

HANSARD

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COMMITTEE

ON

ECONOMIC DEVELOPMENT

Tuesday, January 10, 2017

COMMITTEE ROOM

Yarmouth Ferry Service and Contract

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ECONOMIC DEVELOPMENT COMMITTEE

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[Mr. David Wilton was replaced by Mr. Iain Rankin.]
[Mr. John Lohr was replaced by Mr. Eddie Orrell.]

In Attendance:

Ms. Judy Kavanagh
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

WITNESSES

Bay Ferries Ltd.

Mr. Mark MacDonald,
Chairman and CEO

Department of Transportation and Infrastructure Renewal

Mr. Paul LaFleche,
Deputy Minister

Ms. Diane Saurette,
Executive Director of Finance & Strategic Capital Planning

Mr. Bruce Fitzner,
Executive Director of Federal Infrastructure Programs

Tourism Nova Scotia

Ms. Michele Saran,
Chief Executive Officer



House of Assembly
Nova Scotia

HALIFAX, TUESDAY, JANUARY 10, 2017

STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

1:00 P.M.

CHAIRMAN
Mr. Joachim Stroink

MR. CHAIRMAN: I'd like to call this meeting to order. This is the Standing Committee on Economic Development. My name is Joachim Stroink, I'm the MLA for Halifax Chebucto.

This committee will be receiving a presentation from Bay Ferries Limited and the Department of Transportation and Infrastructure Renewal on the topic of the Yarmouth ferry. Hopefully fourth time is the charm.

I'd like to first do introductions, starting to my right.

[The committee members introduced themselves.]

MR. CHAIRMAN: Thank you very much. I'm going to ask presenters to introduce themselves in a moment. I just remind those in attendance to please turn off your phones. Before witnesses are to speak, I'd just ask that you wait to be recognized by the Chair so that Hansard can follow along clearly.

[The committee witnesses introduced themselves.]

MR. CHAIRMAN: We're going to turn you over to introductions. Mr. LaFleche, you can start. Please proceed.

MR. PAUL LAFLECHE: Are we missing somebody here? Oh, I see, I thought we had six seats. We only have five.

MR. CHAIRMAN: Do you need another seat, Mr. LaFleche?

MR. LAFLECHE: We had another person but she prefers to sit in the back. I'll introduce her anyway because I'm sure we'll have more fun. We've been here four times to various committees in 16 months and I'm sure we'll be here again.

In addition to the people here today, I want to introduce Shannon Delbridge, right behind me, who has taken over this file as the lead senior executive director from Alan Grant who retired. As you might recall if you were at Public Accounts Committee - I don't think any of you were but some of you were - Alan retired at the end of the year and had been instrumental in helping us in the ferry file. Shannon will take over that job and Alan is back there somewhere, looking very tanned and retired from the ski slopes but he did come here to see how his successor is doing. Normally Shannon would be sitting here, but we'll give her a pass for today if there is some particular question she needs to answer.

MR. CHAIRMAN: I'm sure she appreciates that, Mr. LaFleche.

MR. LAFLECHE: I'm going to say a few opening words, then I think Michele will say a few opening words, and then Mark MacDonald has a few opening words.

Our goal since the file first came to Transportation and Infrastructure Renewal, which is under two years now, has been fairly straightforward. We were tasked by the government to re-establish a stable, sustainable transportation gateway for Yarmouth and the French Shore, similar to other transportation links that also served the public good, like the airports in Halifax and Sydney, Highway No. 104 through Amherst, the ferries in Pictou and Digby, and for years the Maine to Nova Scotia ferry service. We want to create a reliable link into and out of our province to other jurisdictions.

It has no doubt been a challenge to re-establish a link after it was completely severed for four years. We believe the best way to do that is to put the right operator in place, to focus less on season to season, and more on creating a long-term plan that will create the conditions for economic growth and investment around the service. I'm happy today to have Mark MacDonald here with us who we feel is the right operator and he will demonstrate why, when he has a chance to speak and answer questions.

One of the ways we did this was to establish a panel of experts and to listen to them - a panel from the industry. We made our criteria for proposals less restrictive than we did. There was some talk when we appeared at Public Accounts Committee in December about broadening the request for service. We indeed did that, in consultation with respective bidders. We circulated a draft, not a public call, to all prospective before we finalized the

request for service, and we were able to improve it thanks to comments they made. Really, the advice they gave us was to broaden that request for service, and we did that.

This request for service allowed Bay Ferries to put together a proposal which used their current connections running other ferry services here in Nova Scotia and in other jurisdictions and build on the experience they already had in running a service between Yarmouth, Bar Harbor and Portland, to ensure that we got the very best possible proposal for Nova Scotians.

Mark will go at some length if you want to question him as to how the dollars are spent, where they're spent, and what we're achieving in Nova Scotia in terms of hiring local staff and services.

We have finished our first season. I'm very pleased that we were able to finish it with basically 100 per cent operating efficiency. We didn't suffer any major breakdowns, which is very amazing for a service of this nature that travels through international waters. Mark kept the boat running. He, his crew and service people were able to keep us on a reliable service day after day.

The new service came in also on budget. We're very pleased about that, and we feel it's served to be a wonderful showcase for the province and for the French Shore area.

In terms of the impact for tourism operators here in Nova Scotia, we heard at the Public Accounts Committee from our colleagues at Tourism Nova Scotia that Yarmouth and the French shore hospitality industry enjoyed their best season in a decade. Michele is here today to talk about that if you need to hear more.

Now that we have the right operator in place and the first season under our belts, we're excited to see what Bay Ferries can do with a full off-season to focus with Tourism Nova Scotia and others on marketing the service and an outreach to industry partners.

I'd like to pass it over now to my colleague Michele Saran, who is CEO of Tourism Nova Scotia for a few opening remarks, and then we'll pass it to Mark.

MR. CHAIRMAN: Ms. Saran.

MS. MICHELE SARAN: Good afternoon, I'm pleased to be here with Bay Ferries and the Department of Transportation and Infrastructure Renewal to discuss the Yarmouth ferry.

Tourism Nova Scotia is working with industry, community, and government stakeholders to achieve the goals set out for Nova Scotia's tourism industry in the Ivany report, which is to achieve \$4 billion in annual tourism revenues by 2024.

As the organization responsible for marketing Nova Scotia's vacation destination we're strategically focused on the following areas: investing in markets of highest return, that's working to identify and bring the highest yield visitors to our province; focusing on world class experiences to create the compelling reasons for visitors so they'll want to come now and not just put Nova Scotia on a bucket list for later; attracting first-time visitors.

While all visitors are important to Nova Scotia, we know that first time visitors are the ones that are most likely to be influenced by our marketing efforts. Building tourism confidence - that's ensuring we communicate our goals and successes to both the tourism industry at large and to the public. This encourages investment in product. It encourages investment in both new and repeat visitation.

I'm pleased to report that 2016 was an outstanding year for Nova Scotia's tourism industry. Over 2,220,000 non-resident overnight visitors will have travelled to the province by the end of December, by our estimates. Tourism revenues are expected to be \$2.6 billion. That's an increase of \$100 million over 2015 - and we're still awaiting final confirmation on those numbers.

I would like to thank Bay Ferries along with Marine Atlantic, Northumberland Ferries, our airports, and VIA Rail who provide our travellers with safe and reliable ways to get here. Access and transportation alternatives are essential for tourism growth.

Tourism is important to almost every community in this province, and I can tell you there is a great deal of optimism and excitement in our industry.

In the Yarmouth and Acadian Shores region, the international ferry link has been a catalyst for economic development and tourism creating business and job opportunities for residents in the region.

Since the ferry service was reintroduced in 2014, we have seen continued year over year growth in room nights sold. As of the end of September this year, room nights sold were up 34 per cent compared to 2013 when there was no ferry.

Yarmouth ferry passengers are high-value visitors. They spend more, a lot more. Visitor parties that use the Yarmouth ferry spent \$2,100 in the province. This compares to just \$1,000 for an average visitor spend. We also know ferry visitors stay longer. They spend an average of eight nights in Nova Scotia, whereas an average visitor party spends five nights. Now that the CAT ferry service has been in place for a year, we look forward to continuing to work with Bay Ferries to align our marketing efforts and to attract more first-time visitors to Nova Scotia.

