

SECRET

FROM-DE 01-09-51

SUBJECT

FERRY, COASTAL & SHIPPING SERVICES

SUB-SUBJECT

FILE TITLE

B.C. FERRIES

TO-À 21-01-75

SUJET

SERVICES DE TRAVERSIERS, DE CABOTAGE
ET DE NAVIGATION

SOUS-SUJET

TITRE DU DOSSIER

TRAVERSIERS DE LA C.B.

AQ-892-35

02-0122

DATE ROUTED

DATE DE SORTIE

PURPOSE FOR WHICH REFERRED

RAISON DE L'ENVOI

REFERRED TO

DESTINAIRE

BF DATE

DATE DE RAPPEL

USER'S

INITIALS

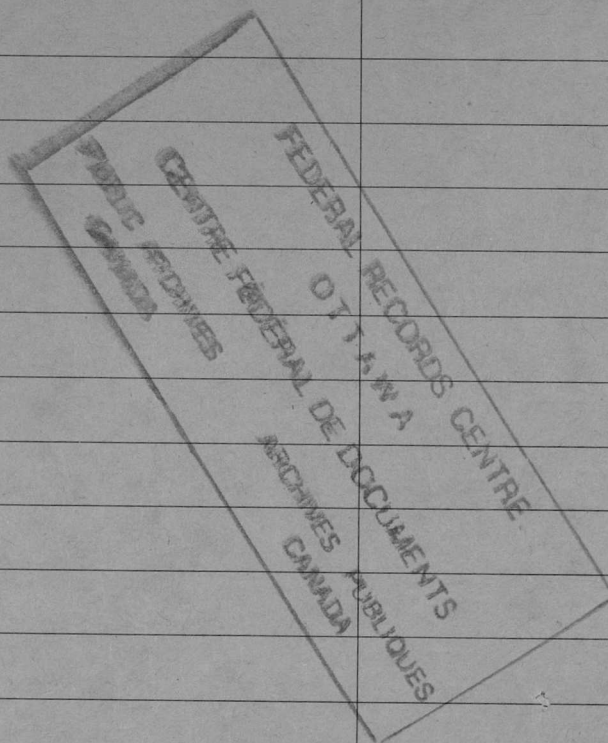
INITIALES DE

L'UTILISATEUR

**VOLUME CLOSED
COMPLET**

TRANSMITTED ACCORDING TO THE SECURITY REGULATIONS

TRANSMETTRE ET ENTREPOSER CONFORMÉMENT AUX RÈGLES DE SÉCURITÉ



VOL.

1

3800-30

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3800-30

VOL.

1

02-0122

SECRET

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Government
of Canada

Gouvernement
du Canada

CLOSED VOLUME VOLUME COMPLET

DATED FROM
À COMPTER DU

01-09-51

TO
JUSQU'AU

21-01-75

AFFIX TO TOP OF FILE - À METTRE SUR LE DOSSIER

DO NOT ADD ANY MORE PAPERS - NE PAS AJOUTER DE DOCUMENTS

FOR SUBSEQUENT CORRESPONDENCE SEE - POUR CORRESPONDANCE ULTÉRIEURE VOIR

FILE NO. - DOSSIER N°

3800-30

VOLUME

2

000003

Jun 27/75

~~Mr. [unclear] [unclear] (570)~~

Would you please draft a
reply for ASTA's signature
indicating T.B. direction that
the Fed Gov't stay out of
intra-provincial services and
suggesting DREE or some
other agency if appropriate

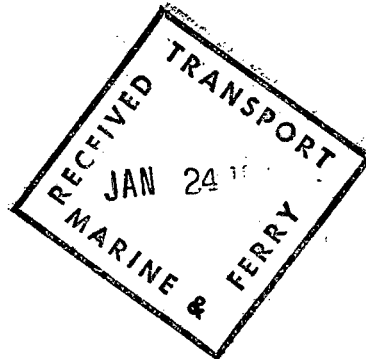
JS



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

OTTAWA K1A 0A6
January 21, 1975

Mr. R.M. Aldwinckle,
Administrator,
Surface Administration,
Ministry of Transport,
Transport Canada Bldg.,
Place de Ville,
Ottawa, Ontario.



Dear Bob:

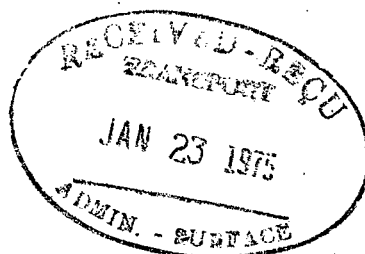
I would appreciate your comments, written or verbal, on this particular attached request made to me by Mrs. Campagnolo.

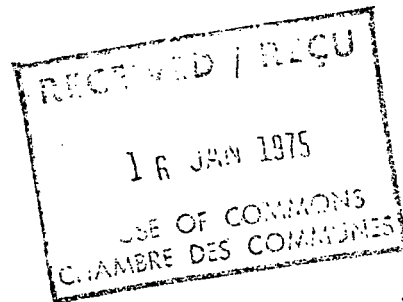
Yours sincerely,

Dr. Cliff McIsaac, M.P.,
Battleford-Kindersley.

(2) DSK -

Please look into this and
prepare a reply for me.
Att. *ASTA*
23 Jan 75





OTTAWA K1A 0X2
January 14, 1975

Mr. Cliff McIsaac, M.P.,
Parliamentary Secretary to the
Minister of Transport,
Room 455-D,
House of Commons,
O t t a w a.

Dear Cliff:

Would you be kind enough to take this matter under your personal control through the Department of Transport for me?

One of my constituents, Mr. D.T. Kendall, Manager of Misty Islands Transportation Co. at Skidegate on the Queen Charlotte Islands, is attempting to set up an amphibious vehicle operation on the Islands, presently served by an inadequate system of small airplanes of marine capacity and commuting "crummys".

Mr. Kendall is known to me as an ambitious and hard-working man and if he is able to purchase the LARC vehicles from the American government, with some assistance from the federal government, either through the Department of Regional Economic Expansion or the Department of Transport, I feel it would be of very great assistance to those people who live in the sparsely populated islands of the Queen Charlotte area.

As you will note from the enclosed copy of Mr. Kendall's letter, there has been already a three month trial period of this type of transport carried out and the results are really quite spectacular. I have been in personal conversation with Mr. Kendall on this matter, and frankly I am at a loss as to where he can apply for assistance and to whom he must make the specific request necessary to operate the amphibious vehicle which it is his intention to begin

Mr. Cliff McIsaac

-2-

January 14, 1975

the service with.

Any assistance you can give me in this regard will be truly appreciated.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Iona Campagnolo', with a large loop at the end.

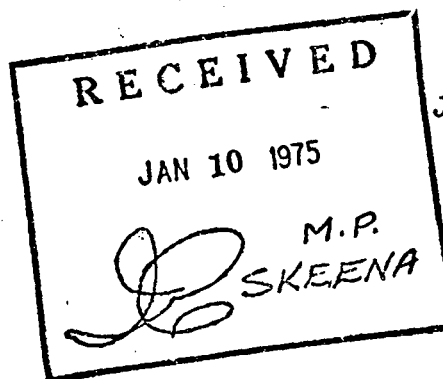
Iona Campagnolo, M.P.,
Skeena

Enclosures



Misty Islands Transportation Co. Ltd.

SKIDEGATE, B.C.
R.R. 1, QUEEN CHARLOTTE, B.C.



January 6, 1975

Mrs. Iona Campagnolo, MP,
House of Commons,
Ottawa, Ontario

Dear Mrs. Campagnolo:

For over a year we have looked into the possibility of operating a surface Transportation system into Tasu and way points. Last Spring we put into operation a three month trial period a service running seven days per week between Tasu and Sandspit Airport. We put a passenger boat at Tasu and had our operator stationed there. He travelled to the head of Newcombe Inlet (seven miles) and transferred to a small bus to Sewell (five miles). He transferred to a second water taxi here and went to Moresby (seventeen miles). He then made his last transfer to a bus and then went to Sandspit (32 miles). The whole trip took about 3½ hours if the loads were light. The service was not too popular with passengers because of all the transfers and the length of the trip. There were drawbacks in handling mail and freight because of the difficulty of transporting these goods up and down the rickety floats. However, in the three month period, we missed only one day due to weather and that day the Airlines did not travel. Tasu has about a 50% frequency rate on arrivals of the small aircraft because of weather computed over a yearly basis.

Our proposal to inaugurate a service using an amphibious vehicle is now under consideration by the two companies Wesfrob Mines at Tasu and Rayonier at Sewell. (There is also a logging camp being constructed on our route by MacMillan, Bloedel and they too are interested.)

The problem is that the service will cost more than the companies involved are willing to spend at this time because of the economic troubles in mining and logging.

When I was trying to get a ferry service started across Skidegate Inlet about 10 years ago I tried every angle I could think of to get assistance. During this period I wrote Frank Howard and he went to the Canadian Maritime Commission who sent an inspector

Mrs. Iona Campagnolo, MP,
Page 2
January 6, 1975

out. After a thorough investigation of our figures and the situation here, he showed us that because the service would be a direct link between two Provincial public roads the Federal Government could not participate. *Still applies*

I thought that because this proposed service joins remote and isolated communities to the outside world and is mainly a marine link we might try again to enlist the aid of the Federal Government with your help. *Not a Federal responsibility*

The main equipment involved in this proposed operation would be an amphibious vehicle called a LARC by the American Government. We have an option to purchase 2 of these vehicles (one for spare parts). The hull is 35' long by 10' wide and constructed of aluminum plate. The wheels are large flotation type 18:00" x 25" for operation in rough areas. The power is by a 300 HP Diesel engine.

Presently there is no passenger accommodation in the Vehicle but our figures allow for the installation of a cabin which has space for 12 passengers plus a large amount of air cargo (about 2 Tons).

Our figures also allow for a bus with cargo space to operate between Sandspit Airport and Moresby. This would be the only transfer point in the service and would be done on dry land with the vehicles together.

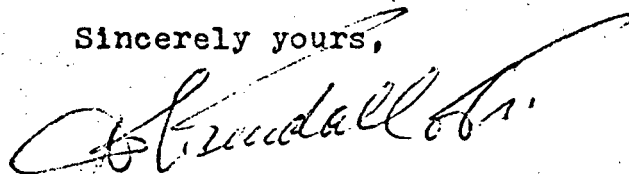
I am enclosing a map showing more clearly the route and other points that may be of interest to you.

I believe the companies involved would still like to retain their connection with the feeder airline they now use. However they would have in the new service a basic, reliable operation where all their day to day commodities would be carried and whatever passenger wished to go.

As an interesting side effect, during our three month trial last spring Trans Provincial Airlines service to these areas improved unbelievably and immediately started to decline after it ceased.

I hope you can make something out of this rambling letter and it does not add too much to your already heavy work load. Thanking you.

Sincerely yours,



D.T. Kendall, Manager

DTK:bjl

000009



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

ADMCK/1a

TO
À ASTA

FROM
DE DSM

SECURITY - CLASSIFICATION - DE SÉCURITÉ

OUR FILE - N/RÉFÉRENCE

YOUR FILE - V/RÉFÉRENCE

DATE

21 January 1975

SUBJECT
OBJET

Federal Assistance to B.C. Ferries

In a note attached to copies of correspondence received from the Prime Minister's office on the subject of Federal assistance to B.C. ferries, you asked why CSTA was the action addressee rather than XPPP.

I see from a note from your Secretary to Mr. Ropertz that the change in the Forecast of Major Decision Items was made on the instructions of DSP, but I am not quite sure why such a change should have been requested, since to the best of my knowledge, responsibility for this matter is still vested in XPPP. Indeed, the last version of the memorandum to Cabinet on assistance to B.C. ferries' now being prepared by XPPP deals with the possibility of aid being directed to other Transportation elements in the province rather than to the ferries' and in such a case the Marine and Ferry Branch would have no involvement whatsoever.

We have, of course, been continually consulted by XPPP in the course of their work on B.C. ferries, but we do not anticipate being asked to take an active part in any discussions with the province until the stage is set for practical discussions regarding aid to the ferry systems and not to other Transportation components.

D.F. Knapp

000010

Ministry of Transport
Office of the
Deputy Minister

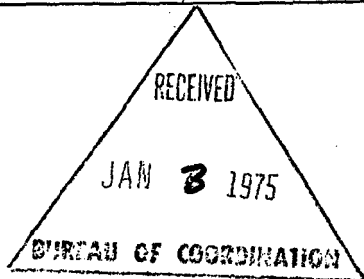
Ministère des Transports
Bureau du
Sous-ministre

To:
À:

✓
DBC

RA-

Remarks
Remarques



Please note Mr. Stoner's comment to me of January 3rd. You are requested to arrange that I be kept informed of any developments relating to federal constitutional obligations concerning the B.C. ferries.

J.Y. Clarke
.....

Date Jan. 3, 1975....

000011


Mr. Clarke -

I will be interested in
what views are developed on any
constitutional obligation relating
to B.C. Ferries.

O.G.S.

3-1-75

000012

January 2, 1975.

NOTE TO THE DEPUTY MINISTER

RE: Federal Assistance to B.C.
Ferries

Louise Robinson in PCO
forwarded the attached correspondence
from the Prime Minister to the
Honourable Ron Basford and to
Premier Barrett, for your information.

J.Y.C.

J.Y.C.

*I will be interested
in what views are developed
on any constitutional obligation
relating to B.C. Ferries*

000013

DEPUTY MINISTER OF TRANSPORT

SOUS-MINISTRE DES TRANSPORTS

ACTION REQUEST

FICHE DE SERVICE

TO : A

XPPP

DATE

Jan. 13-75

FROM : DE

DM's Office

FILE NO. -- N° DE DOSSIER

550-11-8

REPLY DIRECT ☐

RÉPONDRE DIRECTEMENT

REQUIRED ACTION ☐

DONNER SUITE

NOTE & RETURN ☐

NOTER ET RETOURNER

INFORMATION ☒

INFORMATION

COMMENTS ☐

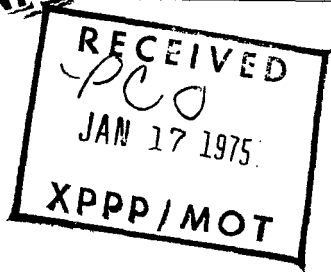
COMMENTAIRES

PREPARE MEMO TO -- PRÉPARER UNE NOTE DE SERVICE À

REPLY FOR SIGNATURE OF -- RÉPONSE POUR LA SIGNATURE DE

REMARKS -- REMARQUES

ENT'D



000014

MINISTRY OF TRANSPORT — MINISTÈRE DES TRANSPORTS

Office of the ster
Cabinet du re
Ottawa, K1A 0N5

Date Jan 9/75

- ☐ TO: DEPUTY MINISTER
AU: SOUS MINISTRE
- ☒ TO: DEPUTY MINISTER'S OFFICE
AU: CABINET DU SOUS MINISTRE

ALSO REFERRED TO:
AUSSI TRANSMIS AU:

- ☐ SPECIAL ADVISOR
CONSEILLER SPÉCIAL

PLEASE — S'IL VOUS PLAÎT

- ☐ PREPARE REPLY FOR SIGNATURE OF:
PRÉPARER RÉPONSE POUR LA SIGNATURE DE:

- ☐ SEND COMMENTS TO:
FAIRE PARVENIR VOS COMMENTAIRES AU:

- ☐ MINISTER
MINISTRE
- ☐ SPECIAL ADVISOR
CONSEILLER SPÉCIAL
- ☐ EXECUTIVE ASSISTANT
ADJOINT SPÉCIAL
- ☐ ASSISTANT — SPECIAL PROJECTS
ADJOINT — PROJETS SPÉCIAUX
- ☐ SENIOR ADMINISTRATIVE OFFICER
ADMINISTRATEUR PRINCIPAL
- ☐ PARLIAMENTARY ASSISTANT
SECRÉTAIRE PARLEMENTAIRE
- ☐ UNDERSIGNED
SOUSSIGNÉ


- ☐ FOR DIRECT REPLY
POUR RÉPONSE DIRECTE

- ☐ FOR PERUSAL AND APPROPRIATE ACTION
POUR LECTURE ET SUITE NÉCESSAIRE

- ☒ FOR INFORMATION
POUR INFORMATION

REMARKS — OBSERVATION

- ☐ THIS LETTER HAS NOT BEEN ACKNOWLEDGED.
NOUS N'AVONS PAS ACCUSÉ RÉCEPTION DE CETTE LETTRE.



SIGNATURE 000015

DE/sc

gm

January 10, 1975

Ms. Louise C. Robinson
Privy Council Office
48 Sparks Street
Ottawa, Ontario



Dear Ms. Robinson:

On behalf of Miss Dion, I wish to acknowledge receipt of your letter of December 17, 1974 with which you enclosed copies of correspondence concerning the British Columbia Ferry System.

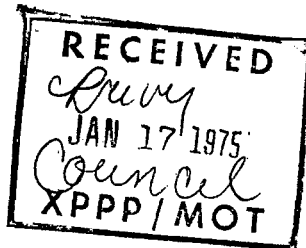
Your letter has been noted and referred to the appropriate Ministry officials for their information.

Yours truly

ORIGINAL SIGNED BY
John Fairchild

John Fairchild
Special Assistant

ENT'D



RECEIVED

JAN 13 1975

OFFICE OF THE
DEPUTY MINISTER
TRANSPORT

2-8-4-27
550-11-8

PRIVY COUNCIL OFFICE



BUREAU DU CONSEIL PRIVÉ

DEC 20 8 41 PM '74

O t t a w a
K1A 0A3 RECEIVED
MINISTER OF TRANSPORT

37226

December 17, 1974

Miss Lucie Dion
Executive Assistant
Minister's Office
Transport Canada Building
Place de Ville
Ottawa, Ontario
K1A ON5



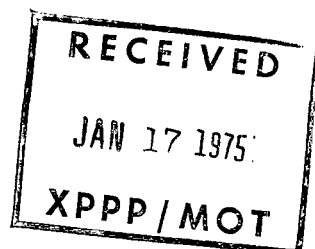
Dear Miss Dion:

Attached, for your information, are copies of recent correspondence regarding the British Columbia Ferry System. This includes a letter dated December 17 from the Prime Minister to Premier Barrett and a letter of the same date to Mr. Ron Basford.

You may wish to bring this to the attention of your Minister.

Yours sincerely,


Louise C. Robinson





PRIME MINISTER - PREMIER MINISTRE

O t t a w a
K1A 0A2

December 17, 1974

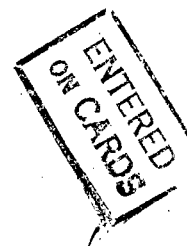
My dear Premier:

I am writing to you in reply to your letter of October 16, 1974, in which you enclosed a copy of the British Columbia government's submission for financial support to government ferry services in British Columbia.

It is my understanding that this submission was presented and discussed by your Minister of Transportation and Communications, Mr. Strachan on October 23 in a meeting with Mr. Marchand. As I am sure you are aware, it was agreed at this meeting that the Government of Canada would undertake to examine the constitutional and other arguments presented by the Government of British Columbia. Particular attention is likely to be paid to the clauses in the Terms of Union between Canada and British Columbia mentioned in your submission and which I believe are being raised for the first time.

. . . . 2

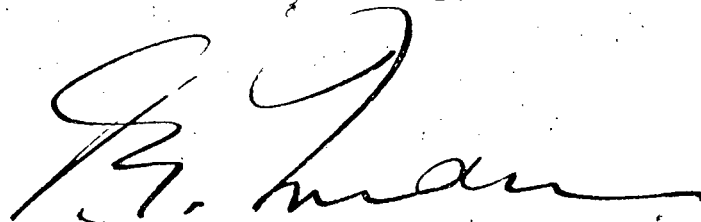
The Honourable David Barrett
Premier of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 4R3



- 2 -

I will be writing to you again on this matter after federal officials have had an opportunity to complete their analysis. I expect to be able to follow-up on this in the very near future.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "B. L. L. L." with a stylized, flowing script.



PRIME MINISTER · PREMIER MINISTRE

O t t a w a
K1A OA2

December 17, 1974

My dear Colleague:

Thank you for your letter of October 23 in which you outline some of your views on the question of federal financial assistance to the British Columbia Ferry System.

As I am sure you are aware, the Ministry of Transport has been involved in looking at some of the financial and other long-term implications of providing assistance to the British Columbia Ferry System. I understand that this investigation in the Ministry has now been broadened to consider assistance to other transportation projects in British Columbia, which might be given in lieu of support to ferry services.

I have been informed that the October 23 meetings on this issue involving yourself, Mr. Marchand and Mr. Strachan, Minister of Transport and Communications in British Columbia provided a

. . . 2

The Honourable Ron Basford
Minister of Revenue Canada
House of Commons
Ottawa, Ontario
K1A OA6

B. Luman



4301 899

VICTORIA

October 16th, 1974.

Received Oct 28th

The Rt. Hon. Pierre E. Trudeau,
P.C., Q.C., M.P.,
Prime Minister of Canada,
Ottawa, Canada.



Dear Mr. Prime Minister:

I am enclosing herewith for your personal attention a copy of British Columbia's submission to your government for financial assistance to government ferry services in British Columbia. I will not in this letter reiterate what my government considers to be the very cogent arguments that can be made in support of a substantial federal contribution to what is essentially a link in the Trans-Canada Highway system. These reasons are set out in the brief and are based in part on constitutional grounds and on the treatment given to other provinces in similar situations.

My Minister of Transport and Communications, Mr. Robert Strachan, anticipates meeting with your colleague, Mr. Marchand, in Ottawa on October 21st. to embark upon serious discussions on this subject and I wanted you to receive a copy of the provincial brief in advance of that meeting.

Yours truly,

A handwritten signature in dark ink, appearing to read "David Barrett".

David Barrett,
Premier.

Minister
Revenue Canada

Ministre
Revenu Canada

October 28, 1974

Right Honourable Pierre E. Trudeau, P.C., Q.C., M.P.,
Prime Minister of Canada,
East Block,
Ottawa, Ontario.

My dear Colleague:

Last week Jean Marchand and I each met with Robert Strachan, the Minister of Industry of British Columbia, to discuss the issue of possible federal assistance to B.C. ferries. I understand that officials from the Privy Council Office and Department of Transport are preparing a policy paper on the problem. Premier Barrett may also raise the issue with you during his visit. I would like to contribute the following thoughts on the problem.

British Columbia has requested that the federal government remit customs duty on its purchase of a Swedish ferry, waive sales taxes on supplies of fuel oil, building materials and other items used for operation of the B.C. ferry system, and possibly contribute a subsidy towards operating expenses or capital assistance of some form.

My Department has agreed to the remission request and it will be considered by the appropriate interdepartmental committee on November 5. As you know, Cabinet has considered the sales tax problem twice previously and decided against B.C.'s request. In 1966 Cabinet agreed to end all intra-provincial ferry subsidies.

The question remains, what can we do to assist B.C.'s transportation difficulties? I suggest the following approach. Rather than become involved with ongoing subsidies, capital assistance or removal of the sales tax - where we will receive very little political credit and perhaps create troublesome precedents - we could offer to complete by ourselves one of the projects proposed in the Federal B.C. North-West Transportation Agreement, or some other capital project in B.C. where we could obtain 100% of the political credit. Discussions are now proceeding with the province on ways to finance the construction of the Ashcroft-Clinton Railway By-Pass and the development of general commodity and bulk handling facilities at the Port of Prince Rupert.

- 2 -

There have been delays, particularly with regard to Prince Rupert, in obtaining agreement from B.C. on a cost-sharing formula. An offer to develop Prince Rupert, construct Ashcroft-Clinton, or some other agreed project, by ourselves in lieu of ferry assistance would both be a positive contribution to B.C. and would ensure a more visible federal presence with the resulting political credit.

I hope these thoughts may be of some use to you in your forthcoming discussions with the Premier.

Yours sincerely,



Ron Pasford.

cc: Hon. Jean Marchand

550-11-8



The Honourable R.S. Basford,
Minister of Revenue,
House of Commons,
Ottawa, Ontario
K1A 0L5

My dear Colleague:

Thank you for the copy of your letter of October 23 to the Prime Minister which was sent following the discussions with Robert Strachan on the subject of British Columbia's request for federal assistance to B.C. FERRIES. I was particularly interested in your views on substitute assistance, that is, negotiating federal assistance for transportation projects in B.C. not linked to the ferry system, but understood to be in lieu of assistance to ferries.

I have been concerned that initiating assistance to B.C. FERRIES would open up a new avenue of assistance - one that could escalate and be difficult to control in the years ahead. Also, assistance to B.C. FERRIES could encourage or renew demands for assistance from other provinces, where we have been methodically following a policy of withdrawing from federal assistance to intraprovincial, road-link type ferry services in accordance with a 1966 Cabinet Decision. In fact, I will point out to Mr. Strachan that the payments to Ontario and to Quebec, which are described as "assistance" in the paper he handed to us, are actually payments which "buy-out" and terminate the federal responsibility for certain ferry services in those provinces, in accordance with the policy established by Cabinet.

I have also felt that, in view of the number of major federally-sponsored transportation projects already in progress in British Columbia, it might be wise to re-examine our overall position before committing any additional federal expenditures. For this reason I withdrew a Memorandum to Cabinet which had been prepared on the B.C. FERRIES issue earlier

.../2

Typed: November 18, 1974

- 2 -

this year. I am particularly glad that you seem to share my reservations on this issue, and I am grateful for your view, which I share, that some substitute assistance project should be sought which will be a better exhibit of federal presence.

It does not appear, on the basis of preliminary study, that the province has a strong case in the matter of unfulfilled federal constitutional obligations, as referred to in Mr. Strachan's paper. However, I have asked officials within my department to work closely with the Privy Council Office in examining these claims, and as well to prepare a position paper. I look forward to receiving your suggestions in detail when this paper is discussed in Cabinet.

Yours sincerely,

Jean Marchand

550-11-8

January 2, 1974.

Dear Mrs. Robinson:

Thank you for sending me copies of recent correspondence from the Prime Minister to the Honourable Ron Basford and to Premier Barrett on the subject of Federal assistance to British Columbia, with particular respect to their ferry system.

As you know, Mr. Stoner is recuperating from minor surgery, and will not be returning to this office until later in the month. However, I am sending this correspondence out to his home, as I am sure he will want to see it.

Yours sincerely,

Original Signed by
JAMES V. CLARKE

J.Y. Clarke,
Executive Assistant.

Mrs. L.C. Robinson,
Privy Council Office,
House of Commons,
Ottawa, Ontario,
K1A 0A3.

550-11-8

Card

PRIVY COUNCIL OFFICE



BUREAU DU CONSEIL PRIVÉ

07102

O t t a w a
K1A OA3

December 17, 1974

Mr. J.Y. Clarke
Executive Assistant
Deputy Minister's Office
Ministry of Transport
Tower 'C', Place de Ville,
Ottawa, Ontario
K1A ON5

Dear Mr. Clarke:

Attached, for your information, are copies of recent correspondence regarding the British Columbia Ferry System. This includes a letter dated December 17 from the Prime Minister to Premier Barrett and a letter of the same date to Mr. Ron Basford.

You may wish to bring this to the attention of your Deputy Minister.

Yours sincerely,

Louise C. Robinson

RECEIVED

DEC 31 1974

OFFICE OF THE
DEPUTY MINISTER
TRANSPORT

ENTERED
ON CARDS

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DEC 27 1974

239044

550-11-8

12 December 1974

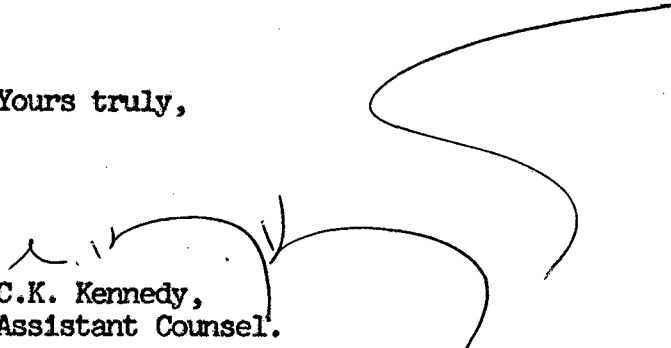
Mr. Louis Reynolds,
Office of the Constitutional Adviser,
Privy Council Office,
48 Sparks Street,
Ottawa K1A 0A3 Ontario.

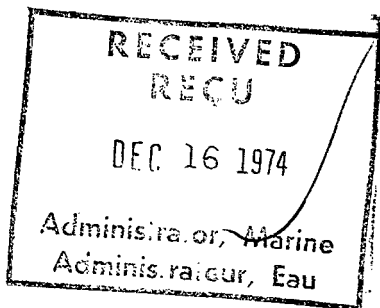
RE: B.C. Ferries

Dear Mr. Reynolds:

Thank you for your letter of December 9th and the
material which you forwarded.

Yours truly,


C.K. Kennedy,
Assistant Counsel.



Mr. Illing -

1. I agree.
2. I hope you are right in final para. I find it more difficult to identify progress on specifics - but I may not be as close as you to this.

16-12-74

O.G.S.

000031



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

550-11-8

TO
A

DM

FROM
DE

AMTA

SECURITY - CLASSIFICATION - DE SÉCURITÉ

OUR FILE - N/RÉFÉRENCE

YOUR FILE - V/RÉFÉRENCE

DATE

December 12, 1974.

SUBJECT
OBJET

MR. BASFORD'S COMMENTS ON B.C.'S
TRANSPORTATION PROJECTS

In some respects, Mr. Basford has some valid points. However, it is very important to understand the feeling of the B.C. Government related to financial participation in both the Northern Rail Development and the development of the Port of Prince Rupert. The B.C. Government insisted on financial participation in the rail development and is equally insisting on financial participation (50%) in development of the Fairview Terminal at Prince Rupert and in other Prince Rupert port developments.

The way we read the situation, I would say that it would be construed adversely by B.C. if the Federal Government were to suggest 100% federal financing of the Northern B.C. Transportation Projects.

Finally, it is not true that the B.C. projects are going nowhere except on a study route. Positive progress is being made on a number of fronts. Perhaps the area where we need to accelerate activity is related to some implementation of Colin Hudson's proposals on Rail Access to Vancouver.

Agreed

R. Illing.

c.c. XPPP

*I hope you are
right in final para
find it some d. difficult
I don't deny progress on
- but may not be as close as you
to this.*

RECEIVED
DEC 12 1974
OFFICE OF THE
DEPUTY MINISTER
TRANSPORT

000032

550-11-8



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

TO
À

Mr. G. A. Scott, SADM

FROM
DE

A.R. Conboy, DPI

SUBJECT
OBJET

B.C. FERRIES

SECURITY - CLASSIFICATION — DE SÉCURITÉ
OUR FILE — N/RÉFÉRENCE
YOUR FILE — V/RÉFÉRENCE
DATE December 9, 1974

Apropos the scheduled meeting between the Minister and Mr. Barrett December 13, the attached are notes on the B.C. ferry issue which has been of paramount concern to the Premier. A Memorandum to the Minister is also attached for your use in covering this brief.

M. E. Butler is in Victoria now and plans to remain there to join the Minister as required on Wednesday and again on Friday at the scheduled meeting with Premier Barrett. He is completely familiar with the B.C. FERRIES subject (and the Deputy's views on this subject) and also can brief on Surface Administration matters should the need arise.

A.R. Conboy
A. R. Conboy

c.c. DMEA
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Senior Assistant Deputy Minister
Ministry of Transport

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MEMORANDUM TO THE MINISTER

B.C. FERRIES

Attached are notes on the present situation respecting B.C. FERRIES for use in connection with your meeting with Mr. Barrett next Friday.

Mr. M. E. Butler intends to be available in Vancouver and Victoria to accompany you on your visits this week. He can brief you further on this and other current issues which might come up in conversation with the Premier.

Original Signed by

J. A. Scott

for

O. G. Stoner

*original to Minister
on 9/2/77
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Briefing Note for the Minister

B.C. FERRIES

Background

This issue began two years ago with the visit of Premier Barrett to the Prime Minister, initially requesting 40% ship building subsidies for British Columbia. Subsequently, the Prime Minister responded that this avenue of assistance was not feasible but that other mechanisms for providing assistance to B.C. FERRIES - which was the whole objective of Mr. Barrett's approach to the Prime Minister - would be explored.

In June 1973, the Prime Minister asked the Minister of Transport to prepare suitable mechanisms of assistance for consideration by Cabinet.

A paper was prepared and coordinated with PCO, TBS, and DPW. However, this paper was withdrawn in May 1974 and was not considered by Cabinet Committee. The Minister was concerned at the escalating total of transportation assistance to B.C. (well over \$300 million in commitments). Furthermore, there was concern that any assistance to the B.C. ferry system might open the door to significant and difficult-to-control future demands for continuing assistance, regardless of the mechanism of assistance devised.

The subject of assistance to B.C. FERRIES has been raised by B.C. representatives at almost every meeting of the Federal-Provincial Committee on Western Transportation. However, it has clearly not been a subject of much interest to western provinces other than B.C.

On October 16, 1974, Mr. R. Strachan, Minister of Transport and Communications for B.C. visited the Minister, and also visited Mr. Basford. He presented the long awaited B.C. paper formally putting the case for federal assistance to B.C. It is understood that the Minister of Transport did not hold out hope that the federal government might assist B.C. FERRIES; however, he indicated that there were other transportation projects in B.C. where a federal contribution could be made, and that such assistance could be provided on the understanding that it was in lieu of assistance to the ferry system.

Mr. Basford has recently written to the Minister with views that support the Minister's approach and with the additional suggestion that the Federal government could choose a transportation project to support which was 100% a federal project - thus exhibiting clearly the federal presence. Mr. Basford's concern about supporting B.C. FERRIES was that this assistance would not be as visible and would not demonstrate federal presence adequately.

- 2 -

A new Memorandum to Cabinet is being prepared for the Minister's consideration.

Present Situation - Intra-Provincial Ferry Assistance

While the federal policy on ferries is not wholly consistent, at this time, there has been a consistent effort to apply a 1966 Cabinet decision which stipulated that the Federal Government withdraw from responsibility for ferry services in Canada which are intra-provincial, road-link, in nature. Some services which contravene this instruction still exist, notably in the Atlantic provinces and Mr. Barrett's paper points out these inconsistencies.

However, the Federal Government has extracted itself from assistance to intra-provincial ferry services in the provinces of Ontario and Quebec. Mr. Barrett's paper to misleading in referring to \$3 million worth of assistance in Ontario and to the assistance to Quebec ferries. Payments were negotiated as part of the settlement with these provinces for the permanent withdrawal of further federal assistance. They were, indeed, "buy-out" payments.

Inasmuch as B.C. FERRIES is strictly intra-provincial, the Federal Government could not provide assistance without overturning a policy which has been introduced with other provinces. It should be noted, in fact, that the Federal Government is currently negotiating with New Brunswick and Newfoundland to remove intra-provincial services in those provinces from federal support, and assistance to British Columbia would be incompatible with these moves.

It should be noted, however, that the Federal Government does assist B.C. coastal services, which are not considered to be "road-links". This is provided by the CTC and the total in the coming year may reach \$4 million.

Present Situation - Constitutional Claims by B.C.

B.C. do not acknowledge the federal position that allows federal assistance to be given to inter-provincial services, but denies assistance to intra-provincial services. They point to the large federal subsidies for East coast ferries (over \$40 million per year) and state that ferry services are as important to B.C. as they are to the Maritime provinces.

The new arguments in B.C.'s October paper are basically:-

that Canada has obligations under the terms of union with B.C.; secondly, alleged obligations respecting inter-provincial and international transport; and thirdly, alleged obligations under the Trans-Canada Highway Agreement of 1950.

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While these claims have not been completely researched, preliminary work by the constitutional lawyers in PCO points to there being no case for the B.C. claims from a strictly legal and constitutional view point.

Action

Full examination of the question is still underway, and a Cabinet will be asked to consider a response to B.C. either in January or February. A substitute project for federal support in British Columbia may be proposed at that time.

Policy, Planning and Major Projects Branch,

December 6, 1974

PRIVY COUNCIL OFFICE



BUREAU DU CONSEIL PRIVÉ

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December 9th, 1974

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Re: B.C. Ferries

Dear Mr. Kennedy:

I have recently been asked by Mr. Haney of the Privy Council Office for advice concerning the British Columbia claim for financial assistance for ferries.

Since this is a matter about which you are undoubtedly concerned, I thought you might appreciate receiving copies of the memoranda I prepared for Mr. Haney.

I am therefore sending you copies of those memoranda together with a copy of the British Columbia's submission requesting financial support for B.C. Ferries.

Yours sincerely,

Louis Reynolds

Office of the Constitutional Adviser
Privy Council Office

Mr. C. K. Kennedy
Assistant Counsel
Legal Services
Department of Transport
Place de Ville
Tower C
23rd Floor
OTTAWA, Ontario
K1A 0N5



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Special Record
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BRITISH COLUMBIA'S SUBMISSION

FOR

FEDERAL FINANCIAL SUPPORT

TO

GOVERNMENT FERRY SERVICES

IN

BRITISH COLUMBIA

I. INTRODUCTION

It is British Columbia's submission that Canada has not since the time of Confederation fulfilled its obligations to provide financial assistance for a reasonable and adequate ferry system necessary for freight transportation, communications, and passenger and mail service, to Vancouver Island and the other Islands off the West Coast of the Canadian Mainland.

It is the Province's view that Canada's obligations to provide financial assistance towards capital expenditures and operating costs of such ferry services, many of which are now provided by the Province, can be found to exist on several legitimate grounds. This submission seeks to highlight some of these grounds.

II. HISTORICAL BACKGROUND

To appreciate British Columbia's position, it is first important to trace the history of the colonies of the Pacific West Coast (Vancouver Island, Queen Charlotte Island, British Columbia, and the Stikine territory) from the time of first colonization through to Confederation with Canada.

The colony of Vancouver's Island was first constituted by the Charter of the Grant of Vancouver's Island to the Hudson's Bay Company by Queen Victoria on January 13, 1849. Richard Blanshard was appointed the colony's first Governor shortly thereafter, and was followed by the arrival of the first colonists. Settlement of the colony was slow and it remained largely a fur-trading extension of the Company.

In 1852, the discovery of gold on Queen Charlotte's Island led to the extension of Colonial Government there. James Douglas, Blanshard's successor, was commissioned Lieutenant-Governor of Queen Charlotte's Island.

By 1858, discovery of gold on the Mainland of British Columbia resulted in a large influx of American miners. The British Colonial Office rose to the occasion in declaring the Queen's influence in the Mainland area as well. James Douglas was commissioned Governor for British Columbia and thus, a new colony became established on the Mainland.

In 1862, the Stikine territory, to the North of the Mainland Colony of British Columbia, became attractive to those searching for gold. The result was that the boundaries of the Mainland Colony became further extended to include the Stikine territory. Thus, the boundaries of British Columbia, as they are known today, became established.

Following his appointment as Governor of the Mainland of British Columbia, Douglas governed the colonies until 1864. In 1864, separate Governors for Vancouver Island and British Columbia were appointed, allowing the colonies to go their separate ways. However, in 1866, because of adverse financial conditions and political expediency, a merger of the two colonies was consummated.

It is important to bear in mind that this union of the colonies on the Pacific West Coast was concluded in an era in British-American Colonial history, when the view of the Colonial Office was strong in urging regional unions of colonies, with the ultimate object of Confederation. This was evidenced in another context by the obvious Colonial Office support of the Lieutenant-Governor of New Brunswick, in his efforts to effect union of the colonies of Nova Scotia, New Brunswick and Prince Edward Island on the Atlantic West Coast. As history bears out, the Charlottetown Conference in September of 1864 was called specifically to consider such a union of colonies. However, the Atlantic Colonies' efforts

became directed to a broader purpose. With the attendance of the Canadian Provinces at the Conference, a larger Confederation was urged and resulted ultimately, in Confederation of 1867.

The union of the colonies on the West Coast did little more than establish one Government. The financial conditions of the member colonies remained the same. Transportation and communications indicated a natural route to union with the United States. On the other hand, political tendencies and common heritage favoured the union of the new colony with the Provinces of Canada. Ultimately, the Canada route prevailed, and the new colony of British Columbia joined Confederation on July 20, 1871.

It is important to remember that, whereas the union of the Maritime Colonies, urged by the Colonial Office, was concluded in Confederation with the other Provinces of Canada by each colony entering thereto as a separate entity, the union of the colonies of the West Coast was concluded before joining Confederation.

By accident of history, the Maritime Colonies entering Confederation as individual colonies rather than united (as in the case of the Pacific colonies), have maintained a better bargaining position with Canada, as separate provinces, and have fared much better in terms of Federal financial support for ferry operations than has British Columbia.

III. THE CASE FOR FEDERAL ASSISTANCE
FOR BRITISH COLUMBIA FERRIES

A. CONSTITUTIONAL OBLIGATIONS

The Terms of Union of the Colony of British Columbia with Canada were settled on May 16, 1871. The terms and conditions of the union were framed in a manner recognizing that British Columbia was isolated from the other provinces of Confederation. Because of this exceptional geographic circumstance, assistance by Canada was to be given for the provision of freight transportation, communications, passenger and mail service, from the other Provinces of Confederation, not only to the British Columbia Mainland, but to Vancouver Island. The object of such assistance was to support and promote the economic development and growth of the new West Coast Province, and to strengthen Confederation by extending Canada's influence from Coast to Coast.

1. Specifically, section 4 of the Schedule of the Terms of Union of British Columbia becomes more obvious in its intent.

"4. The Dominion will provide an efficient mail service, fortnightly, by steam communication between Victoria and San Francisco, and twice a week between Victoria and Olympia; the vessels to be adapted for the conveyance of freight and passengers."

It is readily evident that one of the conditions of British Columbia's entry into Confederation was to maintain lines of communication and transportation between Victoria, as its Capital, and the Mainland continental ports of influence at that time.

The condition for a steam connection between Victoria and San Francisco was important to the development of the Province, as San Francisco was the major centre of shipping, trade and commerce on the West Coast at that time. British Columbia required the service if such development was to become a reality.

The service was never provided by Canada.

The covenant by Canada to provide a ferry service, twice weekly, between Vancouver Island and the Washington Mainland, was a further example of recognizing British Columbia's concern for the development of the West Coast Province at the time of Confederation.

The service was never provided by Canada.

At the same time, the benefits of Canada's providing such services were not altogether singular in benefit to British Columbia. It is clear that the need for Canada to express some international influence as an emerging nation could only have been furthered by maintaining

connections for freight transportation, communication, passenger and mail service, with international ports.

It is therefore British Columbia's submission that Canada's obligation under section 4 of the Terms of Union has never been discharged. Because of Canada's failure to initially provide such services, further logical development of the services to an acceptable present-day level, has never been the privilege of British Columbia.

2. Moreover, the further undertaking of Canada by clause 11 of the Terms of Union to provide for the construction of a railway from the Pacific towards the Rocky Mountains to connect the seaboard of British Columbia with the railway system of Canada, was not satisfactorily discharged by stopping the railroad at a terminus in Vancouver.

"11. The Government of the Dominion undertake to secure the commencement simultaneously, within two years from the date of the Union, of the construction of a railway from the Pacific towards the Rocky Mountains, and from such point as may be selected, east of the Rocky Mountains, towards the Pacific, to connect the seaboard of British Columbia with the railway system of Canada; and, further, to secure the completion of such railway within ten years from the date of the Union."

History shows that at the time of the construction of the railway, much discussion took place between British Columbia and Canada about a railway crossing connecting Vancouver Island with the Canadian Mainland at Seymour Narrows.

If the railway could not be extended by a bridge to Vancouver Island, it is logical that a proper ferry system maintaining this connection would be considered as a practical and financially viable alternative for Canada to provide.

It is obvious, from reading the Terms of Union, that Canada and British Columbia considered such a link important.

It can also be argued that the undertaking of Canada by the Terms of Union expressed a responsibility to provide, at a very minimum, a proper and adequate link of the capital of the new province with the rest of the Provinces of Canada.

The absence of the fulfillment of such undertaking initially does not now obviate the obligation of Canada to fulfill its undertaking.

It is reasonable to expect that for a viable and working Confederation, the provision of a natural link for freight transportation, communications, passenger and mail services to connect the capital of each of the provinces of the Union, would be indicated.

3. By the Terms of Union, Canada has pledged to treat all provinces in equity; and provide to British Columbia such services as are provided to other Provinces.

Section 5 of the Terms of Union of British Columbia with Canada provides that Canada undertake to assume and defray such charges for services which appertain to the General Government, and "such further charges as may be incident to and connected with the services which, by the British North America Act, 1867, appertain to the General Government, and as are or may be allowed to other Provinces."

In spite of the Dominion's covenant to treat British Columbia in the same manner as other provinces, Canada has not extended to British Columbia the benefit of federal support for ferry services that it has extended to ferry services in other Provinces of the Union, upon terms which would indicate that British Columbia could similarly qualify for assistance.

B. TREATMENT GIVEN TO OTHER PROVINCES

Canada is presently heavily supporting financially, and has done so for some years, in the maintenance, operation and capital outlay of ferry and coastal services on the Atlantic Coast, the St. Lawrence River, and on the Great Lakes. (TAB 1). British Columbia's request for financial contribution is therefore in keeping with Canada's financial support elsewhere.

Some examples of capital expenditures, alone, towards such ferry and coastal services include:

1. \$3,351,000 for a ferry terminal between Saint John, New Brunswick and Digby, Nova Scotia (1970).
2. \$6,999,000 for a ferry terminal between Saint John, New Brunswick and Digby, Nova Scotia (1971).
3. \$15,000,000 forgiveness on the balance of a loan for the acquisition and construction of two vessels for ferry services between New Brunswick and Prince Edward Island (1972).
4. \$3,000,000 for construction of ferry terminals for ferry service between Tobermorey and South Baymouth, Ontario (1973).
5. \$3,000,000 to aid in construction of an ice-breaker ferry vessel for Quebec. (It is to be noted that the Department of Regional and Economic Expansion of Canada has contributed a

further \$3,000,000 for the construction of this vessel.

To date, British Columbia has received no contribution whatever for operating expenses or capital outlays for ferry and coastal services or for terminal facilities.

It is clearly evident that in addition to Canada's direct financial assistance towards such services, Federal Crown agencies such as the Canadian National Railway are heavily committed to providing such services and terminal facilities. (TAB 2).

Canada argues in support of the propriety of providing such services, (as opposed to the propriety of providing such services for British Columbia) on the ground that they are either:

1. Services provided under a constitutional obligation to such province; or
2. Services between two provinces and as such are Canada's responsibility as providing inter-provincial transportation; or
3. Services between Canada and United States being international transportation, and as such are Canada's responsibility.

(1) British Columbia's foremost argument earlier stated, is that Canada has failed to discharge its Constitutional obligations, which it submits are similar in nature to those presently being discharged by Canada to the East Coast Provinces.

(2) Inter-Provincial Transportation

Canada has supported the East Coast ferry services in the past, maintaining that they are the Federal responsibility as they assist in inter-provincial transportation.

An examination of these East Coast services indicates that many but not all are between two points of two different provinces. (TAB 3). The size and the nature of the services are in many ways comparable to those provided by British Columbia. (TAB 4).

However, in cases other than British Columbia's, Canada assists other provinces in providing ferry services between two different points in the same province.

The ferry service between Tobermorey and South Baymouth is an excellent example of an intra-provincial ferry service that has received substantial financial contribution from Canada. This particular service was operated by the Owen Sound Transportation Company Limited from 1943 to 1969 and was subsidized in part by Canada. In 1969 the subsidy was shared

equally by Ontario and Canada. During this time, because of the service's increasing popularity and because of the potential to increase tourism to Manitoulin Island and other points in northwest Ontario, Ontario was considering providing the service, itself. Thereafter, negotiations between Ontario and Canada resulted in an agreement between the Provincial Minister of Transport and Communications and the Federal Minister of Transport. \$3,000,000 was contributed by Canada in addition to the normal Federal shipbuilding subsidy, in addition to the responsibility to maintain the wharf structures, and to maintain the width and depth of the channels.

Such an example of Federal-Provincial co-operation is most encouraging to British Columbia in its present request for financial assistance.

(3) International Transportation

In any event, British Columbia's ferry services are used for transportation to and from points within the province and centres of trade and manufacture elsewhere in Canada. The ferry services are also used extensively for tourism during the summer months by other Canadians. Records indicate that the annual volumes of out-of-province vehicles have risen sharply during recent years. (TAB 5).

Examination of the increases in the total annual traffic volumes using such ferry services would indicate that the use by out-of-province vehicles cannot be expected to decrease appreciably. (TAB 6). In fact, examination of the total volume of traffic over the period of the whole year using such services shows that out-of-province use in 1971 alone, ranged from between 5% in the winter months to a peak of almost 33% during the summer months. (TAB 7).

It is therefore submitted that the ferry services provided by British Columbia are used for inter-provincial transportation, and do qualify for Federal assistance from Canada, even though two different provinces are not connected by such services.

- 15 -

C. TRANS-CANADA HIGHWAY

The first memorandum of agreement between the Government of Canada and the Government of British Columbia respecting a highway across Canada provided for the sharing of costs of construction thereof. The Trans-Canada Highway agreement of 1950 contains in its preamble the following:

"Whereas the Governments of Canada and the province recognize that the completion of a Trans-Canada Highway is necessary to assist in creating a better means of communication between all provinces in Canada and in promoting the economic development of Canada generally;"

on British Columbia's mainland coast, the Trans-Canada Highway stops at Horseshoe Bay near Vancouver. On Vancouver Island, the Trans-Canada Highway runs from Nanaimo south to Mile 0 of the highway in Victoria. The ferry service between the mainland British Columbia and Vancouver Island connects these two terminals of the Trans-Canada Highway. (TAB 8).

