to the trailer, thus allowing quicker loading and off-loading.

With MAI discontinuing the drop-trailer service, it is expected that much of this traffic, which arrives at the terminals with a tractor, would now keep the tractor and drive on and off the ferry as a driver-accompanied load. Although not anticipated, should none of the drop-trailer traffic convert to driver accompanied loads, there would still be a positive economic benefit to MAI over the planning period. Should these users not want to convert, they would have the option to travel by the current private carrier service or to support others wanting to provide such a service.

At the request of the Committee, MAI evaluated the business and employment consequences should the drop-trailer service be discontinued. In terms of employment, MAI estimated that 38 employee positions would need to be bought-out, that is 19 full-time equivalents in both North Sydney and Port aux Basques. Of these positions, eight are stevedores whose duties include securing (lashing) the drop-trailers to the ferry decks. The Committee is of the opinion that reductions in the number of employees from gains in efficiency can be achieved through attrition and retirements, given the average age of MAI's employees. Furthermore, the employees are protected by the Income Security Agreement, which provides benefits and severance payments for employees, who are affected by a technological, operational or organizational change.³⁸ MAI's future operations can be expected to change according to traffic levels, new ships, and technical advances. These changes will most likely result in more efficient personnel usage, for example lower crew levels with more modern vessels. Under the present Income Security Agreement, personnel reduction requires the senior to vacate for the junior employee.

The Committee's conclusion is that for a three-vessel operation to be successful, all commercial traffic must be driver-accompanied, meaning that MAI would no longer offer a drop-trailer service. This would allow moving to a service that is fair, balanced and that benefits all users in terms of a more reliable and efficient operation.

Recommendation 6: That MAI no longer provides a drop-trailer service as of June 2006.

³⁸MAI Income Security Agreement, Article 1 Sec. 1.1, p. 5.

9.11 Moving to a Three-Vessel Fleet

In order for MAI to move to a more efficient driver-accompanied commercial operation, an additional RoPax ferry would be needed in 2006, following the retirement of the *MV Atlantic Freighter*, to accommodate the extra auto-equivalent unit (AEU) and additional capacity requirement resulting from carrying tractors and the future traffic growth until new purpose-built vessels are available. This is due to the longer length of a tractor-trailer compared to a drop-trailer. In analyzing the fleet requirements for this change, MAI's traffic projections were increased to reflect this additional deck space requirement (see Appendix I for the analysis of capacity and demand). The Committee has determined that a suitable ferry would be available for temporary charter.

Recommendation 7: That MAI searches, as soon as possible, for a suitable temporary RoPax ferry for charter in 2006 for a three-year period with the option to extend for two one-year periods.

The Committee has concluded that MAI can move from its current fleet to a fleet of three larger and modern RoPax vessels that would raise the overall quality and efficiency of the service, with significant reductions in operating costs. Thus, the expensive mid-life refits of the existing vessels in MAI's fleet would be avoided³⁹.

Consultations were held with MAI, international ferry operators and ship brokers to determine the order of magnitude for new vessel construction costs. Based on these discussions, on a European competitive basis, the 2005 construction costs for the proposed three new RoPax ferries can be estimated at about \$600 million. Because of the potential for a change in available shipyard building slots, steel price and other variables, this price indication may likely change.

The Committee is aware of the Canadian Federal Shipbuilding Policy. The Committee does not wish to make a recommendation regarding where the ships should be constructed. The policy states that the "federal government will continue to procure, repair and refit vessels in Canada subject to operational requirements and the continued existence of a competitive domestic marketplace."⁴⁰ The Committee believes that the possibility exists for Canadian shipyards to be competitive.

³⁹Mid-life refits for each of the superferries Caribou and Smallwood have been estimated by MAI as between \$80 million and \$100 million (information provided by MAI 2 February 2005).

⁴⁰Focusing on Opportunities: A New Policy Framework for the Canadian Shipbuilding and Industrial Marine Industry, Industry Canada, 2001, p.17.

To properly address this issue, research needs to be carried out regarding project management, detailed operational requirements, vessel specifications, final design, shipyard capabilities, and to determine the competitiveness of all suitable shipyards, as well as to study potential local construction benefits and other Canadian Industrial benefits, including tax revenue streams. The result of such work would be to identify the best value solution to the Canadian taxpayer. These issues are complex and warrant a full cost-benefit analysis as part of a comprehensive fleet renewal plan.⁴¹

Recommendation 8: That MAI plan, for an eventual purpose-built three-vessel fleet, phased in between 2006 and 2011, for a service restricted to passengers, passenger vehicles and driver-accompanied commercial traffic.

This three-vessel fleet, operated on the conditions previously outlined, would provide:⁴²

- capacity to meet MAI's projected requirements beyond 2020 both for North Sydney-Port aux Basques and North Sydney-Argentia services;
- redundancy, in the event of one vessel being out of service;
- more efficient use of marine vessel equipment and port facilities;
- savings in fuel consumption;
- simpler and more economic drive-on/driver-off operations;
- faster port turnaround times;
- crewing and maintenance for three instead of four ships;
- operating cost savings in excess of \$340 million between 2006 and 2020 (exclusive of residual value remaining in MAI's fleet in 2020);
- an opportunity to share savings between the Government of Canada (the taxpayer) and the users;
- a 15% rate reduction to users in 2006 with a 44% cost recovery; and
- an opportunity to stabilize rate changes for the next 10 years and with future rate increases would be tied to the Consumer Price Index for Newfoundland and Labrador.

⁴¹A fleet plan should include strategies for:

- Project management.
- Selection of design consultants.
- Purchase options, including private-public partnership.
- Construction and risk management.
- Reduce vessel operating costs through design.
- Stakeholder input.
- Compliance with international and Canadian regulations.
- Sharing savings in the event of steel price reduction.
- Construction contract guarantees.

⁴²See Appendices J and K for the financial and planning analysis.

For the renewal of MAI's fleet, the Committee has considered the following timeline:

Vessel	2005	2006	2007	2008	2009	2010	2011-2020
<i>Atlantic Freighter</i>	✓						
<i>Caribou</i>	✓	✓	✓	✓			
<i>Leif Ericson</i>	✓	✓	✓	✓	✓		
<i>Smallwood</i>	✓	✓	✓	✓	✓	✓	
Temporary Charter		✓	✓	✓	✓		
New Vessel 1					✓	✓	✓
New Vessel 2						✓	✓
New Vessel 3							✓

Under this scenario, and as the three new generation vessels for MAI's fleet are introduced into the service from 2009 to 2011, the existing fleet would be phased out. The *MV Caribou* would be removed in 2009, the *MV Leif Ericson* in 2010 and the *MV Joseph & Clara Smallwood* in 2011. The charter on the temporary vessel would end in 2009 or 2010 depending on the exact delivery date of new vessels.

On the issue of redundancy within the proposed three-vessel fleet, with a speed of 20-23 knots, additional weekly crossings are possible during an unplanned event. On a load and go basis, two vessels can carry all weekly peak projected traffic for the planning period between North Sydney and Port aux Basques. At all times of the year there is excess capacity, meaning two vessels can provide the minimum constitutional service during the winter season. The new vessels proposed for MAI could each make as many as 24 single crossings, in the Gulf service, every week, thus carrying all traffic without delays. No ferry operator can afford to keep a "spare vessel".

10. FUTURE CAPITAL REQUIREMENTS

10.1 *MV Leif Ericson*

In 2000, MAI was given a loan from the fiscal framework (i.e. federal government) of \$86.25 million to cover the cost of purchasing the *MV Leif Ericson*. This loan, with interest of 6.7%, is to be repaid over ten years with annual payments of \$9.9 million and a final payment of \$12 million in the final year. The loan accounts for one-third of MAI's base subsidy level. MAI is thus paying interest on the cost of Canadianizing the vessel in accordance with safety regulations as well as the 25% duty and the GST paid when the vessel arrived in Canada. It is clear that this loan has had a negative effect on MAI's ability to operate within its given subsidy level and the cost is being borne by users. Furthermore, the granting of a loan for such a significant capital expenditure for an appropriation-dependent Crown corporation is outside of the government's regular practices in funding these acquisitions and is not consistent with the historical precedent of the federal government covering the cost of vessels for MAI.

Recommendation 9: That the cost of the loan from the fiscal framework for the purchase of the *MV Leif Ericson* be forgiven or removed from MAI's operating cost and be paid from the capital budget.

10.2 Reserve Fund

Currently MAI has a line of credit with a commercial bank for cash management purposes. The Committee recognizes that there are liabilities against this line of credit from MAI's former operations in another Atlantic province. The negotiation of an alternative means of securing or paying this liability would be to the advantage of the corporation and the federal government. As with any commercial borrowing, there is a cost associated with the use of this line of credit and it is not sufficient to be used as a contingency reserve. Furthermore, as an appropriation-dependent Crown corporation, MAI should use a contingency reserve to fund any unplanned operational costs that is separate from the operating budget approved by MAI's Board of Directors.

Recommendation 10: That a contingency reserve fund be established, the use of which should be on a case-by-case basis, subject to the Board of Directors input and approval, and with Transport Canada oversight.

10.3 Capital Fund

Establishing a Capital Fund for MAI, similar to VIA Rail's Asset Renewal Fund, would have the following benefits and impacts.

Benefits:

- eliminate the need to prepare Cabinet documents for capital requirements;
- the Corporate Plan would be the mechanism to unlock the funds; hence, the approval process for purchasing or restoring assets would be much simpler;
- it would be a multi-year funding arrangement;
- possibility of adding unspent operating funding to the fund enhancing the flexibility of the corporation; and
- provides better planning, which enhances consistency and uniformity.

Potential impacts:

- a good fleet plan would need to be prepared. The fleet plan can improve MAI's corporate governance by establishing a new practice that better oversees and manages its capital renewal;
- a professional manager would be required to ensure that the management of the fund is carried out effectively;
- controls and reports should be put in place to give reasonable assurance that the capital fund is managed efficiently; and
- would follow on precedents set for other Crown corporations.

Recommendation 11: That all future capital requirements are the responsibility of the federal government, according to constitutional precedent, so that no capital costs are passed to MAI users.

Recommendation 12: That a MAI Capital Fund be established, similar to VIA Rail's Asset Renewal Fund, to assist in funding future year capital requirements and enhance the corporation's fiscal planning capability.