MR. CHAIRMAN: Mr. MacDonald.

MR. MARK MACDONALD: Thank you, Mr. Chairman, and good afternoon committee members. My name is Mark MacDonald. I am the Chairman and Chief Executive Officer of Bay Ferries Ltd. and the group of companies to which Bay is related.

I don't think I need to go to great lengths to introduce our company, but we're a private company which was acquired by its senior management about 10 years ago this coming July. Just for some brief history on the companies: our group has been in business since 1941, with its historical origins being in Prince Edward Island. We've provided ferry service in various locations elsewhere in other parts of the world. Following a federal government RFP process, Bay took over the Yarmouth-Bar Harbor service together with Saint John-Digby in 1997.

We operated Yarmouth until the 2006 season with no subsidy, during which time our company invested about \$100 million, which was borrowed from commercial lenders, to acquire assets for the service. Between 2006 and 2009, the Province of Nova Scotia invested approximately \$15.7 million in the ferry service, of which \$7.2 million was attributable to the final 2009 year of operation. That is by way of operating contribution or operating subsidy. Our involvement in the service ended at that time in December 2009, when the subsidy was terminated.

In 2013, the previous government instituted a new process for restarting the Yarmouth ferry service. Our company was heavily involved throughout that process but ultimately declined to bid because we did not feel that we could meet the financial and traffic assumptions that formed the basis for the subsidization, so we sat out that round. When the present government indicated its intention to seek additional bids in summer 2015, a different approach was taken by the government so we submitted a proposal, which was ultimately accepted.

On March 24, 2016, we signed an agreement with the military sealift command of the U.S. Navy to charter the high-speed ferry, called Alakai. We held a press conference on the same day, in which I described at that time, in considerable detail, the process we undertook in searching for available vessel assets and some of the unique features of the Alakai agreement. We felt that Alakai, which we have of course commercially branded as the CAT, represented the best overall alternative of the many possibilities examined over the ensuing 12 months or so.

Over the two months following that, we moved the ship to a shipyard in Charleston, South Carolina, and undertook an extensive program of repair and refit of the vessel, which was managed by our company. We faced a wide variety of legal and regulatory issues, again, because the uniqueness of what we were doing; that is the charter of a ship by a Canadian company from the U.S. Navy. The ship was ultimately refloated in the shipyard on May 28th and within a week or so, sailed to Portland and Yarmouth for an intense training period in preparation for service. She made her first commercial sailing to Portland on the morning of June 15th, as we had predicted she would.

The results of our first season are well-documented, so I won't go into them in great detail here today. The total passenger count was 35,551. We embarked on a substantial marketing program, working closely with Tourism Nova Scotia and other destination organizations, most importantly Yarmouth and Acadian Shores Tourism. I would add, although it's not in the written copy of these remarks, that our lead marketing agency through the piece was a company called VERB Interactive of Halifax, which is a great company here in the Nova Scotia market which we have worked with almost since they were a two-person operation back some 10 years or so ago. Now they've grown into an incredible agency that deals with clients worldwide.

We spent this year about \$11 million on the Canadian side; anything we could spend in Nova Scotia was spent in Nova Scotia. The ship was based in Yarmouth, maintained in Yarmouth and supplied through Yarmouth. All ship's crew were accommodated, housed and fed in Yarmouth, which was a huge investment. All onboard personnel, other than the core marine crew, were Canadian. The core marine crew had to be U.S. because of legal requirements, the ship being a U.S.-registered ship. All terminal staff and stevedores were Canadian, they worked under the leadership of Rick Wilson of Yarmouth. Rick is a 20-year or so employee of our company, a real pioneer in the field of marine security in the post-9/11 era. All ship maintenance took place in Yarmouth under the leadership of Chris Kenney, our company's long-time senior high-speed ferry chief engineer who I would put up against anyone in the world.

We entered into what has become a strong and rewarding partnership with a young entrepreneur from Yarmouth, Mathieu Maltais, who has done a great job with our onboard services on the vessel. In doing that business, Mat has purchased from more than 50 Nova Scotia suppliers and created 25 jobs in Yarmouth as a result.

Finally on this list, Blue Ocean Contact Center in Halifax employed 44 agents on our company's business. In early October, we projected that our operations to the end of the current government fiscal year would meet the financial projections we provided to the province and we hold to that projection today.

We are presently working through a very busy off-season. Our activities include of course preparation of marketing plans for the upcoming year, which activity includes reviewing last year's plans, assessing what we've learned and building the plan for 2017, determining this year's operating schedule, having necessary discussions with our municipal partners at both ends of the service concerning facility needs, scheduling constraints, et cetera, undertaking the necessary off-season maintenance and upgrades to the ship, looking at long-term issues such as the handling of non-vehicle passengers and the possibility of U.S. Customs preclearance on the Yarmouth side, which would be a massive improvement to the service and would greatly simplify our dealings on the U.S. side, if it ever were to happen.

As a company, we are very excited to be moving forward into the 2017 season. I've said this before and I'll say it again: we make no projections as to passenger levels. All we can say, as we have throughout, is that we will work very hard to make this service successful for southwestern Nova Scotia and for all of Nova Scotia. Thank you.

MR. CHAIRMAN: As this was the PC Party's topic, I will turn it over to Mr. Orrell and we'll go from there. One question for each Party and we'll continue to go around until we run out of questions or time. Thank you very much. Mr. Orrell, you are first.

MR. EDDIE ORRELL: Thank you for the presentation. I guess the one question I have and the question I get asked on a regular basis is, we've heard numbers on how much has been spent, what has been put out, how many tourists come. What is the economic impact of this ferry service on the Province of Nova Scotia?

I haven't seen an economic analysis done. I'm hoping there is one done so we can put that out to the people who I represent in Cape Breton, that this is the economic impact on the Province of Nova Scotia because what I hear is, they are spending taxpayers' money on a ferry from Yarmouth and not putting it into something like a railroad in Cape Breton. If there's an economic impact on it, I'd like to be able to have that in my hand so I can explain to people what the actual economic impact is of this ferry on the Province of Nova Scotia.

MR. MACDONALD: I'll start on that. The issue of economic impact we see as more tied to the policy decisions that are behind the ferry service. Of course, we have a lot of anecdotal evidence in our company as to the impacts that result from the service and if I was looking around the province - in your shoes or in the shoes of other members of the Assembly - I would talk to someone like Scott MacAulay from Baddeck who runs a series of resorts in Cape Breton and ask Scott the impact of the ferry service. I think I know what the answer would be.

We see as operators the local impact every day. We see the impact it has on hotels and other accommodation properties in southwestern Nova Scotia and other tourism-related infrastructure such as restaurants, campgrounds and everything else, but as operators it's not part of our mandate to go out and formally study the issue, which may be kind of the thrust of your question.

We do know - and I think Michele Saran in her opening comments alluded to this - that people who come by vehicle on the ferry service tend to stay in province for something in the order of seven to eight days. We also know that they're not just staying in Yarmouth. We know that - and others can perhaps speak more knowledgeably to this - they are getting out and getting around the province and staying with Scott MacAulay and staying with people all over the province. Again, as Michele alluded to, the ferry traveller is a high-value traveller in a financial sense because of the length of time that they tend to stay and because of the demographic of the people who tend to be travelling.

Those are just some comments that are more anecdotal than a formal economic impact study, but I'll turn it over to Mr. LaFleche and others who might want to comment.

MR. LAFLECHE: I'll go back to some statements. I don't know who it was. Someone read them out and they were made by various MLAs of all Parties at the Public Accounts Committee in December where the statements were the inverse question: what was the economic harm caused by the removal of the ferry for four years? I think you can see in those statements - I think they've been tabled with the committee and you can refer to the record - that most members thought there was a very large degree of harm caused by not having a ferry.