It is British Columbia's position that this ferry service is a logical link in the Trans-Canada Highway.

Canada has refused to provide financial contribution to the construction of the ferry terminals at these points and to the maintenance of such services. A proper discharge of Canada's obligations thereunder would have included assistance in providing such services.

D. INTERNATIONAL SERVICES

British Columbia enjoys no international ferry services to which Canada has contributed financially. This service has been left to the private sector in both countries.

Present international ferry services on the West Coast include an infrequent service between Anacortes, Washington, U.S.A., and Sidney, British Columbia, operated by Washington State Ferries and, a service from Port Angeles, Washington, U.S.A., to Victoria, British Columbia, operated by the Black Ball Ferries Limited, a privately-owned company with its head office in Washington State. Neither service is adequate to serve the needs of British Columbia.

By contrast, the East Coast international ferry services enjoying Federal financial assistance include:

1. Ferry services between Yarmouth, Nova Scotia and Bar Harbour, Maine, U.S.A. This vessel is owned by the Ministry of Transport and operated by the Canadian National Railway. Its operating deficit is carried by the Ministry of Transport and its operation is financed by Federal-Provincial agreement.

2. The service between Kingsville, Ontario and Leamington, Ontario via Pelee Island to Sandusky, Ohio, U.S.A. The vessel is owned by Canada's Ministry of Transport and operated by the Pelee Shipping Company Ltd. The Canadian Transport Commission is providing funds in the form of an operating subsidy under the National Transportation Act.

It is also of concern to British Columbia that reliance on foreign ferry services to provide such an important and vital link between Canada and the United States of America, is not in the best interests of the country, as a whole.

IV. BRITISH COLUMBIA FERRY SERVICES TODAY

British Columbia owns and operates a modern and efficient fleet of ferries servicing the Mainland Coast, Vancouver Island and the Gulf Islands. (TAB 9).

The estimated capital cost of acquisition of the ferry services' 24 vessels as of March 31, 1973 was \$69,217,957.00.

The estimated capital cost of the services' terminal facilities as of March 31, 1973, was \$9,689,379.00.

In the year ending 1973, the ferry services carried in excess of 8,338,000 passengers and 3,081,000 vehicles, and travelled over 900,000 miles.

The statements of Income and Expenditure for the periods ending March 1972, and March 1973, and March 1974, indicate a net loss on the operation of the services to the people of British Columbia in excess of \$10,000,000.00 each year. (TAB 10).

The services are presently being used to their fullest capacity and it is clear that additions to the fleet and modifications to terminal facilities are necessary if the needs of the people of Canada and British Columbia are to be served adequately.

Although the Government is presently making a substantial financial commitment to meet the forecasted crises in marine transportation, the new additions to the ferry fleet may not be ready until 1976. There is no assurance that the additions will keep pace with the demand for service.

In the interim, there is the attendant delay and inconvenience to passengers using an already over-utilized service.

If British Columbia and Canada are to discharge their obligations impartially and adequately to meet the anticipated increases in traffic provincially, nationally, and internationally, large capital expenditures are foreseen.

British Columbia can not continue to, nor, it is submitted, should it meet the burden of such costs alone.

November 15th, 1974

Memo to: Mr. W. L. Haney

From: Mr. L. Reynolds

Re: B. C. FERRIES

I refer to your memorandum of November 4th, to Mrs. Reed concerning the British Columbia Ferry system and to Mr. Butler's letter to you of October 31st.

Three different arguments are made by British Columbia in support of its contention that Canada should provide financial assistance. These are, respectively, first, the alleged obligations that Canada has under the Terms of Union with British Columbia, second, its alleged obligations in respect of interprovincial and international transportation and, third, its alleged obligations under the Trans-Canada Highway Agreement of 1950. To date I have only had the benefit of reading British Columbia's most recent submission and it may well be that there are more cogent and subtle arguments to be made. On the basis, however, of that document I do not see much legal foundation, as distinct perhaps from what might be considered a political or a moral one, for British Columbia's claim.

In respect of the constitutional obligations which British Columbia says exist, I do not find anything in Term 4, Term 5 or Term 11 of the Terms of Union with British Columbia that would lead me to conclude that Canada is obligated to defray the expenses of ferry service between the mainland and Vancouver Island. Indeed, it seems to me that the wording of those provisions is such that one would infer that ferry services between one point in the province and another in the province have been designedly left out. British Columbia's argument with reference to Canada's obligations in relation to interprovincial and international transport is essentially political. The only question mark here being whether it could conceivably be said that the ferries were not a local work or undertaking but rather constituted lines of steam or other ships extending beyond the limits of the province. On the information I now have

this appears doubtful. Neither do British Columbia's pretensions in respect of TransCanada Highway Agreement appear to be soundly based in law, the manner of connecting the mainland portion with the Vancouver Island portion of the highway having been specifically omitted.

In the circumstances, I should be inclined to view British Columbia's submissions from standpoints other than legal in assessing whether compensation ought to be paid to the province. If you feel the matter is of any real significance, I can, of course, arrange to have it referred to the Deputy Minister of Justice for a formal expression of his views. For the moment I assume this initial reaction will be sufficient for your purposes.

L. R.

le 9 décembre 1974 .

Note à: M. W. L. Haney

De: Louis Reynolds

Re: B. C. Ferries

A votre demande, je vous transmets mes commentaires sur la note préparée par le C.T.C. relativement à ce sujet.

A. Termes de l'Union

Clause 4

J'ai vérifié les informations du C.T.C. quant au service qui avait été établi entre Victoria et San Francisco et elles se sont avérées exactes. Quant au service entre Victoria et Olympia, il semble bien qu'il n'a jamais existé.

Le C.T.C. fait aussi mention d'une lettre du sous-ministre de la Justice adressée en 1925 au sous-ministre du Commerce et dans laquelle il est dit qu'il faudrait que la législature de la Colombie-britannique vote une loi à cet effet pour que le Canada soit relevé de son obligation de maintenir le service entre Victoria et San Francisco.

Il est vrai que cette opinion fut émise en 1925 et elle pourrait s'avérer utile si la Colombie-britannique exigeait l'établissement ou le rétablissement des services dont il est question à la clause 4. Mais tel n'est pas le cas et je pense que le problème doit plutôt être envisagé sous l'angle suivant: il importe peu de savoir si le Canada serait encore aujourd'hui légalement tenu d'établir ou de maintenir les services prévus à la clause 4. L'important est plutôt de savoir si la Colombie-britannique a raison de se servir de la clause 4 pour démontrer que le gouvernement fédéral est constitutionnellement obligé d'apporter son aide financière à l'opération d'un service de ferry entre deux points situés dans la province. Je suis d'avis qu'une telle déduction est impossible puisqu'il s'agit de services d'une nature fort différente.

Clause 11

Le C.T.C. affirme qu'il apparaîtrait raisonnable que le service de ferry entre Vancouver et Victoria soit considéré comme le prolongement du service de chemin de fer tel que le service du C.N.R. entre Sydney et Port-aux-Basques.

Dans ma note en date du 15 novembre, je vous disais que je ne voyais rien dans la clause 11 qui me permettrait de conclure que le Canada est obligé d'assumer les dépenses occasionnés par le service de ferry entre Vancouver et Victoria. J'ai effectué de nouvelles recherches à cet égard et je suis toujours d'avis que le Canada a rempli l'obligation qu'il avait assumée en vertu de cette clause.

De plus, je pense qu'il est impossible de faire une comparaison avec le service de ferry entre Sidney et Port-aux-Basques puisque, dans ce dernier cas, c'est en vertu d'une obligation constitutionnelle précise, contenue dans les termes de l'Union avec Terre-Neuve, que le Canada maintient ce service.

Ces recherches m'ont toutefois permis de découvrir que le C.P.R. opère en ce moment, trois fois par jour, un service de ferry entre Vancouver et Nanaimo. J'ai constaté que la Colombie-britannique avait passé sous silence l'existence de ce service qui, à ma connaissance, est opéré sous l'assistance financière de la province. Il apparaîtrait donc faux de laisser croire, comme la province le fait, qu'elle assume seule les dépenses résultant de l'opération de tous les services de ferry entre l'île de Vancouver et Vancouver. En outre, même si je ne pense pas que le C.P.R. opère ce service par suite d'une obligation constitutionnelle assumée par le Canada, il est intéressant de noter que ce service pourrait raisonnablement être considéré comme le prolongement des services de chemin de fer que la compagnie opère à la fois sur la terre ferme (mainland) de la Colombie-britannique et sur l'île de Vancouver.

B. Traitement donné aux autres provinces

Transport interprovincial

Le C.T.C. a raison de dire que le Canada apporte son aide financière au maintien des services de ferry entre Borden, P.E.I. et Tormentine, N.B. et Sydney, N.S. et Port-aux-Basques, Nfld., à cause d'obligations constitutionnelles précises prévues dans les termes de l'Union prévoyant l'entrée de l'île du Prince-Edouard et de Terre-Neuve dans la Confédération.

En outre, je pense qu'il n'est pas fondé en droit de dire que les services de ferry opérés par la province se qualifient pour recevoir l'assistance financière d'Ottawa parce qu'ils seraient utilisés pour du transport interprovincial ou international. Enfin, même si ces "ferries" pouvaient être considérés comme constitués de lignes de bateaux s'étendant au delà des limites de la province, je ne pense quand même pas qu'Ottawa serait constitutionnellement responsable de les assister financièrement puisque la compétence que possède le Parlement sur de tels ouvrages ou entreprises en est une législative seulement.

C. Trans-Canada Highway

En ce qui concerne cette route, je vous réfère à ma première note dans laquelle je disais que la façon de relier les deux tronçons de la route avait été spécifiquement omis des termes du Trans-Canada Highway Agreement.

J'espère que ces quelques commentaires vous seront utiles. Comme vous le constatez, mes conclusions demeurent les mêmes. Je me ferai un plaisir de discuter de ce sujet avec vous ou M. Wilson, des Transports, si tel est votre désir. Enfin, tel que je vous le disais, si le ministère des Transports désirait recevoir une opinion formelle du sous-ministre de la Justice, je crois qu'ils devraient alors contacter leurs services juridiques.



L.R.

NOV 26 1974

Mr. W.L. Haney,
Director,
Policy and Program Review Section,
Federal-Provincial Relations Division,
Privy Council Office,
48 Sparks Street,
Ottawa, Ontario.

Dear Bill:

RE: B.C. FERRIES

Attached for your consideration and use are two draft letters of reply for the Prime Minister's signature.

The first is to the Honourable R. Basford who wrote to the Prime Minister commenting on a discussion he had had with the Honourable R. Strachan of British Columbia wherein Mr. Strachan had sought federal financial support for the provincially-operated B.C. FERRIES system.

The other draft is a response to Premier Barrett of British Columbia stating simply that the points he had raised in a recent submission concerning the possibility of unfulfilled federal constitutional obligations in regards the provision of ferry services in B.C. were new, and that a further response could be expected once the government has had an opportunity to complete its analysis.

Our respective staffs have collaborated in the strategy of these responses.

Yours sincerely,

ORIGINAL SIGNED BY
M. E. Butler

M.E. Butler,
Senior Ministry Executive,
Policy, Planning and Major Projects.

DRAFT

The Honourable David Barrett,
Premier of the Province of British Columbia.

Dear Mr. Premier:

Thank you for your letter of October 16,
enclosing your government's submission for financial
support to government ferry services in British
Columbia.

I understand that Mr. Robert Strachan has
now discussed this with the Minister of Transport and
that Mr. Marchand has agreed to look into the matter
further, with particular attention to the clauses in
the terms of confederation between Canada and British
Columbia which have been raised for the first time, I
believe, in this submission.

I will review the points you have raised
and possible courses of action with Mr. Marchand, and
I hope to be in a position to reply to you shortly.

Yours sincerely,

Pierre Elliott Trudeau, P.C., Q.C., M.P.

The Honourable R.S. Basford,
Minister of Revenue,
House of Commons ,
Ottawa, Canada,
K1A 0L5

My Dear Colleague:

Thank you for your letter of October 23rd commenting on meetings involving yourself, the Honourable Jean Marchand and Robert Strachan, Minister of Transport and Communications for the Province of British Columbia, at which the Province's request for federal assistance to ferry services operated by the British Columbia Government was discussed.

As you may be aware, for some time the Ministry of Transport, at my request, has been looking into the immediate costs and the long-term implications of some form of assistance to B.C. FERRIES. This investigation has now been broadened to consider assistance to other transportation projects in British Columbia, which might be given in lieu of direct assistance to ferry services. I am sure that our colleague, The Minister of Transport, appreciates your concurrence in this approach.

.../2

- 2 -

British Columbia, as you know, has raised the possibility that there may be some unfulfilled constitutional obligations on the federal side that bear on ferry services. I have asked that these claims be investigated by my officials. They will provide your office with a copy of their opinions on this subject.

I expect that a Memorandum to Cabinet on this issue will be coming forward from the Ministry of Transport fairly quickly and I look forward at that time to receiving your views on what course of action we should be adopting.

Yours sincerely,

Pierre Elliott Trudeau, P.C., Q.C., M.P.
c.c. Honourable J. Marchand



Transport Canada Transports Canada

550-11-8

PA

Your file Votre référence

Our File Notre référence

November 25, 1974

MEMORANDUM TO THE DEPUTY MINISTER

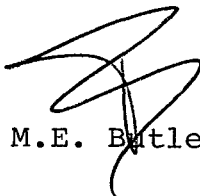
SUBJECT: B.C. FERRIES

On October 23rd, the Honourable R. Basford, Minister of Revenue, wrote to the Prime Minister, copied to Mr. Marchand, commenting on a meeting which each Minister had recently had with Robert Strachan, Minister of Transport and Communications for British Columbia, at which time Mr. Strachan had put forth a case soliciting federal financial assistance for those ferry services in B.C. operated by the provincial government.

Mr. Basford has made the point that, were we to give in to these demands, we might find ourselves spreading our transportation dollar in B.C. too thinly.

Attached is a proposed response from the Minister to Mr. Basford supporting this view and stating that we will be coming forward shortly with a Cabinet Memorandum, including an analysis of B.C.'s recent claim that there are, perhaps, some unfulfilled federal constitutional commitments to B.C. ferry services.

We have, in addition, been assisting the Privy Council Office in preparing an interim reply for the Prime Minister to send to Premier Barrett stating that the entire issue is still under examination.


M.E. Butler

Attachment

RECEIVED

NOV 25 1974

OFFICE OF THE
DEPUTY MINISTER
TRANSPORT

000074

NOTE AU MINISTRE

Sujet: Services de traversiers
en C.-B.

M. Basford et vous-même avez chacun eu, le mois dernier, un entretien avec l'honorable R. Strachan de la Colombie-Britannique au sujet de la demande présentée par cette province en vue d'obtenir une aide du gouvernement fédéral aux services de traversiers exploités par la province. A la suite de ces réunions, M. Basford a adressé au Premier ministre une lettre dont copie vous a été envoyée et dans laquelle il exprimait l'avis que, plutôt que de s'engager à fournir des subventions continues, le gouvernement pourrait offrir de financer entièrement un des projets proposés dans l'accord conclu entre le gouvernement fédéral et la C.-B. sur les transports dans le Nord-ouest, ou quelque autre projet de transport semblable.

Ci-joint projet de réponse à M. Basford pour lui exprimer votre accord avec ses vues qui sont proches de la position que vous maintenez depuis quelque temps. La réponse signale aussi que l'appui financier aux services de traversiers de la C.-B. encouragerait probablement d'autres provinces à demander une aide semblable, alors que, de fait, nous avons adopté une politique de retrait de l'aide fédérale aux services de traversiers intraprovinciaux qui font partie de réseaux routiers. Enfin, la lettre déclare que nous allons bientôt présenter un mémoire au Cabinet qui portera sur toute cette question.

Original Signed by
O.G. STONER

O.G. Stoner

sent to Prime Minister Nov 26.

Pièce jointe

DM noted and DMEA sent to XPPP/ASTA: "The DM feels that Mr. Basford's suggestions may have considerable merit."

000076

31-10-74



October 23, 1971

Right Honourable Pierre E. Trudeau, P.C., Q.C., M.P.,
Prime Minister of Canada,
East Block,
Ottawa, Ontario.

My dear Colleague:

Last week Jean Marchand and I each met with Robert Strachan, the Minister of Industry of British Columbia, to discuss the issue of possible federal assistance to B.C. ferries. I understand that officials from the Privy Council Office and Department of Transport are preparing a policy paper on the problem. Premier Barrett may also raise the issue with you during his visit. I would like to contribute the following thoughts on the problem.

British Columbia has requested that the federal government remit customs duty on its purchase of a Swedish ferry, waive sales taxes on supplies of fuel oil, building materials and other items used for operation of the B.C. ferry system, and possibly contribute a subsidy towards operating expenses or capital assistance of some form.

My Department has agreed to the remission request and it will be considered by the appropriate interdepartmental committee on November 5. As you know, Cabinet has considered the sales tax problem twice previously and decided against B.C.'s request. In 1966 Cabinet agreed to end all intra-provincial ferry subsidies.

The question remains, what can we do to assist B.C.'s transportation difficulties? I suggest the following approach. Rather than become involved with ongoing subsidies, capital assistance or removal of the sales tax - where we will receive very little political credit and perhaps create troublesome precedents - we could offer to complete by ourselves one of the projects proposed in the Federal B.C. North-West Transportation Agreement, or some other capital project in B.C. where we could obtain 100% of the political credit. Discussions are now proceeding with the province on ways to finance the construction of the Ashcroft-Clinton Railway By-Pass and the development of general commodity and bulk handling facilities at the Port of Prince Rupert.

.. 2

House of Commons
Ottawa
K1A 0A6

Chambre des communes
Ottawa
K1A 0A6

- 2 -

There have been delays, particularly with regard to Prince Rupert, in obtaining agreement from B.C. on a cost-sharing formula. An offer to develop Prince Rupert, construct Ashcroft-Clinton, or some other agreed project, by ourselves in lieu of ferry assistance would both be a positive contribution to B.C. and would ensure a more visible federal presence with the resulting political credit.

I hope these thoughts may be of some use to you in your forthcoming discussions with the Premier.

Yours sincerely,



Ron Basford.

cc: Hon. Jean Marchand

House of Commons
Ottawa
K1A 0A6

Chambre des communes
Ottawa
K1A 0A6

CC: HON.
J. Marchand
J. Marchand

GL/sc

~~550-11-8~~

Mr. Roy A. Derrick,
Special Assistant to the
Minister of National Revenue,
Connaught Building,
Ottawa, Ontario, K1A 0L5



Dear Mr. Derrick:

In reply to the points raised in your letter of October 10, 1974, to Mr. L.W.F. Beasleigh on the subject of British Columbia Premier Barrett's "Position Paper on Federal Ferry Policy", I am attaching a copy of some comments on this paper which had been prepared for internal departmental use.

The Memorandum to Cabinet on this subject which we had drafted earlier in the year, was withdrawn prior to Cabinet discussion as a result of concerns which arose within the Department that, since there was already in progress in B.C. a number of Federally-sponsored transportation projects, it might be wise to re-examine our overall position before committing any additional Federal expenditures.

I understand that your Minister has written recently to the Prime Minister on this subject and, I suspect, the Prime Minister's reply will indicate how the Government proposes to handle this matter.

Yours sincerely,

ORIGINAL SIGNED BY
John Fairchild

John Fairchild,
Special Assistant.

Attachment.

GL/sc

550-11-8

Mr. Roy A. Derrick,
Special Assistant,
Office of the Minister,
Revenue Canada,
Connaught Building,
Ottawa, Ontario,
K1A 0L5

NOV 22 1974

Dear Roy:

In response to your letter of November 5, 1974, I was present when Mr. Marchand met with Mr. R. Strachan of B.C. recently and discussed the request for federal financial support to ferry services in B.C. operated by the provincial government.

At that time, the province raised some contentions concerning the possibility of unfulfilled federal constitutional obligations and, with help from the Privy Council Office, we have confirmed that these are new arguments, first raised by Premier Barrett in his "position paper" of September 24th to B.C. Members of Parliament. I have been charged with preparing, for my Minister, a Cabinet submission on this entire subject and I have asked for the advice of the P.C.O., Justice and the C.T.C. on the particular constitutional issues. Their first look suggests that there is no substance to the B.C. claims on constitutional grounds, but they are nevertheless investigating the matter in depth.

I will make sure that you receive an early copy of the Cabinet document we are putting up, to enable you to brief your Minister in good time. I expect this will be ready in 4 to 6 weeks.

Yours sincerely,

M.E. Butler,
Senior Ministry Executive,
Policy, Planning and Major Projects.

550-11-8



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

TO
À

Mr. L.P. McLean, XL

FROM
DE

K.G. Wilson, XPPP

SUBJECT
OBJET

B.C. FERRIES

SECURITY - CLASSIFICATION - DE SÉCURITÉ

CONFIDENTIAL

OUR FILE - N/RÉFÉRENCE

YOUR FILE - V/RÉFÉRENCE

DATE

November 20, 1974

Mr. Butler has asked that we keep you informed on this issue.

Accordingly, here are two letters recently received from the CTC. Also attached is the best background we have on the subject - an April 1974 Cabinet Memorandum. Ignore the recommendations - we are preparing a new paper; the April one was not considered by Cabinet.

The constitutional questions are new ones, and were sparked by the attached paper passed to the Minister by B.C.'s Mr. Strachan on October 16.

PCO are doing the primary research into the validity of the claims. Their first assessment is that the claims are not well-founded.

Mrs. Barbara Reid is one of the Justice lawyers at PCO who has been involved. When we have our first meeting with them on this issue we will invite you to join us.

Original Signed By

K. G. WILSON

K.G. Wilson

Attach.

cc: Mr. C.K. Kennedy
XPPP
G.I. Leney

000081



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

TO
A XL

FROM
DE XPPP (G. Leney)

SUBJECT
OBJET

Digby-Saint John Ferry Service

SECURITY - CLASSIFICATION - DE SÉCURITÉ
SECRET
OUR FILE - N/RÉFÉRENCE
8-8016 550-11-8
YOUR FILE - V/RÉFÉRENCE
DATE
November 19, 1974.

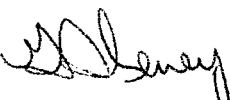
As we discussed on the telephone yesterday, we are attempting to finalize our negotiations with CP with regards the Digby-Saint John Ferry Service. With the assistance of Miss Denise Belisle, we had earlier this year prepared a series of agreements to which CP had given approval in principle. These documents were:

1. An agreement to purchase the vessel "Princess of Acadia" and to transfer title to the National Harbours Board of a 52 acre tract of land to which CP holds a 999 year lease.
2. A charter party agreement, chartering the vessel back to CP.
3. An operating agreement with CP for the service's continuance.

Before we could finalize these arrangements, however, the Minister indicated his desire to see this service integrated with the East Coast Marine and Ferry Service (CN).

Last month we went to Cabinet and obtained authority to spend up to \$10 million on the vessel's purchase (copy of Cabinet RD attached). We are now preparing to meet tomorrow morning at 11:00 with Don Maxwell, Vice President of Law and General Counsel, CP to outline our proposed offer to them.

I would appreciate it if you could have one of your lawyers look very quickly at the attached paper together with the proposed purchase agreement and charter party and advise whether you feel what is in our proposal reflects sufficiently from a MOT point of view the material contained in our proposed legal agreements.


G. Leney
(2-8016)

000082

T.P.M.

NOV 18 1974



Canadian TRANSPORT
Commission

Commission canadienne
des TRANSPORTS

Ottawa, Ontario.
November 15, 1974.

Mr. K.G. Wilson,
Senior Policy Adviser -
Domestic,
Policy, Planning &
Major Projects,
Ministry of Transport,
OTTAWA, Ontario.

① ARC
② MEB
③ KGW
④ G.H.
⑤ Anne please copy for
PCO (Loraine)
DSM
SMO
TPW.

Dear Ken,

Re: B.C. Ferries

I thought the attached paper representing the results of some research by and some views of Capt. McLeod of the Water Transport Committee staff might be of interest to you. My only criticism of the paper is that the apparent sharp decline in CTC subsidies appearing on page 5 is not explained. The explanation is that the decline was the result of the transfer of responsibility for support of the Newfoundland coastal steamship services from the Canadian Transport Commission to the Ministry of Transport.

The bit of history recorded near the middle of page 2 intrigued me for it caused me to recall that at least until about the beginning of World War II the Canadian Transport Company of Vancouver, which was, and still is, the shipping subsidiary of what is now MacMillan Bloedel Limited, operated two federally-subsidized services known as "The Vancouver-West Indies Line" and "The Vancouver-St. Lawrence Line". The names of the services describe their nature. Perhaps a little more research into this general area might be thought worthwhile.

Yours sincerely,

Alan P. Campbell

Alan P. Campbell,
Chairman,
Water Transport Committee

APC/eh

000083

MEMORANDUM

NOTE DE SERVICE

TO
A
Mr. G.R. Blanchet,
Executive Director,
Water Transport Committee.

FROM
DF
Capt. G.R. McLeod,
Chief,
Operations & Inspection Division,
Water Transport Committee.

SECURITY CLASSIFICATION DE SÉCURITÉ

OUR FILE N/RÉFÉRENCE

SS 701.1

YOUR FILE V/RÉFÉRENCE

DATE

November 13, 1974

Comments on the Case for Federal Assistance
for British Columbia Ferries

A. CONSTITUTIONAL OBLIGATIONS

Section 4 of the schedule of the terms of Union of British Columbia did in fact state that "The Dominion will provide an efficient mail service, fortnightly, by steam communication between Victoria and San Francisco, and twice a week between Victoria and Olympia, the vessels to be adapted for the conveyance of freight and passengers". On page 6 of the report named above, it is stated that "The service was never provided by Canada". This is not true. The service between Vancouver and San Francisco was inaugurated in 1873 when a subsidy (Federal) of \$54,000 was voted. In 1881 this sum was reduced to \$29,760 and in 1882 to \$17,640. It remained at that figure until 1895 when the vote was reduced to \$5,000; in 1906 to \$3,750. and in 1907 to \$3,000. at which amount, give or take a few hundred dollars it remained until the end of 1925 at which time it was held in abeyance while certain investigations were made. The operator, The Pacific Steamship Company of Seattle, Washington, U.S.A. was informed of this May 1st, 1925.

Records of 1925, on file with the C.T.C. show that no record of a service between Victoria and Olympia was ever seen. It was confirmed by the Justice Department on April 6, 1925 that it would take an act of the legislature of British Columbia to relieve the Federal Government of the obligation of maintaining this service. It can be understood that files dating back to 1925 concerning steamship subsidies, which at that time were administered by the Department of Trade and Commerce, are not readily available at this time.

The last paragraph on page 6 implies that the Federal Government made no effort to assist in maintaining connections for freight transportation, communication, passenger and mail service with international ports. This again is not true. Between 1892 and 1952, subsidies totaling \$23,236,790.00 were paid by the Federal Government to international services operating from the British Columbia coast, \$2,696,473.00 of this total being paid to Canadian flag vessels during 1950-51 and 1951-52.

Page 7. 2. deals with clause 11 of the Terms of Union, this pertains to railways and I will not attempt to comment on this item except perhaps to say that it would appear reasonable that the ferry service from Vancouver to Victoria be considered a continuation of the rail service in something along the lines of the C.N.R. Sydney - Port-aux-Basques ferry service being considered an extension of the C.N. Railways link with Newfoundland.

B. TREATMENT GIVEN TO OTHER PROVINCES

There again I will make no comment on items not under the jurisdiction of the Canadian Transport Commission. Page 10. 4. \$3,000,000 was indeed paid to the Ontario Government but this payment was more of a "Buy out" of responsibility for the continued subsidization of the service and not for the purpose of building new terminals.

Page 11. 2. To the best of my knowledge the Federal Government has never gone on record as stating that the support of interprovincial ferry services would be a federal responsibility nor, as in 3, has the government accepted responsibility for international ferry services with the exception of one service namely Yarmouth, N.S. - Bar Harbour Me. U.S.A.

Page 12. 2. Interprovincial Transportation

The ferry services referred to in the first paragraph are no doubt those of Borden, P.E.I. and Tormentine, N.B. and Sydney, N.S. and Port-aux-Basques, Nfld. The federal government does not support, financially, these services for reasons outlined by the B.C. government to wit. "they are a federal responsibility as they assist in interprovincial transportation" but rather they are supported because of constitutional obligations provided for in the acts of union between Canada and the provinces of Prince Edward Island and Newfoundland.

.....4

- 4 -

Page 13. The reference to the Tobermory - South Baymouth service appears to contain errors. It was not my understanding that the Ontario government approached the federal government with a view to assuming responsibility for the subsidization of the service in whole because of the "increasing popularity and because of the potential to increase tourism to Manitoulin Island and other points in Northwest Ontario". I was of the opinion that the federal government, in line with its policy of having provincial governments assume responsibility for intra-provincial services, did the approaching, and, with the culmination of several federal provincial meetings being the "buy out" by the federal government, for the sum of \$3,000,000, its responsibility for continued subsidization of the service.

Page 14. Even with the play on words in describing the ferry services provided by British Columbia as inter-provincial, I still have not seen on record any federal acceptance for responsibility to assist inter-provincial ferry services.

C. TRANS-CANADA HIGHWAY

There can be no better example of an intra-provincial road link ferry service than that of Horseshoe Bay to Nanaimo, B.C. The question here is, if the federal government shares in the cost of construction of the Trans-Canada Highway, is it not also obliged to share in the cost of the ferry service linking two portions of the highway? One could argue that at the time of construction of the Trans-Canada Highway the federal government's obligation was to share in the cost of

construction, using for road links those existing ferry service which were in operation at the time. There was no cry from the province at the time the T.C.A. was completed, but then again, there was a different government in office then.

D. INTERNATIONAL SERVICES

The reference on page 18 to the Pelee Island service being an international one is of course correct, however the error is that the international aspect of the service is not subsidized by either the federal or provincial governments, one might even go so far as to say that the international link of the service does in fact subsidize the federal government in as much that, were it not for the revenues realized from this part of the service, the federal subsidy would indeed be higher.

I have no argument concerning the international aspect of the Yarmouth, N.S. - Bar Harbour Me. U.S.A. service.

Appendix 1

I am not sure if the B.C. paper is talking about a calendar year or fiscal year under the heading

1. Steamship subventions

here are the Water Transport Committee's figures* for, what I think, are the years in question, *Net Subsidies

<u>1968-69</u>	<u>1969-70</u>	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>
\$12,135,564.70	\$13,129,234.23	\$5,936,529.35	\$6,262,960.46	\$6,795,452.75

Grants - 1973 \$3,000,000 was indeed paid to the Ontario government but not for the purpose as outlined in this appendix.

Appendix 4

B.C. paper year 1968 is 1967-68 fiscal year.

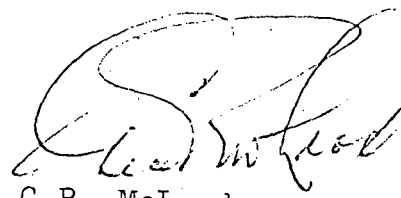
1967-68 The figures showing subsidy to Halifax - St. John's service in this year represent the net subsidy after recapture the gross subsidy was \$267,500.

1968-69 Subsidy to Carmanville - Fogo service should read \$40,000.00. Total subsidy for the year should read \$12,248,670 not \$12,236,840.00.

1969-70 Subsidy shown on appendix for Owen Sound service is a net subsidy. Appendix shows a subsidy of \$95,600 paid to the Montreal - Botwood service. There was no subsidy paid to this service in 1969-70. I think B.C. needs a new adding machine. The total subsidy shown for 1970 is \$13,204,113. By adding the figures for each service it should read \$13,299,713. From this total I have subtracted \$95,600 for the Botwood service and added \$25,380.04 to bring Owen Sound subsidy back to a gross one. The correct total is now \$13,229,493.35.

1970-71 Once again the appendix shows a net subsidy for the Owen Sound service. To keep it uniform I have entered the gross subsidy making the new total \$5,996,351.

The balance of the B.C. paper is statistical and out of the jurisdiction of the C.T.C.


G.R. McLeod

Canadian TRANSPORT
Commission

Commission canadienne
des TRANSPORTS

Ottawa, Ontario.
November 13, 1974.

Mr. K.G. Wilson,
Senior Policy Adviser -
Domestic,
Policy, Planning &
Major Projects,
Ministry of Transport,
OTTAWA, Ontario.

Dear Ken,

This will acknowledge your letters of October 29 and November 1, 1974, both attaching submissions from the Government of British Columbia.

I felt that, on a matter of this importance and potential magnitude, I should seek the opinion and advice of my senior colleagues, and have done so, and may have further views in due course.

Meantime, my initial reaction is that the case made by British Columbia does have some validity, both in history and equity, but to undertake federal payments to the province that in any way look like a continuing subsidy would vitiate for ever our hopes of developing a positive and coherent federal water transport subsidy policy and could initiate a process that would lead to major and uncontrollable escalation in federal water transport subsidy payments (federally-supported ferries across Diefenbaker Lake, perchance!).

As you have noted, the provincial submissions contain some errors. The \$3 million paid to Ontario in consideration of the province assuming full and continuing responsibility for support of the Tobermory-South Bay Mouth service was a gratuitous contribution to goodwill, and the provincial government was explicitly informed that this was the case. The \$6 million paid the Government of Quebec was a parallel situation. The province took over responsibility for five services and the amount was larger, presumably because the obligation assumed by the province was larger. The British Columbia submission in respect of the

- 2 -

Pelee Island service is in error in two respects. Firstly, although the ferry does connect Pelee Island and mainland Ontario with Sandusky, Ohio, during the tourist season, this part of the service is not subsidized. Indeed, the reverse is true, because the revenues derived from the service to Sandusky decrease the subsidy that would otherwise be required if the service were limited to Pelee Island. The second error I detect arises from the reference to the service being international and therefore a federal "responsibility". If, as I infer, "responsibility" means responsibility to subsidize, then I submit this is demonstrably untrue. (Of course, in respect to safety and navigation the vessel is under federal jurisdiction when operating in Canadian waters, but that is another matter). I cite this as an error because of my understanding of the Ferries Act, which is a very old federal statute. This Act provides that the Governor in Council may license inter-provincial and international ferries, and it seems very clear the Act, through the device of granting franchises, had as a fundamental objective the provision of transportation links at no cost to government. I say this knowing very well that the "Bluenose" service between Yarmouth, Nova Scotia and Bar Harbour, Maine, does receive federal support. I can only suggest that this is an exception to the overall policy (and, in my personal view, an impediment to the development of sound policy).

The British Columbia submission cites annual losses of the order of \$10 million, and I believe this is also an error. I have seen a recent set of B.C. Ferries accounts and, while it is true the accounts show a net cash deficiency of about \$10 million, my analysis is that about \$8 million of the \$10 million covered capital expenditures and that a true accounting would have shown a much lower loss. I might add, as a personal view, that B.C. ferry rates are a trifle on the low side and it would seem likely that, because of the very large volume, a very modest increase might put the system into a profit position.

I think you will agree that we have been clearly successful in transferring ferries deemed to be provincial responsibilities to the provinces concerned. There are, in my view, only three such ferries which remain to be transferred, and I have no reason to doubt that these transfers will eventually be made. I do not include the so-called Newfoundland coastal ferries in this transferable category because of their functional relationship with the Newfoundland coastal steamship services for which the federal government assumed responsibility under the Act of Union of 1949.

Raised
Apparently
being
considered
new news
reports.

Logic is
disputable
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up in
1971
1972
etc.

- 3 -

Still in a tentative vein, it is my view that if it is decided to react to the British Columbia submissions in a positive way, very serious consideration should be given to transferring a sum, perhaps quite a large sum, to the province in consideration of the province formally releasing the federal government in perpetuity from any constitutional obligation in respect of services to San Francisco or Olympia, Washington, and further providing that the federal government has no obligation in respect of the Trans-Canada highway water link between Horseshoe Bay (near Vancouver) and Departure Bay (near Nanaimo).

Yours sincerely,

Alan P. Campbell

Alan P. Campbell,
Chairman,
Water Transport Committee.

APC/eh



Office of the Minister
Revenue Canada

Cabinet du ministre
Revenu Canada

550-11-8

CONFIDENTIAL

November 5, 1974.

Mr. M.E. Butler,
Senior Ministry Executive,
Policy Planning and Major Projects,
Ministry of Transport,
Tower "C", Place de Ville,
Ottawa, Ontario.
K1A 0N5

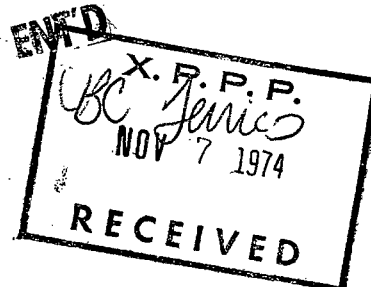
Dear Mike:

I understand from my Minister that Mr. Marchand and yourself met with Robert Strachan last month on the matter of federal financial support to the British Columbia Ferry Service. At that time a written submission was made by the Province which contained certain legal/constitutional arguments.

Mr. Basford is of the opinion that regardless of the fact that Transport is coming forward with a Cabinet Document containing some ideas about assistance to the ferry system, it is important that someone be charged with the responsibility of preparing a counter argument to the legal position raised in the Province's brief. Can you advise if this is being, or has been, done?

Yours sincerely,

Roy A. Derrick,
Special Assistant.



Connaught Building
Ottawa
K1A 0L5

Immeuble Connaught
Ottawa
K1A 0L5

000093

GL/sc

MEMORANDUM TO THE DEPUTY MINISTER

SUBJECT: B.C. FERRIES

On October 23rd, the Honourable R. Basford, Minister of Revenue, wrote to the Prime Minister, copied to Mr. Marchand, commenting on a meeting which each Minister had recently had with Robert Strachan, Minister of Transport and Communications for British Columbia, at which time Mr. Strachan had put forth a case soliciting federal financial assistance for those ferry services in B.C. operated by the provincial government.

Mr. Basford has made the point that, were we to give in to these demands, we might find ourselves spreading our transportation dollar in B.C. too thinly.

Attached is a proposed response from the Minister to Mr. Basford supporting this view and stating that we will be coming forward shortly with a Cabinet Memorandum, including an analysis of B.C.'s recent claim that there are, perhaps, some unfulfilled federal constitutional commitments to B.C. ferry services.

We have, in addition, been assisting the Privy Council Office in preparing an interim reply for the Prime Minister to send to Premier Barrett stating that the entire issue is still under examination.

M.E. Butler

Attachment

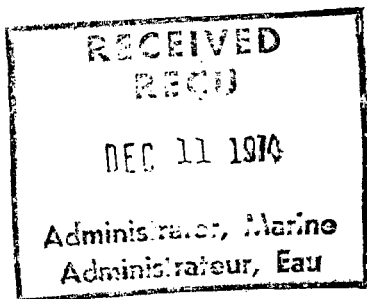
1. Mr. Illing -

I think Mr. Basford has a point - none of the B.C. projects seem to be going anywhere except study route.

2. Mr. Butler -

O.G.S.

10-12-74



DEPARTMENT OF TRANSPORT
ROUTE SLIP

MINISTÈRE DES TRANSPORTS
BORDEREAU D'ACHEMINEMENT

TO: <i>USA</i> Name - Nom	Routing Symbol Symbole d'acheminement	Date
A: <i>② Mr. O.G. Stoner</i>	DM	Nov. 25, 1974.
		<input type="checkbox"/> Comment Observations
		<input type="checkbox"/> For your information Pour votre gouverne
		<input type="checkbox"/> Per our conversation Selon notre conversation
		<input type="checkbox"/> Approval Approbation
		<input type="checkbox"/> Discuss with me Discuter avec moi
		<input type="checkbox"/> Take appropriate action Prendre les mesures appropriées

REMARKS:

REMARQUES:

B.C. FERRIES

The agreement in principle signed with B.C. makes 100% financing impossible now - unless we want a complete Federal/Provincial breakdown.

I think Mr. Barford has a point. The B.C. projects don't go anywhere except study now.

RECEIVED
NOV 29 1974
OFFICE OF THE
DEPUTY MINISTER
TRANSPORT

Butler

FROM: R. Tilling
DE: *L. D.*

Routing Symbol
Symbole d'acheminement

AMTA



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

TO
A

DSH
DSM
DSR

FROM
DE

DSP


SUBJECT
OBJET

B.C. FERRIES

SECURITY - CLASSIFICATION - DE SÉCURITÉ
OUR FILE - N/RÉFÉRENCE 550-11-8
YOUR FILE - V/RÉFÉRENCE
DATE November 5, 1974


Attached for your information is a copy of a letter from Mr. Basford to the Prime Minister concerning transportation projects in British Columbia. Mr. Basford has suggested the possibility of 100% funding of one of the projects proposed in the Federal B.C. North-West Transportation Agreement in order to obtain greater federal government visibility in some program in the province. You will note that the Deputy Minister considers the suggestion has considerable merit.

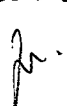
Could you please give some thought as to the precedents this might set for transportation projects elsewhere in the country and how this might affect our negotiating position.


D.H. Pratt

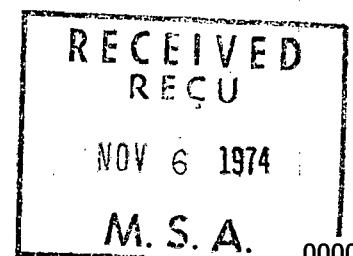
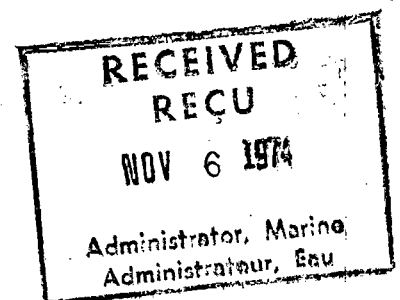
Att.

c.c.: ASTA
MSA 

① Mr. 

② Mr. Murray
copy sent to 

} To - telephone



000097

November 1, 1974

CONFIDENTIAL

Mr. Alan P. Campbell
Chairman
Water Transport Committee
Canadian Transport Commission
Congill Building
275 Slater Street
Ottawa, Ontario K1A 0N9

Dear Alan:

Further to my letter of October 29, attached is the full submission by British Columbia on their demands for federal assistance to B.C. FERRIES. This was handed to the Minister by Mr. Strachan at their meeting, October 16 here in Ottawa.

The Minister's response at the meeting was that it would take a very substantial change in government policy right across Canada for the government to be in a position to provide financial support for the operation of B.C. FERRIES. He did, however, indicate that there might be other transportation areas in which we could consider assistance of a substitute nature.

We will be preparing a Memorandum to Cabinet along these lines for submission in the next few weeks. As we did for the Memorandum last April, we will furnish you with a draft, and your comments will be welcomed, and incorporated wherever possible. With reference to the attached B.C. paper, could the Water Transport Committee study this document and comment on the accuracy of the CTC subsidy statistics which are quoted?

.../2

- 2 -

Please feel free to comment on any other aspect of the submission. We have already drawn to the Minister's attention the misleading reference to the Tobermory service, where, in fact, the funds transferred to Ontario constituted a "buy-out" from federal responsibility. It was misleading, we feel, to refer to this as "federal assistance".

Yours sincerely,

Original Signed by

K. G. WILSON

K.G. Wilson

Senior Policy Advisor - Domestic
Policy, Planning and Major Projects

cc: DSM

Attach.

CONFIDENTIAL

October 31, 1974

Mr. W.L. Haney
Director
Policy and Program Review Section
Federal-Provincial Relations Division
Privy Council Office
48 Sparks Street
Ottawa, Ontario

Dear Mr. Haney:

Re: B.C. FERRIES

Attached is a copy of the submission by British Columbia concerning their request for federal assistance for B.C. FERRIES. This was handed by Mr. Strachan to our Minister at their meeting Wednesday morning, October 23. Mr. Basford also received a copy of this paper. You will recall that B.C. were promising at meetings a year ago to submit this item and it had been expected in January 1974, so, eloquent as the paper is, the matter is clearly not at the top of their list of problems.

I am also attaching the note I wrote to my Deputy following the meeting with Mr. Strachan, and also notes prepared for the Minister prior to his meeting. I believe that Mr. Wilson of my Branch has already been talking with Mrs. Robinson, and conveyed that these are preliminary thoughts on a new approach to the B.C. FERRIES problem, and are not to be considered the Minister's position at this stage, particularly with regard to the advice you require for the Prime Minister. However, I am hopeful that, now the meeting between the Minister of Transport and Mr. Strachan has taken place, we can move fairly quickly to develop a position that can be submitted to the Prime Minister and Cabinet.

.../2

- 2 -

To get this underway, could we have your advice respecting the constitutional issues which have been raised by Mr. Barrett.

I have your letter of August 21, 1974 to Mr. Stoner, and I hope that the action proposed above is a good interim response.

Yours sincerely,

Original signed by
M.E. Butler

M.E. Butler
Senior Ministry Executive
Policy, Planning and Major Projects

Attach.

cc: Mrs. Louise C. Robinson
Mrs. Barbara Reed

Transport Canada Transports Canada

COPY FOR ASTA

PA. MR. →
Nov 6/74
(3) SMH
a previous transmittal of the B.C. submission to you took place earlier this week but I am not sure all these attachments were with it. For your info
JK
Your file - Votre référence
Our File - Notre référence
CONFIDENTIAL
October 31, 1974

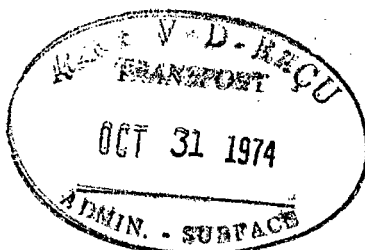
Mr. W.L. Haney
Director
Policy and Program Review Section
Federal-Provincial Relations Division
Privy Council Office
48 Sparks Street
Ottawa, Ontario

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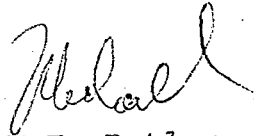
(2) DSM JK
For info. I have .../2
posed some queries in the BC
Submission & ASTA INW 74

- 2 -

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I have your letter of August 21, 1974 to Mr. Stoner, and I hope that the action proposed above is a good interim response.

Yours sincerely,



M.E. Butler
Senior Ministry Executive
Policy, Planning and Major Projects

Attach.

cc: Mrs. Louise C. Robinson
Mrs. Barbara Reed



Transport
Canada

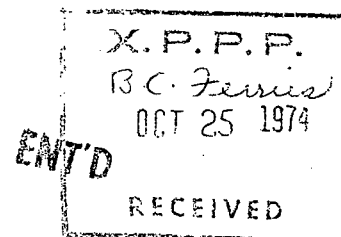
Transports
Canada

*Did the working
I made should
come up?*

October 24, 1974.

MEMORANDUM TO THE DEPUTY MINISTER

B.C. Ferries



Mr. Marchand met with Mr. Strachan, the B.C. Minister of Transportation and Communications on Wednesday, October 23rd, for about an hour. Mr. Strachan had a very simple presentation to make and the business part of the meeting did not last more than twenty minutes.

Mr. Marchand made it very clear that it would take a very substantial change in government policy right across Canada for the government to be in a position to provide financial support for the operation of the B.C. ferry system. He did, however, indicate that there might be other areas in which we could consider assistance.

The B.C. presentation relied first on constitutional and historic political commitments and later on a sense of unfairness that Eastern Provinces were being treated much better than the West.

Mr. Marchand did undertake to look into the constitutional and political arguments and I will ask for views from Justice and the Privy Council Office. I think they will expect to hear from us in the next month or two and we will work again on our Memorandum to Cabinet on B.C. ferries. You will remember that this is of priority interest to the Prime Minister and we get continuing follow-up pressure from his staff.

[Signature]
M. E. Butler

cc - SADM
AMTA, ASTA

Place de Ville
Ottawa
K1A 0N5

BRITISH COLUMBIA'S SUBMISSION

FOR

FEDERAL FINANCIAL SUPPORT

TO

GOVERNMENT FERRY SERVICES

IN

BRITISH COLUMBIA

I. INTRODUCTION

- 1 -

It is British Columbia's submission that Canada has not since the time of Confederation fulfilled its obligations to provide financial assistance for a reasonable and adequate ferry system necessary for freight transportation, communications, and passenger and mail service, to Vancouver Island and the other Islands off the West Coast of the Canadian Mainland.

It is the Province's view that Canada's obligations to provide financial assistance towards capital expenditures and operating costs of such ferry services, many of which are now provided by the Province, can be found to exist on several legitimate grounds. This submission seeks to highlight some of these grounds.

II. HISTORICAL BACKGROUND

- 2 -

To appreciate British Columbia's position, it is first important to trace the history of the colonies of the Pacific West Coast (Vancouver Island, Queen Charlotte Island, British Columbia, and the Stikine territory) from the time of first colonization through to Confederation with Canada.

The colony of Vancouver's Island was first constituted by the Charter of the Grant of Vancouver's Island to the Hudson's Bay Company by Queen Victoria on January 13, 1849. Richard Blanshard was appointed the colony's first Governor shortly thereafter, and was followed by the arrival of the first colonists. Settlement of the colony was slow and it remained largely a fur-trading extension of the Company.

In 1852, the discovery of gold on Queen Charlotte's Island led to the extension of Colonial Government there. James Douglas, Blanshard's successor, was commissioned Lieutenant-Governor of Queen Charlotte's Island.

By 1858, discovery of gold on the Mainland of British Columbia resulted in a large influx of American miners. The British Colonial Office rose to the occasion in declaring the Queen's influence in the Mainland area as well. James Douglas was commissioned Governor for British Columbia and thus, a new colony became established on the Mainland.

In 1862, the Stikine territory, to the North of the Mainland Colony of British Columbia, became attractive to those searching for gold. The result was that the boundaries of the Mainland Colony became further extended to include the Stikine territory. Thus, the boundaries of British Columbia, as they are known today, became established.