10.4 Terminal Facilities

MAI is planning the development of the former Port aux Basques rail dock with a single-level hydraulically operated transfer bridge that would be expanded to a bi-level dock. This is a two-phased project, to be completed in 2009 with a total cost of \$11.1 million (\$6.4 million in 2005/06 and \$4.7 million in 2009/10). MAI justified the dock on the basis of current traffic levels, future traffic projections, maintenance issues, the need for a docking contingency, and that two docks will alleviate delays. The Committee's opinion is that better on-time performance out of North Sydney would have done more to alleviate delays. The Committee advises that MAI complete a risk assessment and examine the ability to simultaneously utilize both docks as well as study the available operating weather windows when a vessel can safely manoeuvre to and from the inside dock while the outside dock is occupied.

Recommendation 13: That MAI re-evaluate the requirement and feasibility for a second dock in Port aux Basques, in light of the Committee's recommendations regarding a three-vessel fleet operation and discontinuation of the drop-trailer service, resulting in shorter loading and unloading times.

II. EFFICIENCIES IN MAI OPERATIONS

11.1 MAI's Record

MAI's operating costs have increased significantly in recent years due mainly to factors outside of the corporation's control. Operating costs such as fuel prices doubling, a rise in insurance premiums post-September 11th, regulatory changes in safety and security, changes in workers compensation regimes have all added pressure to increase revenues as well as the subsidy. The Committee notes that the significant deficit in MAI's pension plan to be of particular concern, and is currently one of the most significant financial pressures on the corporation.

11.2 Wages and Benefits

The Committee notes that wages and benefits are the corporation's single largest cost, at \$64.3 million for the year ended 31 December 2003. The OAG 2004 Special Examination report notes "The corporation's ability to efficiently match its human resources to its operational needs has been a long-standing concern."⁴³

11.3 Collective Agreements

MAI's six employee bargaining units represent approximately 1,200 persons, or 98% of the total workforce. The Committee recognizes the right for employees to organize, and the number of bargaining units within the corporation is a matter between management and workers, within the legislative framework.

The 2004 OAG Special Examination Report noted that MAI's collective agreements, with its (then) five unions, were complex and not always responsive to operational requirements. The OAG found the agreements restrictive in key areas that are critical to efficient operations, such as the filling of vacant positions, replacement of workers during absence, scheduling, and overtime.⁴⁴

The same 2004 Report⁴⁵ noted the lack of management training on how to manage in a heavily unionized environment, citing one case where part-time temporary employees became permanent even though their services were no longer required, positions becoming a part of the minimum crew, with elimination triggering the Income Security Agreement. MAI provided the Committee with information from arbitration with one of its unions in 2004, which compares the agreements, wages and benefits of other marine companies or departments in the corporation's area. The Committee observes that the overhead for benefits (pension, medical plan, etc.) is approximately 40% of the salary of an MAI employee compared to approximately 15% to 20% in the private sector.

⁴³Special Examination Report 2004, Office of the Auditor General of Canada, Sec. 60, p. 11.

⁴⁴Ibid. Sec. 70, p. 12.

⁴⁵Ibid. Sec. 71, p. 12.

The Committee is recommending that MAI develop a strategy to streamline aspects of the collective agreements that will lead to efficiencies and benefits for ferry users and taxpayers. For example, the Committee has noted that stevedore wages, including overtime, are significantly higher in North Sydney than in Port aux Basques, even though both facilities support similar operations. The main difference being that the Port aux Basques stevedores work split shifts, which better matches the corporation's operational needs.

Recommendation 14: That MAI, as soon as possible, develop and document for its Board and Senior Management, a strategy to streamline aspects of the collective agreements in an effort to lead to further efficiencies and benefits for ferry users and taxpayers.

11.4 Vessel Employees

MAI crews its vessels using standard models for operating status and anticipated passenger levels, depending on season and whether operating, on standby, laid up, or in maintenance. To the Committee's knowledge, the models have remained the same since 1999.

Operating certificates issued by Transport Canada Marine Safety provide for the minimum number of crew required to operate the vessel safety and evacuation systems. As noted by the OAG in 2004, throughout the year the corporation's passenger/freight ferries operate with crew levels in excess of those required under its operating certificates, sometimes up to 40% higher than the certificate requirements.⁴⁶ MAI maintains that these crew levels are required for safety and customer service purposes.

The Committee understands that crew levels are generally consistent with past practice and are maintained in accordance with the collective agreements. However, the Committee is not able to determine whether the crew levels are set at the most cost-effective levels because MAI has not developed specific standards for employee productivity and customer service. Crews could also be minimized during vessel standby or lay-up, through utilization of shore power, and reduction in the numbers required to rapidly re-activate a standby or laid-up vessel. The Committee notes that the *MV Leif Ericson* is one such case where shore power could be used to reduce crew sizes during stand-by periods.

MAI needs to review vessel crewing levels, which are currently above industry norms. MAI's submission to Transport Canada regarding the Safe Manning Certificate is presently made on the basis of the corporation's suggestions rather than considerations of the minimums that may be required.

⁴⁶Ibid. Sec. 64, p. 11.

Recommendation 15: That MAI make realistic need-based applications to Transport Canada's Marine Safety Branch regarding the Safe Manning Certificate, moving towards a more cost-efficient employment of shipboard personnel.

Recommendation 16: That MAI prepare a cost-benefit analysis regarding stand-by crew numbers, particularly respecting the *MV Leif Ericson* through the use of shore power.

11.5 Port Turnaround

The OAG 1999 Special Examination Report identified opportunities to improve the turnaround time of vessels in port, observing that during the peak summer season, it takes more than an hour to unload a vessel and reload it for the return trip, and that in past years, this turnaround time was as low as 40 minutes.⁴⁷

The Committee finds little evidence of operational quality control or accountability for operational procedures with respect to port turnaround.

Recommendation 17: That MAI set objective indicators with respect to the key components of turnaround time, such as the time it takes to lower the ramp, to get the first vehicle off, to get the last vehicle off, and to load the first vehicle for the next trip, with the objective of improving efficiency and on-time performance.

11.6 Reservations

The Committee examined the possibility of cost savings through consolidation or out-sourcing MAI's reservation service. The Committee found that the fee for each reservation charged by MAI is the same as would be charged in the private sector, therefore no change is recommended. However, there are opportunities for improving the user-friendliness of the reservation system.

The Committee understands that the online reservation process is entering its final stage of development and is approximately 98% ready for implementation. MAI reported that as of the end of February 2005, there were two remaining issues - credit card processing and a physical change to a vessel berth configuration that was not built into the system. The credit card processing issue has since been resolved and the second would be resolved that week (February report). Once complete, the functionality of these items are to be tested. Upon successful completion of testing the online reservation process will be complete.⁴⁸

⁴⁷Ibid. Sec. 57, p. 10.

⁴⁸Information provided by MAI 9 March 2005.

Recommendation 18: That MAI ensure satisfactory completion of the on-line Internet reservation service in time for the 2005 summer season, and include links to Atlantic Canada tourism websites.

Stakeholders within the commercial trucking industry and private individuals, who from time to time transport vehicles larger than motor cars, expressed their view that the tractor-trailer units and “straight” trucks should be able to make reservations like all passenger related traffic.

Recommendation 19: That MAI establish a reservation system for driver-accompanied traffic that can be applied fairly to all commercial users.

11.7 Maintenance

The Committee considered cost savings through consolidation of maintenance activities, where MAI has significant assets in three terminal locations, including buildings, wharves, piers, lighting, parking lots, ramps, equipment and machinery. The shore-based maintenance departments (60 persons) complete a significant amount of vessel maintenance work. MAI’s position is that consolidation would be detrimental to the operation without the presence of a maintenance department to address emergency situations, particularly given the relatively remote locations, and where it would be difficult to source the appropriate skill sets. The closure of the drop-trailer business would likely have an effect on reducing the amount of maintenance work currently performed at both main terminals.

Recommendation 20: That MAI evaluate the relationship between maintenance activities onboard and onshore, and whether there may be a more efficient distribution of maintenance tasks.

11.8 Immediate Measures to Improve Efficiency

The effects of most of the Committee’s recommendations would not be realized until the three-vessel fleet is operational. There are however, two operational changes that can be applied immediately, and that will both offer some improvement to MAI’s service, as well as demonstrate immediately Transport Canada’s commitment to the process of improving the corporation.

Recommendation 21: That, effective immediately, MAI gives priority to the loading of tractor-trailers and passenger vehicles over drop-trailers, as a measure to maintain the published schedule.

Recommendation 22: That, effective immediately, the *MV Atlantic Freighter's* schedule be modified so as not to conflict with the passenger ferries departure and arrival times.

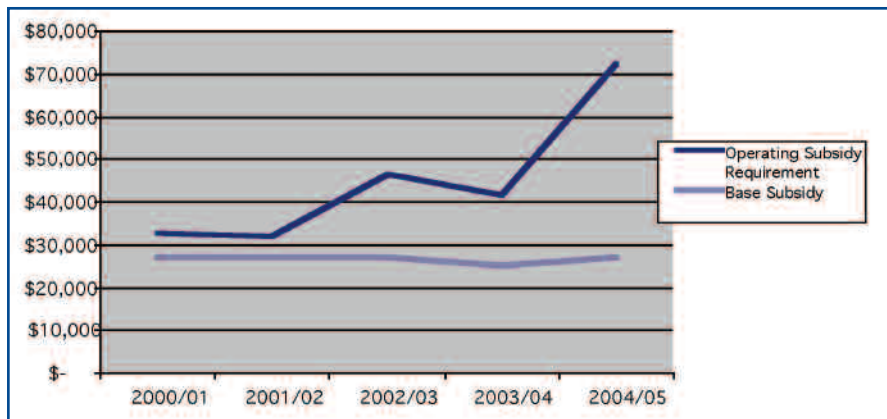
For Recommendation 22, there may be several options, i.e. the *MV Atlantic Freighter* could depart North Sydney at 5:00 PM for arrival in Port aux Basques after the night passenger ferry departs. The *MV Atlantic Freighter* can then load and depart Port aux Basques early morning for arrival in North Sydney late morning, ready to load and depart North Sydney at 5:00 PM.