The type of economic study we will do when we're further on into this experience will be much along the lines of what we do for other public transportation infrastructure. We will do that in the future, as Minister MacLellan has promised. We're a bit early right now to do that. We've had two years of a service, which didn't really work out as was originally expected by many of the people who I think their hearts and heads were in the right place, but we didn't get the right service the first time.

This time we feel we have the right type of transportation service and when we're a few years down the pike, we will do some detailed calculations that will give you hard numbers. In the interim, I would have to say that we seem to have restored in this one season here a lot of the damage that was done in Yarmouth.

Mr. MacDonald has expressed to us, and to the local business community a few times that, in fact, one of the worries we may have is that we will need new investment in infrastructure in the French Shore area if the ferry truly achieves the sort of success that we anticipate because the basic hospitality infrastructure would not service the full capacity of the ferry. We're anticipating there will be a large economic success. We saw that this summer when we were down there.

Michele has quoted some stats. Mark MacDonald has given you some anecdotes. Based on the comments of various members at the table and not at the table, we do know that there was a very large economic hole created by the absence of the ferry, just as there would be if we removed a piece of critical transportation infrastructure in another area of the province.

Michele, would you like to add anything?

MS. SARAN: I can certainly give you economic figures from the tourism standpoint. In the three years since it was brought back, in 2013, the ferry has averaged about \$17.5 million in tourism spend per year. Also, as Mr. MacDonald was saying, they do get out and tour the province quite a bit. For example, 31 per cent of all the non-resident overnight visitors coming in off that ferry go to Cape Breton, 84 per cent go to Yarmouth,

51 per cent go to Halifax, 63 per cent go to the Bay of Fundy, and 66 per cent go to the South Shore region. We know the economic impact for tourism is significant.

MR. CHAIRMAN: Mr. Belliveau.

HON. STERLING BELLIVEAU: Thank you very much, delegation. My question is for Mark MacDonald.

When this 10-year deal was announced, many Nova Scotians were concerned about the cost to the taxpayers. In the first two seasons, the government provided, to my understanding, \$19.6 million in operating money as well as a one-time start-up payment of \$4.1 million and an additional \$9 million that you alluded to for the remodelling of the vessel. Given the concerns that we've seen about cutbacks in different programs by this present government, I think you can understand why Nova Scotians have concerns about the high cost of a financial commitment to this ferry.

I think it's fair for us to ask, where is this money being spent? My question to you, Mark: does Bay Ferries provide the Nova Scotia Government with a detailed account of all money spent? You see a lot of times in the media that people are trying to understand where this money is going.

MR. MACDONALD: I'll go to the second component of your question first. Our company accounts to the Province of Nova Scotia for every nickel that is spent as part of this exercise that we embarked on. Our contract contains a full provision for the auditing of all expenditures made. I should say that this is a business environment, or a government environment, that we're used to operating in because a lot of our company's business, and sometimes all of our business, comes from dealing with governments.

Our approach internally is that we only spend money as we would if it was our own money, even though it is taxpayers' money, at the end of the day. We consider that we have the highest level of accountability to the taxpayer and to the people of this province, as we do in other ferry services that our company operates. The Province of Nova Scotia, at the end of the day, will know where every dollar has been spent. I'll leave it at that.

MR. CHAIRMAN: Ms. Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: Mr. MacDonald, you said your numbers were 35,000 passengers?

MR. MACDONALD: Yes, in that order, or slightly higher.

MS. LOHNES-CROFT: What number were you heading for?

MR. MACDONALD: We intentionally did not set a target as a company, in terms of saying this is our goal. Probably the correct term is this is our prediction as to what we would do.

The reason we didn't do that is there were so many uncertainties associated with the service this year. We were in the first year after a service which had only lasted for a couple of years. The previous operator had gone bankrupt and that was highly publicized in a negative way in our market, which was the Boston area. A series of other factors like that that caused us just to say look, there are too many variables at play here for us to actually put our credibility on the line and say we predict X number of passengers.

We did build, and as committee members will know, when the Province of Nova Scotia issued its request for proposals for the service, the province quite sensibly directed that prospective bidders assume a passenger level of 60,000 passengers so that - and I don't speak for them but this is my understanding - when they were looking at the proposal of different parties, that they could kind of do so on an apples to apples basis, rather than have one party who says I think I can produce 120,000 passengers and another party who says I think I can produce 30,000. There has been a lot of discussion about a 60,000 figure, that's where that figure came from.

We very intentionally went into this year, Ms. Lohnes-Croft, with the idea that we're going to make the best of this that we can, given all the uncertainties. We're going to try to restore a sense of stability around the service that in our view is necessary for the service to stand any chance of long-term success. In other words, we kind of - I know that everybody here has their job to do and we certainly respect that, but at some point we get to concentrate on the business and get it out of the newspapers a bit and concentrate on just building the business. We hope that day comes.

MS. LOHNES-CROFT: Do you feel that any of the negativity that was on social media and used by the Opposition had any effect on your numbers?

MR. MACDONALD: Well, I guess I'd say first of all, as I said a second ago, we respect that everybody has a job to do, including the Opposition, in scrutinizing this ferry service so I don't want anything that I say to be interpreted that we don't feel there should be scrutiny or we don't feel there should be full accountability. We feel there should be both but there's kind of a line that can get crossed when the scrutiny and the accountability turn into more inflammatory things and I think at times this year it has gotten a little bit inflammatory. Some would say that's just politics and maybe it is but it sure isn't good for business.

There's a couple of examples that come to mind to me when I'm talking about this issue, which I've talked to various people about over the course of the year. One of our growth areas for the business, we hope, is motor coach tours. The motor coach industry, more than even the casual traveller in our marketplace who wants to come to Nova Scotia.

The motor coach industry is trying to plan two and three years out in advance and when they see messages in the market where someone is going to terminate the contract or tear up the contract or that the government has been taken advantage of or that sort of thing, it sends a message of instability. If you're in the shoes of the motor coach operator: do I put my eggs in that ferry basket if I'm not sure it's going to be there in a couple of years' time? They like to plan in advance.

Or if you're the City of Portland and you're balancing between the demands of a strong cruise ship market and the demands of a ferry operator and you're asking yourself, well, which is a good long-term bet? Those are areas where the negativity can really hurt our business, aside from just obviously general negativity in the market is not a good thing for our business or for any business.

MR. CHAIRMAN: Mr. Dunn.

HON. PAT DUNN: My question would be to Mr. MacDonald. Something you mentioned at the end of your presentation was no projections and you mentioned that already. It was my understanding that Tourism Nova Scotia said once that it was the responsibility of Bay Ferries to create ridership, to create targets for this ferry.

How did you arrive at a target, if you did have a target - and perhaps the target was such that we keep hearing about 60,000 passengers would make it a feasible operation. I would just like you to comment on that a little further. Will there be going forward any projections, any targets from tourism or from Bay Ferries or from the government? What input is the government having in this role?

MR. MACDONALD: We will always be working to goals, which we set for ourselves and we will embed those goals in the budgets we establish and which we will in due course discuss with the Province of Nova Scotia. I don't want anyone to interpret us saying that we don't make formal projections with a lack of effort on our part to chase down every possible customer that there is out there. We will be going at this and going at this aggressively.

We've just been in the business long enough to know that when there is a lot of uncertainty around a ferry service and when there is change at play, as there has been in this service over the past number of years, that it's very hard to predict.

One of the things we think has been a strength of our company in the past has been a good ability to predict and to not surprise governments, because if there is one thing which governments and taxpayers dislike, it's being surprised. So we're trying not to do that and for that reason we're being cautious about stating, we predict this or we predict that. What we can predict is that we'll work very hard to make the most of this, as I said in my opening statement.

MR. CHAIRMAN: Mr. Belliveau.

MR. BELLIVEAU: Mark, it seems to me apparently the appetite for the U.S. tourists for the ferry remains uncertain. We know that many businesses in Nova Scotia that need to get their goods to the market. Shipping goods, certainly to me, could help offset the ridership or the costs of low ridership.