Following his appointment as Governor of the Mainland of British Columbia, Douglas governed the colonies until 1864. In 1864, separate Governors for Vancouver Island and British Columbia were appointed, allowing the colonies to go their separate ways. However, in 1866, because of adverse financial conditions and political expediency, a merger of the two colonies was consummated.

It is important to bear in mind that this union of the colonies on the Pacific West Coast was concluded in an era in British-American Colonial history, when the view of the Colonial Office was strong in urging regional unions of colonies, with the ultimate object of Confederation. This was evidenced in another context by the obvious Colonial Office support of the Lieutenant-Governor of New Brunswick, in his efforts to effect union of the colonies of Nova Scotia, New Brunswick and Prince Edward Island on the Atlantic West Coast. As history bears out, the Charlottetown Conference in September of 1864 was called specifically to consider such a union of colonies. However, the Atlantic Colonies' efforts

- 4 -

became directed to a broader purpose. With the attendance of the Canadian Provinces at the Conference, a larger Confederation was urged and resulted ultimately, in Confederation of 1867.

The union of the colonies on the West Coast did little more than establish one Government. The financial conditions of the member colonies remained the same. Transportation and communications indicated a natural route to union with the United States. On the other hand, political tendencies and common heritage favoured the union of the new colony with the Provinces of Canada. Ultimately, the Canada route prevailed, and the new colony of British Columbia joined Confederation on July 20, 1871.

It is important to remember that, whereas the union of the Maritime Colonies, urged by the Colonial Office, was concluded in Confederation with the other Provinces of Canada by each colony entering thereto as a separate entity, the union of the colonies of the West Coast was concluded before joining Confederation.

By accident of history, the Maritime Colonies entering Confederation as individual colonies rather than united (as in the case of the Pacific colonies), have maintained a better bargaining position with Canada, as separate provinces, and have fared much better in terms of Federal financial support for ferry operations than has British Columbia.

000111

III. THE CASE FOR FEDERAL ASSISTANCE
FOR BRITISH COLUMBIA FERRIES

A. CONSTITUTIONAL OBLIGATIONS

The Terms of Union of the Colony of British Columbia with Canada were settled on May 16, 1871. The terms and conditions of the union were framed in a manner recognizing that British Columbia was isolated from the other provinces of Confederation. Because of this exceptional geographic circumstance, assistance by Canada was to be given for the provision of freight transportation, communications, passenger and mail service, from the other Provinces of Confederation, not only to the British Columbia Mainland, but to Vancouver Island. The object of such assistance was to support and promote the economic development and growth of the new West Coast Province, and to strengthen Confederation by extending Canada's influence from Coast to Coast.

1. Specifically, section 4 of the Schedule of the Terms of Union of British Columbia becomes more obvious in its intent.

"4. The Dominion will provide an efficient mail service, fortnightly, by steam communication between Victoria and San Francisco, and twice a week between Victoria and Olympia; the vessels to be adapted for the conveyance of freight and passengers."

- 6 -

It is readily evident that one of the conditions of British Columbia's entry into Confederation was to maintain lines of communication and transportation between Victoria, as its Capital, and the Mainland continental ports of influence at that time.

The condition for a steam connection between Victoria and San Francisco was important to the development of the Province, as San Francisco was the major centre of shipping, trade and commerce on the West Coast at that time. British Columbia required the service if such development was to become a reality.

The service was never provided by Canada.

The covenant by Canada to provide a ferry service, twice weekly, between Vancouver Island and the Washington Mainland, was a further example of recognizing British Columbia's concern for the development of the West Coast Province at the time of Confederation.

The service was never provided by Canada.

At the same time, the benefits of Canada's providing such services were not altogether singular in benefit to British Columbia. It is clear that the need for Canada to express some international influence as an emerging nation could only have been furthered by maintaining

- 7 -

connections for freight transportation, communication, passenger and mail service, with international ports.

It is therefore British Columbia's submission that Canada's obligation under section 4 of the Terms of Union has never been discharged. Because of Canada's failure to initially provide such services, further logical development of the services to an acceptable present-day level, has never been the privilege of British Columbia.

2. Moreover, the further undertaking of Canada by clause 11 of the Terms of Union to provide for the construction of a railway from the Pacific towards the Rocky Mountains to connect the seaboard of British Columbia with the railway system of Canada, was not satisfactorily discharged by stopping the railroad at a terminus in Vancouver.

"11. The Government of the Dominion undertake to secure the commencement simultaneously, within two years from the date of the Union, of the construction of a railway from the Pacific towards the Rocky Mountains, and from such point as may be selected, east of the Rocky Mountains, towards the Pacific, to connect the seaboard of British Columbia with the railway system of Canada; and, further, to secure the completion of such railway within ten years from the date of the Union."

History shows that at the time of the construction of the railway, much discussion took place between British Columbia and Canada about a railway crossing connecting Vancouver Island with the Canadian Mainland at Seymour Narrows.

If the railway could not be extended by a bridge to Vancouver Island, it is logical that a proper ferry system maintaining this connection would be considered as a practical and financially viable alternative for Canada to provide.

It is obvious, from reading the Terms of Union, that Canada and British Columbia considered such a link important.

It can also be argued that the undertaking of Canada by the Terms of Union expressed a responsibility to provide, at a very minimum, a proper and adequate link of the capital of the new province with the rest of the Provinces of Canada.

The absence of the fulfillment of such undertaking initially does not now obviate the obligation of Canada to fulfill its undertaking.

It is reasonable to expect that for a viable and working Confederation, the provision of a natural link for freight transportation, communications, passenger and mail services to connect the capital of each of the provinces of the Union, would be indicated.

- 9 -

3. By the Terms of Union, Canada has pledged to treat all provinces in equity; and provide to British Columbia such services as are provided to other Provinces.

Section 5 of the Terms of Union of British Columbia with Canada provides that Canada undertake to assume and defray such charges for services which appertain to the General Government, and "such further charges as may be incident to and connected with the services which, by the British North America Act, 1867, appertain to the General Government, and as are or may be allowed to other Provinces."

In spite of the Dominion's covenant to treat British Columbia in the same manner as other provinces, Canada has not extended to British Columbia the benefit of federal support for ferry services that it has extended to ferry services in other Provinces of the Union, upon terms which would indicate that British Columbia could similarly qualify for assistance.

- 10 -

B. TREATMENT GIVEN TO OTHER PROVINCES

Canada is presently heavily supporting financially, and has done so for some years, in the maintenance, operation and capital outlay of ferry and coastal services on the Atlantic Coast, the St. Lawrence River, and on the Great Lakes. (TAB 1). British Columbia's request for financial contribution is therefore in keeping with Canada's financial support elsewhere.

Some examples of capital expenditures, alone, towards such ferry and coastal services include:

1. \$3,351,000 for a ferry terminal between Saint John, New Brunswick and Digby, Nova Scotia (1970).
2. \$6,999,000 for a ferry terminal between Saint John, New Brunswick and Digby, Nova Scotia (1971).
3. \$15,000,000 forgiveness on the balance of a loan for the acquisition and construction of two vessels for ferry services between New Brunswick and Prince Edward Island (1972).
4. \$3,000,000 for construction of ferry terminals for ferry service between Tobermorey and South Baymouth, Ontario (1973).
5. \$3,000,000 to aid in construction of an ice-breaker ferry vessel for Quebec. (It is to be noted that the Department of Regional and Economic Expansion of Canada has contributed a

DSM -
What was
this?
ASTA

was this the
manic deal?
T. J. [unclear]

further \$3,000,000 for the construction of this vessel.

To date, British Columbia has received no contribution whatever for operating expenses or capital outlays for ferry and coastal services or for terminal facilities.

It is clearly evident that in addition to Canada's direct financial assistance towards such services, Federal Crown agencies such as the Canadian National Railway are heavily committed to providing such services and terminal facilities. (TAB 2).

Canada argues in support of the propriety of providing such services, (as opposed to the propriety of providing such services for British Columbia) on the ground that they are either:

1. Services provided under a constitutional obligation to such province; or
2. Services between two provinces and as such are Canada's responsibility as providing inter-provincial transportation; or
3. Services between Canada and United States being international transportation, and as such are Canada's responsibility.

(1) British Columbia's foremost argument earlier stated, is that Canada has failed to discharge its Constitutional obligations, which it submits are similar in nature to those presently being discharged by Canada to the East Coast Provinces.

(2) Inter-Provincial Transportation

Canada has supported the East Coast ferry services in the past, maintaining that they are the Federal responsibility as they assist in inter-provincial transportation.

An examination of these East Coast services indicates that many but not all are between two points of two different provinces. (TAB 3). The size and the nature of the services are in many ways comparable to those provided by British Columbia. (TAB 4).

However, in cases other than British Columbia's, Canada assists other provinces in providing ferry services between two different points in the same province.

The ferry service between Tobermorey and South Baymouth is an excellent example of an intra-provincial ferry service that has received substantial financial contribution from Canada. This particular service was operated by the Owen Sound Transportation Company Limited from 1943 to 1969 and was subsidized in part by Canada. In 1969 the subsidy was shared

equally by Ontario and Canada. During this time, because of the service's increasing popularity and because of the potential to increase tourism to Manitoulin Island and other points in northwest Ontario, Ontario was considering providing the service, itself. Thereafter, negotiations between Ontario and Canada resulted in an agreement between the Provincial Minister of Transport and Communications and the Federal Minister of Transport. \$3,000,000 was contributed by Canada in addition to the normal Federal shipbuilding subsidy, in addition to the responsibility to maintain the wharf structures, and to maintain the width and depth of the channels.

Such an example of Federal-Provincial co-operation is most encouraging to British Columbia in its present request for financial assistance.

(3) International Transportation

In any event, British Columbia's ferry services are used for transportation to and from points within the province and centres of trade and manufacture elsewhere in Canada. The ferry services are also used extensively for tourism during the summer months by other Canadians. Records indicate that the annual volumes of out-of-province vehicles have risen sharply during recent years. (TAB 5).

Examination of the increases in the total annual traffic volumes using such ferry services would indicate that the use by out-of-province vehicles cannot be expected to decrease appreciably. (TAB 6). In fact, examination of the total volume of traffic over the period of the whole year using such services shows that out-of-province use in 1971 alone, ranged from between 5% in the winter months to a peak of almost 33% during the summer months. (TAB 7).

It is therefore submitted that the ferry services provided by British Columbia are used for inter-provincial transportation, and do qualify for Federal assistance from Canada, even though two different provinces are not connected by such services.

- 15 -

C. TRANS-CANADA HIGHWAY

The first memorandum of agreement between the Government of Canada and the Government of British Columbia respecting a highway across Canada provided for the sharing of costs of construction thereof. The Trans-Canada Highway agreement of 1950 contains in its preamble the following:

"Whereas the Governments of Canada and the province recognize that the completion of a Trans-Canada Highway is necessary to assist in creating a better means of communication between all provinces in Canada and in promoting the economic development of Canada generally;"

on British Columbia's mainland coast, the Trans-Canada Highway stops at Horseshoe Bay near Vancouver. On Vancouver Island, the Trans-Canada Highway runs from Nanaimo south to Mile 0 of the highway in Victoria. The ferry service between the mainland British Columbia and Vancouver Island connects these two terminals of the Trans-Canada Highway. (TAB 8).

It is British Columbia's position that this ferry service is a logical link in the Trans-Canada Highway. //

- 16 -

Canada has refused to provide financial contribution to the construction of the ferry terminals at these points and to the maintenance of such services. A proper discharge of Canada's obligations thereunder would have included assistance in providing such services.

D. INTERNATIONAL SERVICES

British Columbia enjoys no international ferry services to which Canada has contributed financially. This service has been left to the private sector in both countries.

Present international ferry services on the West Coast include an infrequent service between Anacortes, Washington, U.S.A., and Sidney, British Columbia, operated by Washington State Ferries and, a service from Port Angeles, Washington, U.S.A., to Victoria, British Columbia, operated by the Black Ball Ferries Limited, a privately-owned company with its head office in Washington State. Neither service is adequate to serve the needs of British Columbia.

By contrast, the East Coast international ferry services enjoying Federal financial assistance include:

1. Ferry services between Yarmouth, Nova Scotia and Bar Harbour, Maine, U.S.A. This vessel is owned by the Ministry of Transport and operated by the Canadian National Railway. Its operating deficit is carried by the Ministry of Transport and its operation is financed by Federal-Provincial agreement.

- 18 -

2. The service between Kingsville, Ontario and Leamington, Ontario via Pelee Island to Sandusky, Ohio, U.S.A. The vessel is owned by Canada's Ministry of Transport and operated by the Pelee Shipping Company Ltd. The Canadian Transport Commission is providing funds in the form of an operating subsidy under the National Transportation Act.

It is also of concern to British Columbia that reliance on foreign ferry services to provide such an important and vital link between Canada and the United States of America, is not in the best interests of the country, as a whole.

IV. BRITISH COLUMBIA FERRY SERVICES TODAY

- 19 -

British Columbia owns and operates a modern and efficient fleet of ferries servicing the Mainland Coast, Vancouver Island and the Gulf Islands. (TAB 9).

The estimated capital cost of acquisition of the ferry services' 24 vessels as of March 31, 1973 was \$69,217,957.00.

The estimated capital cost of the services' terminal facilities as of March 31, 1973, was \$9,689,379.00.

In the year ending 1973, the ferry services carried in excess of 8,338,000 passengers and 3,081,000 vehicles, and travelled over 900,000 miles.

The statements of Income and Expenditure for the periods ending March 1972, and March 1973, and March 1974, indicate a net loss on the operation of the services to the people of British Columbia in excess of \$10,000,000.00 each year. (TAB 10).

The services are presently being used to their fullest capacity and it is clear that additions to the fleet and modifications to terminal facilities are necessary if the needs of the people of Canada and British Columbia are to be served adequately.

- 20 -

Although the Government is presently making a substantial financial commitment to meet the forecasted crises in marine transportation, the new additions to the ferry fleet may not be ready until 1976. There is no assurance that the additions will keep pace with the demand for service.

In the interim, there is the attendant delay and inconvenience to passengers using an already over-utilized service.

If British Columbia and Canada are to discharge their obligations impartially and adequately to meet the anticipated increases in traffic provincially, nationally, and internationally, large capital expenditures are foreseen.

British Columbia can not continue to, nor, it is submitted, should it meet the burden of such costs alone,

Federal Ministry of Transport Expenditures on Ferry and Coastal Services

For years ending March 31st.

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
A. Surface Transportation Program					
1. Operating	\$22.03M	\$21.81M	\$33.00M	\$35.26M	\$41.34M
2. Capital	10.08M	9.55M	7.90M	25.75M	4.46M
3. Grants	n.a.	n.a.	—	—	6.00M
	\$32.11M	\$31.36M	\$40.90M	\$61.01M	\$51.80M
B. Canadian Transport Commission					
1. Steamship subventions (subsidies)	\$12.2M	\$13.2M	\$ 6.0M	\$ 6.3M	\$ 6.9M
TOTAL EXPENDITURES	\$44.3M	\$44.6M	\$46.9M	\$67.3M	\$58.7M

(a) Steamship subventions include both vehicle-passenger ferry services and coastal shipping services. A list of these payment is contained in TAB 3.

(b) Capital expenditures includes:-

- 1970 - \$3,351,000 for Saint John, N.B. - Digby, N.S. ferry terminal
- 1971 - \$6,999,000 for Saint John, N.B. - Digby, N.S. ferry terminal
- 1972 - \$15M write-off of loan balance for acquisition and construction of two vessels for N.B. - P.E.I. ferry service.

Grants - 1973 - \$3M to Province of Ontario to aid construction of ferry and terminals for Tobermory - South Baymouth service.

- \$3M to Province of Quebec to aid construction of ice-breaker type ferry vessel.
(DREE also contributed \$3M for this vessel)

Source: Public Accounts, Government of Canada

STATEMENT OF ADDITIONAL AID
PAID IN SUPPORT OF ATLANTIC REGION TRANSPORTATION

	Fiscal Year Ending March 31st				
	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
1. M.F.R.A.	\$13.9M	\$14.6M	\$14.0M	\$13.1M	\$13.0M
2. A.R.F.A.	-	4.4M	2.8M	6.9M	11.4M
Total freight subsidy	\$13.9M	\$19.0M	\$16.8M	\$20.0M	\$21.4M

M.F.R.A. - Maritime Freight Rates Act

A.R.F.A. - Atlantic Region Freight Assistance Act

Source: Public Accounts, Government of Canada

NOTES

- (a) The intra-regional subsidy paid to the railways and truckers under the M.F.R.A. and A.R.F.A. is currently being phased out, reducing each year by 2 1/2%. The current rate of assistance is 17 1/2%.
- (b) A study was completed early in 1973 of the implications of changes in the westbound subsidy being paid under both acts. The current rate of assistance is 30%.

Payments to CNR for operation of East Coast
ferry services (from Surface Transportation Program)

For years ending March 31st.

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Payments	\$22.03M	\$30.05M	\$33.90M	\$37.35M	\$44.63M

Operational deficits contributing to above figures:-

(a) Newfoundland ferry & terminals	\$16.5M	\$16.7M	\$15.4M
(b) P.E.I. ferry & terminals	4.8M	5.0M	6.0M
(c) Yarmouth - Bar Harbour, Maine ferry	0.4M	0.3M	0.4M
Total deficits	\$21.7M	\$22.0M	\$21.8M

(d) From 1970-71, financial assistance for operation of Newfoundland coastal steamship services was paid by MOT through CN instead of direct from the CTC. Payments were:

\$6.8M (1968), \$7.7M (1969), \$7.2M (1970), \$10.8M (1971)

Source: Public Accounts, Government of Canada

Subventions Paid For Coastal Steamship Services
By the Canadian Transport Commission

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
<u>Western Local Services</u>				
Service between:				
Gold River and Zeballos BC (Nootka Sound Service Ltd).....	28,940	33,480	33,480	50,000
Vancouver & northern British Columbia ports (Northland Shipping (1962) Co Ltd).....	270,000	393,800	341,294	503,000
Vancouver & west coast of Vancouver Island BC (Northland Navigation Co Ltd).....	130,000	130,000	126,070	190,000
<u>Eastern Local Services</u>				
Service between:				
Burnside & St. Brenden's Nfld (Michael Ryan).....	14,500	15,000	15,000	17,500
Carmanville & Fogo Island Nfld (Fogo Transport Ltd).....	27,500	45,000	45,000	50,000
Cobb's Arm & Change Island Nfld (Chaffey's Shipping Ltd).....	17,500	10,750	10,750	13,750
*Dalhousie NB & Miguasha Que (Dalhousie Miguasha Ferries Ltd).....	37,500	37,500	31,500	26,500
*Grand Manan & the mainland NB (Coastal Transport Ltd).....	259,000	259,000	259,000	259,000
Greenspond & Badger's Quay Nfld (William Pickett).....	53,750	27,000	27,000	30,500
Halifax NS & Cupids Nfld (H B Dawe Ltd).....	40,000	40,000	60,000	70,000
Halifax NS & St. John's Nfld (summer) (Newfoundland Canada Steamships Ltd).	193,638	281,500	285,000	275,000
Halifax NS & St. John's Nfld (winter) (Newfoundland Canada Steamships Ltd).	70,000	---	---	---
Ile-aux-Coudres & Les Eboulements Que (La Cie de Navigation Cartier Ltee)..	35,900	70,500	44,000	44,000
Ile-aux-Grues & Montmagny Que (summer) (Paul-Eugene Lavoie).....	6,500	9,000	9,000	9,000
Ile-aux-Grues & Montmagny Que (winter) (Albert Vezina).....	1,700	1,700	317	---
Iles de la Madeleine Que & Montreal Que (La Cooperative de Transport Maritime et Aerien).....	100,000	130,000	130,000	130,000

- 2 -

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Eastern Local Services				
Service between:				
Iles de la Madeleine Que, Cheticamp & Halifax NS (La Cooperative de Transport Maritime et Aerien).....	35,000	35,000	35,000	26,000
Montreal Que & Botwood Nfld (Gulf Ports Steamship Co Ltd).....	95,600	95,600	95,600	—
Montreal to Corner Brook & St. John's Nfld (Clark Steamships).....	—	—	1,251,626	1,286,371
Montreal Que, Rimouski & north shore ports Que (La Cie de Transport due Bas St. Laurent Ltee).....	50,000	770,000	860,000	732,000
Montreal Que, Rimouski & north shore ports to Blanc Sablon Que (New Contract) (La Cie de Transport du Bas St Laurent Ltee).....	—	—	183,000	—
Mulgrave, Canso & Arichat NS (Langley Shipping Ltd).....	52,400	—	—	—
Owen Sound, Manitoulin Island & Georgian Bay Ont (The Owen Sound Transportation Co. Ltd.).....	185,700	213,735	49,620	—
● Pelee Island and the mainland Ont (Pelee Shipping Co.Ltd).....	88,695	88,695	88,695	88,695
*Pictou NS, Charlottetown PEI & Iles de la Madeleine Que (The Magdalen Islands Transportation Co Ltd).....	304,160	389,900	389,900	406,000
Portugal Cove and Bell Island Nfld (The Newfoundland Transportation Co Ltd).....	267,925	265,234	262,543	298,684
Prince Edward Island & Newfoundland (North Shipping & Transportation Ltd)	108,600	102,900	102,900	102,900
Prince Edward Island & the north shore of the St. Lawrence River Que (Reginald S MacDonald).....	35,000	35,000	—	—
*Prince Edward Island & Nova Scotia (Northumberland Ferries Ltd).....	870,699	912,624	1,086,151	1,070,000
Quebec, Natashquan & Blanc Sablon Que (La Cie de Transport du Bas St. Laurent Ltee).....	430,000	—	—	—
Rimouski & north shore ports to Blanc Sablon Que (La Cie de Transport du Bas St Laurent Ltee).....	290,000	—	—	—
Riviere-du-Loup & St. Simeon Que (La Traverse Riviere-du-Loup—St Simeon Ltee).....	21,000	21,000	21,000	21,000
St Barbe Nfld & Blanc Sablon Que (Puddister and Bennett).....	—	—	70,000	91,452

....3

Eastern Local Services

Service between:

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
St Lawrence River & Gaspé ports to Chandler Que (Maritime Agency Inc)...	43,000	43,000	43,000	—
Sorel & Ile St Ignace Que (La Cie de la Traverse du St Laurent Ltee).....	43,000	43,000	50,000	50,000
Twillingate & New World Island Nfld (Winston Saunders).....	63,400	63,400	63,400	80,000
Tobermory/South Baymouth (Owen Sound Transportation Co Ltd).....	—	—	—	62,700

Newfoundland Coastal Steamship Services

Financial assistance to the operation
of coastal steamship services

6,829,914	7,690,352	7,229,867	By NOT
<u>\$11,100,521</u>	<u>\$13,204,113</u>		
<u>\$12,236,840</u>	<u>\$5,984,052</u>		

*Ferry services comparable to those provided by B.C. Ferries.

Source: Public Accounts, Government of Canada



**Transport
Canada**

Surface

**Transports
Canada**

Surface

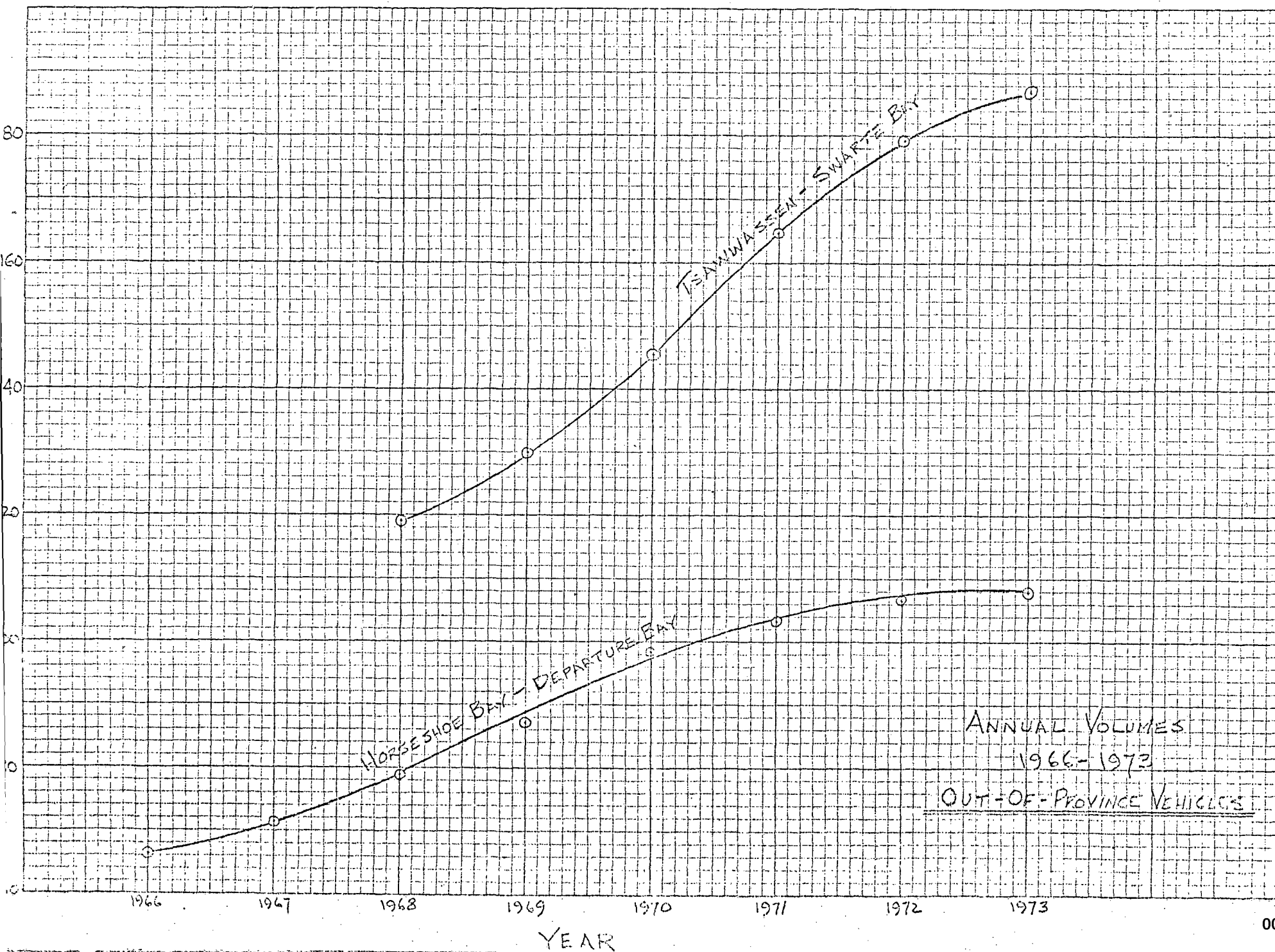
DSM
This high level of service having desirability I have handled in one place. How are discussions with TBS/LTC on the coming AS-11 in March

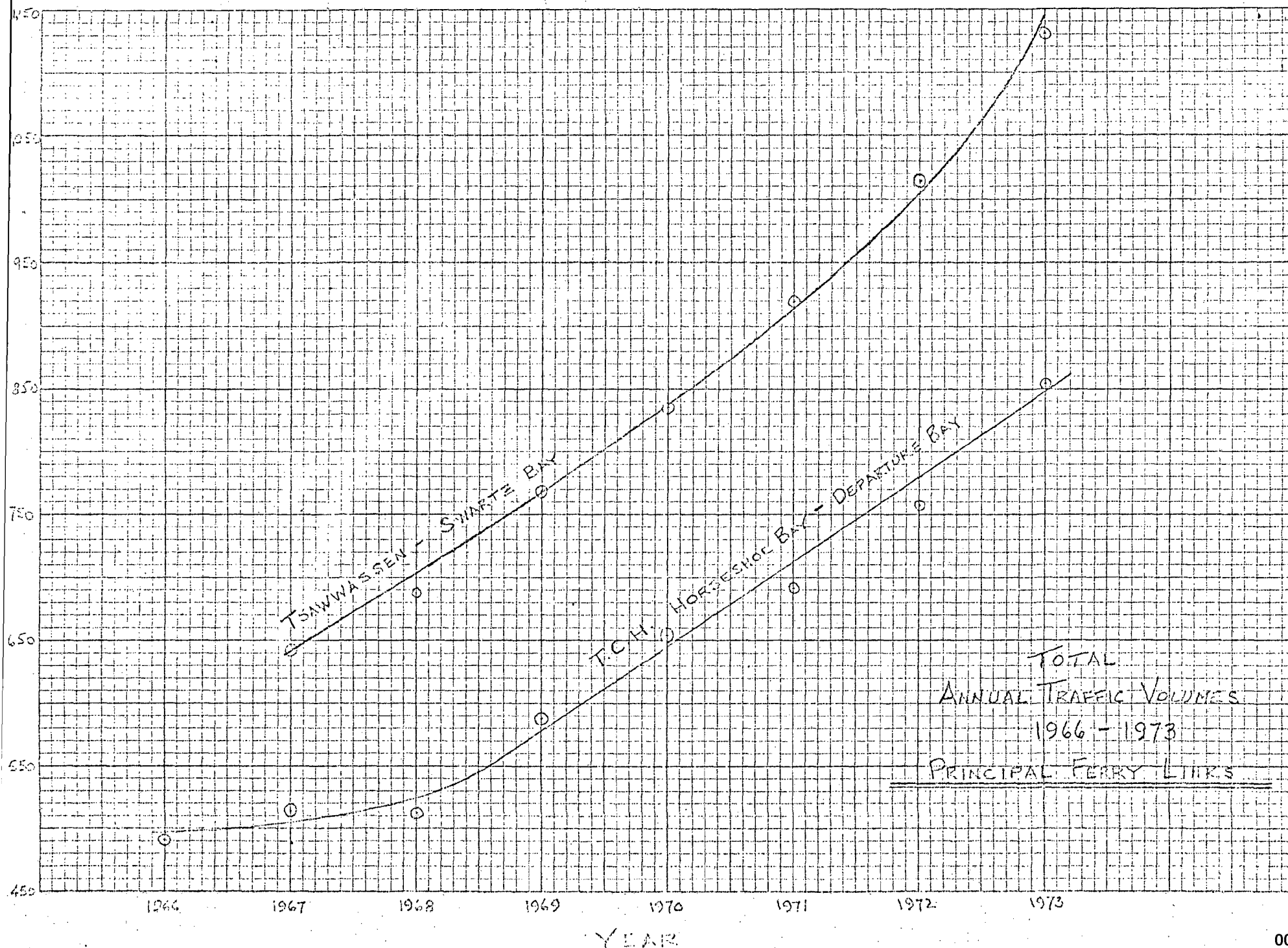
East Coast Passenger-vehicle Ferry Services
Comparable to Those Operated by B.C. Ferries

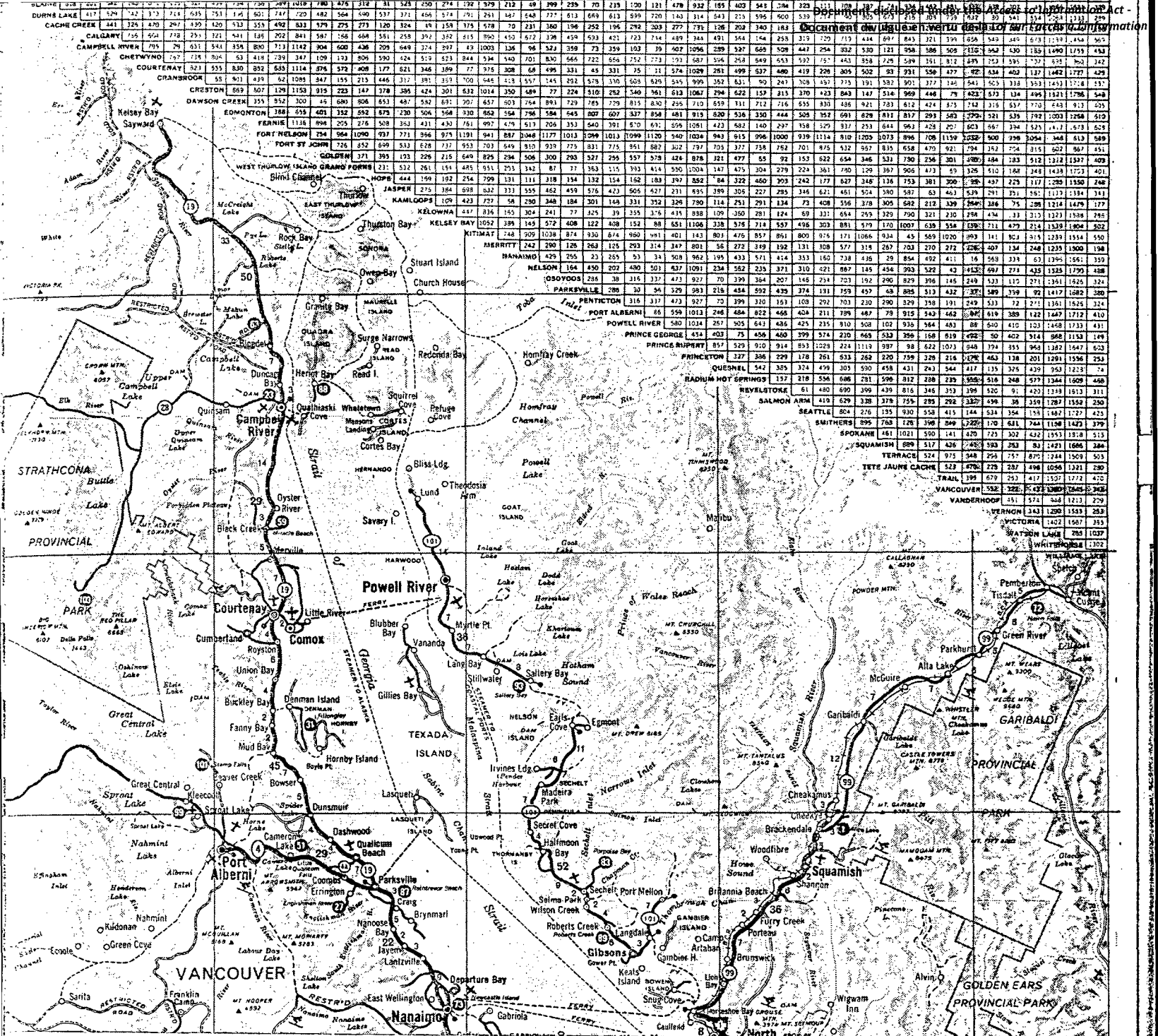
1. Dalhousie, N.B. - Miguasha, Que. (interprovincial)
Operator: Dalhousie - Miguasha Ferries Ltd.
Vessel : Inch Aaron (capacity about 15 vehicles)
Subsidy : C.T.C.
Service : Hourly
2. Black's Harbour - Grand Manan Island, N.B. (intra)
Operator: Coastal Transport Ltd.
Vessel : Grand Manan (capacity - approx. 15 vehicles)
Subsidy : C.T.C.
Service : Twice daily
3. Saint John, N.B. - Digby, N.S. (interprov.)
Operator: C.P. Rail
Vessel : S.S. Princess of Scadia
Subsidy : None (have applied to C.T.C.)
Service : Twice daily
4. Cape Tormentine, N.B. - Borden, P.E.I. (interprov.)
Operator: C.N.
Vessel : M.V. Abegweit
M.V. Lucy Mand Montgomery
M.V. Confederation
John Hamilton Gray
M.V. Holiday Island
(487 pass. & 153 vehicles)
M.V. Vacationland
(487 pass. & 153 vehicles)
Subsidy : C.N.
Traffic : Passengers - 1,219,800 (1971)
1,289,925 (1972)
Vehicles - 474,090 (1971)
505,000 (1972)
5. Caribou, N.S. - Wood Island, P.E.I. (interprov.)
Operator: Northumberland Ferries Ltd.
Vessel : Prince Nova
Lord Selkirk
Prince Edward (60 veh., 300 pass.)
Subsidy : C.T.C.
6. Yarmouth, N.S. - Bar Harbour, Maine (international)
Operator: C.N.
Vessel : M.V. Bluenose II
Subsidy : C.N.
Service : Daily
Traffic : Passengers - 88,849 (1971) 90,636 (1972)
Vehicles - 27,351 (1971) 28,724 (1972) 000137

- 2 -

7. Yarmouth, N.S. - Portland, Maine (international)
Operator: Lion Ferries Ltd.
Vessel : Prince of Fundy
Subsidy : None
8. North Sidney, N.S.- Port aux Basques, Nfld. (interprov.)
Operator: C.N.
Vessel : William Carson
Leif Eriksson
Frederick Carter
Charter vessel
Subsidy : C.N.
Traffic : Passengers - 244,274 (1971)
247,867 (1972)
Vehicles - 70,832 (1971)
77,571 (1972)
9. North Sidney, N.S.- Argentia, Nfld. (interprov.)
Operator: C.N.
Vessel : M.V. Ambrose Shea
Charter vessel
Subsidy : C.N.
Traffic : Passengers - 28,511 (1972)
Vehicles - 9,091 (1972)
10. Souris, P.E.I. - Magdalen Islands, P.Q. (interprov.)
Operator: The Magdalen Islands Transportation Co. Ltd.
Vessel :
Subsidy : C.T.C.







MINISTER OF TRANSPORT & COMMUNICATIONS

GENERAL MANAGER - Honourable R.M. Strachan
OPERATIONS MANAGER - C. Gallagher
TRAFFIC MANAGER - W.B. Weston
- R.J. Innes

SHIPS AND AREAS COVERED

VANCOUVER - VICTORIA (TSAWWASSEN - SWARTZ BAY)

M.V. "Queen of Victoria"
M.V. "Queen of Vancouver"
M.V. "Queen of Saanich"
M.V. "Queen of Esquimalt"
M.V. "Queen of Sidney" (Summer schedule)

VANCOUVER - NANAIMO (HORSESHOE BAY - DEPARTURE BAY)

M.V. "Queen of Burnaby"
M.V. "Queen of Tsawwassen" (supplementary service)
M.V. "Queen of New Westminster"
M.V. "Queen of Nanaimo"
M.V. "Queen of Surrey"

SUNSHINE COAST (HORSESHOE BAY - LANGDALE)

M.V. "Sunshine Coast Queen"
M.V. "Langdale Queen"
M.V. "Queen of Tsawwassen" (supplementary service)

SECHELT - POWELL RIVER (EARLS COVE - SALTERY BAY)

M.V. "Powell River Queen"

HORSESHOE BAY - BOWEN ISLAND (SNUG COVE)

M.V. "Howe Sound Queen"

KELSEY BAY - PRINCE RUPERT

M.V. "Queen of Prince Rupert"

KELSEY BAY - BEAVER COVE

M.V. "Island Princess"

VANCOUVER ISLAND - GULF ISLANDS (TSAWWASSEN TO GALIANO,
MAYNE, PENDER, SALTSRING AND SATURNA ISLANDS)

M.V. "Sechelt Queen" (Summer)
M.V. "Queen of the Islands" (Winter)

INTER GULF ISLANDS SERVICE & VANCOUVER ISLAND

(MAYNE, GALIANO, PENDER, & SATURNA ISLANDS)

M.V. "Mayne Queen"

....2

SHIPS AND AREAS COVERED cont'd

BRENTWOOD - MILL BAY (SAANICH PENINSULA)
M.V. "Mill Bay"

VANCOUVER ISLAND - SALTSRING ISLAND
M.V. "Bowen Island" (Swartz Bay - Fulford)
M.V. "Saltspring Queen" (supplementary service)
M.V. "Vesuvius Queen" (Vesuvius - Crofton)
M.V. "Pender Queen" (spare ship)

GAMBIER ISLAND - KEATS ISLAND
M.V. "Dogwood Princess"

SIDELIGHTS:

PAID PARKING LOTS AVAILABLE

Tsawwassen	350 vehicles	50¢ per day or portion
Swartz Bay	300 vehicles	50¢ 48 hours
Departure	350 vehicles	50¢ 48 hours
Langdale	85 vehicles	50¢ 48 hours
Prince Rupert	100 vehicles	50¢ per day or portion
Horseshoe Bay	180 vehicles	50¢ per day or portion
Kelsey Bay	Private field parking 2 miles south of the terminal \$1.25 per day.	

CATERING

Passengers have the convenience of an enlarged cafeteria system on the stretched ferries. These cafeterias are able to handle 252 patrons at one sitting. In addition to the cafeteria on the promenade deck there is a restaurant on the sun deck able to serve 136 passengers. Catering facilities are available on all other vessels servicing the major routes.

EMPLOYEES

There are approximately 2,800 employees in the system, compared with 200 when the system started.

SHIP SERVICES

Passenger elevators have been installed in the new ships specifically for those unable to use the stairs. The M.V. "Queen of Sidney" and M.V. "Queen of Tsawwassen" do not have elevators.

The stretch ferries also have nursery facilities, no-smoking areas and paraplegic washrooms.

TOURIST COUNSELLORS:

University girls are employed on the ships for the summer months to give information on travel and vacation spots throughout the province. They are given extensive training before the tourist season starts.

MACHINE REPAIR SHOP:

A service unique to the ferry business is the combined machine-repair shop established at Deas Dock on the Fraser River, which allows for a planned program of preventative maintenance.

Another unique service is the most modern and completely equipped inflatable liferaft servicing center in Canada, also located at Deas Dock. Refitting and lay-up berths are now in operation on the man-made basin at this location.

S T A T I S T I C S

BRITISH COLUMBIA FERRIES

YEAR END	PASSENGERS	VEHICLES
March 31st, 1962	2,040,000	697,000
March 31st, 1963	2,665,000	895,000
March 31st, 1964	3,180,000	1,034,000
March 31st, 1965	3,300,000	1,185,000
March 31st, 1966	4,000,000	1,333,000
March 31st, 1967	4,477,000	1,516,000
March 31st, 1968	4,361,000	1,530,000
March 31st, 1969	4,774,000	1,733,000
March 31st, 1970	5,671,000	2,102,000
March 31st, 1971	5,963,511	2,228,412
March 31st, 1972	6,771,837	2,552,505
March 31st, 1973	7,629,385	2,824,964

TRAFFIC INCREASES IN 1974

	PASSENGERS	PERCENTAGE INCREASE OVER 1973	VEHICLES	PERCENTAGE INCREASE OVER 1973
March 31, 1974 (year end)	8,538,297	11.9	3,169,582	11.2

MONTHLY INCREASES SINCE MARCH 31, 1974

	PASSENGERS	PERCENTAGE INCREASE OVER 1973	VEHICLES	PERCENTAGE INCREASE OVER 1973
April, 1974	631,269	2.0	241,788	7.9
May, 1974	690,793	16.6	264,131	18.8
June, 1974	880,752	23.3	298,386	15.4
July, 1974	<u>1,122,308</u>	<u>1.5</u>	<u>370,483</u>	<u> </u>
	3,325,122	Ave. 9.7	1,174,788	Ave. 10.0



BRITISH COLUMBIA FERRIES

- KELSEY BAY/PRINCE RUPERT
- GULF OF GEORGIA CROSSINGS
- SUNSHINE COAST
- GULF ISLANDS
- NORTHERN VANCOUVER ISLAND SERVICES
- WATER TAXI (passenger only)

BRITISH COLUMBIA FERRIES

STATEMENT OF INCOME & EXPENDITURE FOR THE PERIOD APRIL 1, 1971 - MARCH 31, 1972

	S.B.- TSAW.	NAN.-H.B.	G.I.-MAIN.	G.I.-V.I.	HOWE S.- JERVIS	KELSEY BAY- PR. RUPERT	NORTH V.I.	SALARIES & WAGES	MISC.	TOTAL
<u>VESSEL COSTS</u>										\$
Salaries & Wages	5,258,064	4,915,742	722,728	585,008	1,324,658	1,189,431	243,619	14,239,250		14,239,250
Operating	1,655,103	1,666,133	94,833	*1 501,843	*2 1,445,027	632,449	*3 878,223			6,873,611
Catering	1,514,585	1,042,231	63,107		142,122	185,279	43,811			2,991,135
Deas	204,717	204,717	61,415	61,415	163,773	81,887	40,943			818,867
TOTAL VESSEL	\$ 8,632,469	7,828,823	942,083	1,148,266	3,075,580	2,089,046	1,206,596			24,922,863
<u>TERMINAL COSTS</u>										
Salaries & Wages	1,201,019	804,206	70,000	91,819	228,237	121,199	36,204	2,552,684		2,552,684
Operating	706,809	341,386	180,694	354,505	204,767	169,517	50,636			2,008,314
TOTAL TERMINAL	\$ 1,907,828	1,145,592	250,694	446,324	433,004	290,716	86,840			4,560,998
Total Vessel & Terminal	10,540,297	8,974,415	1,192,777	1,594,590	3,508,584	2,379,762	1,293,436			*4 29,483,861
REVENUE FOR PERIOD	12,924,836	9,245,645	851,936	550,845	3,125,692	1,777,344	535,066		21,055	29,032,419
NET GAIN OR (LOSS)	\$ 2,384,539	271,230	(340,841)	(1,043,745)	(382,892)	(602,418)	(758,370)		21,055	(451,442)
NOTE: *1. Includes \$250,000 for major repairs to Pender Queen.								Pre-Operating Costs		
*2. Includes \$500,000 for major modifications on Sunshine Coast Queen & Howe Sound Queen.								Deas Maintenance		
*3. Includes \$600,000 for major modifications on Island Princess.								Administration & Insurance		
*4. Includes \$1,350,000 for major expenditures charged under operating costs.								Total Operating Costs		
								Capital Cost:		
								Total Costs		
								Revenue		
								Net Gain or (Loss)		
								612,673	627,595	1,240,268
								441,067	2,172,886	2,613,953
								17,845,674		33,338,082
										5,847,480
										39,185,562
										29,032,419
										\$(10,153,143)

BRITISH COLUMBIA FERRIES STATEMENT OF INCOME AND EXPENDITURE

Period April 1/72 - Mar. 31/73

	Swartz Bay- Tsawwassen	Horseshoe Bay- Nanaimo	Gulf Islands- Mainland	Gulf Islands- Swartz Bay	Howe Sound- Jervis	Kelsey Bay- Prince Rupert	North V.I.	Salaries and Wages	Miscellaneous	Total
<i>Vessel Costs</i>										
Salaries and wages	6,358,929	5,781,707	864,771	671,373	1,622,571	1,217,589	293,067	16,810,007		16,810,007
Operating	2,345,275	2,061,240	93,088	194,756	1,817,824	823,341	320,089			7,655,613
Catering	1,709,240	1,145,297	74,540	-	250,300	198,084	47,678			3,425,139
Deas	24,448	24,448	7,335	7,335	19,559	9,779	4,807			97,791
Total, Vessel	10,437,892	9,012,692	1,039,734	873,464	3,710,254	2,248,793	665,721			27,958,550
<i>Terminal Costs</i>										
Salaries and wages	1,415,435	952,859	90,000	122,739	276,552	150,324	36,182	3,044,091		3,044,091
Operating	720,943	889,228	135,276	222,084	273,828	182,693	43,973			2,468,025
Total, Terminal	2,136,378	1,842,087	225,276	344,823	550,380	333,017	80,155			5,512,116
Total, Vessel and Terminal	12,574,270	10,854,779	1,265,010	1,218,287	4,260,634	2,581,810	745,876			33,500,666
Revenue for period	14,469,722	10,270,075	971,495	614,765	3,272,455	1,997,687	546,935		20,980	32,164,114
Net gain (or loss)	1,895,452	(584,704)	(293,515)	(603,522)	(988,179)	(584,123)	(198,941)		20,980	(1,336,552)
								499,926		3,037,789
General administration										
Pre-operating										
Deas (exclusive of stock)								731,954		922,834
Total operating								21,085,978		37,461,283
Capital cost										6,227,004
Total costs										43,738,293
Revenue										32,164,114
Net gain (or loss)										(11,574,179)

BRITISH COLUMBIA FERRIES
STATEMENT OF INCOME AND EXPENDITURE

FISCAL YEAR 1973/74
Period April 1/73 to March 31/74

	Swartz Bay Tsawwassen	%	Horseshoe Bay Nanaimo	%	Gulf Islands Mainland	%	Gulf Islands Swartz Bay	%	Howe Sound Jervis	%	Kelsey Bay Prince Rupert	%	North V.I.	%	Salaries and Wages Note-Only	%	Total	%
<i>Vessel Costs</i>																		
Salaries and wages	8,198,961	49.5	8,191,136	66.5	1,126,880	103.5	829,706	120.1	2,219,570	61.6	1,441,031	63.7	415,968	63.6	22,423,252	60.3	22,423,252	60.3
Operating	2,420,195	14.6	1,936,345	15.7	286,233	26.2	241,053	34.8	1,028,963	28.5	642,204	28.4	168,654	25.8			6,723,647	18.1
Catering Food Costs	2,495,620	15.0	1,964,358	15.9	114,402	10.5	23,400	3.4	292,646	8.1	248,999	11.0	45,418	6.9			5,184,843	13.9
Depr. Maint. & Refit	517,720	3.1	489,291	4.0	43,100	4.0	108,251	15.7	613,690	17.1	211,951	9.4	9,067	1.4			1,993,070	5.4
Total vessel	13,632,496	82.2	12,581,130	102.1	1,570,615	144.2	1,202,410	174.0	4,154,869	115.3	2,544,185	112.5	639,107	97.7			36,324,812	97.7
<i>Terminal Costs</i>																		
Salaries and wages	1,779,353	10.7	1,296,910	10.5	130,698	12.0	166,524	24.1	375,877	10.4	207,438	9.2	59,879	9.2	4,016,679	10.8	4,016,679	10.8
Operating & Maint.	674,267	4.1	561,027	4.6	28,485	2.6	243,711	35.3	253,150	7.0	106,288	4.7	30,680	4.7			1,897,608	5.1
Total terminal	2,453,620	14.8	1,857,937	15.1	159,183	14.6	410,235	59.4	629,027	17.4	313,726	13.9	90,559	13.9			5,914,287	15.9
Total vessel and terminal	16,086,116	97.0	14,439,067	117.2	1,729,798	158.8	1,612,645	233.4	4,783,896	132.7	2,857,911	126.4	729,666	111.6			42,239,099	113.6
Revenue for period	16,568,871	100.0	12,317,942	100.0	1,089,015	100.0	691,130	100.0	3,604,411	100.0	2,261,035	100.0	653,662	100.0			37,186,066	100.0
Net gain (or loss)	482,755	3.0	(2,121,125)	(17.2)	(640,783)	(58.8)	(921,515)	(133.4)	(1,179,485)	(32.7)	(596,876)	(26.4)	(76,004)	(11.6)			(5,053,033)	(13.6)
Insurance & General administration															644,919	1.7	4,127,203	11.1
Pre-operating																		
Deas (maintenance)															889,206	2.4	1,381,408	3.7
Total costs																	47,747,710	128.4
Revenue																	37,186,066	100.0
Net gain (or loss)																	(10,561,644)	(28.4)
Capital Appropriation Vessels																	3,950,367	10.6
" " Terminals																	5,061,822	13.6
TOTAL CAPITAL COST																	9,012,189	24.2

A MINOR ADJUSTMENT OF LESS THEN \$1,000.00 IS EXPECTED
BEFORE FINAL CLOSE OF BOOKS OF ACCOUNT.