12. FUNDING AND PRICING SOLUTIONS

12.1 Present Situation

MAI's operating costs have increased significantly over the past several years, placing great pressure on the federal government to fund shortfalls or take measures to increase revenues. The following graph shows MAI's base subsidy compared to the actual operating subsidy requirement since 2000/01. MAI projects that these costs will continue to increase. A strategy will be required to address MAI's future needs.

Table 5: MAI Subsidy Requirements 2000-2004 (in \$thousands)



In addition to the annual base subsidy, the federal government has provided MAI with funding of \$90.3 million since 2000/01 to cover increasing operating costs.

Recommendation 23: That MAI's annual base subsidy be set at a level reflecting the operating costs for the required service.

12.2 Budget Preparation

MAI annually forecasts the next year's traffic and develops a sailing schedule to meet the projected demand. The corporation prepares a budget based on the schedule; it also proposes the fare and rate tariff for the upcoming year. Transport Canada officials review this information, on behalf of the Minister of Transport.

The Committee notes that maintaining MAI's budget targets, particularly regarding the labour component, is dependent on maintaining the budget-based vessel schedule.

12.3 Rate Freeze

The Committee considered that the two-year rate freeze announced on 22 December 2004⁴⁹ ensured the short-term affordability of MAI's services to both private and commercial users, and provided a measure of certainty to the trucking and tourist industries. Removing the issues of rates from the table also allowed stakeholders to focus on other issues.

12.4 Rate Stabilization

As evidenced through previous stakeholder meetings and representations over the last four years, the consistent concern is regarding the cost of the ferry service and the need to hold or roll-back charges. Stakeholders have expressed their strong opposition to unpredictable rate increases. This view was expressed at the stakeholder meeting hosted by Transport Canada on 21 October 2004, the Committee's stakeholder consultation session on 13 January 2005, as well as in most written briefs. On the basis of stakeholder representations it was clear to the Committee that current rates are a disincentive to the use of the service and that there is resistance to further rate increases.

A major concern of stakeholders is that not only are MAI rates based on inappropriate criteria (such as including capital expenses), but also that they cannot be predicted in the medium and long-term. A 15% reduction in rates in 2006 would reduce the cost recovery ratio to approximately 44%. Future rate increases should be linked to the Consumer Price Index of Newfoundland and Labrador. By 2020, cost recovery is projected to gradually increase to 77%, although further opportunities should be investigated to stabilize cost recovery below this level. Rates could be subject to a surcharge for fuel or insurance, where these items escalate beyond normal predictability, in consultation with stakeholders.

⁴⁹On 22 December 2004 Natural Resources Minister the Hon. John Efford on behalf of Transport Minister the Hon. Jean-C. Lapierre announced that the Government of Canada has placed a two-year freeze on rates charged by MAI. The freeze will be in effect from 1 January 2005 to 31 December 2006.

Recommendation 24: That MAI institute a one-time rate reduction of 15% in 2006 to encourage use of the service and to pass on to users the cost-reduction benefits of a more efficient ferry system.

Recommendation 25: That starting in 2007, MAI's future rate increases for the next ten years for both services be linked to annual changes in the Consumer Price Index for the Province of Newfoundland and Labrador.

12.5 Free-in Pay-out

The Committee considered a stakeholder suggestion for a “free in – pay out” rate system, such as the one in place for the Confederation Bridge and the Northumberland ferry service. It was deemed impractical because of the variety of ways a customer could enter and exit Newfoundland and Labrador, requiring “proof of entry”.

Instead the Committee recommends a revenue-neutral simplification of the commercial vehicle rate. Users have indicated that they would like to pay by the measured length to the nearest foot for tractor-trailers.

Recommendation 26: That MAI implement a revenue-neutral simplification of the commercial vehicle rate, wherein commercial customers pay on the basis of a more exact measurement of their usage of the vessel's deck space.

12.6 Rate Incentives and Innovations

Other ferry operators, such as BC Ferries, Bay Ferries Ltd. and Northumberland Ferries Ltd. offer users innovative incentives. Examples include discounts for large volume commercial customers, annual passes, and books of commuter tickets that are available at reduced rates for frequent users. Furthermore, off-season rates and time-of-day pricing are strategies used by most major ferry operators in Canada and internationally both as a means to manage traffic levels on crossings (lower prices on crossing with lower customer demand) and as an added incentive to travel. Other modes of passenger transportation (i.e. rail and air) also use these types of pricing strategies to manage customer demand.

Recommendation 27: That MAI, as part of a comprehensive fare review, adopt innovative annual revenue-neutral fare incentives.

12.7 Marine Service Fees

The applicability of marine service fees to MAI was considered by the Committee. Vessels that are owned and operated by the federal government are exempted from payment of the Marine Navigation Services Fees and Icebreaking Service Fees as they are deemed to be "government ships". Ferries operated by provincial governments or Crown corporations that charge a tariff to users are not deemed to be government ships and are therefore subject to payment of the fees. Consequently, exemptions are not applied to federal services such as MAI, and are not applied to other ferry services, except in Newfoundland and Labrador.

Under the Terms of Union (term 31), Canada is obligated to provide Navigational Aids, Vessel Traffic Services and Icebreaking Services free of charge for Newfoundland and Labrador provincial ferries, that is, the province is exempted from the marine service fees. The determination of the Newfoundland and Labrador exemption followed much discussion and interpretation within Canadian Coast Guard regarding the commitments of Canada to Newfoundland under the Terms of Union, and the final decision was to exempt ferries operating on behalf of the province from the fees that are charged for Navigational Aids, Vessel Traffic Services and Icebreaking Services.

However, unlike MAI's service between North Sydney and Port aux Basques, Newfoundland and Labrador's provincial ferry system is not guaranteed under the same Terms of Union that guarantees the provision of marine navigation services to the province. The Committee noted this inconsistency in the application of fees and has concluded that these fees should not apply to MAI's constitutional ferry service.

Recommendation 28: That MAI is exempted from fees for Marine Navigation Services and Icebreaking Services provided by the Canadian Coast Guard.

13. QUALITY AND SERVICE

13.1 Safety and Training

The Committee fully supports MAI's commitment to develop and maintain safety management systems, continually reinforce a safety culture, and be prepared to respond to unplanned events.

In view of the fleet restructuring recommended in this report and the forecast increase in passenger numbers, the Committee anticipates that MAI will review its procedures, training and exercises to respond to unplanned events, including emergency situations.

MAI has invested considerable funds in safety and environmental training. However, the OAG's 2004 Special Examination Report expressed "...concerns about the corporation's ongoing management of training. Specifically, it has not completed a comprehensive assessment of the safety, environmental and service competency requirements of each position and ensured that those holding the positions have received the required training."⁵⁰

Recommendation 29: That MAI review its procedures, training and exercises to respond to unplanned events, including emergency situations, in light of the fleet restructuring recommended in this report and the forecasted increase in passenger numbers.

Training for reservations, ticketing, restaurant, bar, housekeeping and any other "front-line" staff is very important. These employees project the corporation's image and as such are an integral part of any positive customer experience. Although MAI provides customer service training, it does not currently use "nationally certified" hospitality training that has become the standard of the industry.⁵¹ These national programs allow employees to become certified as tourism professionals by the Canadian Tourism Human Resource Council in their particular field. Along with improving customer service, they also instill a pride in employees from the fact that they are recognized as true professionals in the industry.

Recommendation 30: That MAI use nationally-certified customer service training for all front line personnel to improve customer service in all aspects of the operation.

⁵⁰Special Examination Report 2004, Office of the Auditor General of Canada, Sec. 103, p. 18.

⁵¹Information provided by MAI, 15 March 2005.

13.2 Management Responsibility for Service Levels

Stakeholders have expressed concerns about MAI's level of quality and service. The Committee's recommendations address the major concerns regarding waits, delays, on-time performance and costs. The Committee considers quality and service matters such as catering, vessel cleanliness, onboard entertainment and customer complaints as the responsibility of MAI's Board of Directors and President and CEO.

MAI has in place quantitative and qualitative senior manager performance objectives related to quality and service as well as operational plans. The following two recommendations are designed to motivate both senior and middle management.

Recommendation 31: That MAI's performance measures be result-oriented and meet the expectations of users, and that these measures and targets be extended to middle management, and be linked to a financial bonus scheme.

Recommendation 32: That MAI develop quantitative standards for employee productivity and customer service.

13.3 Customer Satisfaction Surveys

MAI's Customer Surveys in 2003 and 2004 indicate a consistent high level of satisfaction with the overall quality of service, as shown in Appendix H. The surveys are directed to passengers over the summer high-season period.

In 1999, the OAG Special Examination Report made a number of observations on issues of quality of service. In 2004, the OAG Examination found "... that the corporation has placed considerable emphasis on improving the service it delivers, and its customer surveys indicate a high level of customer satisfaction as a result. The most recent survey, in 2003, found that 97% of passengers were satisfied with the service."⁵²

The Newfoundland and Labrador Government Preliminary 2003/04 Auto Exit Survey did not include a specific question on MAI services. However, there was a concluding "comments section" which asked for additional comments concerning their trip. From selected July/August 2004 Port aux Basques data, most non-residents made positive comments. Six per cent complained about ferry costs and 12% complained about the service. Residents, however, often commented on the ferry service: 23% complained about costs and 30% complained about the service.⁵³

⁵²Special Examination Report 2004, Office of the Auditor General of Canada, Sec. 92, p. 16.

⁵³Department of Tourism, Culture and Recreation, Supplementary Information, MAI Committee, 7 March 2005, p.12.

The Committee believes that MAI’s method of surveying passengers during the summer months, and after users have returned home, does not accurately reflect satisfaction levels, nor do current surveys include commercial users. A more accurate and timely way of capturing specific customer concerns would be to conduct the surveys on board the vessels.

Recommendation 33: That MAI, throughout the year, conduct bi-monthly customer satisfaction surveys for both private and commercial users while the customers are on the vessels.

13.4 Passenger Amenities

Stakeholders have indicated that the current fleet does not fully meet industry standards in terms of services and modern accommodations. To attract customers to the service, it is crucial that the new vessels incorporate improved amenities and accommodations (i.e. modern video lounges, improved dining facilities and comfortable cabin and sleeper accommodations to meet expected demand). The amenities required should be developed through customer research and in consultation with the tourism industry.

Recommendation 34: That MAI’s future vessel assets incorporate industry standards, in terms of services and modern accommodations, as appropriate for the ferries.