I looked at that question very carefully here and to me you see a summer where again it was in the introductions, it was noted that we had a record tourist season, but yet the CAT is half full. We have people who supply fish products, and I think you know where I'm coming from with this - lobsters, fish, Christmas trees - and to me this is an obvious question. We have the present ferry system in Digby that has 30 per cent less capacity than the old workhorse, *Princess of Acadia*, that was there.

My question is, wouldn't this help supplement the ridership or the cost of that service and fill that ship on each trip?

MR. MACDONALD: The ferry service is between Yarmouth and Portland, as you know, Mr. Belliveau. Everyone knows the geography of Portland - it's great geography, it's two hours from downtown Boston. Portland has undertaken a transformation even since we were last in the service, since 2009. There are about six new major chain hotels in the very small area which is downtown Portland. The development on the waterfront is just unbelievable.

Their cruise ship traffic this year - traditionally their cruise ship traffic levels have been in the sub-100,000 per year. To put this into context, I think I read in the paper - and I used to be chairman of the port, I think Halifax did 238,000 this year, if I recall. In any event, it's in *The Chronicle Herald* this morning. If that number is correct and I remember it correctly, that's what the number is. Portland's cruise ship traffic has traditionally been less than 100,000; this year it was 100,000 - these are rounded numbers; next year it's going to go to 150,000; and in 2018 it's going to go to 200,000.

Against the background of all that, the City of Portland has said to us that truck traffic simply will not be permitted on the ferry. They control the facilities so they get to make that decision. The Ocean Gateway terminal was never built as a terminal to take truck traffic.

Others can speak more knowledgeably to this but my general understanding is that when the *Nova Star* service appeared in 2014 some temporary dispensation was made to allow for trucks to be discharged at that terminal and loaded at that terminal and the city agreed to it on a temporary basis. When the city had the opportunity to revisit that decision, in the context of this incredible growth that it's seeing in the past few years, they said very firmly to us - and I spoke about this at the news conference last March - they will not permit truck traffic in their downtown and that's where that issue is.

In terms of what it would do to the economics of the service, I guess the question would be - which is moot because of the position that Portland has taken - first of all, a fair market value would have to be established for the cost of carrying those trucks because they're large and they're heavy and they take up a lot of vehicle deck space of course, and therefore, would be or should be charged a significant amount of money for a 186-nautical-mile ocean voyage.

Whether it improves the economics depends on the balancing of the additional operating costs and loss of capacity coming from having the trucks on board, the additional fuel because the trucks are heavier and therefore the ship is heavier and burns more fuel, against the amount of revenue that would come from that business.

From our company and from our operations in Digby, we know the needs of that trucking community very well. We think we do a competent job of serving them through Digby and certainly do everything within our power to meet their needs, including things such as addition of extra sailings to the service this time of year during peak fishing seasons and so on.

MR. CHAIRMAN: Does anybody else want to add to that? Mr. Belliveau, very quick, please - I know that's hard.

MR. BELLIVEAU: Well, I noticed that the Liberals had a follow-up question. I'll wait patiently.

MR. CHAIRMAN: No, go ahead. Follow up.

MR. BELLIVEAU: This is an interesting topic. My follow-up question is that you suggested that the Portland town have frowned on fish trucks in that area. The last time I was in Portland, they have the Portland fish exchange in close proximity to that area. This is an interesting topic because I think you've skated around the issue about the economics of filling that ferry on each one. To me, it's important that we get our products to that hungry market there. Also in your presentations, you made reference to the motor coach industry. The last I looked, motor coaches were pretty close to the size of a large fish truck. I'll leave that for you.

The point that I want to make is this: I think that we need to spend more time on this because the deputy minister is sitting next to you on your left and several times made reference to this same basic question about the ferry . . .

MR. CHAIRMAN: Mr. Belliveau, what's your question, please?

MR. BELLIVEAU: My question is that the deputy minister has alluded to the fact that the ferry operates in the off-season of our lobster industry, and I want to point out . . .

MR. CHAIRMAN: What's your question, Mr. Belliveau?

MR. BELLIVEAU: My question is that the lobster industry is a year-round industry. The facilities that they have can chill the waters down, and there's demand to get this product to market on a year-round basis. That particular answer is misleading. So if you're using motor coaches . . .

MR. CHAIRMAN: Mr. Belliveau, please ask a question.

MR. BELLIVEAU: I'm saying that what you're looking at is the economics of filling that boat. Why can't you look at commercial traffic?

MR. MACDONALD: This is a very clear issue as far as the City of Portland is concerned. They have simply said no to this.

On your motor coach versus fish truck question, Mr. Belliveau, a motor coach weighs an order of magnitude less than a fish truck in terms of the load on the ship. The revenue generated from the motor coach which is well-loaded with passengers is, certainly if one looked at the pricing scale that the *Nova Star* adopted for trucking, many times the revenue generated by a fish truck. I'm not saying that was the right pricing scale; I'm just stating it as it was.

MR. CHAIRMAN: Mr. Mombourquette.

MR. DEREK MOMBOURQUETTE: Thank you all for being here today and for the presentation. I just had a follow-up on the 34 per cent you mentioned. So just over 35,000 have taken the ferry in the last year, and you're saying 34 per cent made it to Cape Breton? This is a Cape Breton-specific question to start. I'm just curious about those numbers because I get that a lot at home too.

MS. SARAN: We only count the number of non-resident overnight visitors, not the total passenger count, which would obviously include some Nova Scotians. There were 14,100 non-resident overnight visitors that were on, and 31 per cent of that total would have gone to Cape Breton.

MR. MOMBOURQUETTE: The questions I wanted to ask, parts of them have been answered. I guess if you could just talk a bit about the plans for the upcoming season from a Tourism Nova Scotia perspective.

MS. SARAN: We had a fantastic campaign that happened this year; it was our most successful ever. We had 40,000 more clicks through to operators and that's what makes the cash registers ring, as you know. It's going to be a continuation of that campaign going forward, of which a large component will be in the U.S., and that will be driving business to our friends at Bay Ferries.

Everything we do pretty much is digital and the ideas drive the individual tourist to our website and we can track their areas of interest. If they are clicking on our ocean ad we can serve up content that is related to, say, surfing or anything that is of their interest, that will take them to novascotia.com where our friends at Bay Ferries would have their offers and they could click through and book their vacation that way.

Bay Ferries would also be in the marketplace at exactly the same time that Tourism Nova Scotia's ads were, so they are in tandem and there is considerable alignment.

MR. MOMBOURQUETTE: This was talked about as well but Mr. MacDonald, just talking about the relationship with Portland and how that has gone in the first year, you know from a passenger perspective - how has the relationship been?

MR. MACDONALD: We've dealt with the City of Portland of course for many years and I think the relationship with the City of Portland is a very strong one, a very business-like one. I think they are happy to deal with us as a company, or at least they've said so. I think though that the factor we're always dealing with is what is happening in Portland now and kind of the growth which I've referred to in my previous comments, the intense demand they have for waterfront space, the level of traffic in their downtown and the level of people moving around there downtown.

We are fairly constantly talking to Portland about competing uses for the berth, about our interaction with cruise ship traffic in the port and wanting to conduct all that in a way which is good for everyone because they are also protective of course of their cruise ship business, which is very successful right now.

In general, we feel people in Portland are attached to the service and the City of Portland is attached to this service. I alluded in my opening remarks to long-term goals such as customs preclearance. What that would entail if it were to become available to us is that, in effect, people heading for the U.S. would clear U.S. Customs in Yarmouth and that would negate the need for customs facilities onshore in Portland. That being the case, you kind of eliminate instantly about half of the need for marshalling space on the Portland side because people don't have to get off the ship and line up and wait for customs, they simply get off the ship and go. That would greatly reduce the footprint required in Portland, and it would be much better for our customers because the ship would get in and they would get to leave rather than going through a customs process.

There's things like that which we would like to explore, I know the province would like to explore and I know the City of Portland would like to explore to try to make things better in the long term and kind of ease the facility pressure that exists down there.

MR. CHAIRMAN: Mr. Orrell.