BRIEFING NOTE FOR THE MINISTER - RE: B.C. FERRIES - MINISTER'S
MEETING WITH THE HONOURABLE R. STRACHAN

You will recall that as a result of a request by Premier Barrett of B.C. to the Prime Minister, Transport was requested to bring forward a Memorandum to Cabinet outlining alternative formulae for providing assistance to B.C. in connection with the provincially owned ferry service. This Cabinet Memorandum was prepared, signed and placed on the docket of the Cabinet Committee on Federal-Provincial Relations in the Spring of 1974, but, because of certain reservations which developed in Transport, it was withdrawn and has not been re-submitted.

The Privy Council Office has recently written asking for advice on the position the Prime Minister should adopt in this matter. The B.C. Caucus has also asked for a position paper on the subject.

Last Spring's Cabinet Memorandum outlined the following alternatives:

1. providing a higher ship construction subsidy for B.C. The cost implications of this change, which would have to be offered to shipyards in all provinces, was considered prohibitive. This was not recommended.
2. providing some form of annual assistance to B.C. FERRIES at some percent of their annual deficit up to a fixed maximum. This would involve an open-ended commitment on behalf of the federal government. This was not recommended.
3. establishing a Federal West Coast ferry service. This alternative too is open-ended. In addition to initial capital costs, the federal government would be obligated to underwrite operating losses in future years. This was not recommended.
4. providing a lump sum payment toward the extension of exclusively land based facilities, including terminals, causeways, and possibly roads. This assistance could be calculated according to a formula which was related to the distance between Vancouver and the Provincial Capital.
5. providing a federal grant for specific new terminals and associated to expanding of the ferry service.



Transport
Canada

Transports
Canada

Surface

Surface

TB Pearson

000151

- 2 -

Alternatives four and five were considered worthy of further examination. The Cabinet Memorandum recommended that before an offer was made, meetings be held with the Government of B.C. to determine the scope of the need of any assistance to B.C. FERRIES. This remains in some doubt due to the unavailability of full financial data on the ferry operation. The other federal assistance being provided to B.C. was to be kept in mind. There was to be a further report to Cabinet with a recommended assistance formula, if considered warranted. This approach could still be advocated if necessary.

Other Considerations

1. Certain forms of assistance to B.C. FERRIES could upset a policy, defined by a Cabinet decision, February 1, 1966, as follows: -

"As a matter of policy, the federal government should require the provincial governments to assume responsibility for all ferry services and ancillary terminal facilities of an intra-provincial road link nature."

The 1966 Cabinet directive has partially been applied in Ontario and Quebec, and those provinces have assumed support for certain intraprovincial ferry services and the capital costs of the associated terminals, following a "buying-out" agreement with the federal government. However, responsibility for maintenance of the terminals has remained in federal hands to date, so that the Cabinet directive cannot be considered wholly implemented in any of these cases, and is a weak federal position for refusing to support B.C., but it is the only pertinent federal policy available.

2. You will recall we were concerned that perhaps B.C. was already receiving more than its share of federal spending on transportation. Current federal involvement in transportation projects in B.C. includes Prince Rupert Harbour (\$17 million); various Vancouver terminals (\$45 million); the B.C. Rail development program (\$167 million); Hudson Street Bridge Crossing (\$24 million); Vancouver Airport Expansion (\$30 million); Alaska Highway (in B.C.) (\$42 million, then turn-over to B.C.); and the Ashcroft-Clinton Rail Connection (\$10 million). (Total: \$335 millior.)

3. This position is further substantiated by a recent submission by the Canadian Transport Commission to Treasury Board in regard to the payment of subsidies on the privately operated B.C. coastal ferry services. A six month contract from April to September, 1974, called for \$800,000. The

. . . 3

- 3 -

company (Northland Shipping), citing increases in labour, fuel, etc., plus inflation, has now requested the C.T.C. to provide \$2.1 million in funds for the next six months. Treasury Board have not yet given approval for this increase, but may do so. If they do it will represent an increase of over 300% in the annual federal subsidy for this service. Payment of this increase could be made in lieu of assistance to B.C. FERRIES.

4. The difficulty of spreading federal resources over too many transportation projects in B.C. is a factor to be considered. For example, federal participation in solving the Vancouver access problem would perhaps be easier to arrange without a competing demand for assistance to the B.C. FERRIES. Assistance on a specific bottleneck problem such as the Vancouver access is unlikely to provoke wide-ranging new demands from other provinces, whereas providing assistance to B.C. FERRIES carries this danger for the federal government.

5. Another point likely to be raised by Mr. Strachan is the B.C. Government's desire to obtain access to a study recently completed for the C.T.C. by Acres Consultants whose mandate was to determine coastal ferry requirements on the B.C. coast. The federal position is that, while 1200 pages of material has been submitted to the C.T.C., the quantity and organization of the report necessitates the consultant providing a summary of approximately 100 pages prior to release. It is unlikely that the C.T.C. will be prepared to make anything available to the Province until the summary is completed, sometime early in the new year and the Minister might wish to advise Mr. Strachan that he will request Mr. Benson to allow the B.C. Government to examine the study at that time.

A response to the Privy Council Office on the approach to be made to this problem by the Prime Minister can probably be made after the meeting with Mr. Strachan.

LOT/MPPP

October 17th, 1974

PRIVY COUNCIL OFFICE



BUREAU DU CONSEIL PRIVÉ

OTTAWA, K1A 0A3

CONFIDENTIAL

August 21, 1974

RECEIVED
AUG 21 1974
OFFICE OF THE
DEPUTY MINISTER
TRANSPORT

Dear Mr. Stoner:

I am writing with regard to some outstanding matters related to the Cabinet Memorandum submitted by your Ministry in April, 1974 on Assistance to British Columbia Ferries (Cabinet Document 301-74). It is my understanding that the document was recently withdrawn, at your request, from the list of items to be considered by Cabinet.

As you may know, the submission of this memorandum for consideration by Ministers was originally requested by the Prime Minister in a letter to Mr. Marchand of January 29, 1973. This was subsequently followed up by a letter from the Prime Minister dated June 22, 1973, underlining the urgency of dealing with the matter as soon as possible.

It should also be recalled that the Prime Minister wrote to Premier Barrett on January 29, 1973 suggesting that the question of assistance to B.C. ferries would be studied and that he would be writing to him again on the subject "within a few weeks". In light of the Prime Minister's interest in following-up this matter and the commitment to reply to Premier Barrett, I feel that, at least, an interim report to Premier Barrett should be made explaining the delay and where the matter now stands. Perhaps such a letter would assure the Premier of the Prime Minister's continued attention and suggest an intention to examine the B.C. request in the light of the general question of aid to ferry systems, which I understand was a commitment made during the recent campaign.

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Mr. O.G. Stoner
Deputy Minister of Transport
Tower "C", 25th Floor
Place de Ville
Ottawa, K1A 0N5

An Stoner about.

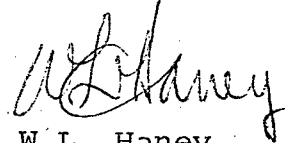
000154

- 2 -

CONFIDENTIAL

I would very much appreciate it if you could give this matter some thought with a view to providing us with a proposed draft interim report for the Prime Minister to send to Premier Barrett.

Yours sincerely,



W.L. Haney,
Director,
Policy and Program
Review Section,
Federal-Provincial
Relations Division.

c.c. Mr. J. Davey
Mr. K.G. Wilson

T.P.M.

OCT 31 1974

PRIVY COUNCIL OFFICE



BUREAU DU CONSEIL PRIVÉ

O T T A W A
K1A OA3

October 30, 1974

Mr. K. Wilson *KB*
Senior Administrative Officer -
Domestic
Policy Planning and Major Projects
Branch
Ministry of Transport
Trans Canada Building
Place de Ville
Ottawa, K1A ON5

Dear Ken:

As discussed this afternoon, I am sending you a copy of Premier Barrett's letter of October 16 to the Prime Minister regarding British Columbia's submission on assistance to the B.C. ferry system. Your assistance in preparing an appropriate draft reply to Mr. Barrett would be appreciated.

In light of your Ministry's plans to prepare a document for Cabinet consideration on this subject, it would be too early to send a substantive reply to Mr. Barrett's letter at this time. However, as several weeks are likely to elapse before Cabinet considers the alternative courses of action for providing assistance to the province, it would appear to be important to send an interim reply to Mr. Barrett.

Also attached is a copy of Mr. Basford's letter of October 28 to the Prime Minister on the same subject. As mentioned this afternoon, I understand that Mr. Haney has already discussed this with Mr. Butler.

Thank you for your assistance in providing the necessary material.

Yours sincerely,

Louise
Louise C. Robinson

P.S. After speaking to Mr. Haney about this, it seems that you would also be working on the reply to Mr. Basford (this is as it was agreed with Mr. Butler.) L.

000156



Office of The
Prime Minister

Cabinet du
Premier Ministre

Copy Copie

4301 099

Rec'd Oct 30 4:00 P.M. L.R.
Agresp - L.R. - with doc

October 29, 1974.

letter only
-cc- FSN
FC
WN
RG
NG
PG.
AD-63
AMEA

Mr. John Wood,
Executive Assistant to the
Premier of British Columbia,
Parliament Buildings,
Victoria, British Columbia.

Dear Mr. Wood:

On behalf of the Prime Minister, I wish to acknowledge receipt of the letter and accompanying document addressed to him by the Honourable David Barrett concerning federal government financial assistance for ferry services in British Columbia. I am sorry for the delay in doing so but unfortunately Mr. Barrett's correspondence, which was dated October 16, was received in the Prime Minister's office only on October 28. Would you kindly convey this message to your Premier and also assure him that his letter is being immediately brought to the Prime Minister's attention.

Yours sincerely,

ORIGINAL SIGNED BY
ORIGINAL SIGNÉ PAR
Claude Desjardins

Claude Desjardins,
Correspondence Secretary.

→ Original: F.A.G. Carter (with enclosure)

cc: Minister of Transport,
Attn: Lucie Dion,
Executive Assistant.

R.G. Robertson

Michael Kirby

Denis Hudon

Mary E. Macdonald

Jack Austin

Paul Manning

000157



4301 399

VICTORIA

October 16th, 1974. ?

Record Oct 28th

The Rt. Hon. Pierre E. Trudeau,
P.C., Q.C., M.P.,
Prime Minister of Canada,
Ottawa, Canada.

Dear Mr. Prime Minister:

I am enclosing herewith for your personal attention a copy of British Columbia's submission to your government for financial assistance to government ferry services in British Columbia. I will not in this letter reiterate what my government considers to be the very cogent arguments that can be made in support of a substantial federal contribution to what is essentially a link in the Trans-Canada Highway system. These reasons are set out in the brief and are based in part on constitutional grounds and on the treatment given to other provinces in similar situations.

My Minister of Transport and Communications, Mr. Robert Strachan, anticipates meeting with your colleague, Mr. Marchand, in Ottawa on October 21st. to embark upon serious discussions on this subject and I wanted you to receive a copy of the provincial brief in advance of that meeting. ?

Yours truly,

A handwritten signature in dark ink, appearing to read "David Barrett".

David Barrett,
Premier.



Minister
Revenue Canada

Ministre
Revenu Canada

October 23, 1971

Right Honourable Pierre E. Trudeau, P.C., Q.C., M.P.,
Prime Minister of Canada,
East Block,
Ottawa, Ontario.

My dear Colleague:

Last week Jean Marchand and I each met with Robert Strachan, the Minister of Industry of British Columbia, to discuss the issue of possible federal assistance to B.C. ferries. I understand that officials from the Privy Council Office and Department of Transport are preparing a policy paper on the problem. Premier Barrett may also raise the issue with you during his visit. I would like to contribute the following thoughts on the problem.

British Columbia has requested that the federal government remit customs duty on its purchase of a Swedish ferry, waive sales taxes on supplies of fuel oil, building materials and other items used for operation of the B.C. ferry system, and possibly contribute a subsidy towards operating expenses or capital assistance of some form.

My Department has agreed to the remission request and it will be considered by the appropriate interdepartmental committee on November 5. As you know, Cabinet has considered the sales tax problem twice previously and decided against B.C.'s request. In 1966 Cabinet agreed to end all intra-provincial ferry subsidies.

The question remains, what can we do to assist B.C.'s transportation difficulties? I suggest the following approach. Rather than become involved with ongoing subsidies, capital assistance or removal of the sales tax - where we will receive very little political credit and perhaps create troublesome precedents - we could offer to complete by ourselves one of the projects proposed in the Federal B.C. North-West Transportation Agreement, or some other capital project in B.C. where we could obtain 100% of the political credit. Discussions are now proceeding with the province on ways to finance the construction of the Ashcroft-Clinton Railway By-Pass and the development of general commodity and bulk handling facilities at the Port of Prince Rupert.

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House of Commons
Ottawa
K1A 0A6

Chambre des communes
Ottawa
K1A 0A6

CC-BGK
E.C. 10/26/71
J. A. 10/26/71

- 2 -

There have been delays, particularly with regard to Prince Rupert, in obtaining agreement from B.C. on a cost-sharing formula. An offer to develop Prince Rupert, construct Ashcroft-Clinton, or some other agreed project, by ourselves in lieu of ferry assistance would both be a positive contribution to B.C. and would ensure a more visible federal presence with the resulting political credit.

I hope these thoughts may be of some use to you in your forthcoming discussions with the Premier.

Yours sincerely,



Ron Basford.

cc: Hon. Jean Marchand

CONFIDENTIAL

October 29, 1974

Mr. Alan P. Campbell
Water Transport Committee
Canadian Transport Commission
Congill Building
275 Slater Street
Ottawa, Ontario K1A 0N9

Dear Alan:

RE: B.C. FERRIES

You will be interested in the attached "position paper" delivered by Premier Barrett on September 24, unless you have already seen it. It came to my attention via PCO just recently.

You will recall our past conversations on the Memorandum to Cabinet on B.C. FERRIES, and your concurrence with that document. It has never, in fact, been considered by Cabinet, because it was withdrawn sometime after its submission last April.

The Memorandum did not consider what are apparently new constitutional points being raised by Premier Barrett. On October 16th an expanded version of the Premier's statements was delivered by Mr. Strachan during his meeting here in Ottawa with the Minister. A copy of the submission is being made for you, as your views on the subject will again be sought.

Yours very truly,

Original Signed by

K. G. WILSON

K.G. Wilson
Senior Policy Advisor - Domestic
Policy, Planning and Major Projects

Attach.

DEPUTY MINISTER OF TRANSPORT

SOUS-MINISTRE DES TRANSPORTS

ACTION REQUEST

FICHE DE SERVICE

TO - A	ASTA	DATE	Nov. 4, 1974
FROM - ENT'D DMS office <i>OK North</i> <i>has seen already</i>	FILE NO. - N° DE DOSSIER		
REPLY DIRECT <input type="checkbox"/>		RÉPONDRE DIRECTEMENT	
REQUIRED ACTION <input type="checkbox"/>		DONNER SUITE	
NOTE & RETURN <input type="checkbox"/>		NOTER ET RETOURNER	
INFORMATION <input type="checkbox"/>		INFORMATION	
COMMENTS <input type="checkbox"/>		COMMENTAIRES	

① told - why
ASTA
A mistake.
XXXXXX

PREPARE MEMO TO - PRÉPARER UNE NOTE DE SERVICE À

REPLY FOR SIGNATURE OF - RÉPONSE POUR LA SIGNATURE DE

REMARKS - REMARQUES

X.P.P.P.
NO. 6 1974
<i>Whemais</i>
RECEIVED

ENT'D

cc: D.M. ← THIS COPY FOR
CC - XPPP - *for info.*

550-11-8

OFFICE OF THE MINISTER OF TRANSPORT
CABINET DU MINISTRE DES TRANSPORTS

Memorandum

November 4, 1974

Note de service:

To: Destinataire: DMO	From: Expéditeur: Lucie Dion
<p>For your information</p>	

03 - 0046

1-71

000163

Referred by direction of the Prime Minister
Transmis à la demande du Premier ministre

To the Minister of Transport,
Au ministre d'Attn: Lucie Dion,
Executive Assistant.

- For: ☐ information
Pour: ☐ à titre de renseignement
- ☐ further reply*
☐ réponse ultérieure
- ☐ consideration
☐ attention
- ☐ necessary action*
☐ y donner suite
- ☐ consideration and further reply at your discretion
☐ attention et réponse ultérieure si vous le jugez à propos

NOTE:

29/10/74

Claude Desjardins,
Correspondence Secretary.

* May we please have a copy of your further correspondence.
Veuillez s.v.p. nous faire parvenir copie de votre lettre.

4301 099

OCT 30 2 58 PM '74

October 29, 1974.

RECEIVED
MINISTER OF TRANSPORT

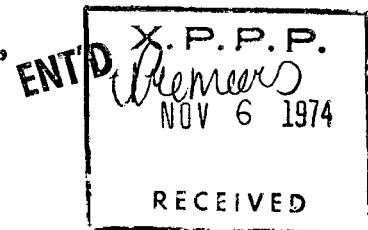
OFFICIAL FILE

Mr. John Wood,
Executive Assistant to the
Premier of British Columbia,
Parliament Buildings,
Victoria, British Columbia.

Dear Mr. Wood:

On behalf of the Prime Minister, I wish to acknowledge receipt of the letter and accompanying document addressed to him by the Honourable David Barrett concerning federal government financial assistance for ferry services in British Columbia. I am sorry for the delay in doing so but unfortunately Mr. Barrett's correspondence, which was dated October 16, was received in the Prime Minister's office only on October 28. Would you kindly convey this message to your Premier and also assure him that his letter is being immediately brought to the Prime Minister's attention.

Yours sincerely,



Claude Desjardins,
Correspondence Secretary.

Original: F.A.G. Carter (with enclosure)

cc: Minister of Transport,
Attn: Lucie Dion,
Executive Assistant.

R.G. Robertson

Michael Kirby

Denis Hudon

Mary E. Macdonald

Jack Austin

Paul Manning

Ottawa K1A 0A2



VICTORIA

October 16th, 1974.

Received Oct 28th

The Rt. Hon. Pierre E. Trudeau,
P.C., Q.C., M.P.,
Prime Minister of Canada,
Ottawa, Canada.

Dear Mr. Prime Minister:

I am enclosing herewith for your personal attention a copy of British Columbia's submission to your government for financial assistance to government ferry services in British Columbia. I will not in this letter reiterate what my government considers to be the very cogent arguments that can be made in support of a substantial federal contribution to what is essentially a link in the Trans-Canada Highway system. These reasons are set out in the brief and are based in part on constitutional grounds and on the treatment given to other provinces in similar situations.

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A handwritten signature in dark ink, appearing to read "David Barrett".

David Barrett,
Premier.

Ministry of Transport
Of the
Dep. Minister

Ministère des Transports
Bureau du
Sous-ministre

To:

À:

XPPP

ASTA \Leftarrow THIS COPY FOR

Remarks

Remarques

Re attached. The DM feels
that Mr. Basford's suggestions may
have considerable merit.


J.Y. Clarke.....

Date ... Oct. 31/74.....

000167



550-11-8

OCT 29 10 20 AM '74

RECEIVED
MINISTER OF TRANSPORT

October 28, 1974

Right Honourable Pierre E. Trudeau, P.C., Q.C., M.P.,
Prime Minister of Canada,
East Block,
Ottawa, Ontario.

My dear Colleague:

Last week Jean Marchand and I each met with Robert Strachan, the Minister of Industry of British Columbia, to discuss the issue of possible federal assistance to B.C. ferries. I understand that officials from the Privy Council Office and Department of Transport are preparing a policy paper on the problem. Premier Barrett may also raise the issue with you during his visit. I would like to contribute the following thoughts on the problem.

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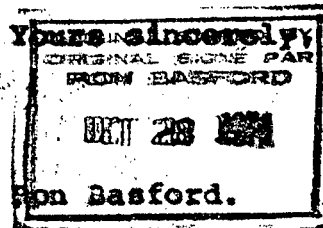
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- 2 -

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cc: Hon. J. Marchand ✓

/lp

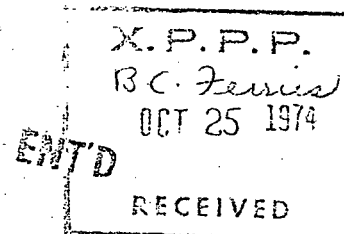
*Did the working
Trade Union
come up?*

M

October 24, 1974.

MEMORANDUM TO THE DEPUTY MINISTER

B.C. Ferries



Mr. Marchand met with Mr. Strachan, the B.C. Minister of Transportation and Communications on Wednesday, October 23rd, for about an hour. Mr. Strachan had a very simple presentation to make and the business part of the meeting did not last more than twenty minutes.

Mr. Marchand made it very clear that it would take a very substantial change in government policy right across Canada for the government to be in a position to provide financial support for the operation of the B.C. ferry system. He did, however, indicate that there might be other areas in which we could consider assistance.

The B.C. presentation relied first on constitutional and historic political commitments and later on a sense of unfairness that Eastern Provinces were being treated much better than the West.

Mr. Marchand did undertake to look into the constitutional and political arguments and I will ask for views from Justice and the Privy Council Office. I think they will expect to hear from us in the next month or two and we will work again on our Memorandum to Cabinet on B.C. ferries. You will remember that this is of priority interest to the Prime Minister and we get continuing follow-up pressure from his staff.

M. E. Butler
M. E. Butler

cc - SADM
AMTA, ASTA

Place de Ville
Ottawa
K1A 0N5

BRIEFING NOTE FOR THE MINISTER - RE: B.C. FERRIES - MINISTER'S
MEETING WITH THE HONOURABLE R. STRACHAN

You will recall that as a result of a request by Premier Barrett of B.C. to the Prime Minister, Transport was requested to bring forward a Memorandum to Cabinet outlining alternative formulae for providing assistance to B.C. in connection with the provincially owned ferry service. This Cabinet Memorandum was prepared, signed and placed on the docket of the Cabinet Committee on Federal-Provincial Relations in the Spring of 1974, but, because of certain reservations which developed in Transport, it was withdrawn and has not been re-submitted.

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3. This position is further substantiated by a recent submission by the Canadian Transport Commission to Treasury Board in regard to the payment of subsidies on the privately operated B.C. coastal ferry services. A six month contract from April to September, 1974, called for \$800,000. The

- 3 -

company (Northland Shipping), citing increases in labour, fuel, etc., plus inflation, has now requested the C.T.C. to provide \$2.1 million in funds for the next six months. Treasury Board have not yet given approval for this increase, but may do so. If they do it will represent an increase of over 300% in the annual federal subsidy for this service. Payment of this increase could be made in lieu of assistance to B.C. FERRIES.

4. The difficulty of spreading federal resources over too many transportation projects in B.C. is a factor to be considered. For example, federal participation in solving the Vancouver access problem would perhaps be easier to arrange without a competing demand for assistance to the B.C. FERRIES. Assistance on a specific bottleneck problem such as the Vancouver access is unlikely to provoke wide-ranging new demands from other provinces, whereas providing assistance to B.C. FERRIES carries this danger for the federal government.

5. Another point likely to be raised by Mr. Strachan is the B.C. Government's desire to obtain access to a study recently completed for the C.T.C. by Acres Consultants whose mandate was to determine coastal ferry requirements on the B.C. coast. The federal position is that, while 1200 pages of material has been submitted to the C.T.C., the quantity and organization of the report necessitates the consultant providing a summary of approximately 100 pages prior to release. It is unlikely that the C.T.C. will be prepared to make anything available to the Province until the summary is completed, sometime early in the new year and the Minister might wish to advise Mr. Strachan that he will request Mr. Benson to allow the B.C. Government to examine the study at that time.

A response to the Privy Council Office on the approach to be made to this problem by the Prime Minister can probably be made after the meeting with Mr. Strachan.

W/KPPP

October 17th, 1974

MINISTRY OF TRANSPORT - MINISTÈRE DES TRANSPORTS

Office of the M
Cabinet du Min
Ottawa, K1A 0N6

Date... Oct-21/74

- ☐ TO: DEPUTY MINISTER
AU: SOUS MINISTRE
- ☒ TO: DEPUTY MINISTER'S OFFICE
AU: CABINET DU SOUS MINISTRE

ALSO REFERRED TO:
AUSSI TRANSMIS AU:

- ☐ SPECIAL ADVISOR
CONSEILLER SPÉCIAL

PLEASE - S'IL VOUS PLAÎT

- ☒ PREPARE REPLY FOR SIGNATURE OF:
PRÉPARER RÉPONSE POUR LA SIGNATURE DE:

- ☐ SEND COMMENTS TO:
FAIRE PARVENIR VOS COMMENTAIRES AU:

- ☐ MINISTER
MINISTRE

- ☐ SPECIAL ADVISOR
CONSEILLER SPÉCIAL

- ☒ ~~EXECUTIVE ASSISTANT~~
ADJOINT SPÉCIAL

- ☐ ASSISTANT - SPECIAL PROJECTS
ADJOINT - PROJETS SPÉCIAUX

- ☐ SENIOR ADMINISTRATIVE OFFICER
ADMINISTRATEUR PRINCIPAL

- ☐ PARLIAMENTARY ASSISTANT
SECRÉTAIRE PARLEMENTAIRE

- ☐ UNDERSIGNED
SOUSSIGNÉ

- ☐ FOR DIRECT REPLY
POUR RÉPONSE DIRECTE

- ☐ FOR PERUSAL AND APPROPRIATE ACTION
POUR LECTURE ET SUITE NÉCESSAIRE

- ☐ FOR INFORMATION
POUR INFORMATION

REMARKS - OBSERVATION

- ☐ THIS LETTER HAS NOT BEEN ACKNOWLEDGED.
NOUS N'AVONS PAS ACCUSÉ RÉCEPTION DE CETTE LETTRE.

HL
SIGNATURE 000175

HL:jp

October 21, 1974.

Mr. Roy A. Derrick,
Special Assistant to the
Minister of National Revenue,
Connaught Building,
Ottawa, Ontario, K1A 0L5.



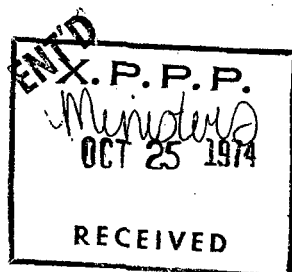
Dear Mr. Derrick:

Since Mr. Len Beasleigh is no longer with this office, I acknowledge receipt of your letter of October 10 to him, with which you enclosed a copy of Premier Barrett's "Position Paper on Federal Ferry Policy".

Comments have been requested from the Ministry officials and on receipt of their reply we will be in touch with you.

Yours sincerely,

Hélène Lefort,
Administrative Assistant.



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OCT 22 1974

OFFICE OF THE
DEPUTY MINISTER
TRANSPORT



Office of the Minister
Revenue Canada

Cabinet du ministre
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MINISTER OF TRANSPORT

~~CONFIDENTIAL~~

October 10, 1974.

Mr. L.W.F. Beasleigh,
Assistant to the Minister
(Special Projects)
Transport Canada,
Tower "C" Place de Ville,
Ottawa, Ontario.

Dear Len:

On a number of occasions lately the long-standing issue of the desire of the Government of British Columbia for subsidization of the British Columbia ferry system has been raised with the Members of Parliament from that province. In Vancouver on September 24, Premier Barrett presented British Columbia Members with a "Position Paper on Federal Ferry Policy". A copy of that Paper is attached.

One of the strongest arguments in the Paper is that the Ministry of Transport has, in at least one instance (Tobermory, Ontario, to South Baymouth, Ontario), provided a grant to an intra-provincial ferry service. Tory John Reynolds made this point in the House on October 4 (see Hansard attachment).

I am advised that prior to the recent federal election the Prime Minister gave instructions that a study be made of the ways in which federal financial assistance to the provincial ferry services of British Columbia could be directed to the Province and on what basis this could be done. Subsequently, I believe that the Ministry of Transport prepared a Memorandum to Cabinet which recommended that MOT open discussions with British Columbia on the need for assistance, that this need be assessed, and that the form of assistance to be discussed be limited to help for new ferry terminals and/or terminal approaches.

X.P.P.P.

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If possible, then, I would like to have your Ministry's
comments on the substance of the Barrett Position Paper
and, as well, I am interested in knowing the fate of the
Memorandum to Cabinet. //

Yours sincerely,

A handwritten signature in black ink, appearing to be 'RD' with a stylized flourish.

Roy A. Derrick,
Special Assistant.

POSITION PAPER BY PREMIER BARPETT

ON FEDERAL FERRY POLICY

PRESENTED AT LUNCHEON MEETING BETWEEN B. C. CABINET
COMMITTEE AND FEDERAL MEMBERS OF PARLIAMENT, SEPT. 24TH,
VANCOUVER

I should like to discuss a problem in which it is difficult to convey the full depth of British Columbia's feeling of frustration. I refer to the Provincial ferry system and Ottawa's persistent denial of its constitutional obligations, as well as simple equity, in its continued refusal to help defray the expenses of this necessary service. There are of course, over the long term, millions of dollars involved but even more than money is at stake. It is very troubling to see perpetuation of a federal policy which effectively treats Atlantic Canada and Central Canada as fish but Pacific Canada as fowl.

Let me cite just a few figures to illustrate the uneven treatment rendered by the federal government. For instance, payments to the C.N.R. alone by the federal government for operating on the east coast passenger and vehicle ferry services comparable to our own reached \$22 million in 1969, \$30 million in 1970, \$33.9 million in 1971, \$37.3 million in 1972, and \$44.6 million in 1973. For British Columbia the assistance was nil. During those same years the Canadian Transport Commission provided subsidies to steamship operations offering local services in British Columbia, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland. The figures range from \$12.2 million in 1969 down to \$6.9 million in 1973, the drop being accounted for by the fact that the Ministry of Transport took over from the C.T.C. the responsibility of assisting the Newfoundland Coastal Steamship Services. British Columbia received on average less than 5%

of the C.T.C. subsidies in each of those years. In 1970 for instance, the last year before the Ministry of Transport took over the obligations for Newfoundland Coastal Steamship Services, the C.T.C. provided a total of \$520,000 to Nootka Sound Service Limited and Northland Navigation Company Limited out of a total subsidy budget amounting to \$13.2 million spread among 29 companies in eastern Canada. Nor have federal subsidies been confined to operational expenditures. For example, in 1970 \$3.3 million and in 1971 \$6.9 million were spent on capital construction of terminals for the St. John to Digby ferry service, in 1972, \$15 million was written off a loan for construction of two vessels for the New Brunswick to Prince Edward Island ferry service. And last year the Ministry of Transport gave as an outright grant to the Province of Ontario \$3 million to help construct terminals for a ferry service connecting Tobermory, Ontario, to South Baymouth, Ontario. Another \$3 million was given as outright grant to Quebec to help build an ice-breaker type of ferry vessel by the Ministry of Transport.

British Columbia does not begrudge this assistance for the necessary services in eastern Canada but cannot understand why, when it seeks the same type of assistance, it is told this province does not qualify because B.C. Ferries operates within one province. How does that square with the fact that the federal government not only helps subsidize the ferry service between Tobermory and South Baymouth in Ontario but when the provincial government there decided to boost the service in order to increase tourism to Manitoulin Island and other points in northwest Ontario the federal government substantially increase its assistance? Under an agreement signed between the Ontario Minister of Transport and Communications and the Federal Minister of Transport,

Canada contributed \$3 million towards terminal construction, in addition to the normal federal ship building subsidy and also it undertook the responsibility of maintaining the wharf structures and dredging the channels involved in that intra-provincial ferry run. And direct subsidies for the Minitoulin Island service continued to be made by the C.T.C. British Columbia only asks for the same treatment accorded this Ontario ferry service and similar services of a purely intra-provincial nature along the St. Lawrence in Quebec and in the Atlantic region.

Particularly upsetting is the fact that the federal government subsidizes two international ferry services connecting Yarmouth, Nova Scotia to both Barr Harbour and Portland in the State of Maine. Here on the west coast the federal government does not do the same despite Section Four of the Terms of Union under which British Columbia entered Confederation which said: "the Dominion will provide an efficient mail service, fortnightly, by steam communication, between Victoria and San Francisco, and twice a week between Victoria and Olympia; the vessels to be adapted for the conveyance of freight and passengers." While speaking of the Terms of Union I should point out that Clause Eleven called for construction of a railway to the Pacific Ocean and it is our contention that federal financial assistance for a ferry system between Vancouver Island and the mainland is consistent with that agreement and would end the continuing argument that stopping the railway at terminus in Vancouver did not adequately discharge the federal government's undertaking in Clause Eleven. The logic that the federal government does have an obligation to financially assist the provision of a surface transportation system between Vancouver Island and the mainland is reinforced by the fact that the Trans-Canada Highway is

officially recognized as beginning at Mile 0 in Victoria and running northward to Nanaimo before resuming at Horseshoe Bay north of Vancouver.

The Terms of Union saw Canada pledged to treat all provinces equitably and to provide British Columbia with such services as are provided to other provinces. I believe the time has arrived that this promise be carried out with federal support for our ferry services.

All of the foregoing I believe establishes the justice of our claim to equitable treatment. We are strong Confederationists and we believe that with your help we can convince the federal government that it does have an obligation to treat British Columbia ferries the same way it treats ferries operated on the Great Lakes, the St. Lawrence and the Atlantic region if for no other reason than that our ferry system carries both interprovincial and international traffic.

Oral Questions

• (1140)

INDIAN AFFAIRS

**MINISTERIAL MEETING WITH NATIVE REPRESENTATIVES—
REASON FOR DELAY**

Right Hon. J. G. Diefenbaker (Prince Albert): Mr. Speaker, I should like to ask the Minister of Indian Affairs and Northern Development whether he has been meeting with representatives of the Indian caravan group. Have there been any communications and what has been the nature of any discussions which may have taken place.

Hon. Judd Buchanan (Minister of Indian Affairs and Northern Development): Mr. Speaker, to date I have not met with representatives of this group. We had a tentative meeting set for two p.m. on Monday. They were otherwise occupied. Since that time there have been, I think, three communications between representatives of this group and my office. I have indicated I am prepared to meet with them but there apparently has not been willingness on their part to take advantage of this opportunity.

Mr. Diefenbaker: Mr. Speaker, apparently the minister is now willing to meet with these people. Has there been any suggestion they have demanded terms before they will meet with the minister? Has there been anything of that kind to delay a meeting which should take place? Otherwise, the situation will be exacerbated the longer they remain here.

Mr. Buchanan: Mr. Speaker, the only condition I imposed is that I am not prepared to go down to the Indian embassy at Carbide Mills.

Mr. Diefenbaker: That means you closed the door.

* * *

PARLIAMENT HILL

**REQUEST OF INDIAN BROTHERHOOD FOR INVESTIGATION
INTO VIOLENCE—GOVERNMENT POSITION**

Mr. Wally Firth (Northwest Territories): Mr. Speaker, my question is directed to the Prime Minister. Will the Prime Minister also accept the suggestion made by the National Indian Brotherhood that there should be an independent investigation of the violence of Monday on Parliament Hill?

Right Hon. P. E. Trudeau (Prime Minister): I am not aware of that suggestion, Mr. Speaker. I will discuss that with the minister. I do not know what is deemed to be an independent investigation. We believe the facts are well known to the public. The government has hidden nothing.

* * *

TRANSPORT

**BRITISH COLUMBIA FERRY SYSTEM—REASON FOR FAILURE
OF FEDERAL GOVERNMENT TO SUBSIDIZE**

Mr. John Reynolds (Burnaby-Richmond Delta): Mr. Speaker, I have a question for the Prime Minister or [Mr. Gillespie.]

possibly the Minister of Transport. In view of the fact that the B.C. ferry system is the only ferry system that is part of the trans-Canada highway and not subsidized by the federal government, could the Prime Minister or the Minister of Transport tell us why the government refuses to subsidize the B.C. ferry system?

Hon. Jean Marchand (Minister of Transport): I think, Mr. Speaker, we subsidize only ferries which service two provinces. I do not think there is a borderline between Victoria and Vancouver. This ferry system is within the same province. This is the reason we do not give any subsidy.

Mr. Reynolds: I have a supplementary question, Mr. Speaker. That answer might make some sense if there were not a ferry service on Lake Huron totally subsidized by the federal government. I would still like to know why the government refuses to subsidize the B.C. ferry service when it subsidizes a service within one province.

Mr. Marchand (Langelier): Mr. Speaker, we have to take one or the other decision, that is either to subsidize the first one or subsidize the second one.

* * *

[Translation]

HOUSING

**GOVERNMENT POSITION ON REMOVAL OF ELEVEN PER CENT
TAX ON BUILDING MATERIALS**

Mr. Gérard Laprise (Abitibi): Mr. Speaker, I have a question for the right hon. Prime Minister. Does he intend to take action on the recommendations made in the report of the Economic Council of Canada on the problem of housing construction, particularly concerning the removal of the 11 per cent sales tax on building materials?

Right Hon. P. E. Trudeau (Prime Minister): Concerning this particular suggestion, Mr. Speaker, the answer is no. As to the general recommendations in the report, many of them are quite interesting and the government intends to take action on them.

* * *

[English]

AGRICULTURE

**EGGS—KNOWLEDGE OF DEPARTMENT OF OVER-PRODUCTION
AND MEASURES TO DEAL WITH IT**

Mr. Bill Jarvis (Perth-Wilmot): Mr. Speaker, my question is directed to the Minister of Agriculture. In light of the fact that there is circulating in the egg industry, as well as branches of his department, weekly statistics with regard to not only egg production but also hatching of chicks which eventually become pullets, and in light of the fact that over a long period earlier this year these statistics clearly showed not only an over-production of eggs but also chicks, would the minister tell us what action he or his department took either personally, through CEMA or through the council to avert what is obviously an over-production of both eggs and chicks.



Transport
Canada

Transports
Canada

550-118

OCT 17 1974

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Your file Votre référence

Our File Notre référence

OCT
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*Signed
& given to
Dorey
Holt*

MEMORANDUM TO THE DEPUTY MINISTER

B.C. FERRIES

Attached for your consideration is a proposed briefing note for you to send to the Minister on the subject of B.C. Ferries for his forthcoming meeting with the Honourable R. Strachan of British Columbia.

Basically, the briefing note outlines the thinking which went into the Cabinet Memorandum that we had prepared earlier in the year and the reason the Memorandum was withdrawn. In addition, two new potential bargaining strategies are outlined:

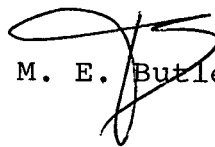
1. It may be convenient for the Minister to indicate the difficulty of spreading federal resources over too many transportation projects in B.C., for example federal participation in solving the Vancouver access problem would perhaps be easier to arrange without a competing demand for assistance to the B.C. FERRIES. Assistance on a specific bottleneck problem such as the Vancouver access is unlikely to provoke wide-ranging new demands from other provinces, whereas providing assistance to B.C. FERRIES carries this danger for the federal government.
2. The Minister might point to the possibility of substantially increased assistance to the coastal services in B.C. (which the CTC has recently been asked to provide) and presumably if the federal government did not supply these funds there would be demands on the provincial government to do so. Recent statements by the Premier create the impression that the federal government is providing no assistance whatsoever on ferry services in B.C.

In addition, on October 16, we received a position paper from PCO which Premier Barrett had presented on this

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subject to a group of federal members last month. PCO has asked for our assessment on this paper for use with the B.C. Liberal Caucus. We are preparing additional notes. The paper is attached in case it has not come to your attention.


M. E. Butler

Attachment.

POSITION PAPER BY PREMIER BARRETTON FEDERAL FERRY POLICY

PRESENTED AT LUNCHEON MEETING BETWEEN B. C. CABINET
COMMITTEE AND FEDERAL MEMBERS OF PARLIAMENT, SEPT. 24TH,
VANCOUVER

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= 4 =

officially recognized as beginning at Mile 0 in Victoria and running northward to Nanaimo before resuming at Horseshoe Bay north of Vancouver.

The Terms of Union saw Canada pledged to treat all provinces equitably and to provide British Columbia with such services as are provided to other provinces. I believe the time has arrived that this promise be carried out with federal support for our ferry services.

All of the foregoing I believe establishes the justice of our claim to equitable treatment. We are strong Confederationists and we believe that with your help we can convince the federal government that it does have an obligation to treat British Columbia ferries the same way it treats ferries operated on the Great Lakes, the St. Lawrence and the Atlantic region if for no other reason than that our ferry system carries both interprovincial and international traffic.



Transport
Canada

Transports
Canada

FILE COPY

OCT 17 1974

Your file Votre référence

Our File Notre référence

OCT
SEP 17 1974

MEMORANDUM TO THE DEPUTY MINISTER

B.C. FERRIES

Attached for your consideration is a proposed briefing note for you to send to the Minister on the subject of B.C. Ferries for his forthcoming meeting with the Honourable R. Strachan of British Columbia.

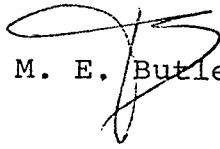
Basically, the briefing note outlines the thinking which went into the Cabinet Memorandum that we had prepared earlier in the year and the reason the Memorandum was withdrawn. In addition, two new potential bargaining strategies are outlined:

1. It may be convenient for the Minister to indicate the difficulty of spreading federal resources over too many transportation projects in B.C., for example federal participation in solving the Vancouver access problem would perhaps be easier to arrange without a competing demand for assistance to the B.C. FERRIES. Assistance on a specific bottleneck problem such as the Vancouver access is unlikely to provoke wide-ranging new demands from other provinces, whereas providing assistance to B.C. FERRIES carries this danger for the federal government.
2. The Minister might point to the possibility of substantially increased assistance to the coastal services in B.C. (which the CTC has recently been asked to provide) and presumably if the federal government did not supply these funds there would be demands on the provincial government to do so. Recent statements by the Premier create the impression that the federal government is providing no assistance whatsoever on ferry services in B.C.

In addition, on October 16, we received a position paper from PCO which Premier Barrett had presented on this

- 2 -

subject to a group of federal members last month. PCO has asked for our assessment on this paper for use with the B.C. Liberal Caucus. We are preparing additional notes. The paper is attached in case it has not come to your attention.


M. E. Butler

Attachment.

POSITION PAPER BY PREMIER BARRETT

ON FEDERAL FERRY POLICY

PRESENTED AT LUNCHEON MEETING BETWEEN B. C. CABINET
COMMITTEE AND FEDERAL MEMBERS OF PARLIAMENT, SEPT. 24TH,
VANCOUVER

I should like to discuss a problem in which it is difficult to convey the full depth of British Columbia's feeling of frustration. I refer to the Provincial ferry system and Ottawa's persistent denial of its constitutional obligations, as well as simple equity, in its continued refusal to help defray the expenses of this necessary service. There are, of course, over the long term, millions of dollars involved but even more than money is at stake. It is very troubling to see perpetuation of a federal policy which effectively treats Atlantic Canada and Central Canada as fish but Pacific Canada as fowl.

Let me cite just a few figures to illustrate the uneven treatment rendered by the federal government. For instance, payments to the C.N.R. alone by the federal government for operating on the east coast passenger and vehicle ferry services comparable to our own reached \$22 million in 1969, \$30 million in 1970, \$33.9 million in 1971, \$37.3 million in 1972, and \$44.6 million in 1973. For British Columbia the assistance was nil. During those same years the Canadian Transport Commission provided subsidies to steamship operations offering local services in British Columbia, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland. The figures range from \$12.2 million in 1969 down to \$6.9 million in 1973, the drop being accounted for by the fact that the Ministry of Transport took over from the C.T.C. the responsibility of assisting the Newfoundland Coastal Steamship Services. British Columbia received on average less than 5%

of the C.T.C. subsidies in each of those years. In 1970 for instance, the last year before the Ministry of Transport took over the obligations for Newfoundland Coastal Steamship Services, the C.T.C. provided a total of \$520,000 to Nootka Sound Service Limited and Northland Navigation Company Limited out of a total subsidy budget amounting to \$13.2 million spread among 29 companies in eastern Canada. Nor have federal subsidies been confined to operational expenditures. For example, in 1970 \$3.3 million and in 1971 \$6.9 million were spent on capital construction of terminals for the St. John to Digby ferry service, in 1972, \$15 million was written off a loan for construction of two vessels for the New Brunswick to Prince Edward Island ferry service. And last year the Ministry of Transport gave as an outright grant to the Province of Ontario \$3 million to help construct terminals for a ferry service connecting Tobermory, Ontario, to South Baymouth, Ontario. Another \$3 million was given as outright grant to Quebec to help build an ice-breaker type of ferry vessel by the Ministry of Transport.

British Columbia does not begrudge this assistance for the necessary services in eastern Canada but cannot understand why, when it seeks the same type of assistance, it is told this province does not qualify because B.C. Ferries operates within one province. How does that square with the fact that the federal government not only helps subsidize the ferry service between Tobermory and South Baymouth in Ontario but when the provincial government there decided to boost the service in order to increase tourism to Manitoulin Island and other points in northwest Ontario the federal government substantially increased its assistance? Under an agreement signed between the Ontario Minister of Transport and Communications and the Federal Minister of Transport,

Canada contributed \$3 million towards terminal construction, in addition to the normal federal ship building subsidy and also it undertook the responsibility of maintaining the wharf structures and dredging the channels involved in that intra-provincial ferry run. And direct subsidies for the Minitoulin Island service continued to be made by the C.T.C. British Columbia only asks for the same treatment accorded this Ontario ferry service and similar services of a purely intra-provincial nature along the St. Lawrence in Quebec and in the Atlantic region.

Particularly upsetting is the fact that the federal government subsidizes two international ferry services connecting Yarmouth, Nova Scotia to both Barr Harbour and Portland in the State of Maine. Here on the west coast the federal government does not do the same despite Section Four of the Terms of Union under which British Columbia entered Confederation which said: "the Dominion will provide an efficient mail service, fortnightly, by steam communication, between Victoria and San Francisco, and twice a week between Victoria and Olympia; the vessels to be adapted for the conveyance of freight and passengers." While speaking of the Terms of Union I should point out that Clause Eleven called for construction of a railway to the Pacific Ocean and it is our contention that federal financial assistance for a ferry system between Vancouver Island and the mainland is consistent with that agreement and would end the continuing argument that stopping the railway at a terminus in Vancouver did not adequately discharge the federal government's undertaking in Clause Eleven. The logic that the federal government does have an obligation to financially assist the provision of a surface transportation system between Vancouver Island and the mainland is reinforced by the fact that the Trans-Canada Highway is

officially recognized as beginning at Mile 0 in Victoria and running northward to Nanaimo before resuming at Horseshoe Bay north of Vancouver.

The Terms of Union saw Canada pledged to treat all provinces equitably and to provide British Columbia with such services as are provided to other provinces. I believe the time has arrived that this promise be carried out with federal support for our ferry services.

All of the foregoing I believe establishes the justice of our claim to equitable treatment. We are strong Confederationists and we believe that with your help we can convince the federal government that it does have an obligation to treat British Columbia ferries the same way it treats ferries operated on the Great Lakes, the St. Lawrence and the Atlantic region if for no other reason than that our ferry system carries both interprovincial and international traffic.



Deputy Minister Sous-ministre
Transport Canada Transports Canada

October 17, 1974.

MEMORANDUM TO THE MINISTER

B.C. FERRIES

Attached is a briefing note on the subject of B.C. FERRIES for your meeting next week with the Honourable R. Strachan of British Columbia to discuss the demands by Premier Barrett for federal financial support to the provincially-operated B.C. FERRIES system.

The briefing note outlines the potential alternative strategies which had been developed earlier in the year and, as well, details to additional suggestions.

Original
O. G. Stoner

O.G. Stoner

Attachment.

Place de Ville
Ottawa
K1A 0N5

000196

BRIEFING NOTE FOR THE MINISTER - RE: B.C. FERRIES - MINISTER'S
MEETING WITH THE HONOURABLE R. STRACHAN

You will recall that as a result of a request by Premier Barrett of B.C. to the Prime Minister, Transport was requested to bring forward a Memorandum to Cabinet outlining alternative formulae for providing assistance to B.C. in connection with the provincially owned ferry service. This Cabinet Memorandum was prepared, signed and placed on the docket of the Cabinet Committee on Federal-Provincial Relations in the Spring of 1974, but, because of certain reservations which developed in Transport, it was withdrawn and has not been re-submitted.