13.5 Argentia Service

There is no business case for MAI to discontinue the Argentia Ferry service and move these crossings to Port aux Basques. In fact *the Review of MAI’s North Sydney – Argentia Ferry Service* (October 2002) concluded that if the Argentia service had not operated in the years 1999, 2000 and 2001 the federal subsidy would have been cumulatively approximately \$4.1 million greater.⁵⁴ As well, passengers carried on this service would have been carried on the Port aux Basques service at reduced revenue to the corporation.

Despite the political sensitivity of the “non-constitutional” Argentia ferry, the Committee reviewed the service in the context of MAI’s overall operations, recognizing its importance to the tourism industry, to see if there is a better way of utilizing the Argentia service – for example, encouraging the trucking industry to utilize the service. The Committee found that increased utilization by the trucking industry is problematic as drivers are normally paid for the distances they drive thus most are not paid for time aboard the ferry. In addition, some commercial users advised the Committee that their business profile was such that they have to exit on the west side of the province because of their need to make pick-ups across the island.

⁵⁴Review of Marine Atlantic Inc.’s North Sydney – Argentia Ferry Service (Interim Report), 9 October 2002, p. 4.

From a tourism industry perspective, the Argentia service allows tourists to enter the province through one port and exit through the other (i.e. the “Loop Trip”). This has the effect of spreading tourism spending throughout Newfoundland and Labrador and is particularly important to central and eastern rural areas. It is also seen as an integral part of the growing recreational vehicle (trailers and RVs) industry in the province as these customers do not want to backtrack. A loss of this service would have a serious negative effect on tourism revenues in central and eastern areas of the province.

The new three RoPax vessel service recommended by the Committee would continue to accommodate the existing Argentia service.

Recommendation 35: That MAI maintain the Argentia ferry service and regularly review the service in terms of revenues, costs and traffic.

13.6 Ombudsman

The Committee considered stakeholder suggestions that MAI should have an Ombudsman. In 2003, the corporation had a middle-manager appointed to address customer issues and report to the President and CEO. Ideally, an Ombudsman should be independent of the service under consideration. However, the Committee is mindful of the expense of such an office.

Recommendation 36: That MAI’s Board of Directors establish an independent Ombudsman, responsible to the Audit Committee of the Board of Directors, and reporting to Transport Canada semi-annually.

13.7 Communication with Users

Stakeholders have stated that there is poor communication between MAI and users of the service when there is an unplanned event that warrants a change to the scheduled departure time. Users complain that when they contact MAI reservations, available information is often neither current nor accurate, thus resulting in the passenger arriving early at the terminal to board a vessel that is not travelling on schedule. Furthermore, stakeholders raised the issue of the lack of available, timely and accurate information at the terminals concerning vessel arrival and departure times and the reasons for any delays. This includes timely updates on MAI’s telephone information service. Several recount experiences concerning delays and having to wait extended periods without any information to base a decision regarding the need to seek out local accommodations, meals or advise relatives of changes in travel plans.

Recommendation 37: That MAI complete an action plan, in consultation with stakeholders, to improve communication with users onboard its vessels, at the terminals, through the reservation system and online.

14. PARTNERSHIPS

14.1 General

Stakeholders believe that MAI should work closely with industry, with some organizations such as Cape Breton Tourism, Nova Scotia Tourism and Hospitality Newfoundland and Labrador already considering themselves as “partners”. The Committee believes that MAI’s Board of Directors and senior managers are in the best position to improve stakeholder relations and identify partnership opportunities.

Recommendation 38: That roundtable sessions with major stakeholders, led by Transport Canada, be held on an annual basis to improve dialogue and facilitate partnerships to improve the service and address stakeholder concerns.

14.2 Tourism Initiatives

Service improvements and projected increase in passenger numbers are expected to lead to greater numbers of tourists visiting both Newfoundland and Labrador and Nova Scotia. The Committee supports the concept of a new terminal building in North Sydney, as proposed by the Cape Breton Regional Municipality, as well as the development of the Seaside Park in Port aux Basques, as proposed by the Town of Port aux Basques. Furthermore, the Committee agrees that improved signage in the vicinity of the ferry terminal in Argentia, an issue raised by the Argentia Ferry Service Committee, is necessary and one that should be addressed through discussions with the provincial government.

The Committee supports the provision of government assistance to the local communities of North Sydney, Port aux Basques and Argentia to support regional development objectives by means of the Atlantic Canada Opportunities Agency in partnership with the Provinces of Newfoundland and Labrador and of Nova Scotia, as well as the private sector.

14.3 Marketing Initiatives

Tourism stakeholders have stated to the Committee that currently MAI considers itself to be a ferry operator and not in the tourism business. Many industry stakeholders take issue with this perspective as MAI provides the only access for “vehicle-accompanied visitors” to Newfoundland and Labrador. MAI employees are the first and last point of contact with the province’s tourists. The service and its employees leave a lasting impression, positive or negative on all visitors.

To attract customers back to the service and to become an economic enabler for the tourism industry, MAI must significantly improve its marketing and customer service. An example of a marketing partnership, presently in Atlantic Canada, is the co-op marketing arrangements between the operators of the Bay of Fundy ferries and the Province of Nova Scotia. This ongoing partnership increases the visibility of the service, visitation to that province and use of their ferries.

The Committee sees opportunities for marketing initiatives, for example in partnerships with inbound tourism operators, tour wholesalers, the Province of Newfoundland and Labrador, the Province of Nova Scotia, motor coach operators, and in daily and seasonally adjusted ferry rates. The Committee believes that seeking these opportunities should be an ongoing priority of MAI’s Board of Directors and the function of senior management and sales staff.

Recommendation 39: That MAI, to increase usage of the service, seek partnerships for cooperative marketing, improved quality of service, and create new customer products, such as “volume discounts” for commercial users, inbound tour operators, tour wholesalers and motor coach operators.

15. ALTERNATE SERVICE DELIVERY

15.1 Privatization

The Committee supports the majority of stakeholders who were adamant that MAI should not be privatized, although stakeholders believed there may be areas where certain services could be contracted out.

The Committee believes that MAI’s not-for-profit regime, coupled with the efficiencies associated with the private sector, results in the best-value service to the customer.

15.2 Consolidation

MAI was asked to describe the consequences of consolidation and/or reorganization of certain services, namely Reservations and Ticketing, Maintenance, Purchasing, Materials Management, and Vessel Crewing Requirements. Consolidation should be considered such that employment parity occurs on each side of the Gulf, thus maintaining a balance.

15.3 Outsourcing Services

The Committee has been advised by MAI that there are a number of inefficiencies in the corporation's current operations, and that they are working toward correcting these internal issues prior to determining whether there is a requirement to outsource specific functions.⁵⁵

Possibilities for savings through outsourcing services may be in the following areas:

- Customer Service Training
- Housekeeping Service
- Catering and Gift Shops Aboard Vessels
- Liferaft Maintenance
- Marine Emergency Duties Training

Any MAI cost-benefit analysis must consider the effect on funding and pricing, and take into account redundancy costs. The Committee appreciates the political realities of out-sourcing, for example the impact across the Gulf "parity", union agreements and union successor rights, and the possibility that those persons made redundant may then be rehired under a contract agreement. The Committee is of the opinion that these concerns and issues can be addressed with the development of an innovative strategy to achieve greater efficiencies.

Recommendation 40: That MAI continue to seek greater efficiencies and cost reductions through new ways of doing business.

15.4 Head Office

A brief from CAW-Canada⁵⁶ stated "Cost-savings and greater efficiencies could also be achieved by relocating Marine Atlantic's Head Office from St. John's to Port aux Basques or North Sydney. The Head Office ought to be located close to the site of the vessels to allow for more 'hands-on' administration, and the twelve-hour travel time between head office and Port aux Basques is too long and ought to be reduced. Relocating the head office would enhance the overall operation."

⁵⁵Information provided by MAI, 15 March 2005.

⁵⁶The National Automobile, Aerospace, Transportation, and General Workers Union (CAW-Canada).

Furthermore, the Government of Newfoundland and Labrador also made this recommendation in the On Deck and Below report of 1999: “Locate the President and CEO in Channel-Port aux Basques...”⁵⁷

The Committee supports these documented positions that moving the Head Office from St. John’s to Port aux Basques, particularly in a new administrative environment implicit in a three-vessel operation, would be advantageous in terms of management availability and oversight (close to the vessels and terminal) and in terms of cost efficiencies such as travel.

Recommendation 41: That MAI’s Head Office be moved from St. John’s to Port aux Basques by December 2006.

⁵⁷On Deck & Below: A Report on the Gulf Ferry Forum, Government of Newfoundland and Labrador, September 1999

16. FOCUS OF THE RECOMMENDATIONS

16.1 Economic Importance

Recommendation 1: That an amendment be included in the 1986 MAI Acquisition and Authorization Act, or other legislative instrument, to recognize the essential nature of MAI's services.

16.2 Governance

Recommendation 2: That MAI's Board of Directors be comprised of nine to twelve persons, the majority of whom should reside in Newfoundland and Labrador, including the Chairperson. The primary users of the service, namely the trucking and tourism industries, should be represented on the Board.

Recommendation 3: That the Chairperson and Directors be remunerated at a level comparable to directors of private sector corporations of similar size in Atlantic Canada.

16.3 Fleet Configuration and Renewal

Recommendation 4: That MAI review vessel inspection and maintenance procedures, designed to minimize equipment failure, and set clear objectives regarding mean time between failures.

Recommendation 5: That MAI make application to Transport Canada's Marine Safety Branch, to satisfy an equivalency ruling which would allow an increase in the number of truck-drivers (i.e. passengers) carried during restricted crossings.

Recommendation 6: That MAI no longer provides a drop-trailer service as of June 2006.

Recommendation 7: That MAI searches, as soon as possible, for a suitable temporary RoPax ferry for charter in 2006 for a three-year period with the option to extend for two one-year periods.

Recommendation 8: That MAI plan, for an eventual purpose-built three-vessel fleet, phased in between 2006 and 2011, for a service restricted to passengers, passenger vehicles and driver-accompanied commercial traffic.

16.4 Future Capital Requirements

Recommendation 9: That the cost of the loan from the fiscal framework for the purchase of the *MV Leif Ericson* be forgiven or removed from MAI's operating cost and be paid from the capital budget.