MR. ORRELL: I'm going to try to ask maybe a couple of little questions all in one, if I could. In reference to Mr. Belliveau's truck question, you mentioned that some of the negativity around some of the things that have been asked in the province affects the long-term effects of motor coaches and you're trying to grow the motor coach industry. Portland doesn't want trucks on their main street. Trucks and motor coaches are basically the same: diesel operated, long, big. I can't see where there would be much difference in the downtown of Portland, but that's probably negotiated with Portland.

You had 35,000-plus people this year on the ferry. This year's subsidy is going to be \$9.4 million. If that drops, is that subsidy enough to cover it? I sat in on Public Accounts Committee one day when the question was asked, is there any way your company can lose money? The answer I heard from Deputy LaFleche was, unless there was an asteroid that hit the ferry on the way across, there's no way you could lose money.

If that ridership drops, does the subsidy increase? Do the management fees increase? How is it that your company can't lose money if you're provided a subsidy of \$9.4 million not guaranteeing what the ridership is going to be and knowing that the other way to grow your business, with trucks and so on, is not going to happen?

MR. MACDONALD: When our company first considered this business again in 2015, when it looked like it may come up for bid, we had two basic choices, from a commercial standpoint.

We could bid on the basis that we took the risk ourselves as a company in which case, as all members of the committee and anyone in the room would understand, we then have to introduce enough cushion in the pricing to absorb what we thought could happen - not what we knew would happen, but what could happen. So what would happen if the price of fuel doubled? What would happen if any of the hundreds of things that could impact a ferry service happened? We felt if we took on the business, that we would actually have to take it on that basis - in other words, we don't want to just say we're taking the risk. We want to actually take the risk if we're taking the risk and not be coming back cap in hand to the government saying, I'm sorry, we made a mistake, and we need more.

One approach to bidding on this project would have been to say to the government, we guarantee a lump sum of X dollars per year, we will provide the service, and we will take the risk. The problem is in that case that instead of a subsidy of, say, \$10 million, X would probably be \$16 million or \$18 million once you build in all the risks that we would have to cushion ourselves for. If none of those risks happened, we would make an awful lot of money doing the service. On the other hand, if they did, we could lose money.

The other alternative was to say that we would be reimbursed our cost and be paid a management fee but build some incentive into the management fee structure that said if we do a little bit better, we may receive as a fee a little bit more. We looked at the alternatives, myself and our colleagues, and said that the best reasonable approach in this

situation was to structure our bid to the province on the basis of cost plus management fee. That's what we did, recognizing that others might structure it in a different way, but that's what we thought was the most sensible way. We were potentially leaving a lot of upside on the table in doing so, but we were also protecting our downside risk.

Going back to my answer to Ms. Lohnes-Croft earlier, coming into this business environment that we were, where there had been no service for a number of years and a different ferry for a while, bankruptcy, and all of the other factors, we actually thought it was sensible for our company, but we also thought it was best for the Province of Nova Scotia that we bid based on a cost plus management fee rather than introducing a cushion which could, in a bad scenario, protect the Province of Nova Scotia but in a good scenario could have led to a very high profit for the operator, so we did what we did.

People suggest, have suggested, or do suggest at times that there is no risk to us in this contract. All I can say to that, Mr. Orrell, is any time you're moving hundreds or thousands of people as the case may be, across the ocean on a given day, with all the regulatory obligations and safety obligations and everything else associated with that there is risk. It's risk which we're comfortable taking because we think we do the job well but make no mistake, there is risk.

MR. ORRELL: If I may, then, so financially if ridership is 60,000 projected - we'll say that's the number that has been tossed around - you guys have a cost, plus a management fee. So with the 35,000 people, you recovered your cost last year obviously with your management fee and you're still here, you're not gone. If that goes up to 60,000 this year and you bring in costs plus another 20 per cent, does that 20 per cent come back to us as a province because you're guaranteed cost plus a management fee? Does that management fee include 20 per cent more if more riders come? Does the cost include 50 per cent more? If there's more money made, does the rest of that money come back to the province?

MR. LAFLECHE: I think that's a question for the province. Bruce, are you going to answer that?

MR. FITZNER: The way it's structured is there's an incentive. It's not on the passenger count, it's on reducing the subsidy. If Bay Ferries reduces that subsidy we agree on a budget that at the first of the year we scrutinize the budget, we land on some numbers. If they do better than the projections, then they would get a share of that differential and the province would get a larger share of the differential.

MR. LAFLECHE: I was going to say that Bruce may be giving an example like this year's target subsidy is \$9.4 million.

MR. FITZNER: Right.

MR. LAFLECHE: Let's say they really do well, incredibly well - we all hope this happens - and Mr. MacDonald comes back and says I only need \$5 million from the government. I guess the question we're getting is, would we still pay him \$9.4 million or would we pay him \$5 million or what?

MR. FITZNER: We would pay him the subsidy of the differential, which is \$5 million, plus the base management fee, plus a portion of the incentive fee based on the differential. It has an upward limit on it, it can't be more than a certain amount.

MR. LAFLECHE: Just so we're clear because I know I have some friends at the back of the room and elsewhere who are very interested in this point - \$9.4 million is the subsidy target, say, a loose target.

MR. FITZNER: Yes.

MR. LAFLECHE: He comes in and needs a subsidy of \$5 million and let's assume the management fee is in the \$9.4 million - it's in the \$5 million so we don't have to talk about it. Of the \$4.4 million difference - now I just did some math homework with my child last night so \$9.4 million minus \$5 million is \$4.4 million. Does Mark get all the \$4.4 million or does the province get it or how does that work?

MR. FITZNER: I'll let Diane give you the exact number here.

MR. CHAIRMAN: Ms. Saurette.

MS. DIANE SAURETTE: The way the management fee is designed is that Bay Ferries can get one-third of the reduction, capped at double their management fee. Two-thirds or more, based on what the reduction is, would come back to the province.

MR. CHAIRMAN: Thank you very much. Mr. Belliveau.

MR. BELLIVEAU: Mark, this tourist season we've seen a number of favourable conditions. One of them is the low loonie and low fuel prices that you alluded to earlier, and one that doesn't get recognized but should was the beautiful weather we had during our summer months. To me they were all favourable conditions but yet, and I make reference to that ferry, it was half full.

My question is, as the manager of that ferry, are you concerned about the ridership and that under these very favourable circumstances you never filled it?

MR. MACDONALD: I think back to the summer of 2009. Mr. Belliveau and I were checking out of a hotel in Bar Harbor, Maine, heading home. The hotel in those days - it was only seven years ago, but it was kind of before the smart phone area. This particular place called the Bayview used to have a printed sheet on its front desk with the 10-day

weather forecast with the icons for what the weather was going to be like over the next 10 days. I picked up the sheet, and it was 10 days of rain. It may have been 14 days, but whatever it was, it was all rain. That summer we carried 76,000 passengers on the CAT on a similar number of trips to what we're doing this year but split between Portland and Bar Harbor.

I agree there were positive factors this year, as you say - fuel was reasonable, we did have good weather, and the dollar was good. There were also a lot of negative factors this year around the change in the service, the bankruptcy of the previous operator, and a lot of disruptions generally. That's why we're cautious about making projections. If we didn't think we could make a reasonable success out of this, we wouldn't have got back in the business.

Of course we're not sure what's going to happen because of all the kind of factors that you allude to. I do know one thing: that myself and the hundred or so people who work with me on this ferry service are absolutely going to make a great effort. We're hoping to succeed and think we will succeed, but we don't make predictions.

MR. CHAIRMAN: Do you have a follow-up, Mr. Belliveau?

MR. BELLIVEAU: Just quickly, I can't miss this opportunity - you are going down the path that I want you to. We have a saying in our area, you literally took the bait here.

In October of last year, the U.S. tourism report basically said that tourists travelling to Nova Scotia increased 70 per cent by air traffic. Again, I'm focusing on, here is the ridership at half, and that's why I asked you the leading question. Are you concerned that with all these favourable conditions, we see the travelling public are leaning towards air travel?