The Privy Council Office has recently written asking for advice on the position the Prime Minister should adopt in this matter. The B.C. Caucus has also asked for a position paper on the subject.

Last Spring's Cabinet Memorandum outlined the following alternatives:

1. providing a higher ship construction subsidy for B.C. The cost implications of this change, which would have to be offered to shipyards in all provinces, was considered prohibitive. This was not recommended.
2. providing some form of annual assistance to B.C. FERRIES at some percent of their annual deficit up to a fixed maximum. This would involve an open-ended commitment on behalf of the federal government. This was not recommended.
3. establishing a Federal West Coast ferry service. This alternative too is open-ended. In addition to initial capital costs, the federal government would be obligated to underwrite operating losses in future years. This was not recommended.
4. providing a lump sum payment toward the extension of exclusively land based facilities, including terminals, causeways, and possibly roads. This assistance could be calculated according to a formula which was related to the distance between Vancouver and the Provincial Capital.
5. providing a federal grant for specific new terminals and associated to expanding of the ferry service.

- 2 -

Alternatives four and five were considered worthy of further examination. The Cabinet Memorandum recommended that before an offer was made, meetings be held with the Government of B.C. to determine the scope of the need of any assistance to B.C. FERRIES. This remains in some doubt due to the unavailability of full financial data on the ferry operation. The other federal assistance being provided to B.C. was to be kept in mind. There was to be a further report to Cabinet with a recommended assistance formula, if considered warranted. This approach could still be advocated if necessary.

Other Considerations

1. Certain forms of assistance to B.C. FERRIES could upset a policy, defined by a Cabinet decision, February 1, 1966, as follows: -

"As a matter of policy, the federal government should require the provincial governments to assume responsibility for all ferry services and ancillary terminal facilities of an intra-provincial road link nature."

The 1966 Cabinet directive has partially been applied in Ontario and Quebec, and those provinces have assumed support for certain intraprovincial ferry services and the capital costs of the associated terminals, following a "buying-out" agreement with the federal government. However, responsibility for maintenance of the terminals has remained in federal hands to date, so that the Cabinet directive cannot be considered wholly implemented in any of these cases, and is a weak federal position for refusing to support B.C., but it is the only pertinent federal policy available.

2. You will recall we were concerned that perhaps B.C. was already receiving more than its share of federal spending on transportation. Current federal involvement in transportation projects in B.C. includes Prince Rupert Harbour (\$17 million); various Vancouver terminals (\$45 million); the B.C. Rail development program (\$167 million); Hudson Street Bridge Crossing (\$24 million); Vancouver Airport Expansion (\$30 million); Alaska Highway (in B.C.) (\$42 million, then turn-over to B.C.); and the Ashcroft-Clinton Rail Connection (\$10 million). (Total: \$335 million.)

3. This position is further substantiated by a recent submission by the Canadian Transport Commission to Treasury Board in regard to the payment of subsidies on the privately operated B.C. coastal ferry services. A six month contract from April to September, 1974, called for \$800,000. The

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- 3 -

company (Northland Shipping), citing increases in labour, fuel, etc., plus inflation, has now requested the C.T.C. to provide \$2.1 million in funds for the next six months. Treasury Board have not yet given approval for this increase, but may do so. If they do it will represent an increase of over 300% in the annual federal subsidy for this service. Payment of this increase could be made in lieu of assistance to B.C. FERRIES.

4. The difficulty of spreading federal resources over too many transportation projects in B.C. is a factor to be considered. For example, federal participation in solving the Vancouver access problem would perhaps be easier to arrange without a competing demand for assistance to the B.C. FERRIES. Assistance on a specific bottleneck problem such as the Vancouver access is unlikely to provoke wide-ranging new demands from other provinces, whereas providing assistance to B.C. FERRIES carries this danger for the federal government.

5. Another point likely to be raised by Mr. Strachan is the B.C. Government's desire to obtain access to a study recently completed for the C.T.C. by Acres Consultants whose mandate was to determine coastal ferry requirements on the B.C. coast. The federal position is that, while 1200 pages of material has been submitted to the C.T.C., the quantity and organization of the report necessitates the consultant providing a summary of approximately 100 pages prior to release. It is unlikely that the C.T.C. will be prepared to make anything available to the Province until the summary is completed, sometime early in the new year and the Minister might wish to advise Mr. Strachan that he will request Mr. Benson to allow the B.C. Government to examine the study at that time.

A response to the Privy Council Office on the approach to be made to this problem by the Prime Minister can probably be made after the meeting with Mr. Strachan.

MOT/XPPP

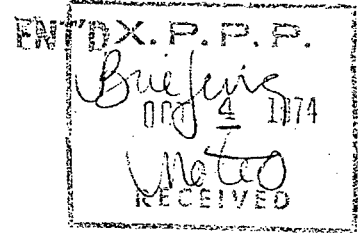
October 17th, 1974



Deputy Minister Sous-ministre
Transport Canada Transports Canada

*① CENTD - ABC 6/7/74
② H/P - + port-jeu?
③ T/M - for action, pls 5 at 8.
④ G/H - pls. see me.*

October 4, 1974.



MEMORANDUM TO: XPPP

The Minister will be meeting with the Honourable Strachan, Minister of B.C. Government, about 4:30 p.m. on Tuesday, October 22nd. This is shortly after Mr. Marchand's return from Saskatoon.

As far as we know, the only topic that will be discussed is B.C. Ferries.

The Minister's office has asked for briefing notes by a.m., Friday, 18th October, and, thus, they should reach the DM no later than noon, Thursday, 17th October, as Mr. Stoner may be away on the 18th.

J.Y. Clarke

J.Y. Clarke,
Executive Assistant.

PRIVY COUNCIL OFFICE



BUREAU DU CONSEIL PRIVÉ

OTTAWA, K1A 0A3

CONFIDENTIAL

August 21, 1974

RECEIVED
AUG 21 1974
DEPUTY MINISTER
TRANSPORT

Dear Mr. Stoner:

I am writing with regard to some outstanding matters related to the Cabinet Memorandum submitted by your Ministry in April, 1974 on Assistance to British Columbia Ferries (Cabinet Document 301-74). It is my understanding that the document was recently withdrawn, at your request, from the list of items to be considered by Cabinet.

As you may know, the submission of this memorandum for consideration by Ministers was originally requested by the Prime Minister in a letter to Mr. Marchand of January 29, 1973. This was subsequently followed up by a letter from the Prime Minister dated June 22, 1973, underlining the urgency of dealing with the matter as soon as possible.

It should also be recalled that the Prime Minister wrote to Premier Barrett on January 29, 1973 suggesting that the question of assistance to B.C. ferries would be studied and that he would be writing to him again on the subject "within a few weeks". In light of the Prime Minister's interest in following-up this matter and the commitment to reply to Premier Barrett, I feel that, at least, an interim report to Premier Barrett should be made explaining the delay and where the matter now stands. Perhaps such a letter would assure the Premier of the Prime Minister's continued attention and suggest an intention to examine the B.C. request in the light of the general question of aid to ferry systems, which I understand was a commitment made during the recent campaign.

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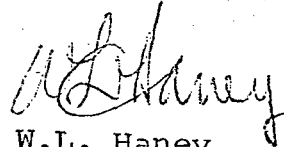
Mr. O.G. Stoner
Deputy Minister of Transport
Tower "C", 25th Floor
Place de Ville
Ottawa, K1A 0N5

- 2 -

CONFIDENTIAL

I would very much appreciate it if you could give this matter some thought with a view to providing us with a proposed draft interim report for the Prime Minister to send to Premier Barrett.

Yours sincerely,



W.L. Haney,
Director,
Policy and Program
Review Section,
Federal-Provincial
Relations Division.

c.c. Mr. J. Davey
Mr. K.G. Wilson

550-11-8

CONFIDENTIAL

May 10, 1974

Mr. A.P. Campbell
Chairman
Water Transport Committee
Canadian Transport Commission
Congill Building
275 Slater Street
Ottawa, Ontario K1A 0N9

Dear Alan:

I am attaching the Cabinet Memorandum on B.C. Ferries which has been signed by the Minister.

Page 2 of the Memorandum proper, covering the "contravening" ferries, and the Table in the Annex, both were changed to reflect our telephone conversations. Zeballos has been removed from the "contravening" list; and the Newfoundland outport services have been consolidated in the list. This treatment is consistent with the actions you are taking on the Portugal Cove/Bell Island service.

Thank you for your help and the high priority you gave the review of this Memorandum following your return.

I should add that there is consensus among the departments and TBS concerning the recommendations. Both TBS and Finance make it clear that they favour Alternative F. (Wherein assistance is not in any way related to a highway or water distance formula.) This Memorandum and the Annex were prepared in close cooperation with the Surface Administration.

You will note that the Memorandum does not dwell on the basic question of whether or not assistance to B.C. Ferries is needed or warranted. The Memorandum was brought forward in response to an explicit request from the Prime Minister following talks with Premier Barrett. We have

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- 2 -

listed assistance options, if you like, in order of decreasing "objectionableness". There has been no enthusiasm for expansion of assistance to ferry services, and particularly where such assistance may be incompatible with the 1966 Cabinet decision on intraprovincial services. The Memorandum recommends that if Cabinet decides that talks should open with B.C. on this issue, the scope of B.C. Ferries' need for assistance should be assessed. The level of assistance to B.C. on other transportation areas will be taken into consideration.

Yours sincerely,

Original Signed by

K. G. WILSON

K.G. Wilson

Attach.

cc: SMO (McKenzie)
DSM (Knapp)
DPI
TPP (GIL)

RWP/bml

cc: DM
SADM
DBC
XPPP
ADMF
Mr. M. Farquhar
GSRC ✓
AJTA

150-3
550-11-8

CONFIDENTIAL

May 1, 1974.

BY HAND

Mr. R.F. Charron,
Supervisor of Cabinet
Documents,
Room 331, East Block,
Parliament Buildings,
Ottawa, K1A 0A3.

Re: Assistance to British Columbia
Ferries

Dear Mr. Charron:

Enclosed herewith are 125 copies of the
Memorandum to Cabinet concerning the above mentioned
subject, together with the original copy signed by
the Minister of Transport.

Yours sincerely,

Original Signed by
R. W. PFAFF

André Laframboise
Director
Bureau of Coordination.

Encl:

CE DOCUMENT EST LA PROPRIETE DU GOUVERNEMENT DU CANADA

CONFIDENTIEL

AIDE A LA BRITISH COLUMBIA FERRIES

ASSISTANCE TO BRITISH COLUMBIA FERRIES

SOMMAIRE

Le présent document donne suite à la demande faite par le Premier ministre du Canada au ministre des Transports en juin 1973, en vue de proposer différentes formules d'aide au service de traversiers provinciaux de la Colombie-Britannique. M. Trudeau avait auparavant assuré M. Barrett que sa demande spéciale d'aide à la B.C. FERRIES serait bien accueillie.

Le Premier ministre de la Colombie-Britannique a fait remarquer que sa province ne recevait que 2% de l'aide fédérale aux services de traversiers du pays et que tout le reste des subventions allait aux services de l'est du Canada. M. Barrett fait valoir que les services de traversiers sont essentiels au réseau de transport de la Colombie-Britannique, et qu'il serait normal qu'une aide fédérale soit accordée pour l'exploitation de la B.C. FERRIES.

En 1972, l'aide fédérale aux services de traversiers du Canada a totalisé quelque 48 millions de dollars, quatre-vingt-trois pour cent de ce montant étant octroyé aux services de traversiers du CN à l'Île-du-Prince-Édouard et Terre-Neuve, services qui sont fournis en vertu d'accords constitutionnels avec ces provinces.

Le premier ministre Barrett n'a pas spécifié de montant précis. B.C. FERRIES déclare des déficits d'environ \$10,000,000 par année, mais ce total comprend l'acquisition de nouveau matériel ainsi que le déficit d'exploitation, le montant exact de ce dernier n'étant pas connu.

Le présent document cherche à obtenir le consentement du Cabinet sur la nécessité d'une aide fédérale à B.C. FERRIES et l'autorisation au ministre des Transports de discuter avec le gouvernement de la Colombie-Britannique de l'importance de l'aide nécessaire.

A titre préliminaire pour ces discussions, six formules d'aide ont été considérées; les deux suivantes ont été recommandées:

- (i) le versement d'un montant forfaitaire relié aux programmes d'aide à la construction routière de la Colombie-Britannique, et destiné à la construction de terminaux et de voies d'accès;

.../2

OU

- (ii) l'octroi de subventions pour la construction de nouveaux terminaux, voies d'accès, chaussées etc., mais non relié à la formule d'aide à la construction routière.

Le coût de la construction de nouveaux terminaux irait de \$5,000,000 à \$20,000,000 selon l'emplacement et le type de construction nécessaire pour les voies d'accès.

Les solutions précédentes sont recommandées parce qu'elles satisfont le mieux aux critères suivants:

- Compatibilité avec la politique fédérale d'aide aux services de traversiers intra-provinciaux (politique qui a déjà été appliquée à d'autres provinces et qui, si elle était changée, entraînerait des requêtes des autres provinces). L'octroi de subventions pour la construction de terminaux est plus compatible avec cette politique que l'aide aux navires traversiers ou à leur exploitation.
- Contrôle du coût pour l'administration fédérale - l'aide destinée à des expansions précises de la capacité de B.C. FERRIES est préférable à l'octroi de subventions destinées à compenser le déficit d'exploitation du système.

Nous proposons que le ministre des Transports, après négociation avec le gouvernement de Colombie-Britannique, fasse rapport au Cabinet et présente des recommandations sur les modalités et l'importance de l'aide qu'il y a lieu d'accorder à B.C. FERRIES, avant la conclusion d'une entente officielle avec la province.

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

CONFIDENTIAL

ASSISTANCE TO BRITISH COLUMBIA FERRIES

AIDE A LA BRITISH COLUMBIA FERRIES

SUMMARY

This paper is in response to the Prime Minister's request to the Minister of Transport in June 1973, to bring forward alternative formulae for providing assistance to British Columbia in connection with the provincially-owned ferry service. The Prime Minister had earlier assured Premier Barrett that the Premier's special request for assistance for B.C. FERRIES would be sympathetically considered.

The British Columbia Premier has pointed to the fact that only two per cent of federal funds spent each year on ferry services goes to B.C. The rest is directed to services in eastern Canada. He contends that ferry services are essential to B.C.'s transportation system, and that federal support is warranted for the B.C. FERRIES operation.

In 1972, federal assistance to ferry services in Canada totalled approximately \$48 million. Eighty-three per cent of this assistance was for the CN ferry service to Prince Edward Island and to Newfoundland, which are provided in accordance with constitutional agreements with those provinces.

Premier Barrett has not named a specific amount of assistance. B.C. FERRIES has been declaring deficits of approximately \$10 million per year, although this total includes both new equipment acquisitions and operating deficit, and the operating deficit is not separately known.

This paper seeks the agreement of Cabinet that federal assistance to B.C. FERRIES is warranted, and that the Minister of Transport be authorized to hold talks with the Government of British Columbia, so that the scope of the need for assistance may be determined.

To serve as a guide for these talks, six alternative formulae for assistance have been examined, and the following two recommended:

- (i) a fixed, once only, lump-sum payment related to the highway assistance programs for B.C., and directed to construction of terminals and/or approaches;

OR

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- (ii) grants toward construction of new terminals and/or approaches, causeways, etc., but not related to a highway assistance formula.

The cost of new terminals ranges from \$5 million to \$20 million, depending on location and the construction required for approaches.

The foregoing alternatives are recommended because they best fulfill these criteria:

- Compatibility with federal policy on assistance to intraprovincial ferry services - a policy which has been applied to other provinces and which, if reversed, would produce demands from other provinces. Assistance toward terminals is more compatible with this policy than is assistance to ferry vessels or their operation.
- Controlability of the cost to the Federal Government - it is considered that assistance related to specific expansions of B.C. FERRIES' capacity is preferable to grants toward the operating deficit of the system.

It is proposed, following negotiations with the British Columbia Government, that the Minister of Transport report to Cabinet with a recommended form and amount of assistance for B.C. FERRIES, before proceeding with any formal agreement with the Province.

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

CONFIDENTIAL

19 April 1974

MEMORANDUM TO THE CABINET

ASSISTANCE TO BRITISH COLUMBIA FERRIES

AIDE A LA BRITISH COLUMBIA FERRIES

PURPOSE

1. This paper proposes a federal response to Premier Barrett respecting his request for assistance to provincially-owned BRITISH COLUMBIA FERRIES. Alternatives which are available for providing assistance are described herein, and analyzed in terms of possible cost to the federal government, and compatibility with federal transportation policies. This is provided in response to a request by the Prime Minister following meetings with the Premier of British Columbia.

PROBLEM

2. The Premier of British Columbia has requested financial assistance from the federal government for B.C. FERRIES. The Premier has pointed to the federal assistance given the ferry system in Atlantic Canada as basis for assistance to B.C. The federal government has not heretofore provided operating assistance for the British Columbia ferries system. The cost implications of providing operating assistance are substantial. In addition, certain forms of assistance to B.C. FERRIES could upset a policy, defined by a Cabinet decision, February 1, 1966, as follows:-

"As a matter of policy, the federal government should require the provincial governments to assume responsibility for all ferry services and ancillary terminal facilities of an intra-provincial road link nature."

3. The termination of federal assistance to the operating costs of ferry services in two provinces (Ontario and Quebec) has already been scheduled or completed in accordance with this policy.

BACKGROUND

4. The Prime Minister met with Premier Barrett in December 1972 and the subject of federal assistance to B.C. FERRIES was raised. The Premier requested that ship

.../2

construction subsidy be raised to 40% from the then 17½%. In January 1973, the Premier reported his special concern at unemployment in B.C. shipyards. The Prime Minister responded that it would not be possible to raise the ship-building subsidy as requested by the Premier, but that other means of providing more assistance were being investigated, and that the problem would be considered sympathetically.

5. In a related action, British Columbia has, since 1968, been refusing to pay federal sales tax on fuel and other supplies used by the ferry service; in turn, certain suppliers to B.C. FERRIES have stopped remitting these taxes to the Department of National Revenue. The federal position has been that this tax is paid by all ferry systems in Canada, including provincially and federally-owned (CN) operations, and that B.C. FERRIES are not exempt. The recovery of federal back taxes owed in connection with B.C. FERRIES operations is not considered in this Memorandum nor is the payment of these taxes as a condition of federal assistance. The assistance request and the tax problem are to be considered as separate issues.

Ferry Services in Canada

5. Ferry operations in Canada can be considered in three categories:-

- (a) Ferry services between two or more provinces which are furnished because of agreements entered into at the time of Confederation. Newfoundland and P.E.I. are the two provinces served on this basis. The ferry services between the mainland and these provinces are provided by CN and the excess of expenditures over revenue is paid by MOT for the federal government. In 1972 this amounted to approximately \$40 million, or 83%, of total assistance to ferries in Canada in that year.
- (b) Ferry services which, while not provided on the basis of constitutional agreements with provinces, are determined to warrant support, and are either subsidized by the Canadian Transport Commission or are furnished by CN (with deficits paid annually by the federal government). Total assistance in 1972 in this category was \$7.9 million. Of this amount, \$971,195 was devoted in 1972 to ferry services which may be considered to contravene the Cabinet directive of 1966 that "ferry services and ancillary terminal facilities of an intraprovincial road link nature" be a provincial responsibility. This represented 2.0% of the total assistance to ferry services in 1972, and specifically comprised:-

Tobermory/South Baymouth (Ont.)	\$75,000
Mainland/Pelee Island (Ont.)	88,695
Portugal Cove/Bell Island (Nfld.)	354,000
Nfld. Outport Services (4)	117,500
Mainland/Grand Manan Island (N.B.)	259,000
Twillingate/New World Island (Nfld.)	77,000
	<u>971,195</u>

Negotiations are completed, or currently underway, to implement the Cabinet directive with respect to three of the services above (Pelee Island, Portugal Cove, and Tobermory). The Twillingate service has been replaced by a causeway.

- (c) Services which are unsubsidized, and which may be privately or provincially-owned. B.C. FERRIES is included in this category, and is entirely intraprovincial and predominately "road link" in nature.

7. The 1966 Cabinet directive has been applied in Ontario and Quebec, and those provinces have assumed support for certain intraprovincial ferry services and the capital costs of the associated terminals, following a "buying-out" agreement with the federal government. However, responsibility for maintenance of the terminals has remained in federal hands to date, so that the Cabinet directive cannot be considered wholly implemented in any of these cases.

8. No assistance can be given toward the ferry vessel operation costs in B.C. without overturning the policy and the successful negotiations with other provinces. However, there is scope for assisting on the capital cost of terminals in B.C. along lines in which settlements have been reached with other provinces, that is, by lump-sum payments.

9. B.C. FERRIES is the largest provincially-owned service in Canada. Twenty-four vessels operate on over four hundred regular route miles. In 1972 nearly eight million passengers and three million vehicles were carried. Over 2,500 people are directly employed. The largest portion of the traffic is between Vancouver and Vancouver Island via two crossings; one to Nanaimo and the other to Victoria. Route distances are thirty and twenty-four miles respectively. Ninety-five percent (95%) of ferry traffic to Vancouver Island is carried by B.C. FERRIES; the remaining traffic (5%) is carried by ferries owned and operated by Canadian Pacific.

10. Gross operating revenue of B.C. FERRIES was \$30 million in 1971. The actual operating deficit for B.C. FERRIES in 1971 was less than \$10 million, if items normally considered as capitalized expenditures are removed from the accounting. However, no accurate figure can be arrived at from the published data. The same reservation applies to the recently-announced 1972 deficit of \$11.5 million. The matter should be left until negotiations commence with B.C., if and when they are authorized by Cabinet.

11. A CTC analysis indicates that the fares charged on B.C. FERRIES are not significantly out-of-line with ferry tariffs generally across Canada, taking into account the varying nature and extent of the many different services.

12. West Coast traffic forecasts point to an expanding requirement for ferry services. A third crossing to Vancouver Island is anticipated, but not yet announced. An expenditure of between \$50 and \$75 million for new vessels and new terminals is forecast for the next five years; a further \$100 million is forecast for the following five-year period. New vessels for the B.C. FERRIES cost approximately \$12.5 million each; and new terminals are estimated at \$5 to \$10 million each. Terminals located off-shore and connected to

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- 4 -

CONFIDENTIAL

the mainland by a causeway, which is what may be proposed for the Vancouver side of a "third-crossing" route to overcome a shallow-water problem, may cost up to \$20 million.

Other Considerations

13. The British Columbia shipbuilding industry continues to be highly dependent on orders from B.C. FERRIES, and these orders are traditionally let to B.C. yards. A 1966 federal government procurement policy announced that federal vessels would be bought on a competitive basis from the lowest bidding yard in Canada. B.C. yards, which have higher wage levels, have won few vessel orders under the new policy. Again, a Shipbuilding Temporary Assistance Program introduced in 1970 as an encouragement to export shipbuilding has not been as significant a benefit to B.C. yards as it has been to eastern yards. However, the situation in 1974 in B.C. yards must be considered healthy and busy, with full recovery from the slack of earlier years. In part this is due to orders already placed by B.C. FERRIES.

14. Vessels constructed for B.C. FERRIES service have been eligible for assistance since 1961 under the Ship Construction Subsidy Regulations administered by IT&C. In all, \$15.5 million has been paid by the federal government to B.C. yards on a total of twenty-two vessels built for B.C. FERRIES service. (Ferries built for the CN East Coast service have not been eligible for construction subsidy because the federal government has been the purchaser.)

15. Current federal involvement in transportation projects in B.C. includes Prince Rupert Harbour (\$17 million); various Vancouver terminals (\$45 million); the B.C. Rail development program (\$167 million); Hudson Street Bridge Crossing (\$24 million); Vancouver Airport Expansion (\$30 million); Alaska Highway (in B.C.) (\$42 million, then turn-over to B.C.); and the Ashcroft-Clinton Rail Connection (\$10 million). (Total: \$335 million.)

ALTERNATIVES FOR ASSISTANCE AND FINANCIAL CONSIDERATIONS

16. Alternatives for assistance may be measured against the status quo, that is, a decision to provide no increase in assistance to B.C. FERRIES over and above the normal ship construction subsidy of 17%. This is Alternative A. Based on the estimates by B.C. FERRIES for expansion of their fleet, up to \$25 million will be provided from the Federal Treasury over the next ten years under this program, regardless of any other forms of assistance which might be provided as a result of this Memorandum.

17. All other alternatives involve special assistance to B.C. FERRIES over and above the existing vessel construction assistance. To this date, there have been no negotiations with B.C. on this subject, and the amount of additional assistance that B.C. desires has not been determined. However, an amount may be inferred from the initial B.C. demand for higher vessel construction subsidy. The approximate amount of assistance received from shipbuilding subsidy, based on a vessel construction program of say \$100 million over seven years (seven years was the time-span for the higher subsidy requested by Premier Barrett) would be \$23 million more at the requested 40%

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subsidy level than at the prevailing 17% level. Twenty-three million dollars (\$23 million) might therefore be assumed to be a maximum demand figure by B.C. in any negotiations. There is no specific B.C. financial request available, and this estimate of B.C. demands is therefore conjectural.

18. The amount of assistance implied varies widely among alternatives which follow. Some carry a minimum assistance commitment. In addition, the cost in some alternatives may be easily fixed at specific amounts, whereas under other alternatives the costs are open-ended. The degree to which alternatives may be a reversal of established assistance policy for ferries is indicated for each alternative.

Alternative A - Status Quo

19. No operating assistance allowed to B.C. FERRIES; no financial implications (other than the existing 17% ship construction subsidy), and federal policy on intra-provincial ferries is maintained.

Alternative B - Higher Ship Construction Subsidy

20. The possibility of providing a higher ship construction subsidy for B.C. was considered by departments at the outset, and the decision against this method of assistance was given in a 1973 letter from the Prime Minister to Mr. Barrett. The cost implications of this change, which would perforce have to be offered to yards in all provinces, was considered prohibitive. Mr. Barrett has not repeated his request for assistance in this form.

21. This alternative is not recommended.

Alternative C - Federal Assistance Toward Annual Operating Deficit

22. This alternative would provide continuing annual assistance to B.C. FERRIES, at some percentage of the annual deficit up to a fixed maximum, or as an annual grant. This alternative carries a financial implication for the Federal Treasury which is open-ended, and which could run between \$10 million and \$30 million per year, depending on the magnitude of the operating deficit and the unrecovered capital expenditures each year. This alternative would normally require that the financial records of B.C. FERRIES be made accessible to federal government auditors - a possibly undesirable requirement for B.C. This alternative unquestionably represents a disincentive to efficient operation, and the federal government would be able to exercise very little control over management decisions such as fare rate-setting and crew wage levels. Another disadvantage is that any assistance limit set would be vulnerable to renegotiation at B.C.'s request at any time. For example, to subsidize B.C. FERRIES in the same proportion to revenue as the Newfoundland ferry service is now supported, should this become a B.C. demand, would entail not less than \$24 million to B.C. FERRIES annually from the Federal Treasury. Under this alternative it would be most difficult to maintain that the Cabinet directive on assistance to intraprovincial ferry assistance had not been reversed. Applications from

other provinces for expanded assistance on intraprovincial services could be expected to follow from a choice of this alternative.

23. This alternative is not recommended.

Alternative D - Establish a Federal West Coast Ferry Service

24. The federal government itself could establish a ferry service on the West Coast, to be operated by CN or a Crown agency, to supplement services provided by B.C. FERRIES. New routes are apparently needed. The choice could be provision of a "third-crossing" between Vancouver and Vancouver Island - already an identified requirement - although the furnishing of a new service on coastal routes might also be considered. The estimated cost for a new crossing to Vancouver Island is \$75 million, including new vessels and new terminals. Such a federal service would, of course, compete with the two existing crossings to Vancouver Island by B.C. FERRIES, and the crossing by CP. A cooperative pricing schedule is conceivable. However, the cost implication is open-ended: In addition to initial capital costs, an obligation by the federal government to underwrite operating losses in future years is implied in this alternative. This alternative implies abandonment of established and emerging federal policy on intraprovincial ferries.

25. This alternative is not recommended.

Alternative E - Lump-Sum Payment

26. This alternative would provide a lump-sum payment to B.C. FERRIES for the extension of land-based facilities, including terminals, causeways, and possibly roads. A lump-sum payment could be negotiated based on the water miles between Vancouver and Vancouver Island being eligible for assistance equivalent to the per mile federal assistance given to national highways in B.C. Based on past shared-cost highway programs in British Columbia, assistance in the range of \$225,000 per mile is implied by this alternative. The Vancouver to Nanaimo crossing of B.C. FERRIES is considered the national highway link to Vancouver Island, and is thirty route miles long. Using the historical per mile assistance, a possible lump-sum grant of \$6.75 million is calculated. (Any agreement ultimately reached under this alternative would take into account levels of assistance which may be provided under a new national highway scheme, a subject currently under discussion with Western Provinces.)

27. This alternative is attractive from the federal viewpoint in that the liability may be limited to a once-only payment tied to and limited by assistance levels for national highways. Also, the policy on intraprovincial ferry assistance is not openly reversed. However, this alternative is limited in the amount of assistance which can be provided, and the "national highway link to Victoria" rationale works only once - it does not lend itself to use again in the future should additional assistance ever be warranted.

28. This alternative would be acceptable from the federal viewpoint, but it may offer limited scope and flexibility for assisting the province. It could be a first offer.

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Alternative F - Federal Grant Toward Terminals and Associated Construction

29. This alternative would entail the federal government providing a grant to B.C. for use on terminal construction in connection with a new or relocated ferry crossing to Vancouver Island from Vancouver; consisting of:-

One or more ferry terminals, at \$5 to \$10 million each; or part thereof

AND/OR

associated approaches and causeways at up to \$20 million.

30. Under this alternative the federal government would pay part or all of initial capital costs for selected ferry terminals, and/or approaches, causeways, etc., but all future operating and maintenance costs would be borne by the provincial government. Full operating control, including liability to cover deficits, would remain with the province.

31. The level of federal commitment is limited to new terminals which will only be built in conjunction with growth of the ferry system in B.C. and concomitant investment by B.C. in new ferries. This provides an effective safeguard for the federal liability under this formula. This alternative has advantage over choices where the agreement is open-ended in respect to cost.

32. The federal contribution would be linked to a specific expansion and improvement in the ferry services in B.C. The contribution would be visible, and would be continuing evidence of the federal help supplied. The federal government assistance to the ferry system of British Columbia would recognize the integral role of water and highway transportation facilities in that province. Suitable identification installed on the terminal structure would state the federal involvement in the project.

33. The federal policy on intraprovincial ferry assistance would accommodate this alternative without being openly reversed.

34. This alternative can be recommended.

FINANCIAL CONSIDERATIONS SUMMARIZED

35. There are no cost implications (above the standard ship subsidy) attached to Alternative A.

36. Alternatives B, C, D, E, and F, which provide for assistance to B.C. FERRIES over and above construction subsidies, have cost implications ranging from \$3 million up. For Alternatives C and D, there is a possible continuing annual financial obligation of up to \$24 million per year. The following costs are estimated on the basis of maximum potential obligation under the particular alternative:-

.../8

- 8 -

CONFIDENTIAL

<u>Alternative</u>	<u>Fiscal Costs - Years Following Agreement with Province</u>				
	<u>FY 1</u>	<u>FY 2</u>	<u>FY 3</u>	<u>FY 4</u>	<u>FY 5</u>
A. Status Quo	No Cost (above normal ship construction subsidies.)				
B. Higher Ship Construction Subsidies (B.C. only)	\$ 3m	\$ 3m	\$ 3m	\$ 3m	\$ 3m
C. Subsidize Deficit (up to)	\$24m	\$24m	\$24m	\$24m	\$24m
D. Federal Ferry Service	\$75m	\$10m	\$10m	\$10m	\$10m
E. Water Distance Equivalent	\$5-10m	(with possible extras in subsequent years)			
F. Terminals, Approaches	\$5-25m	(future assistance limited to expansion)			

FEDERAL-PROVINCIAL RELATIONS

37. Premier Barrett has put a high priority on the ferry assistance issue, and has made it the subject of special dialogue with the Prime Minister. The ferry service and its expansion is a political issue in British Columbia, and the Premier has made his own promises in the matter. The new government in B.C. has published financial reports for the B.C. FERRIES for the first time, and the service has been shown to be in deficit. The Premier considers that B.C. has a claim on federal resources for support of the ferry service, particularly in view of the substantial assistance provided by the federal government to ferry systems in Atlantic Canada. The Premier does not acknowledge the validity of any federal policy attempting to restrict assistance to only interprovincial ferry services.

38. There has been no representation or negotiation by federal departments with B.C. on this issue to date. Discussions have been held with B.C. on a related issue - the payment of back sales taxes on fuel used by B.C. FERRIES - and this negotiation has been conducted by the Departments of Finance and National Revenue.

39. The issue of assistance to B.C. FERRIES has implications for other provinces. Any assistance to B.C. which could be construed as abandonment of the federal policy re assistance to intraprovincial ferry services could provoke requests for renewed or expanded assistance for other provinces. The B.C. demands have been made public by the Premier, but as far as is known, there has been no reaction from other provinces to date.

40. A decision to assist B.C. would recognize the essential nature of the ferries in B.C., and also reduce the inequity in assistance to ferry services on East and West Coasts.

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INTERDEPARTMENTAL CONSULTATION

41. This Memorandum has been prepared in collaboration with the Privy Council Office. In the course of developing the alternatives, discussions were held with the Department of Finance, the Department of Industry, Trade and Commerce, the Department of Public Works, and the Treasury Board Secretariat.

CONCLUSIONS

- (a) Some degree of assistance to B.C. FERRIES - over and above normal ship construction subsidies of 17% - can be justified on the basis of the essential nature of ferry services in that Province, by the substantial amounts of assistance provided by the federal government to ferry services in Atlantic Canada, and by the fact that a Vancouver to Vancouver Island ferry connection can be considered as a link in a national highway system. In Atlantic Canada, these highway links are served by ferry systems supported by the federal government.
- (b) It is desirable that any special assistance furnished to B.C. FERRIES not reverse an existing federal policy to withdraw financial support for operating costs of intraprovincial ferry services. Abandonment of this policy could result in stepped-up applications for assistance on intraprovincial services generally, including both private and publicly-owned systems.
- (c) Any special assistance to B.C. FERRIES should be negotiated in the context of other federal assistance to transportation and transportation-related projects in B.C., including joint projects undertaken with the B.C. Government.
- (d) In any negotiations with B.C. on this issue, the minimum acceptable level of assistance should be the objective of the federal government. Alternatives providing lump-sum payments, or limited, fixed-payments for specific facilities, are to be favoured over open-ended or continuing assistance obligations.
- (e) Excepting Alternative A, which is status quo, the alternatives for assistance described in this Memorandum are ranked in order of increasing attractiveness from the federal standpoint. Alternatives B, C, and D are considered to be unfavourable due to the high cost implications. Furthermore, Alternatives C and D contain elements which tend to threaten attainment of an efficient, integrated ferry system in B.C.
- (f) Alternatives E and F contain assistance options for which initial cost is limited and future commitments are controllable. These alternatives comprise:- E: fixed, lump-sum payments related to highway assistance programs; F: provision of capital assistance to new terminals and/or approaches which may be required for expansion of B.C. FERRIES.

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RECOMMENDATIONS

42. It is recommended that the Minister of Transport, in collaboration with other interested departments, be authorized to:-

- (a) Initiate negotiations with the Government of British Columbia in order to determine the scope of the need for assistance to B.C. FERRIES,
- (b) Discuss and evaluate the various alternative forms of assistance which would be justified, giving preference to alternatives which would provide either:-
 - i) a fixed, once-only, lump-sum payment related to the highway assistance programs for B.C., and directed to construction of terminals and/or approaches

OR

- ii) grants toward construction of new terminals and/or approaches, causeways, etc., but not related to a highway assistance formula.
- (c) Take into consideration in negotiations the other federal assistance being provided to B.C.
- (d) Report to Cabinet with a recommended mechanism for assistance, prior to proceeding with any formal agreement with the Province.

RECOMMANDATIONS

43. Le ministre des Transports, en collaboration avec d'autres ministères concernés, devrait être autorisé à:

- (a) entreprendre des négociations avec le gouvernement de la Colombie-britannique en vue d'apprécier les besoins d'assistance de la B.C. FERRIES,
 - (b) discuter et évaluer les diverses formes d'aide justifiables en l'occurrence, en donnant la préférence aux propositions prévoyant
 - i) le versement d'un montant forfaitaire relié aux programmes d'aide à la construction routière de la Colombie-britannique et destiné à la construction de terminaux et de voies d'accès,
- OU
- ii) l'octroi de subventions pour la construction de nouveaux terminaux, voies d'accès, chaussées, etc., mais non relié à la formule d'aide à la construction routière.
 - (c) tenir compte, durant les négociations, des autres formes d'aides fédérale à la Colombie-britannique

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- 11 -

CONFIDENTIAL

- (d) faire rapport au Cabinet avec recommandations quant aux modalités d'assistance, avant la conclusion d'un accord officiel avec la province.

MINISTER OF TRANSPORT

ANNEX

FEDERAL GOVERNMENT ASSISTANCE TO
FERRY SERVICES IN CANADA

(Fiscal Year 1972-73 for subsidies provided through CTC,
Calendar Year 1972 for CN services subsidized by MOT.)

I. SUBSIDIES PROVIDED BY CONSTITUTIONAL AGREEMENT WITH CERTAIN PROVINCES
(Subsidized by MOT)

Interprovincial and Newfoundland Coastal

CN North Sydney/Port aux Basques	\$23,455,091	
CN Borden/Cape Tormentine	5,988,007	
CN Newfoundland Coastal Service	10,669,693	
		\$40,112,791

II. Subsidies on a Basis Other Than Constitutional Agreement
(Subsidized by MOT or CTC)

A. Primarily Road Link

Interprovincial

N. Sydney/Argentia	404,880	
Caribou/Wood Island	1,449,000	
Dalhousie N.B./Miguasha, Que.	16,500	
Souris, P.E.I./Magdalen Island	550,000	
St. Barbe/Blanc Sablon	197,500	
		\$ 2,617,880

Intraprovincial

Tobermory/South Baymouth (Ont.)	75,000	
Mainland/Pelee Island (Ont.)	88,695	
Portugal Cove/Bell Island (Nfld.)	354,000	
Nfld. Outport Services (4)	117,500	
Mainland/Grand Manan Island (N.B.)	259,000	
Twillingate/New World Island (Nfld.)	77,000	
		971,195 (2.0% of total)

B. Primarily Coastal Service

Interprovincial

Montreal/St. John's Cornerbrook	1,503,563	
Charlottetown/Magdalen Island	60,000	
Halifax/St. John's	404,419	
Halifax/Cupids	22,645	
P.E.I./St. John's	111,289	
		2,101,916

Intraprovincial

Vancouver/West Coast Vancouver Island	154,203	
Vancouver/Northern B.C. Ports	753,000	
Montreal/Blanc Sablon	732,000	
Gold River/Zeballos	12,502	
		1,651,705
		7,342,696

C. International

Yarmouth/Bar Harbour	572,207	572,207
TOTAL.....	\$ 48,027,694	



Government
of Canada

Document disclosed under the Access to Information Act /
Document divulgué en vertu de la Loi sur l'accès à l'information

Gouvernement
du Canada

ACTION
REQUEST

FICHE DE
SERVICE

TO - À

FILE NO. - DOSSIER N°

Pinne

DATE

June 19/74

FROM - DE

K.W.

Ferris B.C.

☐ PLEASE CALL
PRIÈRE D'APPELER

TEL NO. - N° DE TEL.

EXT. - POSTE

☐ WANTS TO SEE YOU
DÉSIRE VOUS VOIR

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☐ WILL CALL AGAIN
DOIT RAPPELER

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I've extracted 2 items
on "B.C. FERRIES"*

*This subject Advise Records
That This is subject of Cab. Docs.
& should be in one file with
those docs.*

000222



Transport
Canada

Transports
Canada

550-11-8

Your file Votre référence

Our File Notre référence

CONFIDENTIAL

April 30, 1974.

MEMORANDUM TO THE DEPUTY MINISTER

B.C. Ferries

You will remember that last week, after we had obtained the Minister's signature on the memorandum, we decided to hold it until a later meeting of the Cabinet Committee on Federal-Provincial Relations. We are still holding it.

The Privy Council Office would like to have the memorandum on next Tuesday's agenda. The Minister will be seeing Mr. Strachan this Friday but I see no reason for his raising it unless Mr. Strachan does.

Should we release the memorandum to PCO for next Tuesday's meeting?


M. E. Butler

cc - ASTA

Al. Price
** Sold last night to Alan Campbell*
T.B. also agree & will support
Memo sent
awaiting OK
DM's
ANNE
M. Butler has written
DM
FW

FEDERAL GOVERNMENT ASSISTANCE TO
FERRY SERVICES IN CANADA

(Fiscal Year 1972-73 for subsidies provided through CTC,
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C. International

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572,207

TOTAL.....\$ 48,027,694

FEDERAL-PROVINCIAL COMMITTEE ON WESTERN TRANSPORTATION

BRIEFING NOTES FOR THE MINISTER

Subject: Assistance to B.C. FERRIES

Background: In December 1972 Premier Barrett, in a meeting with the Prime Minister, asked for 40% ship-building subsidy as a means of assistance to B.C. FERRIES, and also to attract new business to B.C. shipyards at a time when they were less than fully employed. The Prime Minister turned down the request for higher subsidy, but indicated in January 1973 that other means of assisting B.C. FERRIES would be sympathetically considered. In June 1973 the Prime Minister asked the Minister of Transport to develop alternative formulae for assistance to B.C. FERRIES, for consideration by Cabinet.

The subject was mentioned briefly by Premier Barrett at W.E.O.C., and has been mentioned several times at meetings of the Federal-Provincial Committee by Mr. Strachan. Promised B.C. studies have not been forthcoming to date.

Current Situation: It is understood that B.C. have a study underway that will present their case for assistance. It will be based on the need for expanded ferry services between B.C. and the Island.

B.C. have just ordered three new vessels at a cost of \$40 million. It is understood that they are seeking land for terminal construction at the Vancouver side (Point Grey) and at the Vancouver Island side (Galliano Island) of the new "third crossing". In another announcement by B.C. FERRIES, it has been stated that a ferry service will be started between North Vancouver and Vancouver proper, in lieu of a bridge.

MOT has prepared a Memorandum to Cabinet, which is expected to be considered by Cabinet Committee on Federal-Provincial Relations on May 7. The paper recommends that MOT open discussions with B.C. on the need for assistance; that this need be assessed; and that the form of assistance to be discussed be limited to help for new ferry terminals and/or terminal approaches.

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- 2 -

Of paramount importance is the preservation of the 1966 Cabinet decision, which called for giving over to the provinces the responsibility for support to intraprovincial road link ferry services. This policy has been partially implemented in Ontario and Quebec.

Premier Barrett is aware that over \$40 million is provided to eastern ferry services on the basis of constitutional agreements, but tends not to accept this as the exclusive basis for support from the federal government. Ferry services in B.C. do receive over \$1 million a year at the present time.

Assessment:

There appears to be MOT/CTC consensus that B.C. have a case for a (limited and controlled) degree of federal support.

XPPP
April 25, 1974

April 74
5-50-11-8

ASSISTANCE TO BRITISH COLUMBIA FERRIES

1. SUBJECT AND PURPOSE.

To obtain approval of Cabinet to initiate talks with the Government of British Columbia in order to assess the need for federal assistance to B.C. FERRIES.

2. BACKGROUND.

The Prime Minister asked the Minister to bring forward alternative "formulac" by which assistance might be given to B.C. FERRIES. This Memorandum is the response.

At present 97% of federal assistance to ferry services goes to eastern Canada. Also, the claim by Mr. Barrett that ferries are an integral part of the transportation system in B.C. has validity. The Premier's view has received a sympathetic hearing by the Prime Minister.

The Prime Minister initially favoured a rationale that would give assistance to B.C. FERRIES toward the ferry link to Victoria because of its status as a provincial capital. This rationale would be consistent with treatment of ferry services to Charlottetown, P.E.I. and St. John's, Newfoundland, except that assistance to P.E.I. and Newfoundland is based on constitutional agreements. The Memorandum does not favour this rationale, because of the high cost implications of open subsidization; also, providing subsidy would contravene a 1966 Cabinet decision which directed that all ferry services of an "intraprovincial, road link nature" be the responsibility of provinces.

This Cabinet direction has been followed with respect to ferry services in Quebec and Ontario, where the federal government has "bought-out of" assistance commitments. Negotiations are starting with Ontario to pass the Pelee Island ferry service to provincial responsibility, and with Newfoundland negotiations are underway to put the Portugal Cove/Bell Island ferry service into provincial hands. Any form of federal subsidy to the ferry operations of B.C. FERRIES would reopen federal obligations in other provinces. This has been the paramount consideration in evaluating alternatives for assistance to B.C. FERRIES.

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- 2 -

In ranking alternatives, lump-sum payments to specific works were favoured over open-ended assistance forms. Also, assistance which could be visibly linked with expansion of services to satisfy public needs was favoured over payments which would be diffused and not publically visible.

3. MOT POSITION.

The Memorandum recommends that, if Cabinet gives its approval for MOT talks with B.C., that:-

- The need for assistance be fully assessed, taking into consideration the current high level of federal assistance to B.C. on other transportation projects.
- Assistance to specific new ferry terminals and/or approaches would be an acceptable form of help.
- While the amount of this assistance could be determined by a formula related to highway assistance this might limit the assistance level and the flexibility of the federal position.
- MOT would report to Cabinet on the results of negotiations, before proceeding with any agreement with B.C.

4. POSITION OF OTHER DEPARTMENTS.

PCO have naturally favoured assistance to B.C. FERRIES, reflecting the initial view of the Prime Minister. They are aware that MOT have from the beginning been reticent about this course of action. The current view of the Prime Minister is not known to us.

Finance and TBS favour the alternative in the Memorandum which involves assistance NOT TIED to highways. assistance nor a "Provincial Capital" rationale, and they have advised us that their Ministers' briefings will say this. This means that they will support a lump-sum form of payment directed to new ferry terminals and/or approaches, but without any tie-in to highways. This means they support the MOT preferred alternative. (Alternative F but not E, and Recommendation (b)ii), but not (b)i).)

.../3

- 3 -

5. ATTENDANCE.

Mr. M.E. Butler

TPP (Mr. G.I. Leney)

TPM

Ferry Classification for
Memorandum to Cabinet (B.C. Ferries)

This is further to my letter to Mr. Alan Campbell, in which I recorded his concerns. He has now phoned with further comments. I have said that the Memorandum is signed, but that if we agree with his requested changes, we will incorporate them in the memo before it goes forward to Cabinet Committee.

1. Newfoundland Coastal Ferries

The table shows Twillingate/New World Island, and Burnside/St. Brendans. Mr. Campbell contends these are no different than the other three Newfoundland outport ferries which we have listed under "coastal service - intra provincial". He feels we should have all five of them in the same category, and preferably under "coastal - intra provincial".

If we had a rationale for splitting these ferry services - for instance if the major volume of freight was vehicular for Twillingate and Burnside - then this split could be supported and we'll make a case for it; otherwise, we should go along with Mr. Campbell's position. Classing some or all of the Newfoundland outport ferries as contravening the 1966 Cabinet Directive naturally puts them on the slate for elimination from federal support. That will meet resistance, so the key is a very solid and reasonable interpretation of "intra provincial road link nature", as used in the 1966 Cabinet Decision.

2. B.C. Coastal Ferries

Mr. Campbell does not feel as strongly about having Gold River/Zeballos in the list; it carries some vehicles but is not primarily a road link in his opinion, because it calls at a number of Indian villages carrying freight. The same rationale as used in the East should be applied to decide where this one goes.

25/4
Discussed with G. Leney.
Subcategories all artificial
& not too significant
in terms of B.C. ferry
subsidies. We seem to
go along with Campbell's
classification if he is
insistent.
April 1974

550-11-8

- 2 -

3. Coastal - Intra Provincial

The Vancouver/West Coast Vancouver Island figure for 1972 is apparently \$160,000, instead of \$154,203. This would bear further checking to make sure this new figure from Mr. Campbell is better than the one you had. Apparently this ferry was supported for only the first six months of 1972, then assistance was transferred to the following.

He also says add Tofino/Ahousat, at \$36,950 and Fair Harbour/Kuyquot, at \$37,250. These subsidies were furnished in the fiscal year 72-73.

4. Corrections to Headings

Our categories under A and B should read "primarily road link for vehicles", and "primarily coastal service (freight carrying)" respectively.

Could you again obtain the help of Surface Administration to make this classification of ferry services.

Last night Mr. Aldwinckle was down here and advised that at the Cabinet Committee on Federal-Provincial Relations (Tuesday) did not deal with the B.C. ferries assistance issue in any way, but stuck exclusively to the tax question. The Prime Minister referred to the upcoming memo on assistance as being a separate matter. It will be necessary to have a revised and agreed-upon table by this Friday in order to be able to send the memo to PCO early next week. I am still operating on the basis that the D.M. has no major plans for major changes to the memo.



K. Wilson

c.c. DSM
SMO
DPI

(2)

PAG 244

Mr. P vinckle -

Thank you. This was handled
just right.

24-4-74

O.G.S.

000232



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

550-11-8

TO
A

- (1) SADM
(2) DM

FROM
DE

ASTA

SUBJECT
OBJET

BRITISH COLUMBIA FERRY SERVICE -
APPLICATION OF SALES TAX
(Cabinet Document No. 166-74)

SECURITY CLASSIFICATION / DE SÉCURITÉ	
CONFIDENTIAL	01065
OUR FILE - N/RÉFÉRENCE	
YOUR FILE - V/RÉFÉRENCE	
DATE April 23, 1974	

I attended the Cabinet Committee on Federal-Provincial Relations for the above-noted item on 23 April, 1974.