Recommendation 10: That a contingency reserve fund be established, the use of which should be on a case-by-case basis, subject to the Board of Directors input and approval, and with Transport Canada oversight.

Recommendation 11: That all future capital requirements are the responsibility of the federal government, according to constitutional precedent, so that no capital costs are passed to MAI users.

Recommendation 12: That a MAI Capital Fund be established, similar to VIA Rail's Asset Renewal Fund, to assist in funding future year capital requirements and enhance the corporation's fiscal planning capability.

Recommendation 13: That MAI re-evaluate the requirement and feasibility for a second dock in Port aux Basques, in light of the Committee's recommendations regarding a three-vehicle fleet operation and discontinuation of the drop-trailer service, resulting in shorter loading and unloading times.

16.5 Efficiencies in MAI Operations

Recommendation 14: That MAI, as soon as possible, develop and document for its Board and Senior Management, a strategy to streamline aspects of the collective agreements in an effort to lead to further efficiencies and benefits for ferry users and taxpayers.

Recommendation 15: That MAI make realistic need-based applications to Transport Canada's Marine Safety Branch regarding the Safe Manning Certificate, moving towards a more cost-efficient employment of shipboard personnel.

Recommendation 16: That MAI prepare a cost-benefit analysis regarding stand-by crew numbers, particularly respecting the *MV Leif Ericson* through the use of shore power.

Recommendation 17: That MAI set objective indicators with respect to the key components of turnaround time, such as the time it takes to lower the ramp, to get the first vehicle off, to get the last vehicle off, and to load the first vehicle for the next trip, with the objective of improving efficiency and on-time performance.

Recommendation 18: That MAI ensure satisfactory completion of the on-line Internet reservation service in time for the 2005 summer season, and include links to Atlantic Canada tourism websites.

Recommendation 19: That MAI establish a reservation system for driver-accompanied traffic that can be applied fairly to all commercial users.

Recommendation 20: That MAI evaluate the relationship between maintenance activities onboard and onshore, and whether there may be a more efficient distribution of maintenance tasks.

Recommendation 21: That, effective immediately, MAI gives priority to the loading of tractor-trailers and passenger vehicles over drop-trailers, as a measure to maintain the published schedule.

Recommendation 22: That, effective immediately, the *MV Atlantic Freighter's* schedule be modified so as not to conflict with the passenger ferries departure and arrival times.

16.6 Funding and Pricing Solutions

Recommendation 23: That MAI's annual base subsidy be set at a level reflecting the operating costs for the required service.

Recommendation 24: That MAI institute a one-time rate reduction of 15% in 2006 to encourage use of the service and to pass on to users the cost-reduction benefits of a more efficient ferry system.

Recommendation 25: That starting in 2007, MAI's future rate increases for the next ten years for both services be linked to annual changes in the Consumer Price Index for the Province of Newfoundland and Labrador.

Recommendation 26: That MAI implement a revenue-neutral simplification of the commercial vehicle rate, wherein commercial customers pay on the basis of a more exact measurement of their usage of the vessel's deck space.

Recommendation 27: That MAI, as part of a comprehensive fare review, adopt innovative annual revenue-neutral fare incentives.

Recommendation 28: That MAI is exempted from fees for Marine Navigation Services and Icebreaking Services provided by the Canadian Coast Guard.

16.7 Quality of Service

Recommendation 29: That MAI review its procedures, training and exercises to respond to unplanned events, including emergency situations, in light of the fleet restructuring recommended in this report and the forecasted increase in passenger numbers.

Recommendation 30: That MAI use nationally-certified customer service training for all front line personnel to improve customer service in all aspects of the operation.

Recommendation 31: That MAI's performance measures be result-oriented and meet the expectations of users, and that these measures and targets be extended to middle management, and be linked to a financial bonus scheme.

Recommendation 32: That MAI develop quantitative standards for employee productivity and customer service.

Recommendation 33: That MAI, throughout the year, conduct bi-monthly customer satisfaction surveys for both private and commercial users while the customers are on the vessels.

Recommendation 34: That MAI's future vessel assets incorporate industry standards, in terms of services and modern accommodations, as appropriate for the ferries.

Recommendation 35: That MAI maintain the Argentia ferry service and regularly review the service in terms of revenues, costs and traffic.

Recommendation 36: That MAI's Board of Directors establish an independent Ombudsman, responsible to the Audit Committee of the Board of Directors, and reporting to Transport Canada semi-annually.

Recommendation 37: That MAI complete an action plan, in consultation with stakeholders, to improve communication with users onboard its vessels, at the terminals, through the reservation system and online.

Recommendation 38: That roundtable sessions with major stakeholders, led by Transport Canada, be held on an annual basis to improve dialogue and facilitate partnerships to improve the service and address stakeholder concerns.

16.8 Partnerships

Recommendation 39: That MAI, to increase usage of the service, seek partnerships for cooperative marketing, improved quality of service, and create new customer products, such as "volume discounts" for commercial users, inbound tour operators, tour wholesalers and motor coach operators.

16.9 Alternative Service Delivery

Recommendation 40: That MAI continue to seek greater efficiencies and cost reductions through new ways of doing business.

Recommendation 41: That MAI's Head Office be moved from St. John's to Port aux Basques by December 2006.

APPENDIX A

COST RECOVERY OF APPROPRIATION-DEPENDENT CROWN CORPORATIONS, OTHER FEDERAL SERVICES AND OTHER FERRY SERVICES

ORGANIZATION	FEDERAL APPROPRIATIONS	COST RECOVERY LEVEL	COMMENTS
CROWN CORPORATIONS:			
Atomic Energy of Canada Ltd. (AECL)	\$178.772M in 2003/04	73.6%	Funding is directed to health, safety and security, nuclear research and long-term management of nuclear materials and waste.
Canada Council for the Arts	\$155.604M in 2003/04	7.4%	Revenues are mainly from investments, Art Bank and other sources.
Canada Mortgage and Housing Corporation (CMHC)	\$1.972B in 2003 for administration of housing programs \$97M for operating expenses	62.7%	CMHC administers housing programs on behalf of the federal government (including provincial agreements), which are 100% funded through Parliamentary appropriations.
Canada Post Corporation	\$56M in 2003	102%	Canada Post receives from the federal government funding for services such as free mail for Parliamentarians, literature for the blind and the Northern Air Stage Services.
Canadian Air Transport Security Authority (CATSA)	\$351.415M in 2003/04	0.6%	CATSA receives its appropriations from the air security tax.
Canadian Broadcasting Corporation (CBC)	\$1.052.869B in 2003/04	30.7%	Revenues mainly from advertising, program sales and specialty services.
Canadian Commercial Corporation (CCC)	\$16.274M in 2003/04	98.5%	Revenues are mainly from commercial trading transactions from the facilitation of sales of Canadian goods to foreign customers, which include governments, international agencies and other buyers.
Canadian Dairy Commission	\$3.599M in 2002/03	104.2%	Revenues are mainly from export and domestic sales as well as contributions from provincial marketing boards and agencies.
Canadian Museum of Civilization Corporation	\$53.033M in 2003/04	19.3%	Revenues are mainly from general admission, programmes, boutique sales and facility rentals.
Canadian Museum of Nature	\$23.377M in 2002/03	10.8%	Revenues are mainly from admission, facility rentals and contributions.
Canadian Tourism Commission	\$99.024M in 2003	12.1%	Revenues are mainly from partnership contributions.
Enterprise Cape Breton Corporation	\$35.017M in 2002/03	3%	Revenues are mainly from the gain on disposal of capital assets, interest, investment and rental facilities.
Farm Credit Canada	\$1.168.3B in 200	171%	Federal government makes capital contributions to the corporation.
Federal Bridge Corporation Ltd.	\$30.622M in 2003/04	32.3%	Parliamentary appropriations are directed its subsidiary, The Jacques Cartier and Champlain Bridges Inc., which does not have toll revenues.

APPENDIX A (continued)

ORGANIZATION	FEDERAL APPROPRIATIONS	COST RECOVERY LEVEL	COMMENTS
International Development Research Centre (IDRC)	\$105.634M in 2003/04	14.9%	Revenues are mainly from research conducted or managed by IDRC on behalf of other organizations.
Marine Atlantic Inc.	\$47.941M in 2003	57.7%	Revenues mainly from fares, ancillary revenues and charter.
National Arts Centre Corporation (NAC)	\$29.886M in 2002/03	48.5%	Revenues are mainly from admission sales, programming, NAC Foundation donations and facility rentals.
National Capital Commission (NCC)	\$67.936M in 2003/04	28%	Revenues are mainly from rental operations, easements on properties, user access fees and sponsorship.
National Gallery of Canada	\$43.031M in 2002/03	15.5%	Revenues are mainly from its animation programs, parking, concessions, sponsorship and donations.
National Museum of Science and Technology Corporation	\$24.159M in 2003/04	15.5%	Revenues are mainly from admissions, donations and other commercial operations.
Old Port of Montreal Corporation Inc.	\$13.196M in 2002/03	48.6%	Revenues are mainly from admissions, boutique sales and donations.
Standards Council of Canada	\$6.814M in 2003/04	49.2%	Revenues are mainly from accreditation fees, royalties, sponsorship and partnership
Telefilm Canada	\$198.215M in 2002/03	13%	Revenues are mainly from contributions from license fees and from investments.
Via Rail Canada Inc.	\$181.115M in 2003	58.7%	Revenues are mainly from fares, onboard sales, etc.
OTHER FEDERAL SERVICES:			
Canadian Coast Guard – Marine Navigation Services	\$168.955M in 2003/04	18.3%	Does not include capital costs. Total revenues of \$33.336M.
Canadian Coast Guard – Icebreaking Services	\$78.952M in 2003/04	21.1%	Does not include capital costs. Total revenues of \$19.555M.
SELECTED FERRY SERVICES:			
BC Ferry Services Inc.	\$129.781M in 2003/04 (\$105.806M from Province & \$23.975M from Federal Gov.)	93%	Revenues are mainly from rates, retail and other sources. Federal government provides BC Ferries with annual grant, which escalates with CPI.
Société des traversiers du Québec (STQ)	\$44.940M in 2003/04 from Province	28.4%	Revenues are almost exclusively from rates.
Government of Newfoundland and Labrador	\$22.577M in 2002/03 from Province	Approx. 12%	Revenues are almost exclusively from rates.
Northumberland Ferries Ltd. (NFL)	\$5.411M in 2003/04 from Federal Gov.	51.4%	Revenues are mainly from rates.
CTMA Traversier Ltée.	\$2.845M in 2003/04 from Federal Gov.	78.7%	Revenues are mainly from rates.
Government of Nova Scotia	\$5.8M in 2003/04 from Province	15%	Revenues are almost exclusively from rates.