MR. MACDONALD: The title of our proposal to the Province of Nova Scotia that we sent in September 2015 was, Rebuilding Southwest Corridors. The theme behind our proposal and what we think about as we're trying to restore this business is to get people moving around the transportation corridors of southwestern Nova Scotia. If they come in through Amherst, maybe they'll come out through the ferry. If they come in through Digby, maybe they'll come out through the airport. If they come in through the airport, maybe we can get them out through Yarmouth. I don't care if they got dropped from a helicopter, parachute in, or whatever, our mandate and our objective is to get people moving.

In that sense, I don't see the airport as competition. I see the airport as synergy. I don't see the Digby ferry as competition for the Yarmouth ferry. I see them both as ways to move people. That's how we see it, Mr. Belliveau. We want to get people moving in a way that drives the economy of Nova Scotia and southwestern Nova Scotia. That's what we'll try to do to the best of our ability.

MR. CHAIRMAN: Ms. Saran.

MS. SARAN: There wasn't a significant amount of time to ramp up to the Bay Ferries service coming into play. When you're talking group business, tour operator business, it takes a good 12 to 18 months to build that business to get them to book for future years. Keep in mind that the previous operator didn't have the best reputation, so it's going to take some time to build that reputation and make them feel good that this is going to be a stable and consistent service.

I'm feeling quite bullish. We've been in the market now for a year. They're proving themselves, and we're working closely in tandem with Bay Ferries. We're going on the road together, and we're working trade shows together. I think we're building the business for a solid future.

MR. CHAIRMAN: Mr. Rankin.

MR. IAIN RANKIN: I just wanted to go back. I know you explained how the current agreement works. I thought what might be germane to the discussion relative to the statements of tearing up the contract from the Opposition - it might be beneficial to learn how the prior contract worked. This would probably be for the department to say.

How closely aligned was the current contract with Bay Ferries with the contract that was in place with the Hamm and MacDonald Government when they operated the ferry? I'm just trying to figure out how much credibility there is to saying that they would tear up this contract. It must be a lot worse than the contract that they had operating in their government.

MR. FITZNER: Basically, Mark had described a little bit the difference between the types of models that you could use. Back at one time, prior to the larger cruise ship industry that's now prevalent in around Nova Scotia and down in Maine, there was a type of business model where there could be multiple ferries even operating at times and earning a profit. It was largely a commercial enterprise. The government may have been involved but financially but not as much. As things changed and time changed, other modes of transportation emerged. For instance, the highway system became much better in New Brunswick and Nova Scotia than it had been years ago, the airport improvements that were made. You're sort of up against that as well. The type of contract has to meet the current environment, right?

Two contracts ago, the one that was cancelled - basically the company bid a fixed amount subsidy and agreed to a certain fixed amount subsidy. It had a bit of a cap on it, right? But it was a soft cap because there was other language that said should they not be able to do it for that amount, the government would use all reasonable means to provide the additional funding that was required. It got cancelled before it ever got to that point because it never reached the cap with Bay Ferries.

The last contract prior to Bay Ferries was more of a seven-year deal with a fixed amount of money; that was \$21 million, I believe, over seven years. You're relying, I guess, on the operator that you've procured understanding what his cost would be. First of all, to even go out seven years and try to predict what the costs are going to be in seven years is tough to do because of all the reasons that Mark gave. There are a lot of things that can change. What would happen there, and what we saw happen before TIR got the file, is the money got used up very quickly, and then the government was in a predicament. What do you do? Do you drop the operator, or do you put in further funding? That was that model.

When it came to our turn at TIR to negotiate a contract, first of all, we were taking a slightly different approach: we saw this as a transportation asset for the province. We weren't really selling the boat so much as a destination. We were selling the province as a destination, and the boat is one of many ways to get into the province. The more access to the province, the better it is for the province's bottom line.

We felt that we were at a stage where virtually all the ferries of this nature are subsidized. Although we would love to see the subsidy reduced to zero, we didn't feel that was a realistic goal. So this contract is focused on the government sharing in the risk of the service with the operator. As Mark said, if you wanted to build that risk in and have the operator carry it, he is going to increase his bid substantially to cover that eventuality. If it doesn't come to be, then that's a lot of money that you paid out for nothing.

This is a bit of a real partnership where we both carry risk. The province carries financial risk, Mark carries the operating risk.

MR. RANKIN: How does that annual subsidy compare to other ferries, such as the Pictou to P.E.I. ferry?

MR. FITZNER: Paul, maybe you can answer that better, I don't have the exact numbers.

MR. LAFLECHE: We don't have exact numbers from the federal government, we know ballpark figures. Mr. MacDonald would have better numbers than me but of course he can't reveal those because he's under contract to the federal government.

To our knowledge of what the ferry subsidies are, they vary from year to year but approximately \$10 million would be subsidies in any given year for either of those other two big services, so very similar. As I said at the Public Accounts Committee, \$10 million is sort of a figure that we sort of had in our head as a reasonable figure for a transportation subsidy for a service of this type.

MR. CHAIRMAN: Thank you. Mr. Dunn.

MR. DUNN: My question again is for Mr. MacDonald. Perhaps before I get directly to the question, I want to mention something. I don't want any members across from me to fall off their chairs, but I like, enjoy, and use Bay Ferries. Living in New Glasgow I'm about 20 minutes away from a ferry and I can hop on a boat very quickly and be in Charlottetown in no time at all and get some business or pleasure taken care of and be back home before the evening is very late.

MR. MACDONALD: God bless you, sir. (Laughter)

MR. DUNN: Anyway, you mentioned earlier about the cruise ship numbers increasing in Portland and you mentioned that maybe by 2018 there would be approximately 200,000. I guess my question I thought of when you mentioned that is about blackout dates. I know you are pounding on doors and twisting any arm that has any influence on that side of the waters. Do you have any update on blackout days for, say, going forward 2017 or the year after or whatever, or just what's happening in those areas with looking at the increase in cruise ships?

MR. MACDONALD: This discussion and this consideration is also in the context of us setting our schedule for this year. Of course any non-service days are part of all of that consideration. One of the things we are considering strongly right now and will eventually be recommending, I believe, to the province is the idea of stretching out the schedule; in other words, trying to extend the season on the Yarmouth service but doing so on the basis that at the outer portions of the season, if I can call them that, we're not running the ship seven days a week but are running it, say, five days a week or six days a week.

One of the lessons that we kind of learned this year around some of the non-service days that we had this year was that we seemed to pick up a good number of the passengers and vehicles that we would have gotten on the non-service day on either the day before or the day after. So if you can do that and not have the operating cost on the day you are not sailing then that helps your economics in a way that maybe you can stretch out the season a little bit.

The process we're going through right now is talking to the City of Portland. They have a few days - I think in the order of five or six days - that are particularly sensitive because, for example, they'll have two large cruise ships in port on a given day. We're coordinating that with what could be our schedule where we don't sail seven days a week and these days all tend to be mostly centred around the early Fall because that of course is cruise ship season like it is here in Halifax.

We're looking at a scenario of extending the ferry season out from October 1st to somewhere more in the mid-October range but not sailing seven days a week toward the latter part of the season and coordinating those days with the days that are most sensitive to the City of Portland but doing it in a way that hopefully we don't lose any passengers in

the process, which extends the season out for all of our stakeholders in the province for whom an extended ferry season would be a good benefit.

That's where we are with it right now. It remains an issue with Portland for all of the reasons that I've talked about. We're working through it with them and looking at it in the context of our schedule and hope to have something that we can bring to the public before too long.

MR. DUNN: Just a quick follow-up question. Will those blackout dates be readily available with the click of a button prior to the schedule starting for the 2017 season?

MR. MACDONALD: Yes, that's our hope. Sometimes the city will have a situation for one reason or another where they have to try and reserve the right to designate an additional date or something like that. We're trying to avoid all the uncertainty and as much as possible have it absolutely baked down well in advance so people can make their plans on that basis, and motor coach companies can make their plans on that basis and do it in as orderly a manner as we can.