Mr. Stanbury reviewed the document and outlined the case against Imperial Oil Ltd. He noted that recently Gulf Oil Ltd. had withheld federal sales tax and, based on this, he recommended that the Department of National Revenue be authorized to proceed at once to initiate action against the companies involved to collect the tax and penalty owing.

In discussion, the Chairman (the Prime Minister) asked if a solution was near in a form of reciprocal taxing between governments. He was informed that work was in progress but that a solution was perhaps a year away. In response to a question from the Minister of National Revenue, the Chairman specifically stated that he was suggesting no connection between recovering the tax and any subsidy arrangement which might be made to BC Ferries. He stated that he understood that a paper on this matter was under preparation. The Minister of the Environment confirmed that he could see no particular problems if the recommended course of action was adopted. With no further discussion, the recommendation to take legal action to collect the tax and the penalty owing was adopted.

cc - L. Cope
DBC
XPPP

Senior Assistant Deputy Minister
Ministry of Transport

R. M. Aldwinckle

RECEIVED

APR 24 1974

OFFICE OF THE
DEPUTY MINISTER
TRANSPORT

000233

PRIVY COUNCIL OFFICE

DOCUMENT IS THE PROPERTY OF THE
GOVERNMENT OF CANADA



CANADA

BUREAU DU CONSEIL PRIVÉ

CE DOCUMENT EST LA PROPRIÉTÉ DU
GOUVERNEMENT DU CANADA

Serial 166-74RD
Série (C)

150-3

550-11-8

SECRET

The Cabinet Committee on Federal-Provincial
Relations

Le comité du Cabinet chargé des relations
fédérales-provinciales

RECORD OF COMMITTEE DECISION
RAPPORT DE DECISION DU COMITE

Meeting of April 23, 1974
Réunion du 23 avril 1974

CONFIRMED BY THE CABINET ON MAY 2, 1974
CONFIRMATION PAR LE CABINET LE 2 MAI 1974

British Columbia Ferry Service
Application of Sales Tax

Service de bacs de la Colombie-Britannique
Application de la taxe de vente

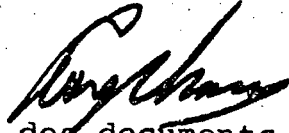
The Committee agreed that:

- (a) the Department of National Revenue be authorized to proceed at once to initiate court action against Imperial Oil Limited, and any other British Columbia Ferry Service suppliers in a similar situation, to collect sales tax, and penalties owing on supplies sold to the British Columbia Ferry Service;

SECRET

- 2 -

- (b) court action should be treated publicly as an issue between the federal tax administration and a taxpayer rather than a dispute between two levels of government.


Le dépositaire des documents du Cabinet
R.F. Charron
Supervisor of Cabinet Documents

May 2, 1974.
le 2 mai 1974

550-11-8

April 22, 1974

BY HAND

Mr. A.P. Campbell
Chairman
Water Transport Committee
275 Slater Street
Ottawa, Ontario

Dear Mr. Campbell:

During your absence this paper moved forward to its present form. The basic alternatives are unchanged from the November 9th draft which you viewed. The text of the Memorandum incorporates the points you raised, including your clarification of the B.C. FERRIES accounting procedures; the CTC rating of B.C. FERRIES fares as not out-of-line; etc.

You viewed an earlier table which gave a province-by-province breakdown of ferry subsidies for 1972. The present table has attempted, at the request of PCO, to show services considered to contravene the 1966 Cabinet decision. In our telephone conversation Friday you pointed out that Burnside/St. Brendans (Nfld), and possibly also Gold River/Zeballos (B.C.) should not be in this list.

We will take another look at these services and try to develop a precise way of defining "road link" (perhaps by vehicular tonnage) and will forward a proposed rationale within the next few days.

We are, as you would expect, obtaining the assistance of the Surface Administration in this task. Mr. Alan McKenzie has provided the regular counsel, but Mr. Knapp and Mr. Aldwinckle are familiar with the problem.

Yours sincerely,

Original Signed By

K. G. WILSON
K.G. Wilson
Policy Advisor - Marine
Transportation

Attach.

cc: ASTA, DSM, SMO,
DPI, DPD, TPP (G. Leney)

550-118

CONFIDENTIAL

18 April 1974

MEMORANDUM TO THE DEPUTY MINISTER

Re: Memorandum to Cabinet - Assistance to B.C. FERRIES

Attached is the proposed final version of a Memorandum to Cabinet dealing with assistance to B.C. FERRIES.

This Memorandum is the result of intensive staffing work with the Treasury Board Secretariat, Department of Public Works, Department of Industry, Trade and Commerce, Department of Finance, and, most particularly, the Privy Council Office. I am assured that because of this work the Memorandum in its present form is likely to be acceptable to officials in the foregoing government units.

The Memorandum has been coordinated from the beginning with the Surface Administration, who also assisted with the selection and rating of alternatives. CTC views have also been incorporated.

You viewed an earlier version of this paper, and it is returned attached, with your notes. Mr. Roberge of CTC viewed this draft, and, like yourself, was of the opinion that some degree of assistance to B.C. was inevitable.

You will recall that this paper was prepared at the specific request of the PCO, which evolved from a private meeting between the Prime Minister and the Premier of British Columbia in December 1972. The task of preparing a response was not clearly assigned to this Ministry until June 1973, when the attached letter was received from the Prime Minister. It has been a problem to suggest mechanisms of assistance which are acceptable. I am satisfied that the alternatives which are recommended for discussion with B.C. in the present paper involve the minimum possible conflict with established policy and minimum commitment to uncontrollable new expenditures.

.../2

- 2 -

It is suggested that the Canadian Surface Transportation Administration be responsible for the negotiation with the B.C. Government which this paper recommends be started. Mr. Aldwinckle concurs with this recommendation, and has approved this paper.

PCO have requested that this paper be put forward for consideration by the Cabinet Committee on Federal-Provincial Relations on April 23, 1974. A paper by National Revenue is scheduled for consideration then which deals with a related problem - the six years of Federal Sales Tax arrears on fuel oil used by the ferry service.

Attached is a note to the Minister which you may wish to use to convey this Memorandum for signature.

Original signed by

M.E. Butler

M.E. Butler

Attach.

cc: SADM
ASTA
AMTA
DBC



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

TO
À

TPM

FROM
DE

MSA

SUBJECT
OBJET

Assistance to British Columbia Ferries

SECURITY - CLASSIFICATION - DE SÉCURITÉ

CONFIDENTIAL

OUR FILE - N/RÉFÉRENCE

550-11-8

YOUR FILE - V/RÉFÉRENCE

DATE

16 April 1974

I have asked both DAMS and Mr. DeVos to comment on the attached paper. Mr. DeVos has made some comments in the margin of the paper which I am returning to you now.

Essentially he feels that this is a very good paper but has provided some new thoughts which might help foster the provision of additional assistance through changes in Ship Construction Subsidies.

I am passing these comments without prejudice, except that I hope they may be of some help. If Mr. O'Neil has any comments I will pass them on to you as well.

Original Signed By
HENRY M. WALSH

Henry M. Walsh
(6-7219)

Att.

000239



Government of Canada / Gouvernement du Canada

MEMORANDUM

NOTE DE SERVICE

TO
À

A S T A

FROM
DE

D S M

SUBJECT
OBJET

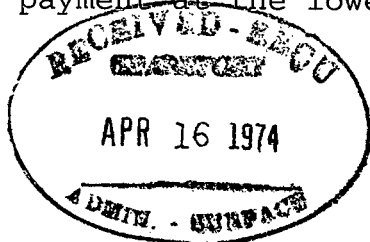
Federal Subsidies to
British Columbia Ferries

SECURITY - CLASSIFICATION - DE SÉCURITÉ
C O N F I D E N T I A L
OUR FILE - N/REFERENCE
550-11-8
YOUR FILE - V/REFERENCE
Donat
DATE
April 10, 1974

In a marginal note on a copy of a memorandum prepared for your signature to the Deputy Minister on the subject of federal subsidies to British Columbia ferries, you asked to be brought up to date on the situation.

It was mentioned in that memorandum that a Memorandum to Cabinet on the subject was being prepared, and I understand from XPPP that the latest version should be in your hands within the next few days. I have already received an advance copy of the document and have made several comments to Mr. Ken Wilson of XPPP who is handling the matter. The document as it now stands incorporates suggestions which we had made on earlier occasions, and the items which have to be corrected in the latest memorandum are very minor. For record purposes, I am attaching a list of the proposed changes.

The main proposal of the memorandum is that the Federal Government should respond favourably to the request of the Government of British Columbia for financial assistance to B.C. ferries, and this should be provided in the form of a lump sum grant towards the construction of terminal facilities. Other alternatives, including the provision of vessels or some form of deficit grant arrangement are covered in the memorandum but are not recommended on the grounds that they would lead to heavy on-going costs to the Federal Government or would contravene the general policy laid down by Cabinet in 1966 that the Federal Government should transfer to the Provinces all responsibility for intraprovincial ferry services. The recommendations in the memorandum are designed to avoid any sort of open-ended settlement and are designed to limit the federal contribution to a single payment at the lowest possible level. The memorandum requests



.../2

000240

- 2 -

that the Minister of Transport be authorized to enter into negotiations with the Government of British Columbia in order to determine the province's needs and the actual type of assistance which would be mutually acceptable.

Unless you have any objections, I shall be preparing a memorandum for your signature to Mr. Butler recommending the few minor changes and giving our support to the memorandum in general. I should mention that since the related question of B.C. withholding sales tax on fuel and other supplies used by B.C. ferries is expected to come to the forefront shortly. The Privy Council Office is anxious to have the Memorandum to Cabinet put forward as quickly as possible. The objective at the moment is to have the document before Cabinet on April 23.



D.F. Knapp

Attach.

SUGGESTED CHANGES IN MEMORANDUM TO
CABINET ON ASSISTANCE TO B.C. FERRIES

Page 2, Paragraph 6 (b)

There should be a notation that the Twillingate service has been replaced by a causeway.

Page 3, Paragraph 7

The words "operation and" should be deleted and the sentence should read, "However, responsibility for maintenance of the terminals has remained in federal hands to date...".

Page 3, Paragraph 12

The last sentence appears to be based on a misunderstanding. The causeways to which the Marine & Ferry Branch referred would be located on the mainland end of the run and are made necessary by extremely shallow water in that area. The arrangement would be roughly similar to the arrangement in Tsawwassen. The Marine & Ferry Branch has been advised unofficially that the cost of such a terminal, including the causeway, might be in the region of \$20,000,000. The Vancouver Island end of the run would be located on Gabriola Island and several bridges would be required to connect the terminal with the main island. The costs of such crossings would presumably be part of the provincial highway program.

Page 4, Paragraph 16

A reference is made to Alternative A being a decision to provide no increase in assistance to B.C. ferries. It is recognized that this increase would be in relation to the existing shipbuilding subsidy, but perhaps the sentence should be reworded to bring out this fact.

Page 5, Paragraph 17

The reader might be misled into believing that the figure of \$23,000,000 is related to the B.C. demand. The paragraph should stress that the calculations on this point are pure conjecture at this time.

- 2 -

Page 5, Paragraph 20

Perhaps a copy of the Prime Minister's 1973 letter should be attached as an annex.

Page 7, Paragraph 36

This paragraph should be reworked so that the total cost implications bear some relationship to the itemized amount for each alternative. Perhaps the cost related to different time scales should be emphasized as well.

Annex I

The international service between Yarmouth and Bar Harbor appears to fall into the category of primary coastal service (freight carrying and no vehicles). This is not the case, but the statement could probably be corrected quite easily by making the international sub-heading Item C.

Marine & Ferry Branch
April 10, 1974



Government of Canada / Gouvernement du Canada

MEMORANDUM

NOTE DE SERVICE

TO
À

Mr. R.M. Aldwinckle, ASTA

FROM
DE

M.E. Butler, XPPP

SUBJECT
OBJET

Memorandum to Cabinet - B.C. FERRIES

SECURITY - CLASSIFICATION - DE SÉCURITÉ
OUR FILE - N/RÉFÉRENCE
YOUR FILE - V/RÉFÉRENCE
DATE

Delivered by Ken Wilson hand 15 Apr 74.

550-11-8

Donat

April 9, 1974

Your March 8th memorandum to the Deputy Minister referred to the Memorandum to Cabinet on assistance to B.C. FERRIES, which was in preparation here. Attached is what should be the final draft of this Memorandum. In the draft memorandum to the Deputy Minister, which is also attached, I comment that the staffing of this paper has been extensive and should be acceptable to other departments, Treasury Board, and PCO in its present form. Mr. Arnold Tennenhouse has been the TB contact.

It had been hoped that the study on B.C. FERRIES which was promised by Mr. Strachan at the December W.E.O.C. meeting would have been received before this paper was put to Cabinet. A study is apparently underway with Swan-Wooster, but apparently results are not yet available. In any event, PCO would like the Memorandum for consideration at the April ~~16th~~ meeting of the Cabinet Committee on Federal-Provincial Relations, in order to be read with a paper from National Revenue on the Federal Sales Tax withholding problem, which also concerns the ferry service. We are trying to comply with this request.

Messrs. Peel and McKenzie contributed to this paper during the drafting stages; Mr. McKenzie helped in the selection of options and recommendations, and attended a meeting at PCO in December with Mr. Ken Wilson of my staff, at which time the paper received general endorsement from PCO (Mr. Haney), as well as representatives from Treasury Board, Finance, and DPW.

Subsequently, a categorization of ferry services was developed. This work had actually been requested by the 1966 Cabinet Directive, but was never carried out in the form required as far as we could determine. (Some papers from Mr. Alan Campbell of CTC relate to this task, but have not been useable for the present Memorandum. The attached categorization table has not been discussed with the CTC,

.../2

000244

- 2 -

although they did view a previous draft of this Memorandum and their suggestions in other areas have been incorporated. Accordingly, it is proposed that the table itself not be distributed. There should be no dispute with the "contravening" ferry services which have been extracted from the table, and listed under paragraph 6 of the Memorandum. PCO specifically asked that the services we considered in this category be listed for Ministers.)

Mr. Stoner viewed the previous draft of this Memorandum, and felt that B.C. had a case. The CTC (Mr. Roberge) was also of this opinion.

Recommendations call for talks to be initiated by MOT with B.C. in order to analyze the need for assistance. Assistance which may be acceptable would be in the form of grants toward terminal construction and/or terminal approaches, causeways, etc. My draft memorandum to the DM suggests that Surface Administration lead in these negotiations, if they proceed.

Summaries and recommendations for the Cabinet Memorandum are in preparation here.



M.E. Butler

Attach.

cc: DSM
SMO
TPM
TPP
DBC



DEPARTMENT OF TRANSPORT
MINISTÈRE DES TRANSPORTS

YOUR FILE
VOTRE RÉF:

IN REPLY QUOTE
RÉF. À RAPELER:

MEMORANDUM TO THE DEPUTY MINISTER

Re: Memorandum to Cabinet - Assistance to B.C. FERRIES

Attached is the proposed final version of a Memorandum to Cabinet dealing with assistance to B.C. FERRIES.

The attached draft is the result of extensive staffing work with the Treasury Board Secretariat, Department of Public Works, Department of Industry, Trade and Commerce, Department of Finance, and, most particularly, the Privy Council Office. I am assured that because of this work the present draft is likely to be acceptable to officials in the foregoing government units.

The Memorandum has also been coordinated and assisted from the beginning with the Surface Administration, and with CTC.

You viewed an earlier version of this paper, and it is returned attached, with your notes. Mr. Roberge viewed this draft, and, like yourself, was of the opinion that some degree of assistance to B.C. was inevitable.

You will recall that this paper was prepared at the specific request of the PCO, which evolved from a private meeting between the Prime Minister and the Premier of British Columbia in December 1972. The task of preparing a response was not clearly assigned to this Ministry until June 1973, when the attached letter was received from the Prime Minister. It has been a problem to suggest mechanisms of assistance which are acceptable. I am satisfied that the alternatives which are recommended for discussion with B.C. in the present paper involve the minimum possible conflict with established policy.

*no commitment to
uncontrollable new expenditures.
.../2*

- 2 -

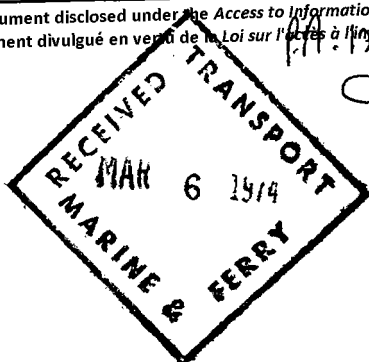
It is suggested that the Canadian Surface Transportation Administration be responsible for the negotiation with the B.C. Government which this paper recommends be started. Mr. Aldwinckle concurs with this recommendation, and has approved this paper.

PCO have requested that this paper be put forward for consideration by the Cabinet Committee on Federal-Provincial Relations on April 23, 1974. A paper by National Revenue is scheduled for consideration then which deals with a related problem - the six years of Federal Sales Tax arrears on fuel oil used by the ferry service.



M.E. Butler

Attach.



AMTA
→ ASTA

I see some problems in
ferreting out all the info. I
would much prefer to come up with a
solution for federal assistance to
B.C. Ferries e.g. Tobermory
approach.

O.G.S.

28-2-74

(2)

~~DSH~~

Please review and
advise me what may be
done. J. ASTA
5 Mar 74.

11/3/74
create copy to
to call with to
prepare info for BC.
JH

000248



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

TO
A

DN

FROM
DE

AMTA

SUBJECT
OBJET

B.C. Ferries (Subsidization)

① ASTA
ASTA

As per some problems out all
ferrying. Two would be
in re info - prefer to be
month. Information B.C. Ferries
up all. No trace of
crossed. eg. 10 hours
approach

550-11-8

SECURITY CLASSIFICATION DE SÉCURITÉ
OUR FILE - VOTRE RÉFÉRENCE
YOUR FILE - VOTRE RÉFÉRENCE
DATE February 26, 1984.

While I was in Victoria last week, I was asked to meet with Mr. Prelypchan from the Department of the Attorney-General. Mr. Prelypchan explained that British Columbia was doing a thorough constitutional analysis at proving that there was a federal obligation to give financial support to the ferry services from the mainland to Vancouver Island. He did not explain to me specifically what references within the constitution they were going to use but did go on to say that they had been gathering information on the subsidies being provided to both the Prince Edward Island and Newfoundland ferry services and to the various CTC subsidized services.

He showed me a list of the various services on which they have information and as far as I could see it was fairly complete. However, he did ask if the Federal Government would provide them with information on all services which had received a federal subsidy since 1968 and the annual amount for each service by year from that date.

It should be!
We provided it!

I am sure that one way or another they can obtain the information whether we give it to them or not and I am copying this memorandum to ASTA in the belief that we should provide them with the information they are asking for. If you agree, perhaps you would wish to inform ASTA.

Obviously British Columbia is going to come on quite strongly again on the matter of ferry subsidies - but it is my belief that it will not come up as a major item at the next meeting of Ministers but rather in the form of some major submission directly from the province.

R. Illing.

000249



Public Works
Canada

Travaux publics
Canada



550-11-8

- 0230

CONFIDENTIAL

Ottawa, Ontario
K1A 0M2
November 23, 1973.

TOM

Mr. K. G. Wilson,
Policy, Planning & Major Projects,
Ministry of Transport,
Place de Ville,
Ottawa, Ontario
K1A 0N5

Dear Mr. Wilson:

Re: Assistance to British Columbia Ferries

This will confirm the message I left with your secretary with respect to the November 9th draft of the Memorandum to Cabinet.

The policy of the government as interpreted by the Department of Public Works has been to resist pressures from provincial or other agencies in their requests for assistance in providing terminal facilities for intraprovincial ferries.

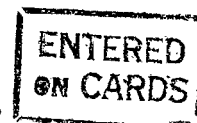
The Department has had lengthy discussions with both the Provinces of Ontario and Quebec in which it has reiterated its interpretation of Treasury Board policy that no assistance should be given to intraprovincial ferries, which includes the terminal facilities. At the present time there are three ferry terminals in the Province of Quebec which were formerly built and maintained by the Government of Canada and which are now being rebuilt and altered by the Province of Quebec. I would therefore suggest that the draft memorandum should be altered to remove any suggestion that terminal facilities would be a responsibility of the federal government.

Policy for interprovincial ferries is, as you know, quite different, in that at Saint John, N.B., Digby, N.S., North Sydney, N.S. and Port aux Basques, Nfld., the Canadian government has provided terminal facilities at federal government expense.

Yours sincerely,

C. K. Hurst

C. K. Hurst, P.Eng.,
Chief Engineer.



350-11-811

OTTAWA, Ontario.
K1A ON5.

8 November 1973.

Mr. Allan P. Campbell,
Chairman,
Water Transport Committee,
Canadian Transport Commission,
275 Slater Street,
Ottawa, Ontario.
K1A ON9.

Dear Mr. Campbell:

Attached are statistics derived from basic subsidy data obtained through the kindness of Captain G. R. McLeod. The data has been used by our Professional Services Group to indicate the portion of subsidies devoted to inter-provincial services, and the portion devoted to intra-provincial services. Necessarily, there is some arbitrary division made, for example, the international run to Bar Harbour is considered under the "inter" category.

This material has been prepared to support a Memorandum to Cabinet in connection with Mr. Barrett's request for assistance to B. C. Ferries, but the tables themselves will not be put forward with the memo.

You recall that the subject of this memo was first raised by the Premier of British Columbia during a visit to the Prime Minister in December, 1972. The Prime Minister has continued to show special interest in the B.C. request, and has asked for a series of alternative proposals. A draft of the proposed Memorandum will be put in your hands by the end of the week.

Yours very truly,

Original Signed By
A. R. CONBOY
A. R. Conboy,
Director,
Policy Planning & Major Projects.

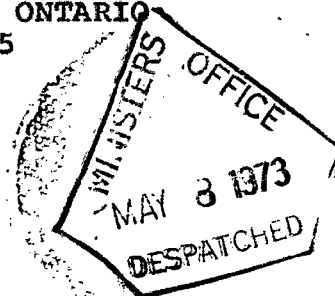
Att.

KGW:gmb

550-11-8

Confidential

OTTAWA, ONTARIO
K1A 0N5



Le très honorable Pierre-E. Trudeau
Premier ministre du Canada
Ottawa (Ontario)

Monsieur le Premier ministre,

J'ai bien reçu votre lettre du 29 janvier
à propos des dispositions que le gouvernement fédéral
pourrait prendre pour aider la province de la Colombie-
Britannique à améliorer son service de traversiers.

Bien que je sois favorable aux demandes
du premier ministre, M. Barrett et que je sois sensible à
vos suggestions concernant les possibilités d'aider
la Province à remplacer certains traversiers ou à
augmenter la capacité du service, je m'inquiète du
précédent que créerait l'octroi d'une telle aide, en
ce qui concerne les autres modes de transport, ailleurs
au Canada.

Comme vous le mentionnez dans votre lettre,
le gouvernement fédéral possède, bien sûr, les navires
exploités par le Canadien National qui assurent la
liaison entre l'Ile-du-Prince-Edouard et le Nouveau-
Brunswick et entre Terre-Neuve et la Nouvelle-Ecosse.
Cependant, nous avons évité, depuis quelques années,
de fournir des navires pour des services intraprovinciaux
et, comme vous le savez sans doute, la politique actuelle
du gouvernement est de cesser toute forme de participa-
tion à ces services. J'admets toutefois que le service
de traversier Vancouver-Victoria peut être considéré
comme un cas particulier.

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- 2 -

Avant d'aller plus loin, je voudrais proposer qu'un petit groupe de hauts fonctionnaires des Transports et des ministères de l'Industrie et du Commerce, des Finances et possiblement des Travaux publics se rendent à Victoria pour discuter avec les responsables de la province de certaines autres formes d'aide qui pourraient peut-être satisfaire M. Barrett. Je pense notamment à la possibilité de construire des terminaux pour traversiers, ce qui risquerait moins de créer des précédents que le fait de fournir des navires. A la suite de telles discussions, je serais en mesure de présenter au Cabinet un mémoire plus détaillé, en ce qui concerne les diverses solutions à envisager, que je ne pourrais le faire pour le moment.

Si vous êtes d'accord avec cette façon de voir les choses, j'écirai à M. Barrett pour lui demander que la réunion ait lieu dès que possible.

Je fais parvenir copie de la présente à mes collègues des Finances, de l'Industrie et du Commerce, du Revenu national et des Travaux publics.

Je vous prie d'agréer, Monsieur le Premier ministre, l'expression de mes sentiments distingués.

Jean Marchand



P. A.
Confidential

To DADS.
to note.
Q
9/5/73
3804-12
AMTA
550-11-8
02004
APR - 4 1973

MEMORANDUM TO THE DEPUTY MINISTER

**Re: Response to Prime Minister's Letter to
Mr. Marchand on Requests from Premier Barrett
for Assistance to British Columbia**

You will recall that the Prime Minister wrote to Mr. Marchand on the subject of possible assistance to the British Columbia ferry system from the Ministry of Transport. The Prime Minister suggested that a Memorandum to Cabinet might be brought forward on the subject.

We had suggested to the Minister that prior to preparing this Memorandum it might be useful if some senior officials from this Ministry and the others involved talked with officials of the Premier's office in an attempt to clarify what options might be available to assist the Premier other than the purchase of vessels.

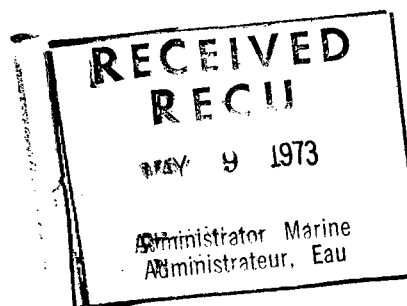
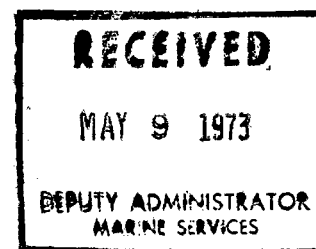
The Minister indicated his agreement to this approach and the letter to the Prime Minister is drafted accordingly.

ORIGINAL SIGNED BY
C. C. HALTON

C. C. Halton

CC: SADM
ASTA
AMTA
DBC

Att.



000254

~~3804-12~~

Confidential

APR - 4 1973

MEMORANDUM TO THE MINISTER

Re: Your Response to Prime Minister's Letter
on the Subject of Assisting British Columbia
Ferry System

I attach a suggested reply from you to the
Prime Minister on this question.

You may recall that you indicated agreement
that officials from the Ministry and other interested
Federal departments should visit the Province to try
and determine what options might satisfy Premier Barrett.

Your reply to the Prime Minister makes
this suggestion. Should he agree I will arrange to
have a letter from you to Premier Barrett prepared
suggesting that the discussion you refer to take place
as soon as possible.

Original Signed by

O. G. STONER

O. G. Stoner

Att.

Handwritten: Forward to Minister April 21/73.
H.S.

000255

OTTAWA, ONTARIO
K1A 0N5

Confidential



Le très honorable Pierre-E. Trudeau
Premier ministre du Canada
Ottawa (Ontario)

Monsieur le Premier ministre,

J'ai bien reçu votre lettre du 29 janvier à propos des dispositions que le gouvernement fédéral pourrait prendre pour aider la province de la Colombie-Britannique à améliorer son service de traversiers.

Bien que je sois favorable aux demandes du premier ministre, M. Barrett et que je sois sensible à vos suggestions concernant les possibilités d'aider la Province à remplacer certains traversiers ou à augmenter la capacité du service, je m'inquiète du précédent que créerait l'octroi d'une telle aide, en ce qui concerne les autres modes de transport, ailleurs au Canada.

Comme vous le mentionnez dans votre lettre, le gouvernement fédéral possède, bien sûr, les navires exploités par le Canadien National qui assurent la liaison entre l'Ile-du-Prince-Edouard et le Nouveau-Brunswick et entre Terre-Neuve et la Nouvelle-Ecosse. Cependant, nous avons évité, depuis quelques années, de fournir des navires pour des services intraprovinciaux et, comme vous le savez sans doute, la politique actuelle du gouvernement est de cesser toute forme de participation à ces services. J'admets toutefois que le service de traversier Vancouver-Victoria peut être considéré comme un cas particulier.

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Avant d'aller plus loin, je voudrais proposer qu'un petit groupe de hauts fonctionnaires des Transports et des ministères de l'Industrie et du Commerce, des Finances et possiblement des Travaux publics se rendent à Victoria pour discuter avec les responsables de la province de certaines autres formes d'aide qui pourraient peut-être satisfaire M. Barrett. Je pense notamment à la possibilité de construire des terminaux pour traversiers, ce qui risquerait moins de créer des précédents que le fait de fournir des navires. A la suite de telles discussions, je serais en mesure de présenter au Cabinet un mémoire plus détaillé, en ce qui concerne les diverses solutions à envisager, que je ne pourrais le faire pour le moment.

Si vous êtes d'accord avec cette façon de voir les choses, j'écrirai à M. Barrett pour lui demander que la réunion ait lieu dès que possible.

Je fais parvenir copie de la présente à mes collègues des Finances, de l'Industrie et du Commerce, du Revenu national et des Travaux publics.

Je vous prie d'agréer, Monsieur le Premier ministre, l'expression de mes sentiments distingués.

Jean Marchand

MB/cn

PA 550-11-82

FEB 15 1973

MEMORANDUM TO SADM

Re: The Prime Minister's Letter to Mr. Marchand
Concerning Assistance to the British Columbia
Ferry System

You asked me for a reaction to the attached letter. You may be aware that there have been some preliminary discussions between ourselves, ITC, and PCO on this subject, which did not yield any particularly promising ideas on what might be offered to Mr. Barrett.

The letter from the Prime Minister puts the Premier's requirements a little clearer than we have seen them before, and focuses on capital assistance on vessels for the ferry service, but not at the expense of a national shipbuilding subsidy increase.

I find it difficult to see how we could meet these suggestions under any sort of existing MOT program. I understand, however, that the Government of British Columbia is planning extensions to its ferry terminals at Nanaimo and Horseshoe Bay, and at several of the smaller terminals in the system. This construction program would cost several million dollars and might offer an opportunity for Federal participation, provided additional funds were available from somewhere. Another possibility would be to provide maintenance for some of the existing or future terminal facilities; in this case, perhaps through the Department of Public Works.

Before we go to Cabinet with suggestions, as requested by the Prime Minister, it might be useful to get some idea of BC's ferry terminal requirements and operational

- - - /2

- page 2 -

costs. We should perhaps await the Minister's reaction to the letter, and as requested I attach a brief note to the Minister covering the letter, which Miss Carrière indicates he has not yet seen.

Original Signed by
M. BRENNAN

M. Brennan

c.c. ASTA,
AMTA,
DBC,
XPPP.

MB/cn

MEMORANDUM TO THE MINISTER

Re: Letter From the Prime Minister Concerning Assistance
on Ferry Vessel Construction for British Columbia

The attached letter from the Prime Minister requests your consideration of a way in which we might assist the Province of British Columbia in building vessels for its ferry service.

My impression is that it would be particularly difficult to justify any form of shipbuilding assistance from MOT funds. It might be easier to think in terms of capital assistance on terminal facilities, or maintenance by the Department of Public Works, provided the necessary funds were forthcoming.

One response might be for you to reply to the Prime Minister suggesting that consultations at the official level take place with the Premier's office, so that a better understanding of his requirements and of potential expenditures will be obtained. This would allow us to prepare a more meaningful Memorandum to Cabinet, which the Prime Minister indicated he would like to see.

If, having seen the letter, you agree with this course of action, we will proceed to prepare a reply.

G. A. Scott

G.A. Scott,
Senior Assistant Deputy Minister.



CANADA

DEPARTMENT OF TRANSPORT
MINISTÈRE DES TRANSPORTS

YOUR FILE
VOTRE RÉF:

IN REPLY QUOTE
RÉF. À RAFFELER:

520-11-8

MEMORANDUM TO SADM

FEB 14 1973

Re: The Prime Minister's Letter to Mr. Marchand
Concerning Assistance to the British Columbia
Ferry System

You asked me for a reaction to the attached letter. You may be aware that there have been some preliminary discussions between ourselves, ITC, and PCO on this subject, which did not yield any particularly promising ideas on what might be offered to Mr. Barrett.

The letter from the Prime Minister puts the Premier's requirements a little clearer than we have seen them before, and focuses on capital assistance on vessels for the ferry service, but not at the expense of a national shipbuilding subsidy increase.

I find it difficult to see how we could meet these suggestions under any sort of existing MOT program. I understand, however, that the Government of British Columbia is planning extensions to its ferry terminals at Nanaimo and Horseshoe Bay, and at several of the smaller terminals in the system. This construction program would cost several million dollars and might offer an opportunity for Federal participation, provided additional funds were available from somewhere. Another possibility would be to provide maintenance for some of the existing or future terminal facilities; in this case, perhaps through the Department of Public Works.

Before we go to Cabinet with suggestions, as requested by the Prime Minister, it might be useful to get some idea of BC's ferry terminal requirements and operational

RECEIVED

FEB 14 1973

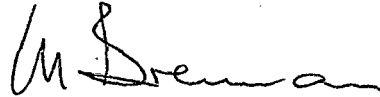
Senior Assistant Deputy Minister
Ministry of Transport

ENTERED
ON CARD 2

000261

- page 2 -

costs. We should perhaps await the Minister's reaction to the letter, and as requested I attach a brief note to the Minister covering the letter, which Miss Carrière indicates he has not yet seen.



M. Brennan

c.c. ASTA,
AMTA,
DBC,
XPPP.

OFFICE OF THE MINISTER OF TRANSPORT
CABINET DU MINISTRE DES TRANSPORTS

① XPPP

Memorandum

Feb. 7/73

Note de service

To - Destinataire: <i>S. R. D. M.</i> Mr. Davey	From - Expéditeur: Carmel
<p>Mr. Marchand has not yet seen this letter but I thought you might wish to have a copy.</p> <p><i>George</i> you may want to have this looked at in advance of the minister seeing it. T.M.J.</p>	

03 - 0046
1-71



CANADA

FEB - 6 1973

CONFIDENTIEL

PRIME MINISTER · PREMIER MINISTRE

Ottawa K1A OA2

Le 29 janvier 1973

550-11-8

15206

Mon cher collègue,

Vous vous souviendrez qu'au cours des dernières années, nous avons eu de nombreux entretiens avec le gouvernement de la Colombie-Britannique au sujet du service de bacs dont il est le propriétaire et l'exploitant. Ce service permet, notamment, le transport des voitures de Vancouver à Victoria. A l'époque du Premier ministre Bennett, les entretiens ont principalement porté sur la demande de la Colombie-Britannique d'exempter le service de bacs de l'impôt fédéral sur les ventes; les autorités fédérales ont toujours répondu qu'il ne saurait y avoir d'exception dans ce cas et que le problème devait être étudié dans le cadre des entretiens fédéraux-provinciaux sur les questions de fiscalité intergouvernementales.

L'une des premières démarches de M. Barrett, une fois devenu Premier ministre, a été de soulever cette question à nouveau. Il m'a écrit à ce sujet et j'ai eu l'occasion d'en discuter avec lui lors de sa dernière visite à Ottawa. Nos collègues, le ministre des Finances et le ministre du Revenu national,

L'honorable Jean Marchand
Ministre des Transports
Chambre des communes
OTTAWA

.../2

ENTERED
ON CARDS

- 2 -

ont naturellement suivi l'affaire de près. D'autre part, M. Barrett souhaite qu'on examine d'autres moyens, pour le gouvernement fédéral, de venir en aide au service de bacs de Colombie-Britannique. Il demande, en particulier, dans son dernier télégramme, dont vous trouverez le double ci-joint, que le Canada accorde des subventions pour couvrir 40 p. 100 des frais de construction de nouveaux bacs pour la flottille de la province.

Cette proposition a été étudiée par des fonctionnaires du Bureau du Conseil privé, du ministère de l'Industrie et du Commerce et d'autres ministères intéressés. Il est évident que le Canada peut difficilement envisager une augmentation générale du montant actuel des subventions qu'il accorde pour la construction de bateaux, que ce soit pour le marché intérieur ou pour l'exportation. Une telle augmentation serait très onéreuse et difficilement justifiable à l'heure actuelle. Il serait tout aussi difficile, mais moins coûteux, d'augmenter uniquement le montant des subventions accordées pour la construction de bacs. Et si l'on accordait, dans le cadre du programme du ministère de l'Industrie, des avantages particuliers aux bacs de Colombie-Britannique, on nous presserait sans doute ensuite d'être plus généreux avec d'autres services de bacs ou d'autres types de bateaux.

Par ailleurs, il m'a semblé, au cours des entretiens que j'ai eus avec M. Barrett, que la Colombie-Britannique a des motifs valables pour demander l'aide du gouvernement fédéral à cet égard. Je sais que le gouvernement fédéral a accordé, par le passé, un certain nombre de subventions d'établissement et de fonctionnement à divers services de bacs, surtout dans l'Est du Canada. Depuis quelques années, d'énormes

.../3

efforts sont accomplis pour libérer, dans la mesure du possible, le gouvernement fédéral de ce genre de responsabilités. On y a largement réussi, mais nous sommes toujours entièrement responsables des deux services interprovinciaux les plus importants de l'Est du Canada, c'est-à-dire celui qui relie le Cap Tourmentin (Nouveau-Brunswick) à Borden (Île-du-Prince Édouard), et celui qui relie Sydney (Nouvelle-Écosse) à Port-aux-Basques (Terre-Neuve).

Je me rends compte que ces deux importants services sont interprovinciaux et, d'après la Constitution, relèvent de notre compétence, alors que le service Vancouver-Victoria, intra-provincial, n'a, en théorie, rien à voir avec nous. On pourrait aussi faire valoir qu'une aide à la Colombie-Britannique à cet égard pourrait amener les provinces à faire de nouvelles demandes d'assistance fédérale pour d'autres services intra-provinciaux. Il me semble, malgré tout, que le service Vancouver-Victoria présente un cas particulier. Tout bien considéré, on pourrait sans doute le décrire comme l'un des trois principaux services de bacs au Canada, les deux autres étant ceux dont j'ai parlé ci-dessus. Je ne crois pas qu'il existe d'autre service d'une importance comparable pour le pays, étant donné ses répercussions sur l'activité régionale ou le nombre des personnes desservies. On pourrait même, sans exagérer, décrire le service de Colombie-Britannique comme profitant au Canada en général, puisqu'il constitue un chaînon indispensable de la route transcanadienne.

A la lumière de ce qui précède, je vous serais reconnaissant de me faire connaître vos commentaires quant à la possibilité de considérer le service de bacs de Colombie-Britannique comme un cas particulier, non pas en accordant des exemptions fiscales ou en partageant les frais d'exploitation, mais en partageant

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généreusement le capital d'établissement nécessaire pour assurer, au besoin, le remplacement des bacs ou pour augmenter le nombre de bacs en service lorsque la demande l'exige. Cette mesure ne donnerait pas au service de Colombie-Britannique un appui aussi important que celui accordé aux deux autres services, mais elle constituerait au moins une reconnaissance tangible de son importance pour les habitants de la Colombie-Britannique et du Canada. Il serait possible d'évaluer avec une bonne précision le coût qu'un tel projet représenterait pour le gouvernement fédéral au cours des prochaines années. Je sais que la Colombie-Britannique envisage de lancer un programme de construction de bacs dont le coût pourrait être de quelque 200 millions de dollars, répartis sur les prochains dix ans. Ce programme n'est pas destiné à remplacer exclusivement les bacs faisant la navette entre Vancouver et Victoria, mais je pense qu'une bonne partie de ces fonds devra servir à remplacer les bacs actuellement en service sur ce parcours.

De toute manière, j'aimerais connaître vos vues à ce sujet. Si cette façon d'aborder la question paraît raisonnable à votre ministère, vous voudrez peut-être, en collaboration avec les autres ministères intéressés, soumettre un mémoire approprié à l'examen du Cabinet. J'adresse une copie de la présente lettre à nos collègues des ministères des Finances, de l'Industrie et du Commerce et du Revenu national.

Je vous prie de recevoir, mon cher collègue, mes cordiales salutations.



ENTERED
ON CARD

000267



CONFIDENTIAL

PRIME MINISTER · PREMIER MINISTRE

Ottawa
K1A OA2
January 29, 1973

My dear Premier:

Thank you for your telegram concerning shipbuilding subsidies which might be applied toward the construction of new ferries for the British Columbia fleet. We are looking at this question carefully.

I have the feeling that it would be difficult for us to adjust the subsidy policies to meet your particular need without, at the same time, running into serious difficulties in a number of other respects. We are nevertheless looking sympathetically at what might be done either in the way you suggest or in some other fashion.

I would hope to be able to write to you again on this subject within a few weeks.

Yours sincerely,

Original signed pcr

Original signed by

P. E. TRUDEAU

FEB - 5 1973

The Honourable David Barrett,
Premier of British Columbia,
Parliament Buildings,
Victoria, British Columbia.

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THE RIGHT HONOURABLE P. E. TRUDEAU, P.C.
PRIME MINISTER OF CANADA OTTAWA ONT

BT
PRESENT UNEMPLOYMENT SITUATION IN BRITISH COLUMBIA MAKES IT
MOST URGENT YOU ACT IMMEDIATELY TO IMPLEMENT MY REQUEST TO
YOU PERSONALLY IN OTTAWA IN DECEMBER AND ALSO IN MY LETTER TO
YOU OF DECEMBER FOURTEENTH TO RESTORE THE FORTY PER CENT
FEDERAL SHIP CONSTRUCTION SUBSIDY OVER A SEVEN YEAR PERIOD
TO ALLOW EFFECTIVE LONG TERM EMPLOYMENT PLANNING IN THE
SHIP BUILDING INDUSTRY

DAVID BARRETT PREMIER PROVINCE OF BRITISH COLUMBIA

M

2354 002



VICTORIA

December 14, 1972

The Right Honourable P. E. Trudeau, P. C.,
Prime Minister of Canada,
Ottawa, Ontario.

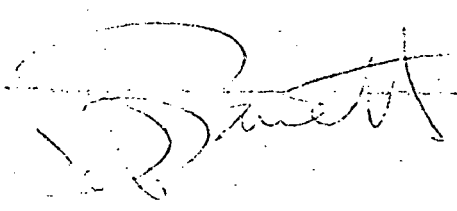
Dear Mr. Prime Minister:

Regarding our discussions on December 11th in Ottawa, this will confirm my request for restoring the Federal Government ship construction subsidy to the original level of 40% when the program was introduced in 1961. The rate, I understand, was set by order-in-council. I suggest a period of seven years should be established for the 40% subsidy to allow for effective long-term planning in the Canadian shipping industry.

There is urgency to restoring and sustaining employment and these suggestions, in my view, would materially assist in achieving this goal.

I would like to take this opportunity to thank you for our cordial discussions and to wish you the compliments of the Season.

Yours sincerely,



Premier

PA


Mr. Stoner

I have sent a copy to Mr.
Halton who may be providing
a further note to you.



S.T. Grant

11-12-72

000271

A2. BRITISH COLUMBIA FERRIES DISPUTE:
Collection of Sales Tax from Suppliers

550-11-8

13300

There has been a disagreement for some time between the federal government and the Province of British Columbia over the taxation of building materials, fuel oil, and other supplies purchased by the British Columbia Ferry System, which forms a part of the provincial Department of Highways. The Department of National Revenue is applying the federal sales tax to suppliers of the ferry service essentially because Section 46 (2) of the Excise Tax Act, which provides for tax relief for the provinces, excludes from such relief goods that are to be used for "commercial or mercantile purposes". However, the Province claims that goods acquired for use in departmental operations are not taxable. Mr. Bennett took various steps to prevent British Columbia from bearing the federal tax, including:

- (a) deducting an amount equal to federal sales tax from invoices received from suppliers, and ✓
- (b) giving written instructions to bidders for construction work on ferry terminals that tenders should be submitted on the basis that building materials used for this purpose will not be subject to federal sales tax. ✓

The dispute does not involve a direct confrontation between the governments of Canada and British Columbia because the federal sales tax is not collected from the provincial government but rather from its suppliers such as Imperial Oil. The suppliers, however, find themselves caught between two governments. This situation provoked Imperial Oil, in September 1970, to stop remitting sales tax to the federal government.

On the basis of a Cabinet decision dated June 29, 1972, the Department of National Revenue was to institute legal action against Imperial Oil during the fall of 1972. Since then two important changes have taken place. Firstly, a new government was elected in British Columbia. This raised the possibility that it might be possible to settle this problem without recourse to legal proceedings against Imperial Oil. It also raised the danger that if the federal government proceeded quickly against Imperial Oil, it might appear that we were attacking, albeit indirectly, the new B.C. administration, after appearing to ignore the same issue for a number of years while Mr. Bennett was in power. For both reasons, action against Imperial Oil has been deferred.

.../2

The second change, which may not require that the federal government proceed against Imperial Oil is that a number of suppliers to the B.C. Ferry System, who had been paying federal tax, filed a statement of claims, for recovery of tax, against the federal government in the Federal Court of Canada on November 6, 1972. The federal government had to file a written defence before December 6, 1972, but an agreement has just been reached between the counsels for the defendants and the plaintiffs for an indefinite extension. Nonetheless, our most recent information continues to be that the case may be heard in January, and it could then become known to the public that the federal government has not yet taken action against Imperial Oil despite Imperial's refusal to pay federal tax. In any event, once the issue is before the courts, there would be no reason not to proceed with the case against Imperial Oil.

At the end of September Premier Barrett wrote you asking for a quick resolution of the problem of the application of the federal sales tax to the British Columbia Ferry System. Premier Barrett took the same position as Premier Bennett respecting the non-taxable status of British Columbia Ferries. (The relevant exchange of correspondence is attached.)

In your reply to Premier Barrett you indicated that "reciprocal taxation" may be an overall solution to most of the intergovernmental taxation problems, including the British Columbia Ferry issue; and reiterated that the Department of National Revenue had to enforce the Excise Tax Act and collect taxes on supplies used for commercial and mercantile activity of another government. You also added that without a resolution of the problem of the British Columbia Ferries between the two governments, the Department of National Revenue would be required to take action through the courts against the suppliers (Imperial Oil) for the collection of the tax, but that you hoped for a resolution without recourse to the courts.

British Columbia is the only province which has not indicated its willingness to cooperate in the federal-provincial study of intergovernmental taxation which is now under way, although Premier Barrett has only recently been made aware of the issue. (See attached note for the current state of this work.) If Premier Barrett could be persuaded to cooperate in this matter, the B.C. Ferries question would then become a temporary one only, as his agreement to participate in the study would likely lead to B.C. signing the agreement on intergovernmental taxation which is envisaged.

.../3

If the Premier is agreeable to have his government participate in the federal-provincial study, officials of the two governments could meet over the next few weeks to see if some form of arrangement could not be reached which would enable both governments to live with what would then be only a temporary problem. In discussing this possibility with Premier Barrett you might wish to indicate that there are possibilities for some program adjustments in other areas related to transportation (1) which could offset to some extent the financial burden which B.C. would have to accept if the province agrees to the federal position.

If B.C. were prepared to change its position on sales tax, it is possible the suppliers would withdraw their case and B.C. would probably have to pay them approximately one million dollars.

On the other hand, if Premier Barrett is not interested in cooperating in the work on intergovernmental taxation, and if he is adamant about his position on federal sales tax, the courts will proceed with the case now before them. This will probably also require that the federal government proceed with its case against Imperial Oil.

(1) Air, marine and surface transportation programs i.e. wharf and harbour construction, navigation aids, etc.

Taxation intergouvernementale

Le but de cette note est d'exposer succinctement les problèmes suscités par le système de taxation intergouvernementale présentement en vigueur et de résumer les éléments d'une solution de rechange.

Malgré les efforts répétés pour améliorer le présent système, celui-ci a toujours manqué de cohérence. En effet, ce système repose sur une règle générale à l'effet que les ministères ne paient pas les taxes à la consommation des autres gouvernements alors que les Corporations et les Agents de la Couronne les paient. Dans la pratique, il y a de nombreux accrocs à cette règle.

Les entreprises privées souffrent aussi du système actuel. Deux situations se présentent fréquemment. Dans la première, le fournisseur est coïncé entre un gouvernement à qui il a de bonne foi payé la taxe, et son client, un autre gouvernement qui, pour une raison ou pour une autre, refuse de la lui rembourser. Dans la deuxième situation, une entreprise privée sujette à une taxe à la consommation est obligée de concurrencer avec un organisme gouvernemental engagé dans les mêmes activités commerciales qu'elle et exempt de taxe.

Le présent régime de taxation intergouvernementale est à l'origine de fréquentes controverses entre gouvernements, et c'est là le plus sérieux des problèmes. A l'origine de ces disputes, on retrouve habituellement les causes suivantes:

- (a) les corporations fédérales de la Couronne ne paient pas les taxes provinciales sur les services et les locations;
- (b) la structure des organismes plutôt que leur fonction constitue le critère d'assujettissement à la taxe d'accise;
- (c) la distinction entre les opérations taxables des ministères (c'est-à-dire les opérations commerciales et manufacturières) et les activités non taxables est très difficile à faire;
- (d) les ministères fédéraux paient la taxe provinciale sur les matériaux de construction alors que les ministères provinciaux ne paient pas la taxe fédérale sur ces mêmes matériaux. Il y a lieu de noter aussi que lorsque deux gouvernements sont engagés dans un programme à frais partagés, la répartition des coûts entre les deux est sensiblement modifiée si l'un des partenaires seulement est affecté par les taxes de l'autre.