APPENDIX B

LIST OF STAKEHOLDERS CONSULTED

- Argentia Ferry Service Committee
- Argentia Area Chamber of Commerce
- Argentia Management Authority
- Atlantic Provinces Trucking Association
- Avalon Gateway Regional Economic Development
- Canadian Manufacturers & Exporters – Newfoundland & Labrador Division
- Canadian Marine Officers Unions
- Canadian Merchant Service Guild
- Cape Breton Regional Municipality
- Capital Coast Development Alliance
- City of St. John's
- Clarke, Cecil The Honourable, Minister of Energy of Nova Scotia
- Combined Councils of Labrador
- Discovery Zone Board
- Gander and Area Chamber of Commerce
- Government of Newfoundland and Labrador – Department of Tourism, Culture and Recreation
- Government of Newfoundland and Labrador – Department of Transportation and Works
- Government of Nova Scotia – Department of Transportation and Public Works
- Hospitality Newfoundland and Labrador
- International Longshoremen's Association Local 1259
- Keeping, Rod
- MacKinnon, Russell, MLA Cape Breton West, Nova Scotia Transportation Critic
- Marine and Mountain Zone Corporation
- Moffatt, Gordon
- National Automobile, Aerospace, Transportation and General Workers CAW-Canada
- Newfoundland and Labrador Carriers Association
- Newfoundland and Labrador Chamber of Commerce
- Newfoundland and Labrador Federation of Municipalities
- Newfoundland and Labrador Independent Truckers Association
- Parsons, Kelvin, MHA of the District of Burgeo & LaPoile
- Port aux Basques Chamber of Commerce
- Public Service Alliance of Canada
- St. John's Board of Trade
- Sydney and Area Chamber of Commerce
- Tourism Industry Association of Nova Scotia
- Town of Channel-Port aux Basques
- Town of Placentia Council
- Transport 2000 – Atlantic
- Union of Nova Scotia Municipalities
- United Steelworkers of America, Transportation Communications National Amalgamated Local 1976

APPENDIX C

MAI TRAFFIC PROJECTIONS 2005 – 2009

(Table from MAI)

		Annual Growth							
		2005							
	Taffic Type	Jan-Mar	Apr-May	Jun	July	Aug	Sep	Oct-Nov	Dec
PAB Service	Passengers	1.6%	1.9%	1.7%	7.0%	7.0%	0.8%	1.4%	1.4%
	PRV's	2.6%	2.7%	2.4%	7.0%	7.0%	1.8%	1.9%	2.4%
	CRV's	1.8%	2.7%	2.6%	3.0%	3.0%	2.7%	2.7%	2.6%
ARG Service	Passengers			1.7%	7.0%	7.0%	0.8%		
	PRV's			2.4%	7.0%	7.0%	1.8%		
	CRV's			0.0%	0.0%	0.0%	0.0%		
		2006							
	Taffic Type	Jan-Mar	Apr-May	Jun	July	Aug	Sep	Oct-Nov	Dec
PAB Service	Passengers	1.6%	1.9%	1.7%	4.0%	4.0%	0.8%	1.3%	1.3%
	PRV's	2.6%	2.6%	2.3%	4.0%	4.0%	1.8%	1.8%	2.3%
	CRV's	1.8%	2.7%	2.6%	1.9%	1.6%	2.6%	2.6%	2.5%
ARG Service	Passengers			1.7%	4.0%	4.0%	0.8%		
	PRV's			2.3%	3.0%	3.0%	1.8%		
	CRV's			0.0%	0.0%	0.0%	0.0%		
		2007							
	Taffic Type	Jan-Mar	Apr-May	Jun	July	Aug	Sep	Oct-Nov	Dec
PAB Service	Passengers	1.6%	1.8%	1.7%	4.0%	4.0%	0.7%	1.3%	1.3%
	PRV's	2.5%	2.6%	2.2%	4.0%	4.0%	1.8%	1.8%	2.3%
	CRV's	1.8%	2.6%	2.5%	2.7%	2.3%	2.5%	2.6%	2.5%
ARG Service	Passengers			0.0%	3.3%	4.0%	0.0%		
	PRV's			0.0%	3.0%	0.0%	0.0%		
	CRV's			0.0%	0.0%	0.0%	0.0%		
		2008							
	Taffic Type	Jan-Mar	Apr-May	Jun	July	Aug	Sep	Oct-Nov	Dec
PAB Service	Passengers	1.5%	1.8%	1.7%	4.0%	4.0%	0.7%	1.3%	1.3%
	PRV's	2.4%	2.5%	2.2%	4.0%	4.0%	1.7%	1.8%	2.2%
	CRV's	1.7%	2.5%	2.4%	2.7%	2.3%	2.5%	2.5%	2.4%
ARG Service	Passengers			0.0%	0.1%	2.2%	0.0%		
	PRV's			0.0%	3.0%	0.0%	0.0%		
	CRV's			0.0%	0.0%	0.0%	0.0%		
		2009							
	Taffic Type	Jan-Mar	Apr-May	Jun	July	Aug	Sep	Oct-Nov	Dec
PAB Service	Passengers	1.5%	1.8%	1.6%	2.9%	1.8%	0.7%	1.3%	1.3%
	PRV's	2.4%	2.4%	2.1%	4.0%	4.0%	1.7%	1.7%	2.2%
	CRV's	1.7%	2.5%	2.4%	2.6%	2.2%	2.4%	2.4%	2.4%
ARG Service	Passengers			0.0%	0.1%	0.0%	0.0%		
	PRV's			0.0%	3.0%	0.0%	0.0%		
	CRV's			0.0%	2.0%	0.0%	0.0%		

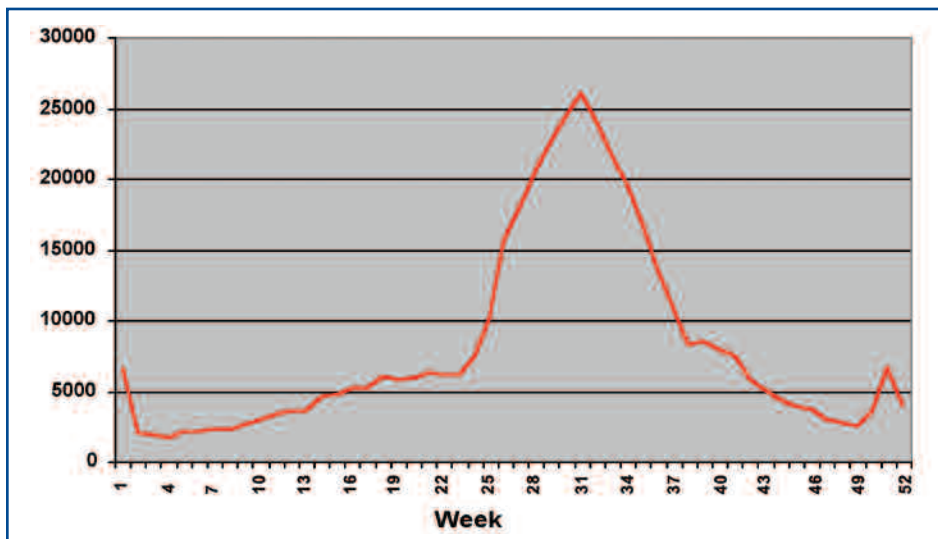
APPENDIX D

MAI TRAFFIC VARIATIONS 2004

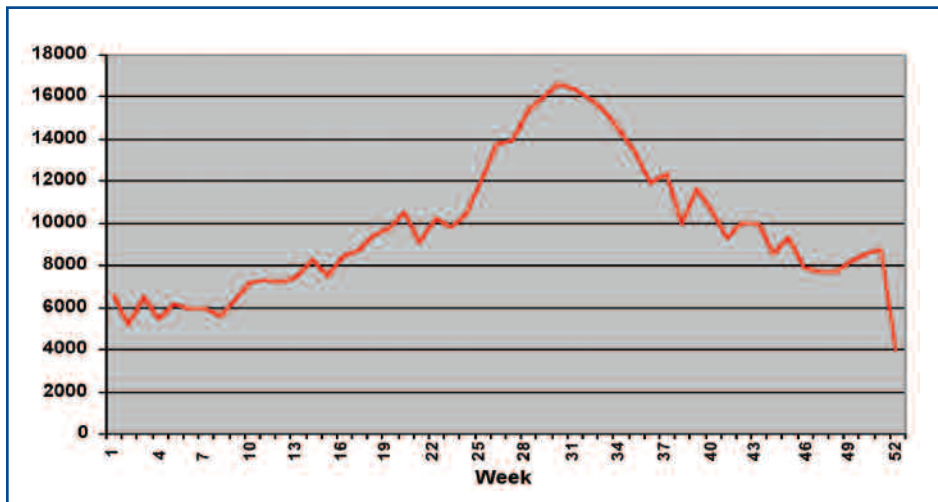
(Text and graphs from MAI)

The traffic flowing into Marine Atlantic Inc.'s properties is not uniform throughout the entire year. The passenger and vehicle traffic fluctuate depending on the time of day, time of week or time of year. The graphs below illustrate the seasonal peaks and lower usage periods throughout the entire year for passengers and vehicles (vehicles are measured in Auto Equivalent Units – AEU's)⁵⁸.

Total Passengers 2004



Total AEU's 2004



⁵⁸The term AEU (auto equivalent unit) is used in this Plan to indicate vessel capacity information. The company uses AEU as a way of standardizing the measurement of the various types of vehicles carried. I.e., a typical automobile space measuring 20 ft in length would be equivalent to one AEU.