It would be a little less complicated if the schedule was reversed, of course, and we were out of Portland early in the morning and back there late at night. But running that schedule, firstly, we don't think is as good for the business. We think a mid-day departure from Portland is attractive in that you can get in your car in the morning in New York City and get to Portland for two o'clock. Of course, it would negate some of the strong benefits we're seeing on the Yarmouth side in terms of both the outbound cohort of passengers and the inbound cohort of passengers needing to be accommodated throughout southwestern Nova Scotia.

MR. CHAIRMAN: Mr. Belliveau.

MR. BELLIVEAU: Mark, it's my understanding that you were hired by the current government to provide advice about the Yarmouth ferry when the contract was still with Nova Star. I'm interested, what advice did you give to the government when you were consulting with them about getting rid of *Nova Star*? Did you help develop the RFP for the replacement? To me, an obvious question the public would ask is, wouldn't that be seen as a conflict of interest?

MR. MACDONALD: In the Fall of 2014 - I believe, Mr. Belliveau, it is that you're talking about - the Province of Nova Scotia approached our company with a view to asking our opinion in terms of general availability of vessels on the world market. They weren't consulting us about what to do with the *Nova Star* or what was good or bad or otherwise with the *Nova Star*. They were asking us a narrow question on availability of vessels that are potentially suitable for this ferry service. We had nothing whatsoever to do with the framing of the request for proposals, or RFP, that would have come later around this ferry service. I didn't remember this, but someone said today we may have received a draft of it

like the other potential bidders did. If we did, that's the only thing we would have had to do with that process, Mr. Belliveau.

What we did in Fall 2014: we have pretty good contacts in the international industry, and we would have consulted with ship brokers. I recall literally going through a process of looking at almost all available ferries in the world and trying to say which of those (a) are available and (b) might be potentially available for use in Nova Scotia. It never went beyond that.

It was a process like an ad that I saw on TV at one point - I think it's an ad for Auto Trader or something. You have thousands of cars going down a freeway. Someone is trying to buy a car, and the potential candidate cars are these thousands of cars going down the freeway. The person says, well I want one less than four years old, and half the cars leave the freeway. I want one that's a station wagon, and another half of the cars leave the freeway. I want one that has this feature or that feature, and at the end of the day there's two cars going down the freeway, and presumably this is what you buy through Auto Trader.

That's kind of the way that Nova Scotia ferry assets are, in the sense that you start off with a world with thousands of ferries. Then you say all right, it has to be not too expensive to operate. Well, that eliminates three-quarters of them right there. It has to have a draft of less than X so I can get into Yarmouth harbour. That eliminates another bunch of them. It has to meet modern environmental standards and SOLAS requirements and so on. That eliminates more. You get to the end, and there are five or six ferries that you're looking at. That was kind of the exercise that we went through, in a broad way, with the province.

My interpretation of what was going on at that point was that they had an arrangement which they thought was going to cost \$21 million over seven years, as everyone recalls. I think by then, they had probably already spent more than the seven years' worth of money, and they were eight months into the arrangement or whatever. So they were just kind of looking around and asking, what are the options?

We deal with the province through the Saint John-Digby service, so we're presumably a known quantity to them. They called and asked for our advice. Sorry, that's a long answer.

MR. CHAIRMAN: Mr. LaFleche.

MR. LAFLECHE: Just to clarify, because I know there are people out there who are very interested in whether Mr. MacDonald had a chance to examine the draft and nobody else did. All four of the candidate firms received the same piece of paper and made comments back at the same time and had the same opportunity.

MR. CHAIRMAN: Mr. Porter.

MR. CHUCK PORTER: You mentioned this process early on, Mr. MacDonald, it might have even been in your opening comments. You sat out, I think you called it, the 2009 round (Interruption) Oh, 2013. You sat that out. Given your long-time experience in the industry and your company, why did you sit it out?

MR. MACDONALD: I haven't looked at these documents for a long time, but on its face, at that point the government was offering an aggregate level of subsidy of \$21 million over seven years. Almost since the day we left the service in 2009, we continued our process of financial modelling of the service just to make sure that we continued to understand it and that we were looking at all options for the service, that sort of thing. When the process was triggered, there were meetings of potentially interested bidders and all that sort of thing. So we went through all of that process. We looked at the package, and we looked at our own economics and our own economic models.

Part of the trick in this business is knowing where the costs are and being able to understand what the actual cost structure of a service is likely to be. Revenue is another uncertainty, but cost is one. Our conclusions led us to believe that the annual cost of the service at any reasonable projected range of passenger numbers would be much higher than the amount of subsidization that the government was offering in the process.

I don't know if it's because we're local, or we just hope to do the right thing. But our approach as a company was if we're going to bid on this based on a set amount of money, then we need to be prepared to bid on it based on a set amount of money and, as I said earlier, not be going back to the government after the fact and saying we need more. We didn't want to put ourselves in that position, and we didn't want to put government in that position, so we just said we're not going to bid this time around, and we didn't.

MR. CHAIRMAN: Mr. Porter, a follow-up?

MR. PORTER: Yes. There's been a bit of talk about the seven-year window. Did that concern you? Seven years is a long time not only in the ferry business, I would anticipate, but in any business to look ahead to see whether it was sustainable or otherwise. Was that something that you considered as well as part of that decision?

MR. MACDONALD: I guess it's all part of the same thing in the sense that we would have felt that it would cost much more than the average of \$3 million a year. We would also have thought there are a lot of variables, a lot of balls in the air and, again, that the financial model didn't work. You're exactly right: seven years is a long time in this business, and an awful lot can happen.

MR. CHAIRMAN: Mr. Orrell.

MR. ORRELL: I'm just going to go back quickly to my previous question on the risk. I understand that the risk financially is not something that's going to be a problem. You take on the risk of operating a ferry, and you probably would cover any other risks with insurance and stuff. We heard a lot in the media about your management fees, and you just said you're not capped. If money is made, your management fees go up.

Mr. LaFleche said he wouldn't cite the management fees because of privacy issues, and you can do that if you like - I'm not going to ask you that, but if you would like to give us your management fees we would take it - but can you tell me what those management fees would include if they're going to go up with a profit being made?

MR. MACDONALD: Well just so there's not a misunderstanding, the idea of the management agreement is that if we exceed our budget, that is we better our budget in terms of the lowering of the subsidy or the lessening of the cost to the taxpayer, then we share a percentage of that - I'll call it a small percentage - up to a certain amount. That's the way it works.

I guess you all have the agreement so you can see what the management fee covers under the agreement, but it's essentially self-explanatory and laid out in the agreement. I'm not sure . . .

MR. ORRELL: We don't have the agreement. Would it cost you the other way as well? If it does poorly, do your management fees go down? Or is it capped at a certain amount?

MR. MACDONALD: The base fee does not go down. There is a base fee.

MR. CHAIRMAN: Mr. LaFleche.

MR. LAFLECHE: Let me just clarify. The agreement - there is the redaction of the management fee, but the agreement has been out there for some considerable time. If anybody like Mr. Orrell doesn't have the agreement, we will ensure that the committee gets a copy of the agreement. I believe the media and other people have had the agreement. I know Mr. Houston has had the agreement. It's not that we're hiding the agreement. There is one line redacted in the agreement. It was in the materials we submitted. (Interruptions)

MR. ORRELL: I am a fill-in so I apologize.

MR. LAFLECHE: That's okay. You used to miss those shots on net I made past you too. (Laughter)

MR. ORRELL: You never got any shots on net. (Laughter)

MR. CHAIRMAN: Mr. LaFleche, just one clarification: The agreement was given out on December 14th in the Standing Committee on Public Accounts.

MR. LAFLECHE: Wasn't it given out actually in the previous committee?

MR. FITZNER: March 24th.

MR. LAFLECHE: Yes, that's the second time it would have been given out, in fact, maybe the third.

MR. CHAIRMAN: Mr. Belliveau.

MR. BELLIVEAU: Mark, help me understand this question. I understand Bay Ferries has a deal with Irving Oil to give gas vouchers to CAT passengers. Can you give us some detail on that? What is the value of that particular program?