Dans le rapport qu'il a préparé sur cette question, le Comité permanent des questions économiques et fiscales a conclu que les arrangements actuels étaient caractérisés par l'absence d'un "principe directeur" et par un manque de cohésion. Parce que les efforts pour améliorer le système actuel ont échoué, le rapport souligne qu'il faut d'abord trouver une idée de base sur laquelle on puisse établir un système cohérent, simple et efficace. Le Comité a étudié deux formules: l'exemption réciproque et la taxation réciproque. C'est cette dernière qui semble rallier les opinions. Cette solution prévoit qu'en vertu d'accords réciproques le gouvernement fédéral et les gouvernements provinciaux accepteraient que les ministères, les Corporations de la Couronne de même que les agences gouvernementales versent au gouvernement qui impose une taxe, des montants équivalents aux taxes de consommation qu'ils auraient payés s'ils avaient été taxables.

Conformément à une décision du Cabinet, le Ministre des Finances du Canada a soumis aux Ministres des finances et aux Trésoriers provinciaux les conclusions et recommandations du Comité Permanent. Lors de leur réunion du 13 juillet 1972, les Ministres ont demandé que les travaux en vue de l'implantation éventuelle d'un système de taxation réciproque portent sur les points suivants:

- (a) Mise au point d'une méthode simple de paiement d'indemnité (compensation) aux provinces qui seraient désavantagées par l'implantation du nouveau système;
- (b) Mise au point d'une formule selon laquelle les taxes provinciales pourraient être appliquées aux achats du pourvoyeur central du gouvernement fédéral selon la province où les marchandises sont utilisées;
- (c) Détermination de la date d'entrée en vigueur du système;
- (d) Rédaction de projets d'accords et de loi type selon lesquels les gouvernements seraient autorisés à effectuer des paiements équivalents aux taxes imposées par un autre gouvernement;
- (e) Etude des conséquences de la taxation réciproque pour les provinces qui décideraient de ne pas signer de telles ententes, y inclus la possibilité pour ces provinces de l'exemption réciproque.

Une lettre du Premier ministre du Canada aux Premiers ministres des provinces, datée du 19 mai 1972, a été l'occasion d'une relance des activités dans ce domaine. Invités par cette lettre à indiquer s'ils étaient toujours intéressés à la formule de taxation réciproque, neuf Premiers ministres provinciaux ont répondu affirmativement. Seul l'honorable Bennett, alors Premier ministre de la Colombie Britannique, a répondu négativement. Il est possible que le nouveau gouvernement de cette province veuille réviser cette décision.



CONFIDENTIAL

PRIME MINISTER · PREMIER MINISTRE

Ottawa
K1A OA2
November 21, 1972

My dear Premier:

Thank you for your letter dated September 28, referring to the application of federal sales tax to supplies purchased for use by British Columbia owned ferries operating between the mainland and Vancouver Island. I welcome this opportunity to review this problem which has been the subject of discussion between the governments of Canada and British Columbia for some time.

It might be useful to review briefly the background to the question and the more general setting which governments face with respect to taxation of each other's operations.

In a very general way the rule is that all goods purchased for operations which might be described as commercial or mercantile are subject to sales taxes, whether carried out by the private sector or by governments. Normally, governments do not tax each other with respect to what could be loosely described as purely governmental, or non-commercial activities. While this underlying principle seems clear and reasonable, in practice the determination of what is taxable or non-taxable is sometimes difficult.

The Honourable David Barrett,
Premier of British Columbia,
Parliament Buildings,
Victoria, British Columbia.

.../2

CONFIDENTIAL

The federal government and the provinces have recognized that "intergovernmental taxation" (the application of the taxes of one government to another) is a matter of mutual concern and a special sub-committee of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters was established several years ago to work on all aspects of this problem as it relates to consumption taxes. When the report of this Sub-committee and the recommendations of a majority of the officials on the Continuing Committee were considered by a meeting of Ministers of Finance and Provincial Treasurers in July 1971, most of the ministers agreed that the best solution to intergovernmental tax problems in the field of consumption taxes appeared to be to adopt a system referred to as "reciprocal taxation". Roughly speaking, under such a system governments would pay each other's consumption (sales) taxes.

Ministers also agreed that a study should be made of the implications of such a system for any province which decided not to participate. I wrote to all the First Ministers about this in May of this year and the replies have indicated a very wide measure of agreement that the suggested work should proceed, and I understand that federal and provincial officials have begun the necessary detailed studies. I hope it will be possible to reach an overall solution in the next one or two years, and I would appreciate receiving your views on this important question when you have had an opportunity to give it your consideration.

In the meantime, I am sure you would agree that we have little choice but to continue to administer the present system, with all its complexities, in accordance with the law. The federal sales tax applies to all goods manufactured in Canada or imported into this country except those which are specifically made exempt by the Excise Tax Act. The tax is imposed upon the manufacturer or importer. An important tax relief is provided in subsection 44 (2) of the Act which reads as follows:

.../3

"(2) Where goods have been purchased by Her Majesty in right of any province of Canada for any purpose other than:

- (a) resale
- (b) use by any board, commission, railway, public utility, university, manufactory, company or agency owned, controlled or operated by the government of the province or under the authority of the legislature or the lieutenant governor in council; or
- (c) use by Her Majesty or by Her agents or servants in connection with the manufacture or production of goods or use for other commercial or mercantile purposes;

a refund of taxes paid under Part III, IV or V may be granted to Her Majesty or to the manufacturer, producer, wholesaler, jobber or other dealer as the case may require."

You will note that this tax relief does not apply where goods have been purchased by Her Majesty for use for "other commercial or mercantile purposes".

It is accepted that the British Columbia coastal ferry system has been part of the provincial Department of Highways since 1968. However, as noted above, the ownership of an operation is not the crucial factor in the determination of taxability under the federal Excise Tax Act. Rather, the interpretation has centered upon whether materials purchased by the Ferry Service are used for commercial or mercantile purposes. When the coastal ferry service was operated by the British Columbia Authority prior to 1968, it was regarded and acknowledged as a commercial operation.

.../4

CONFIDENTIAL

When it became part of the Department of Highways its policies were not, so far as I know, substantially changed. It would still seem to be, for example, quite a different sort of operation than certain free ferry services operated by the British Columbia Department of Highways across a number of lakes and rivers throughout the province. Purchases of supplies and equipment in respect of the latter service have not been subject to the federal sales tax.

In interpreting the relevant provision of the Act the Department of National Revenue takes account of the level of charges made for services and the extent to which an operation competes with others. The amount of profit, if any, is not necessarily relevant since as you will appreciate, many privately run commercial concerns often operate at a loss for a period of years but nevertheless pay sales tax. Federal sales tax is also collected from other provincial governments where their departments engage in commercial operations, regardless of whether profits or losses are incurred.


Concurrently with the British Columbia Ferry Service becoming part of the provincial Department of Highways in 1968, the provincial government took the position that those who sold supplies to the Ferry Service no longer had to pay the federal sales tax. In fact, I understand that the Province insisted upon an adjustment in the amount it paid for these supplies in order to reflect this position. Faced with these circumstances, one supplier has stopped paying the federal sales tax on goods sold to the Ferry Service. The Department of National Revenue believes that those who supply materials to the Service are subject to tax on these sales, and it continues to demand the tax from the suppliers.

.../5

CONFIDENTIAL

I am sure you will understand that without a resolution of this problem between our two governments, the Department of National Revenue which is charged with the responsibility of enforcing the Excise Tax Act, will be impelled to take action through the courts against the supplier for the collection of the tax. The federal government, of course, is very much concerned that the provision for an exemption from sales tax for this particular operation, which it regards as commercial, would establish a precedent for similar exemptions where other commercial operations were taken over or commenced by provincial governments. However, I hope that it will prove possible to settle the issue through discussions between our two governments especially in the context of the broader background of my comments on "reciprocal taxation". I have therefore asked the federal Minister of Finance to look into this matter and discuss it with you on a priority basis.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'J. J. L. L. L.' with a stylized flourish at the end.



VICTORIA

September 28, 1972

The Right Honourable P. E. Trudeau, P. C.,
Prime Minister of Canada,
Ottawa, Ontario.

My dear Prime Minister:

I have been reviewing the matter raised in your letter of July 7th, 1970 concerning the application of the Federal Sales Tax to supplies used by our British Columbia owned ferries operating between the mainland and Vancouver Island.

This may be raised at our special session of the Legislature opening on October 17th, and I would appreciate your resolution of the matter rather than it becoming a public debate at that time.

Your letter notes the fact the ferries are operated under the jurisdiction of the Department of Highways of the provincial government. Thus they would normally, and should, be exempted from the Federal Sales Tax. However, you say your government regards them as "commercial". For your information, the operation of these ferries is heavily subsidized by the provincial government as a vital link in the continuation of the Trans Canada Highway system from the mainland to Vancouver Island. This is a unique intra-provincial situation in Canada.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Bill Bennett", written over a faint circular stamp.

Premier and
Minister of Finance

cc. - The Honourable John N. Turner

A3.

ASSISTANCE TO SHIP BUILDERS

The Department of Industry Trade and Commerce provides assistance to ship builders under two programs:

- (1) The Ship Construction Subsidy Regulations (SCSR)
- (2) The Ship Building Temporary Assistance Program (STAP)

The Ship Construction Subsidy Regulations Program commenced in 1961 and has continued since but with modifications from time to time. Originally the rate of assistance provided was at 40% of contract price, it has been gradually reduced to the present rate of 17½%, and it will be further reduced to 17% for vessels completed after February 28, 1973. The rate of assistance was gradually reduced to the 17% level because it was considered to be the level generally consistent with tariff rates that apply on other products.

The program is available to Canadians, Crown Corporations, and Provinces. Vessels must be above a certain minimum size, be Canadian owned and registered in Canada.

Assistance was provided under this program for the vessels in the existing B.C. ferry fleet. Most of these vessels were built in the early years of the program when the rate of assistance was at the 35 to 40% level.

The Ship Building Temporary Assistance Program was introduced in 1970 to provide assistance to ship builders so that they could penetrate the export market. The current rate of assistance is 15½% for vessels under 25,000 tons and 12½% for vessels over 25,000 tons. This program is currently scheduled to end in October 1975.

Assistance could therefore be provided to British Columbia for the construction of ferry vessels under the Ship Construction Subsidy Regulations at a rate of 17% of contract price.

MEMORANDUM

GOVERNMENT OF CANADA



NOTE DE SERVICE

GOUVERNEMENT DU CANADA

FROM
DE

DBC

TO
À

PA
Mr. O. G. Stoner
Deputy Minister

SUBJECT
SUJET

Subsidies for B.C. Ferries

SECURITY - CLASSIFICATION - DE SÉCURITÉ

CONFIDENTIAL

OUR FILE - N/RÉFÉRENCE

558-11-8

YOUR FILE - V/RÉFÉRENCE

DATE

November 29, 1972

You will be pleased to learn that the proposal to introduce federal subsidies for the B.C. Ferry Service - as a means of compensating the Province for the federal taxes payable for oil and other materials used in the operation of the ferries - will, in all likelihood, be abandoned as a result of discussions we held yesterday with Gaetan Belec of the PCO. So, what began as a hurried and informal request for bare statistics on total ferry operation subsidies in Canada, was soon discovered to be the basis for this retrograde proposal.

For all intents and purposes, it has been scotched as a result of our bringing into the picture the Surface Administration, XPPP and the CTC, who shared our view that the proposal would be a backward step and should be abandoned if at all possible. Fortunately, we were successful in convincing Mr. Belec of our collective viewpoint and our understanding is that he will stress the disadvantages of the subsidy proposal in reporting to his superiors.

Under the circumstances, there is no need to provide Mr. Belec with any ferry subsidy statistics and, unless we hear from him to the contrary, we will consider the matter closed.

A. L.
André Laframboise

André:
This is an excellent
bit of work - it prevented
a very ill thought out initiative
from building up 5 + some things
and surely has put things
into a rational
framework.
Thank you
000284 1

NOTE FROM
THE BUREAU OF
COORDINATIONNOTE DU
BUREAU DE
COORDINATION

Confidential.

TO À

FROM DE

DATE

Special AGRR

DBC

4/7/72

FOR YOUR INFORMATION À TITRE
D'INFORMATION

British Columbia Ferry Service
Application of Sales Tax.
RCD confirmed by Cabinet June 29, 1972.
cc XPPP, J. Sylvester ASTA.



000285

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Serial No. _____
Série _____

CONFIDENTIAL

The Cabinet Committee On Federal-Provincial Relations

RECORD OF COMMITTEE DECISION

Meeting of June 20, 1972

CONFIRMED BY THE CABINET ON JUNE 29, 1972

British Columbia Ferry Service
Application Of Sales Tax

The Committee agreed that:

- (1) In principle, and subject to the views of ministers from British Columbia, the Department of National Revenue should be authorized to take court action against Imperial Oil to cover the tax owing on the sale of fuel oil to the British Columbia ferry service.
- (2) No action should be initiated before the courts until after the Minister of Finance's meeting with the Premier of British Columbia and then only if no new developments which required Cabinet's further consideration arose out of the meeting with the Premier.

D.J. Leach
D.J. Leach,

Supervisor of Cabinet Documents.

June 30, 1972.

MEMORANDUM

GOVERNMENT OF CANADA



NOTE DE SERVICE

GOUVERNEMENT DU CANADA

FROM
DE

B. Goulet

TO
À

C. C. Halton

SUBJECT
SUJET

B. C. Ferry Service - Application of Sales Tax

SECURITY - CLASSIFICATION - DE SÉCURITÉ

CONFIDENTIAL

OUR FILE - N/RÉFÉRENCE

150-3

YOUR FILE - V/RÉFÉRENCE

550-11-8

DATE

April 17, 1972

Recent developments regarding the Cabinet Committee Decision on Federal-Provincial Relations - Mr. J. C. Tremblay, Privy Council Office, referred me to Mr. Dough Clark, finances (tel: 2-5826). A draft letter to the First Ministers of all provinces was prepared by Mr. Turner for the signature of the Prime Minister early last week and it is not definite if the letter will be sent out due to possible reconsideration of the whole question by the Cabinet Committee on Federal-Provincial Relations. Mr. Gray and Mr. Turner re-examined the whole impact of the decision and a memorandum to the Cabinet is being prepared now by Mr. Clark and others and should be ready before the end of the week. The previous decision not to sue Imperial Oil may be revised at the meeting of the Cabinet Committee on Federal-Provincial Relations, Tuesday, April 25.

Mr. Clark would most probably accept to send a copy of this document for your consideration but considers it a very delicate question since it would first need Mr. Turner's approval before being made available. Mr. Clark underlined the sensitivity and the urgency of the question. It might be possible for you to get in touch with him directly or would you like me to contact him again after your consideration of the question.


B. Goulet

JRG/pm cc--DH

DBC

Spec. Rec. ✓

DBC

CONFIDENTIAL

150-3

550-11-8

Mr. O.G. Stoner,
Deputy Minister.

February 1, 1972.

RECORD OF CABINET DECISION

Attached, for your information, is a copy of
the R.D. (Record of Cabinet Decision) on the subject of:

B.C. Ferry Service - Application of Sales Tax

A. Laframboise.

Att:

DBC
Spec. Rec.

DBC

CONFIDENTIAL

~~158-3~~

550-11-8

Mr. C.C. Halton, KPPP

February 1, 1972.

RECORD OF CABINET DECISION

Attached, for your information, is a copy of
the R.D. (Record of Cabinet Decision) on the subject of:

B.C. Ferry Service - Application Of Sales Tax

Original Signed By:
L.G. COPE

L.G. Cope
Bureau of Coordination

Att:

DBC
Spec. Rec.

DBC

CONFIDENTIAL

~~150-3~~ 550-11-8

Mr. W. Le Clerc, ASTA

February 1, 1972.

RECORD OF CABINET DECISION

Attached, for your information, is a copy of
the R.D. (Record of Cabinet Decision) on the subject of:

B.C. Ferry Service - Application Of Sales Tax

Original Signed by
L. G. COPE

L.G. Cope
Bureau of Coordination.

Att:

- cc-- 1. A.L. Peel, DSH
2. D. Knapp, DSM

~~Private & Confidential~~

530-11-8

Ottawa, Ontario.
January 27, 1972.

Capt. H.E. Young,
President,
Nootka Sound Service Ltd.,
CAMPBELL RIVER,
British Columbia.

Dear Captain Young:

I enclose for your consideration terms of reference for the study of the west coast of Vancouver Island transportation requirements which you now have underway.

I have drafted these with great care and have, of course, consulted my colleagues. I believe they accurately detail the requirements of the study and are fully compatible with the personal understanding of those requirements that exists between you and me. I would however be grateful for any comments you may have.

I propose to telephone you early next week to discuss the subject in a general way and specifically to discuss the terms of a contract covering the work. I expect this would be a very short document in which the principle item would be the agreed fee.

As we have discussed I intend to make available to you a financial officer to assist in putting together the pro-forma operating statements required by the terms of reference. Would you please let me know approximately when this assistance might be most useful to you.

Yours very truly

C. P. Campbell
ALAN P. CAMPBELL

Alan P. Campbell,
Chairman,
Water Transport Committee.

APC/pm

Encl.

P.S.: Please ensure that any correspondence is addressed to me personally and marked 'Private & Confidential'

530.11-8

January 26, 1972.

PRIVATE AND CONFIDENTIAL

This will confirm our several conversations in which you undertook, in a completely confidential way, to survey and report on the water transport needs of the west coast of Vancouver Island.

Broadly stated, your terms of reference are;-

- A. To describe the existing system of road and water services and identify, with reasonable accuracy, by name, location, population, nature of industrial and commercial activity and annual tonnages shipped in and out those places now dependent on the system.
- B. To forecast how the system might develop year by year over the next five years and to describe local water transport services which, as road links or road extensions, are or would be required to complement the road system so as to make available to all communities, reasonable access to economic and efficient transportation adequate to their needs.
- C. The existence of air services should be mentioned but details can be obtained from the Air Transport Committee of the CTC and attached to your report as an appendix.

By way of further details:

- A. 1. The description would deal mainly with those places served by the three subsidized services i.e. Northland Shipping Co., Nootka Sound Service Ltd. and the "Lady Rose" service in Barkley Sound but the first two named would be dealt with in greater detail. Some rationale for the need of subsidy and the size of the subsidy in each case should be provided. This would involve some discussion of freight rates and the volume of traffic and the interrelation of the two with each other and upon the need for subsidy.

.../2

- 2 -

- A.
2. A study of the map indicates that a number of places accessible only by water are not served by any subsidized service and therefore must be served privately by different means. These means should be discussed.
 3. It is important to describe the major barge service from and to Port Alice, how it affects the supply situation in Quatsino Sound, how local distribution in Quatsino Sound is accomplished and why subsidies are not required.
 4. Although apparently less important than (3) the barge service from and to Gold River and its effect on the transportation needs of the Nootka Sound area should be described.
 5. The major export of forest products via ocean going vessels from Tahsis and Gold River warrants brief mention as an indicator of the industrial strength of the region.
 6. It does not appear necessary to deal with places south of Pachena Point and obviously it is not necessary to discuss Port Alberni except as a supply centre.
 7. Such other details as may appear to you to be relevant.
- B.
1. The objective is to describe for the west coast of Vancouver Island what is in fact, by the National Transportation Act, policy applicable to all Canada viz "an economic, efficient and adequate transportation system making the best use of all available modes of transport at the lowest total cost".
 2. It is assumed that the objective mentioned in (1) can best be achieved by local water transport services operating as extensions of or links between local roads.

...../3

- 3 -

- B. 3. You should describe each of the services required in some detail. The detail would include the names of the places served and the name of the place from which each service originates. Some description of wharf and shed facilities especially at the ports of origin should be included. The most suitable type of vessel should be described in each case and some comment upon availability of the type of vessel described, purchase price and price of conversion if any should be included. It would be useful to include some observations as to the availability of competent operators.
4. The details of (3) should be incorporated into pro-forma operating statements and include, on a basis of sound accounting principles, all costs properly attributable to each service as well as projected revenues based on forecast traffic volumes and tariffs of freight rates. The tariffs of freight rates should be those that appear commercially reasonable having due regard to the nature of each service. In this respect a possible technique might be to project tariffs of freight rates that ensured subsidies would not be required and then, by examination and testing, to discover whether reductions were necessary as a matter of commercial practicality. A very valid test would be to compare rates which would preclude the need for subsidies with existing transportation costs. The extent that reductions in such rates appeared necessary would be the measure of subsidies required.
5. The approach should not be miserly; neither should it be expansionary. Giving "adequacy of service" and "levels of freight rates" reasonably hand-headed commercial definitions the objective is to describe a system that gives no less and no more than adequate service to those places now receiving service via subsidized operation but bearing in mind that as the road system expands some of these places will cease to need water service.
6. Such other details as appear to be relevant.
7. To the extent that accounting skills are required especially in connection with B(4) the CTC is prepared to lend assistance.

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Serial No. _____
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CONFIDENTIAL

The Cabinet Committee On Federal-Provincial Relations

RECORD OF COMMITTEE DECISION

Meeting of January 18, 1972

B.C. Ferry Service - Application Of Sales Tax

The Committee agreed that:

(a) for the time being, court action should not be taken against Imperial Oil to recover the tax owing;

(b) an effort should be made to reach early agreement on intergovernmental taxation with as many provinces as possible on the basis of "reciprocal taxation" and that, to this end, the Prime Minister should write to the First Ministers of all provinces formally offering an arrangement along these lines and inviting their agreement;

(c) the matter would be reviewed again by Cabinet at a later date in the light of responses of provinces to the federal offer.

CONFIRMED BY THE CABINET ON JANUARY 27, 1972

D.J. Leach,
Supervisor of Cabinet Documents.



CANADA

DEPARTMENT OF TRANSPORT
MINISTÈRE DES TRANSPORTS

YOUR FILE
VOTRE RÉF:

IN REPLY QUOTE
RÉF. À RAPELLER:

~~9-9-71~~

550-11-8

1-000

January 18, 1972

MEMORANDUM TO THE DEPUTY MINISTER

BRITISH COLUMBIA FERRY SERVICE APPLICATION OF
SALES TAX (Cab. Doc. 991-71)

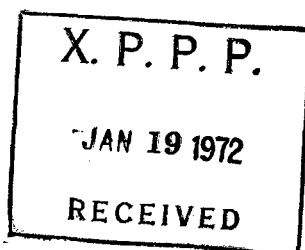
Attached is a briefing note to the Minister on the agenda item concerning Sales Tax to the B.C. ferries to be discussed at to-day's Cabinet Committee Meeting on Federal-Provincial relations.

*Am took
original to
Minister
Jan 18/72*

I am willing to attend this meeting with the Minister if he requires my support. However, I have a great deal of work here in the office and would prefer not to go if possible. Our suggestion to the Minister is that this is a largely financial matter and should be left in the hands of the sponsoring departments of Finance and National Revenue.

*D. Schaffner
for C. C. Halton.*

ENT'D



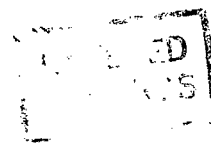
ENT'D

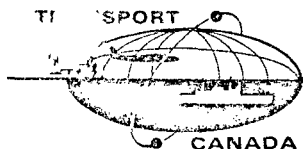
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RECEIVED

JAN 19 1972

OFFICE OF THE
DEPUTY MINISTER





DEPUTY MINISTER OF TRANSPORT
SOUS-MINISTRE DES TRANSPORTS

MEMORANDUM TO THE MINISTER

BRITISH COLUMBIA FERRY SERVICE APPLICATION OF
SALES TAX (Cab. Doc. 991-71)

Cabinet Document 991-71 deals with the question of whether the federal sales tax should be applied to fuel used by British Columbia ferries.

Under the provisions of the Excise Tax Act, the Department of National Revenue collects federal sales tax on fuel supplied for B.C. ferry services. Up until 1970 the fuel companies paid the federal sales tax and incorporated it into their billing to the B.C. Government. In turn the B.C. Government deducted the amount of the federal sales tax when remitting back to the fuel companies, claiming that the ferries were part of the Department of Highways and thus exempt. In 1970 the fuel companies notably Imperial Oil, ceased paying the federal sales tax. In the joint recommendation from Mr. Gray and Mr. Benson authorization is being sought to take court action against Imperial Oil to recover the taxes owing.

It can be argued that ferries are in fact an extension of the highway system. On the other hand sales tax exemption is given only for strictly highway construction materials and not for associated activities. For example the GO trains which are owned by the Ontario Department of Transportation. It is the Ministry's view that the B.C. ferries are a competitive element in the B.C. mainland to Vancouver Island transport system and as such are only an extension to the Highway Department's activities, and as such this initiative is another example of Premier Bennett attempting to gain points for the Provincial Government at the expense of the Federal Government.

We therefore concur with the action recommended by the Minister of Finance and the Minister of National Revenue to take court action against Imperial Oil. From a point of view of Federal-Provincial relations and Finance's taxation planning, this is the simplest course of action which would permit the Federal Government to restate clearly its position on sales tax on transportation equipment and supplies.

*Am took original
to Minister
18
000297
117*

- 2 -

If B.C. was allowed to get away with avoiding sales tax on its ferry system then the Federal Government can expect pressures from all sorts of transportation operators for similar exclusion from sales tax.

We suggest this matter is largely financial and should be left in the hands of the sponsoring ministers. Charles Halton will be able to attend the Cabinet Committee Meeting if you wish him to be there.

O. G. Stoner.



DEPUTY MINISTER OF TRANSPORT
SOUS-MINISTRE DES TRANSPORTS

CONFIDENTIAL

January 18, 1972.

MEMORANDUM TO: XPPP

B.C. FERRY SERVICE - APPLICATION
OF SALES TAX

I believe you are aware of the background of this matter.

The latest memorandum, attached, is to be discussed at Cabinet Committee on Federal-Provincial Relations on Tuesday afternoon. I think it might be helpful if you could be present.

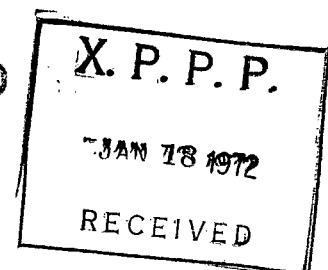
In the meantime, I would welcome any comments your people might have on the attached memorandum that might be brought to the attention of the Minister.

O.G. Stoner.

c.c. DBC

*Rm 340 S
Centre Block*

ENT'D



Mr. Stoner -

Cab. Cttee on Federal-Provincial
Relations - Tuesday, Jan. 18
3.30 p.m.

I have been informed there is a meeting of the above Cttee this afternoon. There are four items on the agenda, but I understand the only one of interest to Transport is the first one, i.e.

British Columbia Ferry Service -
Application of Sales Tax.

DBC are aware, and the document is attached for your ready reference.

18.1.72

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921-71

CONFIDENTIAL

September 8, 1971

MEMORANDUM TO THE CABINET

BRITISH COLUMBIA FERRY SERVICE -
APPLICATION OF SALES TAX

SUMMARY

1. This Memorandum concerns a dispute between the federal government and the Province of British Columbia over the taxation of supplies used for operation of the British Columbia ferry system, which forms a part of the provincial Department of Highways. The Department of National Revenue is applying the federal sales tax to suppliers of the ferry service essentially because section 46 (2)(c) of the Excise Tax Act denies tax relief on goods to be used by provincial departments for "commercial or mercantile purposes". The tax is not collected directly from the Province but rather from the suppliers of taxable goods to the ferry service. However, the Province claims that goods acquired for use in departmental operations are not taxable and for the past three years the Department of Highways has deducted the tax factor from invoices received from oil companies and other suppliers. Imperial Oil, the largest supplier, continued to pay the federal tax until September 1970 when it suddenly stopped, in the hope of having the courts rule upon the substantive issue of whether section 46 (2)(c) authorizes the taxation of goods to be used by the British Columbia ferry service.

2. The Department of National Revenue must take action against Imperial Oil to recover the tax owing and it is recommended that they be authorized to proceed. Consideration has been given to alternatives such as conceding the issue by a special remission of taxes to Imperial Oil. However, this could expose the federal treasury to sizeable revenue losses in respect of transportation operations in both the public and private sectors. It would appear to set the stage for other federal-provincial disputes in respect of provincially owned railways and bus lines and might encourage British Columbia or other provinces to use the withholding of tax factors from suppliers as a bargaining device with the Department of National Revenue. The procedure suggested involves some risk since a favourable court decision, while considered probable, is not assured. The implications of an unfavourable decision are noted.

3. The only satisfactory solution to disputes of this nature is through some form of over-all agreement between Canada and the provinces in respect of intergovernmental taxation. Discussions between governments to this end have made encouraging progress in the past six months. There appears to be a general consensus that tax exemptions for governments are undesirable, and support for a form of "reciprocal taxation" to be implemented through bilateral agreements between governments. Even though British Columbia may decline to participate in such arrangements, the general direction in which governments are moving supports the position proposed in the current dispute. Alternative courses of action at this stage to deal with this dispute would appear to be contrary to a long term solution endorsed by the government.

THE PROBLEM

4. This memorandum relates to a new and serious development in the lengthy Canada-British Columbia dispute concerning the application of federal sales tax to the purchase of supplies for the provincially-owned ferry service

on the west coast. Supplies for this service have been taxed by the Department of National Revenue from the time of its inception. On February 16, 1968 the Province transferred the operation from an independent authority to the provincial Department of Highways and immediately adopted the practice of deducting the tax factor from invoices received from suppliers of fuel oil, the most important good used in the Ferry operation. However, section 45 (2)(c) of the Excise Tax Act denies tax relief in respect of goods to be used by provincial government departments for "commercial or mercantile purposes". The Department of National Revenue held that the ferry operation was of a commercial nature and continued to collect tax from the fuel suppliers. The immediate result was that the federal tax had to be absorbed by these suppliers. In September 1970 the largest supplier, Imperial Oil, suddenly stopped its remittance of federal tax. We understand this was done on legal advice in an endeavour to have the issue solved by the courts. Several other firms have also become involved including Shell Canada Limited, Gulf Oil Canada Limited, Standard Oil of British Columbia Limited and Diachem of British Columbia Limited. The Department of National Revenue must take action against taxpayers who do not remit their sales tax and proposes to take action against Imperial Oil under section 50 (1) of the Excise Tax Act, bringing that Company before the Federal Court. This action may indirectly involve the British Columbia Government and lead to a court decision on the substantive issue as to whether goods acquired by the ferry service are used for "commercial or mercantile purposes".

OBJECTIVES

5. The objectives of this memorandum are: (a) to comment briefly on the substantive issue of applying federal sales tax to goods purchased by the B.C. ferry service, (b) to note the possible consequences and implications of taking court action against Imperial Oil, and (c) to suggest a course of action, noting possible alternatives.

ANALYSIS

A. Substantive Issue of Applying Federal Sales Tax to the B.C. Ferry Service

6. The substantive question of whether or not federal sales tax should be applied to goods purchased by the B.C. ferry service was dealt with in Cabinet Document No. 132-70 of January 28, 1970, a joint submission from the Ministers of Finance and National Revenue, attached as Appendix A. This document made the following points:

- (a) A good case can be made that the ferry service is of a commercial and mercantile nature. The service competes with other forms of transportation, both marine and air. Also, the charges for the services are substantial; for example, the rate for a driver and passenger vehicle making a one-way crossing between the mainland and the Island is \$7.00.
- ✓ (b) Acceptance of the British-Columbia position that departmental operations even of a commercial or mercantile nature should not bear federal tax would be very costly to the federal government if it induced provinces to bring other transport systems, liquor boards, electric power commissions, telephone utilities and other agencies that are now taxed, within so-called departmental structures.
- ✓ (c) Disputes of this nature can best be settled within some general framework of how governments apply their taxes to each other and such a framework should be of a "reciprocal nature", i.e., governments should bear the weight of each other's taxes to a generally similar degree. (Premier Bennett has several times indicated a preference for governmental exemptions. However, British Columbia tax practice does not indicate that the Province is prepared to extend tax exemption benefits to the federal government. In this

regard, it is noted that British Columbia is presently applying its sales tax to supplies used on a C.N.R. passenger vessel on the west coast. Also their sales tax is borne by federal departments since the tax is applicable to purchases of materials by federal building contractors who undoubtedly include the tax component of their costs in the amount of their bids.)

- (d) Federal-provincial discussions are under way concerning the basis of a possible agreement between governments as to whether, and the extent to which, they should apply sales taxes to each other.
- (e) Acceptance of the British Columbia position would be favourably received by Premier Bennett who is keenly interested in the matter, but would appear to set the stage for other tax confrontations between Canada and the provinces (including British Columbia) in the future.
- (f) The legal aspects of the problem are favourable to National Revenue but not conclusively so and the government could be confronted with an adverse decision if the issue should ever go to court.

The above memorandum concluded by requesting Cabinet to reaffirm the application of the Excise Tax Act as administered, subject to a review following the outcome of the general discussions on intergovernmental taxation. These recommendations were approved.

7. Events since the date of the above Cabinet document require further elaboration of item (d), concerning federal-provincial discussions on intergovernmental taxation. A joint committee, with representation from Canada and all provinces, reported on this matter in March. The report identified problems of reciprocal taxation as being of a serious nature and put forward, without recommendation, alternative solutions to these problems. When the report was reviewed - by deputy ministers and, subsequently, by Ministers of Finance - it became apparent that there was a wide but not unanimous consensus in support of the "reciprocal taxation" approach. This consensus included the federal government (see Cabinet Document 737-71 of July 2, attached as Appendix B) and probably eight of the ten provinces - all save British Columbia and Alberta. In view of the degree of consensus, Ministers of Finance, at their meeting of July 12-13, authorized more definitive studies of the "reciprocal taxation" solution which would, if governments agree, make possible its adoption - hopefully by April 1, 1973. The arrangement would be implemented through voluntary, bilateral agreements between Canada and participating provinces. British Columbia would therefore be free to remain outside. The arrangement would not solve the present dispute with British Columbia, but would establish a general policy framework within which federal practice concerning the British Columbia ferry system could be more readily defended.

B. Possible Consequences and Implications of Taking Imperial Oil to Court

8. As noted, the Department of National Revenue must sue Imperial Oil for payment of the taxes owing on fuel oil supplied to the British Columbia ferry service. Our legal officers believe that under the circumstances Imperial Oil would probably concede the issue and pay the taxes. However, we must assume that they would then apply to the Federal Court for a refund of the tax paid. Such an action would probably require the Court to rule upon the "commercial and mercantile" nature of the British Columbia ferry service. (In the general context of reviewing section 46 (2), the court would also consider: (a) whether the ferry operation is a "public utility" in view of the fact that this section denies tax relief to such bodies and (b) the discretionary aspect of granting relief under this section.)

9. The probable outcome of a Federal Court ruling on the "commercial and mercantile nature" of the ferry operation has been examined carefully. Our legal officers are satisfied that there is no jurisprudence which is so directly

related to the case at hand as to give an assured outcome. Certain facts would appear to favour British Columbia. In particular, the Ferry System operates at a loss and, administratively, forms part of the Department of Highways. On the other hand, the ferry charges to passengers are substantial and the service competes with privately-owned passenger ferries and with airlines - all of which pay sales taxes irrespective of their profitability. Moreover, administratively it would be difficult to argue that an operation is commercial only when it is profitable since this implies that its status could change from year to year depending upon the profit and loss account. In addition, the Excise Tax Act clearly contemplates the taxation of provincial departments under certain circumstances (i.e., in respect of commercial, mercantile or manufacturing operations) and the courts could not accept the argument that transfer of an operation into a department automatically changes its tax status. Finally, the fact that National Revenue does not collect tax in respect of the highway operations of the Department does not appear relevant because the Department of Highways does not charge fees or tolls for the use of provincial highways or bridges. (It may be noted that if tolls were charged, purchases for highway operations should be taxed.) Having regard to the foregoing considerations, it is believed that a legal decision would favour the federal government; however there is a very real possibility that this would not be the case.

10. If the Court decision is favourable, the federal government would have been upheld in a dispute with British Columbia without a direct confrontation since the other party to the litigation would be Imperial Oil. The Company might then sue the Province (depending on the terms of its contract) to collect the tax paid in respect of taxable fuel sold to them, with the federal government this time on the sidelines. Alternatively, the Oil Company might continue to pay the tax without recovery from the Province but endeavour to achieve the same thing by raising the selling price of its fuel oil to the ferry service.

11. Insofar as British Columbia is concerned, the Province might react to a decision upholding the Department of National Revenue by accepting the tax factor in their fuel oil bills. Alternatively, the Province might continue to deduct the tax factor and Imperial Oil might be unwilling or unable to take them to court to force them to pay it.

12. If the Court decision is unfavourable, the federal government would be placed in a situation where the taxation of various other operations under section 46 (2)(c) of the Excise Tax Act might be appealed. Such appeals could be forestalled, and the present problem dealt with insofar as the future is concerned, by an amendment to the statute which would define and clarify what is meant by a "commercial or mercantile" operation.

ALTERNATIVES TO COURT ACTION

13. Certain alternative courses of action are available if Ministers wish to give up taxing goods purchased by the British Columbia ferry service. First, the Department of National Revenue could seek Treasury Board authority for remission of taxes to Imperial Oil (and to other suppliers under the same circumstances) by Order in Council pursuant to section 22 of the Financial Administration Act which permits such action where it is "in the public interest". This could deal with the problem both retrospectively and prospectively. However, this type of step is normally taken to deal with a temporary problem. If it is used in respect of a continuing problem - which is presumably the case with the B.C. ferry service - the implication is that the Excise Tax Act will be amended so that the law will conform with actual practice.

14. The second type of concession would be to go directly to statutory amendment to deal with the future, supplemented by a remission in respect of the past.

15. In the case of either of these alternatives, the scope of the benefit would have to be defined. It could be restricted to provincially-owned ferry services or extended to all ferry services. In the first instance there

would be considerable irritation to competing firms in the private sector. A broader benefit would remove this particular problem but would undoubtedly lead to complaints from other forms of transportation (air, rail and automotive) that the fuel which they buy is subject to federal sales tax. The revenues derived from such fuel are, of course, very substantial. A concession limited to publicly-owned ferries would be less likely to have this effect but could readily lead to pressures in respect of fuel used in provincially-owned railways and bus transportation companies. Railways are presently owned and operated by British Columbia, Alberta and Ontario, and some of these also operate at a loss. In addition, British Columbia, Saskatchewan and Ontario all operate bus transportation companies. The largest of these are in British Columbia where the B.C. Hydro and Power Authority operates the Vancouver and Victoria urban transit systems. Notwithstanding the difficulties of putting commercial activities of governments into departments, there is a danger that a tax-saving precedent established with respect to the British Columbia ferry service would lead to changes in the status of various provincial agencies such as those referred to above.

16. It would also have to be decided whether the benefit would be limited to fuel or would extend to all supplies used for ferries. The same problems would arise here as with fuel, i.e., treatment of the private sector and of competing forms of transportation.

17. In the event that a concession is considered desirable, it might be appropriate that it be preceded by confidential discussions with British Columbia to reach an understanding that the benefit would be limited to fuel and to the ferry system. If an understanding along these lines could not be reached, this approach would then be dropped. However, even if agreement could be reached with the present government of British Columbia on this matter, it would not provide any protection against the pressures which would arise from the private sector.

18. A further danger in making a concession is that it would encourage British Columbia, and perhaps other provinces, to have taxable agencies withhold the tax factor from invoices in an effort to obtain other tax concessions. The Ontario Science Centre recently deducted the tax factor and while the matter was quickly resolved in favour of the federal government, this type of problem could become very troublesome.

19. A third alternative should be mentioned. The Department of National Revenue could treat fuel oil for use by ferries as ships' stores, qualifying for refund under section 46 (3) of the Excise Tax Act. Currently, tax relief is provided under this section for fuel oil supplied to ships which operate predominately in international waters, and is in accord with international practice which our customs and excise policy follows in not applying tax to goods which are consumed outside of Canada. It is difficult to see how relief could be extended to B.C. ferries under section 46 (3) without extending it to all supplies and without doing the same thing for other shipping in domestic waters. This course of action is therefore not recommended. It should be noted, however, that section 46 (3) does not limit relief to ships' stores used in international waters and therefore presents another legal facet which might come forward in a court case. Should this matter be raised, we cannot be certain that the courts would favour the federal government.

20. A fourth alternative would be to refrain from taxing goods purchased for the British Columbia ferry system, as suggested in para. 13, but to take countervailing action against British Columbia by instructing federal departments to arrange construction contracts in that Province in such a way as to avoid bearing provincial sales tax. Such an approach is not recommended at this stage. It would result in an escalation of the government's differences with British Columbia. If applied only in British Columbia, it might induce a feeling in that Province that the federal government is discriminating against one part of Canada. If applied universally it would create difficulties with all ten provinces.

FINANCIAL IMPLICATIONS

21. The immediate financial loss from waiving the federal tax claim on Imperial Oil and the other companies involved is approximately \$500,000

and is rising steadily. However, the total cost could eventually run into tens of millions of dollars annually if exemptions for the benefit of provincially-owned ferries were to lead to pressures which induced the federal government to grant "comparable treatment" for the private sector (including competing forms of transportation) and/or if the concession induced provinces to bring other commercial activities within departmental structures.

FEDERAL-PROVINCIAL RELATIONS IMPLICATIONS

22. This proposal relates very directly to relations between Canada and one of the largest provinces. In the short run, the effect of conceding to the British Columbia viewpoint would be beneficial to federal-provincial relations. However, in the long run, this would appear to set the stage for other confrontations with British Columbia as well as other provinces.

INTERDEPARTMENTAL CONSULTATION

23. This matter has been referred by the two sponsoring departments (National Revenue and Finance) to the Privy Council Office and to the Department of Justice.

CONCLUSIONS

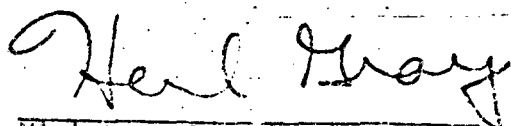
24. Years of experience with sales tax administration shows conclusively that a "mixed system", under which some government activities or entities are taxed while others are not, does not operate in a satisfactory or stable way. Borderline problems inevitably arise which can only be solved by shifting the line between taxable and exempt status to a new point where a new series of borderline issues will emerge. Proposed solutions to problems of intergovernmental taxation recognize this point by attempting to eliminate these distinctions.

25. It is already apparent that it will be very difficult to reach any satisfactory over-all solution to problems of intergovernmental taxation with Premier Bennett. He has indicated strong personal views on this subject and a sense of grievance toward the federal government. Hence irrespective of any developments concerning intergovernmental taxation or of any moves with respect to B.C. ferries, there really is no assurance that we can resolve our differences with Premier Bennett.

26. Under the circumstances, it is proposed that the government should take court action against Imperial Oil to obtain the taxes owing. The government is not required to take such action within any particular time limit. We understand that the legal actions described in paragraph 8 would likely require many months to complete following notice to Imperial Oil. It is hoped that by this time Canada and most of the provinces will have moved closer to the adoption of arrangements for "reciprocal taxation". This should make it easier for the federal government to take action to protect our revenue position in the event of an unfavourable court decision or to deal with critical public statements by Mr. Bennett, or others, in the event of a decision upholding present practice.

RECOMMENDATIONS

27. It is recommended that the Department of National Revenue be authorized to take court action against Imperial Oil to recover the tax owing.


Minister of National Revenue


Minister of Finance

APPENDIX A

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CONFIDENTIAL

JANUARY 28, 1970.

MEMORANDUM TO THE CABINET

Re British Columbia Coastal Ferry Service - Application of Sales Tax

SUMMARY

The attached submission concerns a problem with the Province of British Columbia concerning the application of the federal sales tax to supplies for ferries operated by the British Columbia Coastal Ferry system. The ferry operation was transferred from the British Columbia Ferry Authority to the British Columbia Department of Highways in 1968 and the Province contends that since it now is part of a provincial department federal tax should no longer be applicable. Also they contend that the ferry operation is not commercial since it is not intended to make a profit.

The Department of National Revenue contends that the Excise Tax Act requires it to apply tax to manufacturers and suppliers so that tax is borne by provincial departments in respect of commercial operations. Further it contends that the operation in question is commercial because sizeable fees are charged and the service is carried out in competition with a privately-owned company.

It is also noted that:

- (a) accession to the British Columbia request would set a far-reaching and costly precedent on the part of the federal government.
- (b) British Columbia applies its own sales tax to supplies used on a Canadian National Railway passenger vessel and that its tax falls upon federal departments since it is applicable to federal building contractors.
- (c) federal-provincial discussions concerning the application of sales taxes to governments are the subject of a special study by a federal-provincial committee and a change in respect of one particular problem at this time would undermine the work of this Committee.
- (d) The problem has significant, but mixed, implications for federal-provincial relations.
- (e) The legal aspects of the problem are favourable to the National Revenue position but not conclusively so.

It is recommended that the National Revenue position be maintained pending the outcome of federal-provincial discussions on the general area of intergovernmental taxation.

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CONFIDENTIAL

JANUARY 28, 1970.

MEMORANDUM TO THE CABINET

Re British Columbia Coastal Ferry Service - Application of Sales Tax.

1. The Problem

A problem has arisen as to whether an exemption should be permitted in the application of federal sales tax to the purchase of supplies for the British Columbia Coastal Ferry Service. The Government of British Columbia argues that the terms of the Excise Tax Act provide for its exemption. The Department of National Revenue does not accept the arguments presented by British Columbia, and the tax is at present being applied.

2. Objectives

The objective is to request Cabinet to affirm the application of the Excise Tax Act as now administered, pending the outcome of discussions between the federal government and the provinces on the general question of the application of taxes imposed by one government to another.

3. Background

The federal sales tax presently applies to provincial boards, commissions and agencies whether of a commercial nature or not and also to the "commercial" operations of government departments.

Thus section 46 (2) of the Excise Tax Act states:

"Where goods have been purchased by Her Majesty in right of any province of Canada for any purpose other than

- (a) re-sale;
- (b) to be used by any board, commission, railway, public utility, university, manufactory, company or agency owned, controlled or operated by the government of the province or under the authority of the legislature or the Lieutenant-Governor in Council; or
- (c) to be used by Her Majesty or by Her agents or servants in connection with the manufacture or production of goods or to be used for other commercial or mercantile purposes;

a refund of taxes paid under Part IV, V or VI may be granted to Her Majesty or to the manufacturer, producer, wholesaler, jobber or other dealer as the case may require."

The British Columbia Coastal Ferries system consists of a fleet of large ferries carrying automobiles, trucks, buses and passengers, from several points on the mainland to Vancouver Island, together with several ferries serving various Gulf Islands. This system is separate and apart from the free ferries operated by the British Columbia Department of Highways across a number of rivers and lakes throughout the province. The fares charged by the coastal system are comparable to those charged by Canadian-Pacific steamships who compete on the Vancouver-Nanaimo run. For example, each system charges \$7.00 for a one-way trip between the mainland and Vancouver Island for an automobile and driver. Originally the coastal ferry service was operated by the British Columbia Ferry Authority but on February 16,

- 2 -

1968, the operation of this service was transferred to the Provincial Department of Highways with no accompanying reduction in the rate schedule. During the period in which the ferry service was operated by the "Authority" sales tax was paid without question on all supplies purchased for its operation. However, upon the service becoming part of the Provincial Department of Highways the government of British Columbia refused to pay tax to suppliers. The Department of National Revenue has continued to collect tax from the suppliers and has experienced no particular difficulty in this respect.

Ferries are classified in two groups for sales tax purposes.

- (a) those ferries who charge a fee or are otherwise compensated for their service, and in such cases whether they are publicly or privately owned, tax applies on their supplies unless there is specific exemption for a particular commodity under the Excise Tax Act.
- (b) those ferries which are free; to the Department's knowledge, these are all provincially owned, are not deemed to be a commercial operation because they are free and thus tax does not apply.

4. Position of British Columbia Government

The Government of British Columbia contends that the ferry service is entitled to exemption from sales tax on supplies purchased for its operation on the basis of the following points:

- (a) the service constitutes an extension of the Trans-Canada and Provincial highway system.
- (b) the Ferry Service is an integral part of the Department of Highways. Its accounts are part of the accounts of the Department of Highways of the Province and are audited and controlled by the Comptroller-General of the Province and all ferry personnel are civil servants.
- (c) other ferries have been operated by the Department of Highways in other parts of the Province for many years as links in the provincial highways system and never has it been considered that goods bought for the use of these other ferries were subject to sales tax.
- (d) the operation of the ferries is non-commercial in that their purpose is not to make a profit.

Position of Department of National Revenue

The Department takes the position that while the Act provides for certain specific exemptions in the taxing of provincial government operations or institutions, ferry services are covered under the general provisions of the Act which apply to "operations for commercial purposes". Users of the ferry service are charged a fee. Further, the fact that the service is subsidized by the provincial government and does not make a profit does not necessarily make it a non-commercial operation. The fact that the service competes with a privately owned, taxable operation is considered important in deciding whether the provincial undertaking is commercial.

6. Tax Policy Considerations

The federal government and the provinces have recognized that "intergovernmental taxation" (the application of taxes by one government to another) is a matter of mutual concern and a special Subcommittee of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters is working on all

- 3 -

aspects of this problem in so far as it relates to consumption taxes. The Subcommittee includes representatives from all ten provinces. It is hoped that this body will be able to complete its report later this year and to formulate recommendations which would deal with the various problems in a comprehensive and consistent manner, rather than leaving each one to be settled on some piecemeal basis. During the tenure of this Subcommittee a number of pressing problems of other provinces have been set aside. It is felt that a concession to British Columbia at this time would undermine the work of the Subcommittee.