APPENDIX E

MAI FERRY UTILIZATION 2004 (From information provided by MAI)

	AEU				AEU				
	Trips	Capacity	Utilized	% Utilized	Trips	Capacity	Utilized	% Utilized	
January					September				
Caribou	56	19,600	11,894	61%	Note: AEU factors have now been revised as follows: Tractor Trailers now 4.8 formerly 4.0 Trailers Only now 3.53 formerly 3.0				
Freighter	0								
Ericson	0								
Smallwood - Gulf	60	20,400	13,520	66%					
Totals	116	40,000	25,414	64%	Caribou	71	24,850	21,353	86%
February					Freighter	26	7,358	6,018	82%
Caribou	50	17,500	10,979	63%	Ericson	34	10,200	8,102	79%
Freighter	0				Smallwood - Gulf	39	13,260	11,332	85%
Ericson	0				Smallwood - Argentinia	14	4,760	2,229	47%
Smallwood - Gulf	50	17,000	10,708	63%	Totals	184	60,428	49,033	81%
Totals	100	34,500	21,687	63%	October				
March					Caribou	61	21,350	17,383	81%
Caribou	54	18,900	12,269	65%	Freighter	46	13,018	9,888	76%
Freighter	0				Ericson	40	12,000	10,375	86%
Ericson	6	1,800	1,357	75%	Smallwood - Gulf	21	7,140	5,969	84%
Smallwood - Gulf	62	21,080	14,221	67%	Smallwood - Argentinia	0			
Smallwood - Argentinia	0				Totals	168	53,508	43,615	82%
Totals	122	41,780	27,847	67%					

APPENDIX E (continued)

April

Caribou	27	9,450	5,329	56%
Freighter	0			
Ericson	41	12,300	8,840	72%
Smallwood - Gulf	74	25,160	16,584	66%
Smallwood - Argentinia	0			
Totals	142	46,910	30,753	66%

November

Caribou	29	10,150	8,495	84%
Freighter	32	9,056	6,974	77%
Ericson	48	14,400	12,631	88%
Smallwood - Gulf	27	9,180	7,598	83%
Smallwood - Argentinia	0			
Totals	136	42,786	35,699	83%

May to August

No data. A project is currently underway to refine the AEU factors as the current factors are not adequately reflecting the true deck-space utilization of North America vehicle sizes (such as SUVs, extended cab pick up trucks) and ever increasing CRV dimensions both in length and width are impacting on the AEU factors.

December

Caribou	51	17,850	12,807	72%
Freighter	0			
Ericson	20	6,000	4,742	79%
Smallwood - Gulf	57	19,380	13,819	71%
Smallwood - Argentinia	0			
Totals	128	43,230	31,368	73%

TOTALS

	<u>Jan - Feb - Mar - Apr</u>			
	AEU			
	Trips	Capacity	Utilized	% Utilized
Caribou	187	65450	40471	62%
Freighter	0	0	0	
Ericson	47	14100	10197	72%
Smallwood - Gulf	246	83640	55033	66%
Smallwood - Argentinia	216	74500	47101	63%
Totals	264	88690	58600	66%

	<u>Sep - Oct - Nov - Dec</u>			
	AEU			
	Trips	Capacity	Utilized	% Utilized
Caribou	212	74,200	60,038	81%
Freighter	104	29,432	22,880	78%
Ericson	142	42,600	35,850	84%
Smallwood - Gulf	144	48,960	38,718	79%
Smallwood - Argentinia	14	4,760	2,229	47%
Totals	616	199,952	159,715	80%

APPENDIX F

MAI MONTHLY ON-TIME PERFORMANCE 2004

(From information provided by MAI)

2004	Overall	Caribou	Smallwood	Freighter	Ericson
January	87%	82%	92%	-	-
February	91%	84%	98%	-	-
March	61%	85%	81%	-	16%
April	60%	66%	62%	-	53%
May	33%	38%	39%	-	23%
June	38%	58%	25%	11%	33%
July	61%	73%	66%	51%	53%
August	58%	58%	70%	46%	65%
September	37%	37%	56%	20%	23%
October	68%	88%	90%	35%	56%
November	70%	88%	69%	43%	76%
December	46%	41%	52%	-	40%
Average	59%	67%	67%	34%	44%

APPENDIX G

MAI OCCURRENCE OF MECHANICAL BREAKDOWNS 2004

(Table provided by MAI)

Incident #	Vessel	Occurrence	Arrival Date mm/dd/yy	Arrival Time	Date Left mm/dd/yy	Time sailed	Hours out of service	Mitigated
1	Caribou	Fire Mains Freeze Up	01/12/04	18:05:00	01/15/04	16:00:00	70	No
2	Caribou	Boiler Flashback	03/04/04	17:23:00	03/08/04	23:30:00	102	Yes
3	Caribou	Bow ramp locking cylinder damaged	06/26/04	14:06:00	06/27/04	23:50:00	34	No
4	Caribou	Shaft bearing failure.	07/08/04	20:40:00	07/11/04	4:20:00	56	No
5	Smallwood	Governor circuit boards burned out	07/06/04	14:43:00	07/07/04	23:30:00	33	No
6	Freighter	Main Engine bearing failure replacement	06/03/04	8:46:00	06/10/04	10:15:00	170	No
7	Freighter	Main Engine bearing saddle	09/01/04	7:15:00	09/13/04	11:30:00	281	Yes
8	Freighter	No. 10 unit SB engine	09/26/04	5:55:00	09/27/04	12:13:00	30	No
9	Leif Ericson	Leaking cylinder liner	11/15/04	18:50:00	11/17/04	15:05:00	20	Yes

APPENDIX H

MAI CUSTOMER SATISFACTION SURVEYS (Information provided by MAI)

Indicator	Score (%)				
	2000	2001	2002	2003	2004
Overall Quality of Service	96	95	97	97	94
Overall Quality of Vessel Service	96	95	97	98	94
Food Service	96	97	87* / 93**	93* / 97**	95* / 95**
Ticketing	94	97	98	99	98
Price/Cost	N/A***	N/A***	71	74	64
Terminal Quality	93	96	97	97	95
Traffic Processing	90	97	93	97	95
Reservations	90	92	97	98	96

* Terminal Food Service

**Onboard Food Service

*** N/A – this area was not assessed prior to 2002.

Analysis of Marine Atlantic AEU Capacity/Demand in the July Peak Traffic Week
(An AEU equals one twenty foot auto equivalent unit)

MAXIMUM WEEKLY FLEET CAPACITIES

Vessel	Current Fleet			Proposed 2006-2008			Proposed 2009			Proposed 2010			Proposed 2011-2020		
	AEU'S	Trips	Total AEU'S	AEU'S	Trips	Total AEU'S	AEU'S	Trips	Total AEU'S	AEU'S	Trips	Total AEU'S	AEU'S	Trips	Total AEU'S
Caribou	350	22	7700	350	22	7700	0	0	0	0	0	0	0	0	0
Smallwood-PAB&ARG service	340	14	4760	340	14	4760	340	14	4760	340	14	4760	340	14	4760
Lief Ericson	300	22	6600	300	22	6600	300	22	6600	300	22	6600	300	22	6600
Atlantic Freighter	243	14	3402	0	0	0	0	0	0	0	0	0	0	0	0
Temporary Charter	0	0	0	325	14	4550	325	14	4550	530	22	11660	530	22	11660
NEWFERRY1	0	0	0	530	22	11660	530	22	11660	530	22	11660	530	22	11660
NEWFERRY2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NEWFERRY3-PAB&ARGsvce	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total maximum capacity			22462			23610			27570			28080			30740
Adjust for danger. goods Xings			0			0			0			-250			-1000
			22462			23610			27570			27080			29740
85% of Total Max. Capacity			19093			20069			23435			23018			25279
Projected Demand in:			2006			2008			2009			2010			2020
			18281			19515			20158			20812			25480

PROJECTED TRAFFIC DEMAND

Passenger vehicle AEU's	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Projected annual increase	9904	10283	10677	11086	11511	11952	12241	12482	12752	12994	13237	13474	13714	13950	14188	14430
		3.83%	3.83%	3.83%	3.83%	3.83%	2.42%	1.97%	2.16%	1.90%	1.87%	1.79%	1.78%	1.72%	1.71%	1.71%
Commercial Vehicle AEU's	6990	7121	7310	7505	7699	7889	8089	8283	8482	8677	8868	9063	9262	9456	9646	9839
Projected annual increase		1.87%	2.65%	2.67%	2.58%	2.47%	2.54%	2.40%	2.40%	2.30%	2.20%	2.20%	2.20%	2.09%	2.01%	2.00%
Total AEU's before drop trailer conversn	16894	17404	17987	18591	19210	19841	20330	20765	21234	21671	22105	22537	22976	23406	23834	24269
Conversion of Drop Trailers to TracTriers	0	877	900	924	948	971	996	1020	1044	1068	1092	1116	1140	1164	1188	1211
Total projected AEU's	16894	18281	18887	19515	20158	20812	21326	21785	22278	22739	23197	23653	24116	24570	25022	25480

- Notes: 1. The conversion of drop trailer traffic to tractor trailer traffic assumes a 27% unit length increase
 2. Projected AEU traffic growth percentage between 2005 and 2020 is 50.8%
 Of this amount, the percentage due to drop trailer conversion is 7.2%

Financial Projection Comparison of a 3 Vessel Fleet and No Drop Trailer Service in 2006 to a Status Quo Scenario of 4 Vessels and Continuing Drop Trailer Service

Notes	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
MAI Plan 2005-2009 projected to 2020																	
1	Operating expenses	123812	130283	130762	144947	133223	136554	139967	143467	147053	150730	154498	158360	162319	166377	170537	174800
2	Revenues	(67431)	(69147)	(70918)	(72611)	(74219)	(76653)	(78539)	(80220)	(82033)	(83723)	(85387)	(87062)	(88760)	(90420)	(92075)	(93760)
3	Restructuring Costs	1898	1180	496	125	15											
4	Capital expenditures-excluding Caribou Midlife	13806	11412	5801	8162	8625	7000	7175	7354	7538	7727	7920	8118	8321	8529	8742	8961
	Capital expenditure- Caribou Midlife	(15278)				46739											
	Working Capital	9940	9940	9940	9940	21940											
	Payments-Lief Ericson	83668	76081	90563	136323	66900	68603	70601	72559	74734	77021	79416	81880	84486	87204	90001	
	Base Financials	66747	83668	76081	90563	66900	68603	70601	72559	74734	77021	79416	81880	84486	87204	90001	