MR. MACDONALD: I will give you my general understanding of it. Let's just say I'll reserve the right to correct myself if I'm wrong, but I don't think I will be. It's a relatively simple arrangement. Having said that, I'll now take five minutes to explain it. (Laughter)

We have a partnership arrangement with Irving Oil under which, by virtue of profile and visibility which they get on our websites which attract multi-millions of unique visitors - and I actually have those figures - Irving provides us with gas card credits. Then we have a program set up whereby the longer the package a customer books through our Bay Ferries package product system, the bigger the gas card they get.

What we're trying to do is drive the use of Nova Scotia accommodations packages and the purchase of packages through Bay Ferries and get people to stay in the hotels of our package partners. The benefit to Irving is a significant profile on websites that are getting millions of unique visitors. They provide the gas cards, and we hand them out to the people who spend the most nights in Nova Scotia hotel rooms. I think that's an accurate description of it, Mr. Belliveau. I'm sure I'll be corrected if I'm not correct.

MR. LAFLECHE: I just want to add: the deal with Irving, is it just for the Yarmouth ferry, or is it for all the ferries?

MR. MACDONALD: It applies also to the Saint John-Digby. I don't believe it applies to P.E.I., but I would have to check that.

MR. LAFLECHE: I know I'm not allowed to ask questions, but I'm trying to clarify because there was a great deal of public comment that the government bought the gas cards. Did the government pay you to buy the gas cards?

MR. MACDONALD: No.

MR. CHAIRMAN: Thanks for the clarity. Mr. Belliveau, just to respect time, I'm going to go to Mr. Porter, so we can finish up. Then we can go into the closing witness statements. Mr. Porter, you have one follow-up question.

MR. PORTER: It was based on a comment, Mr. MacDonald, you talked about the importance of getting U.S. Customs on the Canadian side in Yarmouth. How does that process work? Are you dealing with the federal government on that - I assume that's probably where that is. I know we're running short on time, but how much work and is it actually realistic that we could consider that may happen?

MR. MACDONALD: First, it's a very complicated process to bring about. The airport in Halifax achieved it a number of years ago after a long fight. In their case I believe there were some parties on the U.S. side that were objecting to it. In this case I can't think of why anyone on the U.S. side would object to it.

It is primarily a decision at the end of the day of some branch of the U.S. Government. I'm not for a second saying it would be easy because it would lead to a whole bunch of facility requirements in Yarmouth to satisfactorily house the U.S. Customs facilities and so on. It is something which will, at the end of the day, be more an initiative that has to be undertaken by governments, by the province and by the City of Portland.

I don't speak for either of them, but I think both of them would like to see it happen. We're not holding it out as a short-term thing but we do know it's something that everybody on all sides would love to see happen.

MR. CHAIRMAN: Thank you very much. With that, that concludes the time for questions. I will allow the witnesses to have some closing statements. I'll start with Ms. Saran.

MS. SARAN: Tourism is currently a \$2.6 billion industry in Nova Scotia and stakeholders from Yarmouth to Cape Breton are focused on reaching the \$4 billion in tourism revenue by 2024, a goal that was identified by the 2014 Ivany report. Last year was Nova Scotia's best tourism year on record, it is estimated that 2,220,000 non-resident overnight visitors came to the province in 2016. Tourism Nova Scotia, in collaboration with industry partners, will continue to grow that number going forward but there is much work to do if we are going to reach our goal.

There are several factors essential to tourism growth and having strong transportation links is one of them. If visitors can't get here easily, they are less likely to come. Travellers can choose from a world of vacation destinations. Having convenient and multiple transportation options make us more competitive.

In the Yarmouth and Acadian Shore regions, the ferry link has been a catalyst for economic development and tourism. Businesses are growing and developing and more jobs are being created. Since the ferry service was reintroduced in 2014, we've seen continued year-over-year growth of room nights sold. At the end of September 2016, room nights sold were up 34 per cent compared to 2013, when there was no ferry.

Yarmouth ferry passengers are high-value visitors. Visitor parties who use the Yarmouth ferry spend \$2,100 in the province; this compares to \$1,000 for the average visitor party spent. It is estimated that the visitors who come to Nova Scotia via the ferry over the past three years spent an average of \$17.5 million annually. Ferry visitors stay longer and travel throughout the province. They spend an average of eight nights in Nova Scotia, compared with five nights for the average visitor party.

The ferry is having a positive impact on tourism operators in southwestern Nova Scotia and across the province. There is significant potential to increase ridership on the ferry and bring more people to Nova Scotia. Now that a stable and reputable ferry service is in place for the longer term, we'll continue to work with our industry to capitalize on growth opportunities that will benefit all Nova Scotians. Thank you.

MR. LAFLECHE: Thank you very much, and thank you to the committee for the invite. It has been a good experience; I think we have benefited from having Ms. Saran and Mr. MacDonald here. Sometimes I joke around a little bit at the committee and bring in illegal props - you notice I didn't do that today.

I do want to say, though, that our department prides itself on taking over very challenging government infrastructure issues and managing those issues well, doing good engineering, good planning and good operations. One of the persons who has been very key to doing that for 35 years is Mr. Fitzner. He is retiring shortly. He is no longer the chief engineer, I noticed he invented a new title for himself for the next three months. He is helping me out by advising me how to be a deputy minister, I think. He is retiring, it's probably his last appearance and I do thank him.

I'd also like to thank Mr. Belliveau, who I worked for four years for as Fisheries and Aquaculture Minister. He was a very good minister. I know you're retiring too, Mr. Belliveau, so I did bring your little buddy the Swedish lobster in case you want to step on it. (Laughter) Bad guy. I think we got him beat. I'm sorry if I stole your questions that you didn't have, but I think the audience needed them.

I want to thank everybody and Mr. MacDonald for showing up. It's not often that we have the private sector with us at these types of committee meetings, and sometimes they're not sure exactly what happens. But Mark has done a very good job here today to give all the answers. I'm sure there will be some more questions in a few minutes at the back of the room. Thank you.

MR. CHAIRMAN: Mr. MacDonald.

MR. MACDONALD: Thank you, committee members, for hearing me out at such length today. I appreciate your patience.

I remember like it was yesterday going down to Yarmouth on a very cold December Friday morning in 2009 and saying to our people that the service was terminated. I equally well remember going down many times this summer, and there were a lot of people for whom you could not wipe the smile off their face. They were so happy to be back in the business again. I guess I already mentioned a few of them.

I want to acknowledge the support of those people, our employees, in doing what wasn't easy this year to get this service up and running in a short time frame. I thank all of them for their efforts. I also thank the people of Nova Scotia and Province of Nova Scotia for supporting this ferry service.

MR. CHAIRMAN: I thank the witnesses for coming today to do this presentation. Hopefully four times is a charm, and we won't see you here about the ferry for a while.

With that, we're just going to call a short recess and let the witnesses leave. Then we have some committee business that we need to address, so about five minutes.

[2:47 p.m. The committee recessed.]

[2:52 p.m. The committee reconvened.]

MR. CHAIRMAN: There is a request from Louisbourg Seafood Limited to appear in front of Economic Development Committee. My suggestion, if everybody is in agreement with it, is that this would be tacked on to the end whenever we've gone through our committee list, or if a witness is unavailable to attend, they would be slotted in.

If we're all in agreement with that, can we say Aye? We'll pass that. I'll let the clerk know - there she is. We will do that for that one.

As for March 14th, does the 7th work?

MS. JUDY KAVANAGH (Legislative Committee Clerk): It does not. Thursday the 9th does.

MR. CHAIRMAN: Would that work in the morning?

MS. KAVANAGH: Any time.

MR. CHAIRMAN: Would Thursday, March 9th, in the morning work? All right, that's what we'll do. (Interruption) Yes, if the witness can still come. We haven't reached out to them. If they're not available, we'll ask Louisbourg to sub in. Okay? All in agreement with that? Excellent.

There is one other piece of correspondence from the Canada-Nova Scotia Offshore Petroleum Board. Any questions or concerns about that? I hear none.

With that, this meeting is adjourned.

[The committee adjourned at 2:54 p.m.]