Status Quo Scenario: A 4 vessel fleet with continuing drop trailer service																	
5	Base Financials from above	66747	83668	76081	90563	136323	66900	68603	70601	72559	74734	77021	79416	81880	84486	87204	90001
6	Perform Midlife on Smallwood					(8233)	(8750)	(8969)	(9193)	(9423)	(9659)	(9900)	(10148)	(10402)	(10662)	(10928)	(11201)
7	Remove Freighter from operations																
12a	Remove Ericson from operations																
7	Add NEWFERRY1 to operations				17002	17427	17863	18309	18767	19236	19717	20210	20715	21233	21764	22308	
7	Add NEWFERRY2 to operations																
8	Purchase of NEWFERRY1				200000												
8	Purchase of NEWFERRY2																
9	Sale of Freighter																
9	Sale of Ericson																
10	Cancel Freighter capital projects																
	Cumul. funding to 2020	\$	1,971,590		(1215)		77497	130050	307376	94265	97040	99936	102913	106045	109302	112652	

Three Vessel Fleet Scenario: Drop Trailer service ends in 2006																	
11	Base Financials from above	66747	83668	76081	90563	136323	66900	68603	70601	72559	74734	77021	79416	81880	84486	87204	90001
6	Remove Freighter from operations					(8233)	(8750)	(8969)	(9193)	(9423)	(9659)	(9900)	(10148)	(10402)	(10662)	(10928)	(11201)
12	Remove Caribou from operations					(28322)	(29030)	(29756)	(30500)	(31262)	(32044)	(32845)	(33666)	(34508)	(35371)	(36255)	(37161)
12	Remove Ericson from operations																
12	Remove Smallwood from operations					(17109)	(17975)	(18425)	(18885)	(19357)	(19841)	(20337)	(20846)	(21367)	(21901)		
7a	Add Temporary Charter to operations		15788	16183	16587	17002											
7	Add NEWFERRY1 to operations				25490												
7	Add NEWFERRY2 to operations				17427												
7	Add NEWFERRY3 to operations																
7a	Charter costs of Temporary Vessel		10500	10500	10500	10500											
8	Purchase NEWFERRY1				200000												
8	Purchase NEWFERRY2																
8	Purchase NEWFERRY3																
9	Sell Freighter		(3000)														
9	Sell Caribou																
9	Sell Ericson																
9	Sell Smallwood																
13	Cancel midlife on Caribou																
13	Cancel Freighter/Caribou capital projects																
14	Reduce capital plan for freight handling equip																
14	Cease Drop Trailer Operations:																
15	Additional net revenue																
15	Drop Trailer handling cost reductions																
15	Severance costs																
	Cumul. funding to 2020	\$	1,625,397				245144	48477	49882	51489	53195	54995	56849	58829	60906	63045	

Difference between Scenarios																	
	Cumulative Diff. to 2020	\$	346,193				64724	(178169)	(167647)	81573	257495	42776	43845	44941	46065	47216	48397
	NPV Includg ResidValue	\$	122,273														

The year in which existing vessels are replaced and new vessels acquired is a function of traffic demand/capacity and/or the condition of the vessels. For example, in a the 4 vessel fleet scenario, the Ericson is replaced in 2013 as it is nearing its 25th year; a midlife refit is thus avoided.

- 1 Source for 2005-2009 numbers is MAI.
- 2 Beyond 2009, operating numbers are inflated at 2.5% per year.
- 3 Beyond 2009, annual revenue growth is based on projected traffic growth; no rate increases are assumed
From 2010-2020, traffic increases are: 3.28%, 2.46%, 2.14%, 2.26%, 2.06%, 2.00%, 1.95%, 1.87%, 1.83% and 1.83% respectively
- 4 Capital spending beyond 2009 is assumed at \$7 million per year inflated at 2.5% annually.
- 5 Caribou and Smallwood midlife refits are \$46.739M and \$50.333M(inflated at 2.5% per year from 2009) respectively.
These costs could be in excess of \$80M each based on recent data provided by MAI.
- 6 Frieghter operating numbers 2006-2009 were provided by MAI; avg of 2008 and 2009 costs were inflated at 2.5% beyond 2009
- 7 NEWFERRY operating costs assumed at 90% of Caribou/Smallwood operating costs; inflated at 2.5% from 2006
Temporary Charter and one NEWFERRY further discounted one third to reflect layup status of a third/fourth vessel much of year
- 7a Temporary Charter is a ropax bridging solution until NEWFERRIES arrive in 2009-2010.
Charterhire estimated at EU15,000/day or about CDN \$9 million. Assume other related costs raise annual cost to \$10,500.
- 8 Assumed purchase price and delivery/get-ready costs for NEWFERRYS
- 9 ropax; NEWFERRIES acquired in 2009-2011 have greater passenger complements and are priced at \$200M in 2009\$
Assumed sale proceeds for current fleet
- 10 Cancel Frieghter Halon replacement and Deck renewal capital projects
- 11 See notes 1,2,3
- 12 Current vessel operating costs inflated at 2.5% from 2006
- 12a Ericson retired near end of economic life to avoid midlife refit costs
- 13 Source for MAI 2005-2009 numbers is MAI; halon project numbers were estimated
- 14 Estimated annual costs of replacing freight handling equipment each year; inflated at 2.5% from 2006
- 15 Labour savings provided by MAI, inflated to 2006, plus estimated \$800K per year for other savings such as:
fuel, lubes, main parts & supplies, claims, insurance, training, snow removal, lighting, security, maintenance facilities, overtime, etc.

16 Vessel residual values are based on a 25 year vessel life amortized on a straight line basis.
Residual values in 2021 are assumed as follows(\$000):

Status quo senario:	
Caribou	3,000
Smallwood	5,000
NEWFERRY1	72,000
NEWFERRY2	114,797
Three vessel scenario:	
NEWFERRY1	72,000
NEWFERRY2	82,000
NEWFERRY3	92,455

Funding Breakdown and Rate Strategy Analysis for a 3 Vessel Fleet and no Drop Trailer Service in 2006.

APPENDIX K

Line	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Revenues																	
Total Revenues	1	67431	70509	72314	74042	75686	78157	80080	81799	83652	85382	87098	88806	90547	92252	93952	95684
Total Revenues	2	67431	70509	72314	74042	75686	78157	80080	81799	83652	85382	87098	88806	90547	92252	93952	95684
Operating Costs																	
Total Costs	3	123812	137468	139924	148264	134619	120564	120603	123618	126708	129876	133123	136451	139862	143359	146943	150616
Less Workers Compensation for ceased operations	4	(1000)	(1000)	(1000)	(1000)	(1000)	(900)	(800)	(700)	(600)	(500)	(400)	(300)	(200)	(100)		
Ferry Service Operating Costs	5	122812	136468	132924	147264	133619	119664	119803	122918	126108	129376	132723	136151	139662	143259	146943	150616
Ferry Service Operating Requirements	6	55381	65959	60610	73222	57934	41507	39723	41118	42456	43994	45625	47345	49115	51007	52991	54932
Capital																	
Vessel Acquisitions/(Sales)	7	0	7500	10500	10500	190500	205000	198125	0	0	0	0	0	0	0	0	0
Other Capital Projects/net of Working Capital	8	(1472)	9812	3686	6317	7979	6338	6496	6659	6825	6996	7171	7350	7534	7722	7915	8113
Total Capital	9	(1472)	17312	14186	16817	198479	211338	204621	6659	6825	6996	7171	7350	7534	7722	7915	8113
Total Ferry Service Funding	10	53909	83271	74796	90038	256413	252845	244344	47777	49282	50989	52795	54695	56649	58729	60906	63045
Non-Ferry Service Expenditures																	
Ericson Notional Loan Payment	11	9940	9940	9940	9940	21940											
Restructuring Costs	12	1898	1180	496	125	15											
Workers Comp for ceased services	13	1000	1000	1000	1000	1000	900	700	600	500	400	300	200	200	100		
Total Non-Ferry Service Expenditures	14	12838	12120	11436	11065	22955	900	800	700	600	500	400	300	200	100	0	0
Total Funding Requirement before Contingency Reserve	15	66747	95391	86232	101103	279368	253745	245144	48477	49882	51489	53195	54995	56849	58829	60906	63045
Contingency Reserve-X% of Ferry Service Operating Costs	16	6141	6823	6646	7363	6681	5983	5990	6146	6305	6469	6636	6808	6983	7163	7347	7531
Total Funding Requirement with Contingency Reserve	17	72888	102214	92878	108467	286049	259728	251134	54623	56187	57958	59831	61802	63832	65992	68253	70576
RATE SENSITIVITY ANALYSIS																	
Revenues w/o rate increases	18	67431	70509	72314	74042	75686	78157	80080	81799	83652	85382	87098	88806	90547	92252	93952	95684
Ferry Service Operating Costs	19	122812	136468	132924	147264	133619	119664	119803	122918	126108	129376	132723	136151	139662	143259	146943	150616
Cost Recovery	20	55%	52%	54%	50%	57%	65%	67%	67%	66%	66%	66%	65%	65%	64%	64%	64%
WHAT IF 2006 Cost Recovery is X% and rates increase at CPI of X% after that:	21	44.0%															
Revenues	22	2.5%															
Ferry Service Operating Costs	23	67431	60046	63397	66753	70107	74392	78224	81941	85889	89810	93814	97909	102142	106443	110847	115393
Cost Recovery	24	122812	136468	132924	147264	133619	119664	119803	122918	126108	129376	132723	136151	139662	143259	146943	150616
Change in Revenue	25	55%	44%	48%	45%	52%	62%	65%	67%	68%	69%	71%	72%	73%	74%	75%	77%
Change in Rates	26	0	(10463)	(8917)	(7289)	(5579)	(3764)	(1856)	142	2237	4427	6716	9104	11595	14191	16895	19709
New Total Funding Requirement	27	0.0%	-14.8%	-12.3%	-9.8%	-7.4%	-4.8%	-2.3%	0.2%	2.7%	5.2%	7.7%	10.3%	12.8%	15.4%	18.0%	20.6%
Compare New Total Funding Reqmt to Status Quo of:	28	72888	112677	101795	115755	291627	263493	252990	54481	53950	53531	53116	52699	52237	51801	51358	50867
Decrease from this status quo total funding is (28-29)	29																
	30																

Compare New Total Funding Reqmt to Status Quo of: 1,971,590
Decrease from this status quo total funding is (28-29) (286,325)