The Department of Finance believes that whatever arrangement is worked out should be one which is based upon the principle of mutuality, i.e. that governments should accord like treatment to each other. In this regard two examples of provincial sales taxation are cited. Firstly, the Canadian National Railways operates a passenger vessel, the Prince George, on the West Coast and British Columbia applies its sales tax to supplies used on this ship. Secondly, the Province of British Columbia has taken deliberate action to extend its own sales tax in such a way that it would be borne by federal departments. This was done in November, 1968 by applying the British Columbia sales tax to federal building contractors where they purchase taxable building materials. (British Columbia is not unlike other provinces in this matter but this action is difficult to square with its view that government departments should not bear the weight of taxes imposed by other governments.)

7. Financial Considerations

To depart from the present position in this case could create costly precedents. It would appear to imply that provinces could obtain exemption from tax by bringing commercial agencies of provincial governments such as hydro commissions or liquor boards, into the framework of a government department which would mean a severe and progressively far reaching loss of revenue to the federal treasury.

8. Legal Considerations

An opinion has been sought from the Department of Justice regarding the interpretation of the Act in this case and they have expressed the opinion that while there would seem to be a stronger case for the application of the federal tax as opposed to exemption, a reference to the Courts could very well come down on either side. There is not a clear-cut legal case on this question and the matter of what constitutes an operation for commercial purposes should be decided as a policy question.

The opinion of the Department of Justice does not deal with the constitutional aspects of this matter but only with the legal aspects, i.e. it deals with the interpretation of specific clauses in the Excise Tax Act. It is our understanding that this Act could, if necessary, be amended to remove all doubt about the federal power to impose and collect tax where goods are sold to provincial government departments.

9. Federal-Provincial Relations Considerations

Premier Bennett is known to be directly interested in the outcome of this issue. The main argument in support of the British Columbia position is the beneficial effect which a federal concession would have on federal relations with an important province. From a longterm standpoint, however,

- 4 -

it is not clear that the effect on federal-provincial relations would be constructive. Thus a concession in respect of British Columbia ferries might lead other provinces to assert that commercial operations carried on by their departments should be granted exemption and it might induce British Columbia or other provinces to move operations now under boards or commissions into government departments and so create new areas of federal-provincial dispute.

10. Interdepartmental Consultation

The problem referred to in this submission has been considered by the Departments of National Revenue, Finance and Justice, Privy Council Office and the Prime Minister's Office, in each case by both the Minister and officials.

11. Recommendation

The present position taken by the Department of National Revenue in applying the federal sales tax to the purchase of supplies for the British Columbia Coastal Ferry Service should be maintained pending the outcome of the federal-provincial discussions on intergovernmental taxation.

Minister of Finance

Minister of National Revenue

MINISTER OF JUSTICE AND
ATTORNEY GENERAL OF CANADA



MINISTRE DE LA JUSTICE ET
PROCUREUR GÉNÉRAL DU CANADA

Personal and Confidential

Ottawa 4, Ontario,
October 31, 1969.

The Honourable Jean-Pierre Côté, P.C., M.P.,
Minister of National Revenue,
Ottawa, Ontario.

My dear Colleague:

With regard to your letter dated
October 29, 1969, it is not possible to predict
with any degree of confidence how the Courts
would decide the B.C. Ferry case, although I am
inclined to think the case in favour of taxa-
tion is the stronger.

The difficulty here is that the relevant
words in sections 45 and 46 of the Excise Tax
Act are capable of bearing different meanings
consistent with the context. One meaning would
include the B.C. ferries, the other not. In
these circumstances, it is open to you to decide
as a matter of policy what position the Federal
Government should take. Either position can be
strongly supported under the legislation.

Yours sincerely,

John A. Turner

OFFICE OF THE
DEPT. MINISTER OF JUSTICE
AND
ATTORNEY GENERAL OF CANADA



DEPARTMENT OF JUSTICE

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BY HAND

OTTAWA 4,
October 31, 1969.

ETA NOV 5 1969

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British Columbia Provincial

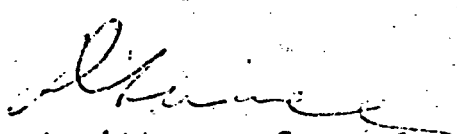
Dear Mr. Labarge:

I have to acknowledge your letter
dated October 28, 1969.

It is unfortunate that in the circum-
stances of this case the language of the
Excise Tax Act is capable of being construed,
consistently with the context, in different
senses which would produce different results.
I am inclined, however, to think that the case
in favour of taxation is the stronger case.

In this situation, I think it is open
to the Government to decide as a matter of
policy which position it wishes to take, and
either position can be strongly supported under
the law.

Yours truly,


Deputy Attorney General

Mr. R. C. Labarge,
Deputy Minister of National Revenue,
Customs and Excise,
Connaught Building,
Ottawa 2, Ontario.

737-71

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

CONFIDENTIAL

July 2, 1971

SUMMARY

Request for Authority for Minister of Finance
to Explore with Provinces a Proposal for
"Reciprocal Taxation" in Respect
of Consumption Taxes

Governments in Canada pay, or bear, taxes to a much greater extent than is generally realized. However, there is no consistent or logical pattern to the present arrangements which have evolved between governments. As a result, the federal government and the provinces have become involved in a large and growing number of disputes over the direct or indirect application of taxes to each other. These disputes are giving rise to concern because of the ill-will which they engender and because of their potential for escalating into major confrontations. They are also a cause of irritation to the private sector which is frequently caught in the middle of the disputes and which is concerned about competition from governmental bodies which may not pay, or bear, certain major taxes.

Most of the intergovernmental problems are in the field of consumption taxes. These problems have been examined by the federal-provincial Continuing Committee on Fiscal and Economic Matters and the Committee has made considerable progress with a proposal which, for convenience, is referred to as "reciprocal taxation". Further work on this proposal will not be contemplated until there is an indication of interest by federal and provincial Ministers of Finance. In connection with forthcoming Ministerial discussions on this matter, the undersigned seeks authority from Cabinet to indicate that the federal government is seriously interested in exploring further the possibility of implementing a system of "reciprocal taxation" between governments.

Under the system which is contemplated, the federal government and participating provincial governments would undertake, through bilateral agreements, that their departments and agencies would pay, or bear, as a normal taxpayer, the consumption taxes imposed by other governments. Governments would not waive exemption from taxation nor would they purport to tax each other. Rather, each would make payments calculated by reference to the amount of tax that would be payable if it were taxable. Certain provinces would lose under the arrangements and these provinces would receive lump-sum compensation. Provinces electing to remain outside of the arrangements (probably consisting at the outset of British Columbia and Alberta) would have to continue with the present patchwork system.

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

CONFIDENTIAL

July 2, 1971

MEMORANDUM TO THE CABINET

Request for Authority for Minister of Finance
to Explore with Provinces a Proposal for
"Reciprocal Taxation" in Respect
of Consumption Taxes

Purpose

1. The purpose of this memorandum is to request authority for the Minister of Finance to enter into negotiations with the provinces in respect of a system of "reciprocal taxation" between governments in the field of consumption taxes.

Problem

2. Although governments in Canada are generally exempt from the direct payment of taxes imposed by other governments, they frequently bear each other's taxes indirectly and there are also various arrangements pursuant to which grants in lieu of taxes are paid. The present arrangements are illogical and inconsistent; they have led over the years to many federal-provincial disputes. The best known of these at present relate to the application of the federal sales tax to supplies used on the British Columbia Ferry System and the federal refusal to pay the Quebec payroll tax on employers for financing the provincial share of the cost of medical care insurance. These, and numerous others, remain unsolved because there is no established framework for dealing with them. Moreover, as tax rates creep upward, the problems tend to worsen as the financial significance of tax-exempt status increases.

3. There is a continuing possibility that if these problems are not solved they will: (a) lead to serious public confrontations between governments, (b) have important repercussions for the private sector which does not enjoy the benefits of tax-exempt status, and/or (c) lead to new tax exemptions which would distort the federal tax system. Concerning (b), private corporations are finding, to an increasing degree, that they are competing with governmental agencies or even departments. In addition, they are frequently placed in the position where one government directs them to collect taxes from another government and such other government refuses to pay; this may result in the private corporation bearing a tax which is intended for another government.

Background and Factors

4. A technical committee of federal and provincial finance officials recently completed an examination of problems of intergovernmental taxation in the consumption tax fields and endeavoured to develop workable solutions. The technical committee worked out two alternative solutions, described as "reciprocal taxation" and "reciprocal exemption". These were referred, without recommendation, to the Continuing Committee on Fiscal and Economic Matters where a clear, though not unanimous, consensus appears to have emerged in favour of "reciprocal taxation".
5. The "reciprocal taxation" proposal envisages that the federal government and participating provincial governments would undertake, through bilateral agreements, that they and their agencies would pay or bear, as a normal taxpayer, the consumption taxes imposed by the other level of government. Each agreement would apply to consumption taxes, as defined, but notably including federal sales tax, provincial sales taxes, provincial gasoline taxes and motor vehicle licences. While payroll taxes do not qualify as a consumption tax, it would clearly be desirable to include these as a means of settling the awkward problem confronting the federal government in Quebec. (Vide Cabinet Document 121/71 of February 16, 1971). Both departments and agencies would be included and this would avoid the very difficult problems which presently arise where attempts are made to distinguish between the two. Agreements would apply for a fixed period of years with provision for renewal, as well as cancellation, subject to notice. There would be special provisions for the settlement of disputes and for rights of audit. Finally, the federal government would pay lump-sum compensation to provinces which would be exposed to significant financial loss under the arrangements. Certain provinces would lose, either because they have no sales tax (Alberta) or because they presently have a low proportion of total federal activity (Newfoundland and Saskatchewan).
6. Under the proposal, governments would not waive exemption from taxation nor would they purport to tax each other. Each would, pursuant to its general spending power under the constitution, make payments calculated by reference to the amount of tax that would be payable if it were taxable. The authority for the payments, and the liability in respect of them, would derive solely from the legislation of the government making the payments. The taxing statutes of the other government, while not applicable to the government making the payment, would determine the amount of the payment. The statutes authorizing payments would be similar to, but broader than, the federal government's Crown Corporations (Provincial Taxes and Fees) Act - a 1964 statute which authorizes federal agencies to make payments in respect of certain provincial taxes. A Model Act could be prepared for use by each of the provinces and, with necessary modifications, by the federal government.
7. There is a considerable amount of experience in Canada with governments making payments in respect of taxes imposed by other governments or, in some cases, of being legally required to pay taxes. Most of this experience is in the real property tax and customs tariff fields, but there is also direct experience in the consumption tax fields where federal agencies presently make payments in respect of

- 3 -

provincial consumption taxes - pursuant to the Crown Corporations (Provincial Taxes and Fees) Act. Apart from one particular problem with the Crown Corporations (Provincial Taxes and Fees) Act, which can readily be resolved by amendment, the administrative experience with these payments has been very favourable.

8. The arrangement for "reciprocal taxation" would not mean that governments would make "tax" payments in respect of all purchases since they would benefit from whatever exemptions are available to taxpayers generally. Also, for administrative reasons, the federal government would insist upon an exemption for military aircraft and ships. In addition, purchases for foreign governments and international agencies would be exempted.

9. It is believed that as many as eight provinces would enter into initial agreements with the federal government. British Columbia and Alberta would likely remain outside. It is proposed that for such provinces the rather unsatisfactory status quo would remain in effect. Alberta might be expected to enter if, as and when the Province adopts a general sales tax.

Further Explorations with Provinces

10. Ministers of Finance will at an early meeting, hopefully on July 12-13, discuss briefly the issue of inter-governmental taxation, having regard to the study undertaken by federal and provincial officials and to the views expressed thereon by members of the Continuing Committee. It is desirable that the Federal Minister of Finance should be able at that time, without committing the federal government to any definite course of action, to indicate a serious interest in exploring further with the provinces the possibility of entering into arrangements for "reciprocal taxation", along the lines developed by officials.

11. If Ministers of Finance were to give their approval to such a proposal, the studies would include the following areas:

- (a) development of a simple lump sum method of compensation for provinces which would be exposed to significant losses;
- (b) development of a means whereby provincial sales taxes could be applied to central federal purchasing so as to allocate tax to the province where the items are used. It is understood that the allocation would be handled in part by means of special time-saving formulas;
- (c) determination of a starting date;
- (d) drawing up of draft agreements and a Model Act.

Financial Implications

12. A study by the Committee of federal and provincial officials indicated that while reciprocal taxation would involve sizeable dollar flows between governments, these would largely cancel out. While compensation would be paid to

- 4 -

certain provinces, this would not involve any net cost since the payments would be offset by gains in federal tax collections. There would, however, be a small cost in respect of those provinces which would gain from the arrangement. The provinces most likely to gain are the three Maritime Provinces, Ontario, Manitoba and - if payroll taxes are included - Quebec. The over-all federal cost would likely amount to a few million dollars annually at the outset but, if provincial expenditures continue to grow at faster rates than federal expenditures, such costs might well disappear over a period of years. In any event, the financial costs could be far exceeded by tax concessions which might result from efforts to maintain the present unsatisfactory tax relationships between governments.

Federal-Provincial Relations Implications

13. The federal-provincial discussions which have taken place on this matter indicate that most provinces regard the proposal as a welcome means of settling a number of irritating problems. This appears to be a correct appraisal, and the effect on federal-provincial relations with participating provinces should be very constructive, particularly if the agreements prove to be of an enduring nature.

Conclusions

14. The proposal for "reciprocal taxation" would appear to provide a framework within which most problems arising with provinces in the consumption tax fields could be resolved. It should make it possible to avoid direct confrontations with participating provinces and provide the federal government with a strong negotiating posture in any disputes with non-participating provinces. It would remove a source of irritation and uncertainty to the private sector. It would also place the public and private sectors on a more comparable footing and, in so doing, lead to a better allocation of economic resources within the country. Furthermore, it would strengthen the tax system by reinforcing a trend toward the removal of exemptions.

15. While British Columbia and Alberta are presently hostile to reciprocal taxation, they are unlikely to take strong exception to arrangements which they are not forced to enter. However, if they were to remain outside of general arrangements for "reciprocal taxation", they would be faced with a continuation of outstanding problems. While this would not be to their liking, it could become more difficult for them to embarrass the federal government in respect of disputes because we would have at hand a framework within which such disputes could normally be resolved.

Interdepartmental Consultation

16. The proposal for "reciprocal taxation" has been worked out with the assistance of officials from the Department of National Revenue. There have also been some limited discussions at the official level with the Department of Supply and Services, Treasury Board and Privy Council Office. Additional discussions with other departments, and possibly Crown corporations, would be required before the matter is again referred to Cabinet.

Recommendations

17. It is recommended that:

- (a) The Minister of Finance should be authorized, without committing the federal government to any definite course of action, to indicate to his provincial counterparts that the federal government is seriously interested in exploring further with them the possibility of entering into arrangements for "reciprocal taxation";
- (b) The arrangements to be explored would apply in respect of consumption and payroll taxes and would be implemented by means of voluntary, bilateral, agreements between the federal government and participating provinces, extending to both departments and agencies. There would be no waiver of constitutional exemption privileges and no attempt to make other governments legally liable to taxation;
- (c) Subject to provincial agreement, instructions would be given to officials to work on a compensation formula, draft agreement and other matters relating to this implementation of a system of "reciprocal taxation";
- (d) The Minister of Finance would report back to Cabinet prior to further substantive discussions at the Ministerial level.

Minister of Finance

November 5, 1969

The Right Honourable Pierre Elliott Trudeau, P.C., M.P.
Prime Minister of Canada
Ottawa, Ontario

My dear Prime Minister,

I would like to refer to a dispute between my Department and the Government of British Columbia, which I understand you will be discussing with the Honourable W.A.C. Bennett whilst he is here in Ottawa.

This dispute arises because of our decision to require manufacturers, principally Imperial Oil, to account for the 12% sales tax on sales of taxable goods for use by the British Columbia Ferry Services. In taking this decision we rely upon Section 46(2) of the Excise Tax Act which stipulates:

- "Where goods have been purchased by Her Majesty in right of any province of Canada for any purpose other than
- (a) re-sale;
 - (b) to be used by any board, commission, railway, public utility, university, manufactory, company or agency owned, controlled or operated by the government of the province or under the authority of the legislature or the Lieutenant-Governor in Council; or
 - (c) to be used by Her Majesty or by Her agents or servants in connection with the manufacture or production of goods or to be used for other commercial or mercantile purposes;
- a refund of taxes paid under Part IV, V or VI may be granted to Her Majesty or to the manufacturer, producer, wholesaler, jobber or other dealer as the case may require."

...2

- 2 -

My Department has applied this section of the law uniformly throughout Canada, and although the section is not without its difficulties, it has been administered without serious disputes arising. In support of our position that the ferry service is a commercial operation we have a legal opinion from the Deputy Attorney General who has said that in his view a stronger case can be made in favour of taxation, as opposed to exemption although it is open to the government to adopt either position as a matter of policy.

I do not wish to repeat what my colleague, the Honourable E. J. Benson, had to say concerning this dispute in his letter to you but I would like to express my own concern over the precedent that would be set and the resulting repercussions if we were to agree to the position taken by the B.C. Government.

It is our normal practice in matters of dispute involving an interpretation of the law to proceed before the courts for an independent opinion.

In the present instance, I would propose that resort be had by both parties to such independent judgement and we would in this case be prepared to refer the matter to the Exchequer Court.

Yours sincerely,

Jean-Fierre Cote

COPY TO: The Honourable E. J. Benson, P.C., M.P.

COPY TO: The Honourable John N. Turner, P.C., Q.C., M.P.

COPY FOR THE MINISTER'S FILE

COPY FOR THE INFORMATION OF THE DEPUTY MINISTER

Ottawa 4,
October 30, 1969.

The Right Honourable Pierre Elliott Trudeau, P.C., M.P.,
Prime Minister of Canada,
Ottawa, Ontario.

Dear Prime Minister:

It has been brought to my attention that Premier Bennett of British Columbia has sent you a telegram asking that the federal government terminate collecting its sales tax where manufacturers or other suppliers sell taxable goods to the British Columbia Ferry System. I also understand that you will be meeting with Mr. Bennett on November 6 and that this matter might be included in your discussions.

I am writing to you because I am very concerned about Mr. Bennett's proposal. I feel strongly that a concession in respect of this matter would be detrimental to the federal interests from two standpoints - first, the need to protect our revenue-raising system, and secondly, the need to develop a rational procedure for the settlement of federal-provincial disputes.

The position advanced by British Columbia on this matter is that the ferry system is merely an extension of the highway system and that the ferry service is part of the Department of Highways. I understand that the Department of National Revenue holds the view that it is immaterial whether this operation is carried on by a government department since the Excise Tax Act does not provide an exemption for provincial government departments where the purchases are to be used for commercial or mercantile purposes. It regards the ferry as a commercial operation.

- 2 -

I believe that if we accept Premier Bennett's proposition that these purchases should be exempt because they are for use in an operation carried on by a provincial government department we would be setting a dangerous precedent. It would imply that merely bringing any commercial agency such as a railway or hydro commission into a government department would make it possible for that body to purchase goods free of federal sales tax. All the provinces could make such changes quickly and the federal sales tax revenues could be reduced by millions of dollars.

The British Columbia Ferry problem is one of a large number of unsettled problems in an area which we refer to as "intergovernmental taxation", i.e., the direct or indirect application of tax by one government to another. In an attempt to find some general solution to these problems in the area of commodity taxes, the Federal-Provincial Continuing Committee on Fiscal and Economic Matters last year set up a "Subcommittee on Intergovernmental Taxation" with representation from Canada and each of the provinces. The Subcommittee has been looking at alternative solutions which would deal specifically with the problem which Mr. Bennett has raised. It has held three meetings with two more scheduled, following which a report will be made to the Continuing Committee some time next year. Unfortunately, British Columbia has sent a representative to only one of the Committee's three meetings and they have given us no indication that they will participate in the remaining work of this body. The third meeting was held only last week and British Columbia was the only province which was not represented.

I feel very strongly that any attempt to settle this one problem by itself would undermine the whole work of the Continuing Committee on Fiscal and Economic Matters in this area. On the other hand, Premier Bennett's representations do provide us with an opportunity to indicate to him the possible advantages to British Columbia of working with other governments to solve mutual problems.

To illustrate that these problems of intergovernmental taxation do not all relate to the burden of federal taxes falling upon a province I mention that only last year Mr. Bennett's own province took deliberate action to extend its sales tax in such a way that it would be borne by federal departments in respect of a major type of purchase, i.e., building materials. Materials for federal construction are, of course, purchased by contractors and, since November of 1968, these purchases have been subject to tax in British Columbia.

- 3 -

Finally, I understand that the Department of National Revenue has obtained from the Department of Justice an opinion in support of their interpretation of the relevant portions of the Excise Tax Act but this opinion contains some reservations and indicates the possibility that National Revenue could lose a court case on this matter. I note that the opinion does not deal with the constitutional aspects of this matter but only with the legal aspects, i.e., it deals with the interpretation of specific clauses in the Excise Tax Act. It is my understanding that this Act could, if necessary, be amended to remove all doubt about the federal power to impose and collect tax where goods are sold to provincial government departments. I am not, of course, advocating that such action be taken at this time; I am only saying that I do not find legal doubts about the tightness of the present wording of the Excise Tax Act to be a major consideration.

I hope these comments will be helpful.

Yours sincerely,

Original Signed by
HON. E. J. BENSON

E.J. Benson,
Minister of Finance.

cc. The Honourable J.-P. Côté, P.C., M.P.

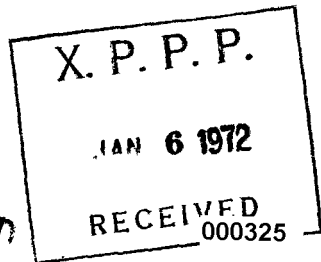
Mr. L. ton -

O.K. - but let's not be too visible. Also there was a real hangup since facts re road, etc. not understood as I am told.

2. I don't agree with this.

6-1-72

O.G.S.



CONFIDENTIAL

550-11



DEPARTMENT OF TRANSPORT
MINISTÈRE DES TRANSPORTS

YOUR FILE
VOTRE RÉF:

IN REPLY QUOTE
RÉF. À RAPPELER:

380/16

January 5, 1972.

MEMORANDUM TO THE DEPUTY MINISTER

Ferry Services in B.C.

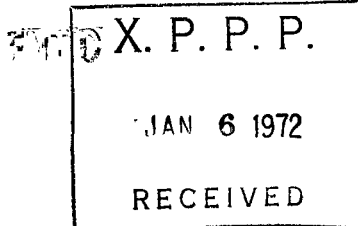
During the last couple of weeks, I have had two or three additional conversations with Alan Campbell of the CTC about the events which preceded the Transport Commission's decision to extend the federal subsidies to the services operated by both Northland Navigation and Nootka Sound for a period of six months.

On the basis of those conversations, I am reasonably certain that the provincial government is well aware of the price which some of the eastern provinces have extracted from the federal government for the withdrawal of intra-provincial ferry subsidies and hence, I doubt whether the B.C. Government will simply allow their subsidies to be withdrawn without extracting some suitable quid pro quo.

In the circumstances, I propose to ask one of my staff to make himself familiar with the west coast operation so that we are in a position to recommend an appropriate course of action when the need arises.

C. C. Halton

cc - SADM



O.K.
- put into
not be too visible
- also there was
a real hangup since
ports re road etc not
understandable
as Tam Hall.

I don't
agree
with
this

File: 3800-16

THE MINISTER OF TRANSPORT



LE MINISTRE DES TRANSPORTS

Ottawa K1A 0N5,

The Honourable Wesley D. Black,
Minister of Highways,
Parliament Buildings,
Victoria, British Columbia.

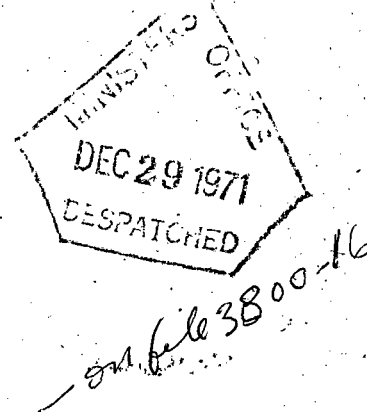
Dear Mr. Black,

With reference to your letters of November 9th and 22nd and your wire of November 25th, I am pleased to be able to confirm my telephone call to you on December 8th and my statement in the House of Commons the same day announcing that the Canadian Transport Commission has agreed to extend the federal subsidies to the intra-provincial water transport services referred to in your telegram, i.e. that operated by Northland Navigation Company Limited from Vancouver to the west coast of Vancouver Island and the coastal service operated by Nootka Sound Service Limited.

The extension of the subsidy will be for a period of six months, as requested by the residents and representatives of the region served by Northland and Nootka. During that six months it is expected that the necessary road connections will be completed and alternative arrangements will be made concerning any intra-provincial water transport services still required.

Yours sincerely,

Don Jamieson



CONFIDENTIAL

550-11

December 8~~4~~1971

MEMORANDUM TO THE DEPUTY MINISTER

Re: B.C. Ferry Problems

With reference to our discussion on the ferries in B.C. and the attached wires, I discussed their contents with Alan Campbell, Chairman of the Water Transport Committee, CTC. Mr. Campbell also met with a delegation from the West Coast of Vancouver Island (including their member, Tom Barnett) concerning the same problem.

As a result of our investigations, we are of the opinion that the Islanders have a good case for extension of the subsidy until the road from Gold River to the various coastal settlements is completed. The subsidy is due to end in a week's time.

With necessary haste, Mr. Campbell will recommend to the President of the CTC that the subsidy to the service be extended for six months. Arrangements will be made for the subsidy to be extended and for the Minister to make an announcement to this effect if he so wishes.



D. Scrafton

c.c.: G.A. Scott - SADM
C.C. Halton - XPPP
A.P. Campbell - CTC

Return to Mr Baker
OFFICE OF THE
MINISTER OF TRANSPORT
OTTAWA 4



CABINET DU
MINISTRE DES TRANSPORTS
OTTAWA 4

DEC 13 1971 GAD

December 8, 1971

G. Allan Baker to O.G. Stoner

FERRY SERVICES IN
BRITISH COLUMBIA

The Minister, Commissioner Campbell and Tom Barnett, M.P., covered themselves with glory in announcing (each in his own way) that the Nootka and Northland subsidies would be extended for six months.

I called Hon. Wes Black to tell him the news and I told him that we considered that the Minister owed him a response (or a further response, as the case might be) for the record.

Campbell confirms that the response should make it clear that the subsidies have been extended for six months only because that is what the residents and representatives of the communities concerned had asked for, it being noted that road connections would be completed (between Gold River and Tahsis, for example) and alternative arrangements arrived at during the extension period.

By July 1 CTC (and the Federal government) should be in the clear.

May I know who will be preparing the letter to Mr. Black for Mr. Jamieson's signature ?

B/sr

RECEIVED

DEC 10 1971

OFFICE OF THE
DEPUTY MINISTER
TRANSPORT

000329

OFFICE OF THE MINISTER OF TRANSPORT
CABINET DU MINISTRE DES TRANSPORTS

Memorandum

Feb. 15/72 Note de service

To - Destinataire:

From - Expéditeur:

men

Forward
to appropriate
official





VICTORIA

February 1, 1972.

13984

2-8-2
12/29

The Honourable Donald C. Jamieson, P.C., M.P.,
Minister of Transport,
Hunter Building,
Ottawa, Ontario,
K1A 0N 5.

Dear Mr. Jamieson:-

Your letter of December 29, 1971 advising that the subsidy to Northland Navigation Company and Nootka Sound Limited has been extended for a period of six months has been reviewed in relation to the completion of the necessary road connections and alternative arrangements for water transport services. The Tahsis Company who own the private logging road from Tahsis to Gold River advise that the road cannot be used by automobiles due to steep grades and is presently closed during winter months due to heavy snow conditions. We estimate at this time that a substantial expenditure in the order of five million dollars would be required over a two year period to attain minimum standards for personal transportation on a continuous basis, even if joint use was considered desirable and in the public interest. A separate facility would cost approximately twelve to fifteen million dollars and has not been designed to date.

Although we have not had adequate time to study water transportation problems in detail for this area, it is our opinion that there will be a continuing requirement over the next twenty year period for water service regardless of possible improvements to the logging road.

The withdrawal of the historical Federal subsidies will have significant impact on our priorities in transportation over the next few years. I strongly maintain the position that the subsidies should be continued.

I would appreciate your early comments on this proposal.

Yours very truly,

Minister.

Minister's Records
File: 3800-16

2-8-2

THE MINISTER OF TRANSPORT



LE MINISTRE DES TRANSPORTS

Ottawa K1A 0N5,



The Honourable Wesley D. Black,
Minister of Highways,
Parliament Buildings,
Victoria, British Columbia.

Dear Mr. Black,

With reference to your letters of November 9th and 22nd and your wire of November 25th, I am pleased to be able to confirm my telephone call to you on December 8th and my statement in the House of Commons the same day announcing that the Canadian Transport Commission has agreed to extend the federal subsidies to the intra-provincial water transport services referred to in your telegram, i.e. that operated by Northland Navigation Company Limited from Vancouver to the west coast of Vancouver Island and the coastal service operated by Nootka Sound Service Limited.

The extension of the subsidy will be for a period of six months, as requested by the residents and representatives of the region served by Northland and Nootka. During that six months it is expected that the necessary road connections will be completed and alternative arrangements will be made concerning any intra-provincial water transport services still required.

Yours sincerely,

Don Jamieson

the Board having satisfied itself, after public hearing, that the applicant has complied with the provisions of the ACT and the rules and regulations made by the Board.

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
MINISTÈRE DES TRANSPORTS

YOUR FILE
VOTRE RÉF:

IN REPLY QUOTE
RÉF. À RAPPELER:

December 6, 1971.

MEMORANDUM TO THE DEPUTY MINISTER

DEC 7 1971 GAB

Subsidies To Ferry Services in B.C.

The study which forms the source material for the Water Transport Committee's decision to withdraw subsidies from certain ferry services within British Columbia was undertaken by Jock Munro from Simon Fraser University who spent a sabbatical working for Ray Cope. I have managed to persuade Alan Campbell to send us a copy and, hopefully, it will arrive early this week. From what I have discovered already, I doubt whether it will be the type of information which should be released to the Provincial Government and frankly, it was unfortunate that Alan Campbell made such explicit reference to it in the letter which he drafted and which Mr. Pickersgill sent over for the Minister's signature.

There is plainly rather more behind this provincial initiative than is obvious from a first reading of the correspondence and we hope to be able to do some quiet digging next week. I do, however, feel that a reply should be sent forthwith to the November 22nd letter from the Provincial Minister of Highways for that letter certainly misquotes an earlier acknowledgement from R.M. Ross. In Ross' letter of November 16th he said "that Mr. Jamieson has noted his letter and will be discussing this matter with his senior ministry officials". In the Hon. W.D. Black's letter of the 22nd, the middle paragraph reads "Mr. Ross informed us that you will be discussing this matter with your Cabinet colleagues".

To set the record straight, I would suggest that Mr. Ross should send the attached draft to the Hon. W.D. Black's Executive Assistant. If you agree, we will arrange for this to be done.

*Wonder how well
this is - it*
*Mar 12 O.K. but M, get
he continued to mean that Minister will not result this*
C. C. Halton
DEPUTY MINISTER
TRANSPORT
B.C. 000333

OFFICE OF THE
MINISTER OF TRANSPORT
OTTAWA 4



CABINET DU
MINISTRE DES TRANSPORTS
OTTAWA 4

Ottawa, Ontario.
K1A 0N5

The Executive Assistant to
The Honourable W.D. Black,
Minister of Highways,
Victoria, B.C.

Dear Sir:

This is to acknowledge receipt of Mr. Black's letter of November 22nd regarding the payment of a subsidy for certain ferry services on the west coast of Vancouver Island.

You may wish to draw your Minister's attention to the fact that my earlier letter of November 16th advised you that Mr. Jamieson would be discussing this matter with his senior ministry officials rather than with his Cabinet colleagues as is suggested in Mr. Black's letter of the 22nd.

Mr. Jamieson hopes to be in a position to write to Mr. Black in the near future.

Yours sincerely,

R. M. Ross,
Special Assistant.

PRIVY COUNCIL OFFICE



BUREAU DU CONSEIL PRIVÉ

CONFIDENTIAL

July 14, 1970.

Mr. Eichman

~~Mr. Hyndman~~

Mr. Yang

6236

550-11-8

Mr. E.L. Hewson,
Senior Ministry Executive,
Policy Planning & Co-ordination,
Department of Transport,
Room 644,
Hunter Building,
Ottawa, Ontario.

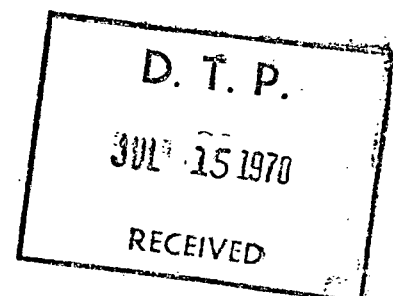
B.C. Ferries: Application of Federal Sales Tax

Dear Mr. Hewson:

Attached is a copy of the letter which the Prime Minister sent today to Mr. Bennett on this question. Distribution to interested departments is being made in the usual way. I thought however, that you would want to be aware of a change the Prime Minister made in the draft we sent him: this is on page 2 of the attached copy where, repeating a conversation he had with Mr. Bennett in Vancouver a few weeks ago, he invites Mr. Bennett to let him have the details of any instance where the federal sales tax is not applied to an operation comparable to the B.C. Ferry Service, and by virtue of which B.C. could feel it was discriminated against.

F.A.G. Carter

FAGC:dm



000335



PRIME MINISTER · PREMIER MINISTRE

CONFIDENTIAL

O t t a w a (4),
July 7, 1970.

My dear Prime Minister:

I am writing to you about a matter which you have raised with me from time to time. It concerns the application of the federal sales tax to supplies and diesel fuel purchased by British Columbia Government-owned ferries.

I know you have a keen personal interest in this matter and we have reviewed it with great care. You are aware that the problem of intergovernmental taxation is presently under study by a special federal-provincial committee of officials whose report, I am given to understand, should be available later this year. The officials have been instructed to examine problems of intergovernmental taxation arising as a result of federal and provincial taxes on sales and, if possible, to make recommendations for a solution to these problems by means of inter-governmental agreement. Following completion of the work of this committee, broad policy discussions will take place with provincial

The Honourable W.A.C. Bennett, P.C., M.L.A.,
Prime Minister of British Columbia,
Parliament Buildings,
Victoria, British Columbia.

.../2

- 2 -

CONFIDENTIAL

governments, encompassing the various problems now outstanding, such as the one you have raised. It would be my hope that such discussions would lead to a uniformly acceptable solution. In the meantime, there are a number of considerations which I should draw to your attention.

First, insofar as present legislation is concerned, the advice which I receive is that under the Excise Tax Act the goods acquired by your Ferry Service are used for purposes which are prescribed by the Act as taxable, notwithstanding the fact that the operation comes under your Department of Highways. I will not go into all of the reasons for this opinion. However, I should note that the ferry operation is regarded as being "commercial" within the meaning of section 46(2) (c) of the Act. In arriving at a conclusion as to the commercial nature of the ferry operation, account was taken of the fares charged and of the fact that the major services provided are in direct or indirect competition with other operations which are taxable. Where ferry operations are provided free of charge, as is the case elsewhere in British Columbia, they are not regarded as being of a commercial nature and consequently no tax is levied under the Excise Tax Act.

I must emphasize that according to my information, the above interpretation has been applied consistently, and without discrimination, to ferry operations in all parts of Canada, including both the east and west coasts. I know, from our last conversation, that you believe that such is not the case. If you can give me specific examples, I will certainly look into them to find out why my information does not seem to be in accord with yours.

.../3

- 3 -

CONFIDENTIAL

It might be helpful if I were to cite some specific examples of how present intergovernmental taxation arrangements operate. Although for purposes of illustration these relate to your province, we face similar problems in other parts of Canada. I am advised that the British Columbia retail sales tax is applicable to a Canadian National Railway passenger vessel on the West Coast. Although the Canadian National Railways is a Crown corporation, the function concerned, i.e. marine passenger transportation, is the same as in the case you have cited. I am also informed that there are many cases where the British Columbia sales tax falls upon federal departments. For example, this occurs where building contractors for federal departments buy materials for incorporation in federal works. These materials are taxed even though the federal sales tax does not fall upon the construction works of provincial government departments. This, of course, is relevant to your contention that departmental operations should not be taxed.

Finally, I should refer to the broader aspects of this problem, i.e., to its effect on federal-provincial fiscal relations generally. It seems evident that acceptance of the proposition that no activities of government departments, even where these are of a commercial nature, should bear the weight of a sales tax might induce all of the provinces, and indeed the federal government itself, to move operations now under Crown corporations into government departments and so create new areas of federal-provincial dispute. Eventually, this could have serious revenue implications for all governments.

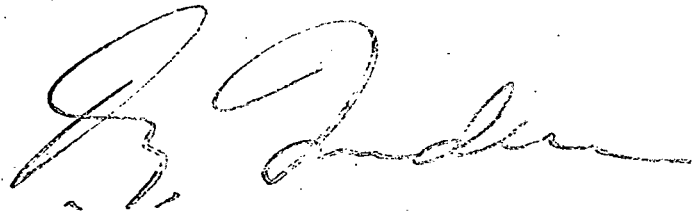
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- 4 -

CONFIDENTIAL

In view of the foregoing considerations, the Government of Canada has had to conclude that it should not, at this time, change its tax practice with respect to British Columbia ferries. However, it is our hope that this question can be examined again in the course of our general policy discussions following receipt of the report of the committee on intergovernmental taxation.

Yours sincerely,





TO
A

MEMORANDUM

A. L. Peel, T. P. R.

CLASSIFICATION
CONFIDENTIAL

Down
550-11

YOUR FILE No.
Votre dossier

OUR FILE No.
Notre dossier

3866-11

DATE
July 9, 1970

FROM
De

D. B. C.

FOLD

SUBJECT
Sujet

Record of Cabinet Decision

Attached for your use is a Record of Cabinet Decision on the subject matter of:

British Columbia Costal Ferry Services -
Application of Sales Tax

You will recall you prepared briefing material for the Minister on this subject for the Cabinet Committee meeting of March 25.


P. R. Bowes

Bureau of Co-ordination

Att.

c.c. D.B.C.

PRIVY COUNCIL OFFICE



BUREAU DU CONSEIL PRIVÉ

CONFIDENTIAL

The Cabinet Committee On Federal-Provincial Relations

RECORD OF COMMITTEE DECISION

Meeting of March 25th, 1970

British Columbia Coastal Ferry Services
- Application Of Sales Tax -

The Committee agreed that:

(a) the application of federal sales tax should continue pending the outcome of the federal-provincial discussions on intergovernmental taxation;

(b) the Minister of Finance and Minister of National Revenue should now write a letter to Prime Minister Bennett stating that this question is properly the work of the intergovernmental committee discussing intergovernmental taxation;

(c) the Minister of National Revenue should examine the treatment of the British Columbia Coastal Ferry Service to discover if this ferry service is being dealt with differently than any similar service in Canada; and

(d) if any inequality of treatment is evident, the question of tax on suppliers to the British Columbia Ferry Service should be re-opened for discussion at a later date in this committee.

CONFIRMED BY THE CABINET ON JUNE 18TH, 1970

D.J. Leach
D.J. Leach,
Supervisor of Cabinet Documents.

RECEIVED
JUN 24 1970
OFFICE OF THE
DEPUTY MINISTER
TRANS 000341

32

~~Secret~~ 38-8-4
CONFIDENTIAL

November 18, 1952.

The Deputy Minister,
Department of National Defence,
Ottawa, C a n a d a.

Dear Sir:

Re: HGS 200-25-32
DM Sec't. 23-3

In reply to the Inter Service Movement
Mobilization Planning Committee's request for information
on railway car ferries on the West Coast I have had the
Traffic Services Branch of the Canadian Maritime Commission
report on the aspects of the subject referred to in the
Committee's letter dated April 7th.

Three copies of the report are attached.

Yours sincerely,

J. C. LESSARD

J.-C. Lessard.

GES/LC

6

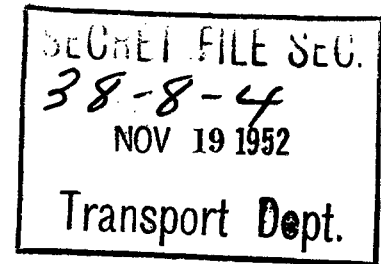
J.-C. Lessard,
~~XXXXXXXXXX~~
CHAIRMAN
L. C. [REDACTED] ETTE,
ANGUS MCGUGAN,
COMMISSIONERS



CANADIAN MARITIME COMMISSION

OTTAWA. October 31, 1952.

6454



Mr. J.-C. Lessard,
Deputy Minister,
Department of Transport,
Ottawa, Canada.

Dear Sir:

I have investigated the railway car ferry problem with which the Interservice Movement Mobilization Planning Committee is concerned and now submit to you four copies of my report.

In Part I I provide answers to the specific questions asked by the Committee in its letter dated April 7, 1952, and in Part II I offer for consideration some suggestions for minimizing the risk of a disruption of railway car ferry service between Vancouver Island and the railway system on the mainland. I have not, of course, attempted to assess the military risk involved.

Yours respectfully,

G. M. Schuthe,
Traffic Services Branch.

GMS/LC

33

CONFIDENTIAL

RAILWAY CAR FERRY SERVICES
BETWEEN VANCOUVER ISLAND AND THE
BRITISH COLUMBIA MAINLAND

A report prepared for the Interservice Movement Mobilization Planning Committee, Department of National Defence, on certain aspects of the problem of assuring adequate domestic waterborne transportation facilities for Vancouver Island in time of war.

Traffic Services Branch,
Canadian Maritime Commission.

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I. VULNERABILITY IN WARTIME OF RAILWAY CAR FERRIES SERVING VANCOUVER ISLAND

(a) DEPENDENCE OF VANCOUVER ISLAND UPON RAILWAY CAR FERRY SERVICES

In 1951, more than a million short tons of cargo were carried in railway cars on car ferries operating between the British Columbia mainland and Vancouver Island. (See Appendix I). Of this total, 386,000 tons consisted of coal, grain, feed, food-stuffs, automotive vehicles, and general merchandise shipped from the mainland, and 655,000 tons consisted, for the most part, of products of the forest industries of Vancouver Island shipped to the mainland. In the peak month of May, 1952, C.P.R.-operated car barges alone ferried 3,368 railway cars between Vancouver and Vancouver Island.

Statistics of the amount of cargo carried across the Gulf of Georgia by non-railway barges and flat scows, while not complete, indicate that the major commodities freighted in these vessels are coal and cement, accounting for about 315,000 tons in a year. The total amount of all dry cargo carried by non-railway barges and scows between the lower mainland and Vancouver Island probably does not exceed 400,000 tons.

Steamships are responsible for only a relatively small part of the cargo movement across the Gulf. The Canadian Pacific passenger vessels operating between Vancouver and Nanaimo and between Vancouver and Victoria carried less than 90,000 tons of general cargo in 1951.

Vancouver Island does not enjoy a self-sufficient insular economy but, instead, depends upon outside markets and sources of supply. Any lengthy disruption of transportation service, and particularly of railway car ferry service, would undoubtedly result in severe economic dislocations affecting the welfare of Island communities and the operations of Island industries.

(b) PROBLEM OF INTERCHANGEABILITY OF RAILWAY CAR FERRIES

Canadian Pacific car barges are unable to use C.N.R. slips and Canadian National ferries are unable to use C.P.R. slips. Furthermore, railway ferry slips at American termini located on Puget Sound cannot be used by Canadian car ferries without substantial modification. This problem of interchangeability has not heretofore been raised and studied as a matter of national interest, and no attempt appears to have been made to standardize railway car ferries and slips.

(c) FEATURES THAT PREVENT INTERCHANGEABILITY

Canadian Pacific barges and slips are provided with three parallel sets of tracks, whereas Canadian National barges have tracks which converge to form a single track at the loading apron. Modifications to Canadian National slips to enable their use by Canadian Pacific car barges would require alterations to aprons and machinery, approach trestles and trackage, and wing walls.

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31

(d) ESTIMATED COST OF MAKING FACILITIES INTERCHANGEABLE

Following is a rough estimate of the cost of making necessary alterations to Canadian National car ferry termini to enable them to receive Canadian Pacific barges:

Aprons and machinery	\$ 75,000
Approach trestle and trackage	30,000
Alterations to wing walls	<u>35,000</u>
Cost at each location	\$140,000

(e) NECESSITY FOR USE OF ALL PRESENT FACILITIES

The railway companies appear to have no intention of abandoning their present car ferry facilities, and there is no evidence of excessive ferry capacity. On the contrary, the Canadian Pacific Railway currently has on charter a 15-car barge to supplement its own car ferry fleet. (Canadian railway car ferries in the service of, or capable of being used by, the two railway companies serving Vancouver Island are listed in Appendix II.)

Locations of the ferry termini are related to the railway lines which the car ferries link, and the abandonment of existing facilities could only be considered as part of the broader question of the ultimate need for the rail services already established on Vancouver Island.

(f) ALTERNATIVE METHODS OF SHIPMENT

The alternatives to railway car ferries for the transportation of cargo between the British Columbia mainland and Vancouver Island are: non-railway barges and scows, and self-propelled ships. Of these vessels, there is no substantial reserve to be drawn upon in an emergency without causing transportation dislocations elsewhere on the B.C. coast. Moreover, a diversion of traffic from normal rail-and-water routes to non-railway carriers would create extraordinary problems of cargo reception, handling, storage, and distribution at the ports of Vancouver, Victoria, Nanaimo, and possibly New Westminster.

The quantity of merchandise and bulk commodities transferred across the Gulf of Georgia by railway car ferries averaged nearly 86,000 tons a month in 1951. An estimate of the number of scows, barges, and coasting ships which would be needed to carry this quantity of cargo can only be a rough approximation. Actual requirements would depend upon the season, dispatch in handling cargo, the availability of tow boats, and other variable factors. Probably three self-propelled coasters of about 600 tons deadweight capacity would be needed to supplement the cargo capacity of the regular Canadian Pacific passenger ships for general merchandise and perishable commodities. Assuming the provision of adequate trans-shipment facilities on shore, about ten 90-foot scows would be required to carry such commodities as coal, pulp, and poles, and forty-five 30-foot scows to transport lumber. A 40-foot covered scow would be required for paper cargoes. Not less than six tug boats of suitable power would have to be available for towing duties.

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30

If railway service were interrupted but railway car ferries and slips remained operative, the facilities could be adapted to handle heavy trucks and trailers by laying planking on approach trestles and by installing a deck at the top-of-rail level in the car ferries. The cost of installing such a deck is estimated at \$16,000 for each barge. At present, one car barge (Transfer No. 4, owned by the C.P.R.) has recessed rails and can accommodate motor vehicles. Canadian National officials believe that it would be impracticable to adapt the approaches and slips at Point Ellice and Cowichan Bay to handle motor vehicles. They estimate the cost of planking approach trestles and doing necessary roadwork at Ogden Point to be \$7,500 and at Port Mann to be \$15,000. Canadian Pacific passenger steamers with automobile decks can accept only light motor vehicles (up to 1½ tons). Provision for heavier vehicles will be made in a Black Ball Line ferry now undergoing refit for the Vancouver Island service. Large trucks and trailers can be carried satisfactorily on the decks of flat scows.

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29

II. SUGGESTIONS FOR MINIMIZING THE RISK OF A DISRUPTION OF RAILWAY
CAR FERRY SERVICE BETWEEN VANCOUVER ISLAND AND THE MAINLAND.

Standardization of facilities in order that car ferries could be used at all slips is obviously desirable if available equipment is to be employed most effectively in a transportation emergency. Of the two track arrangements which now prevent the interchangeability of ferry equipment, that of the C.P.R. is the more efficient and the more widely used. Conversion of existing C.N.R. facilities would apparently be the simplest answer to the problem of interchangeability.

Should a serious interruption of railway service occur in, say, the Fraser Canyon of British Columbia, the Pacific Great Eastern Railway, which joins the C.N.R. at Prince George, would provide an alternative route for Vancouver Island traffic to and from the east. As normal car ferry traffic between Vancouver and the P.G.E. terminus at Squamish would be swollen by Vancouver Island traffic as well as by rerouted lower mainland traffic, the value of interchangeable car ferry equipment in such circumstances is apparent. The risk to Vancouver Island of isolation from the mainland railway system would, of course, be still further lessened if standardization were to include the railway car ferry slips of the Chicago, Milwaukee, St. Paul and Pacific Railway Company on Puget Sound.

While railway car ferry slips are dispersed along the east coast of Vancouver Island, on the B.C. mainland the bulk of the car ferry traffic is concentrated on the slips in Vancouver Harbour. (See Appendix III.) The times when tow barges may enter or leave Vancouver Harbour are governed by tidal currents through the First Narrows, and traffic converging on the Narrows creates a collision hazard. Hence, the location of a car ferry slip at a site which is free from the objectionable features associated with the existing Vancouver slips might well merit consideration. False Creek as a site for a ferry slip has several advantages to recommend it, the principal being elimination of the need for towing dumb barges through the First Narrows, and proximity to C.P.R. and C.N.R. trackage in Vancouver City.

GMS/LC
31 October 52.

CONFIDENTIAL

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28

BRITISH COLUMBIA MAINLAND - VANCOUVER ISLAND

RAILWAY CAR FERRY TRAFFIC

1951

Tons of 2,000 rounds

	<u>OUTWARD</u> <u>to Vancouver Island</u>	<u>INWARD</u> <u>from Vancouver Island</u>
Reported at Vancouver (C.P.R. Car Ferry Service)	246,022	485,665
Reported at New Westminster (C.N.R. Car Ferry Service)	139,965	158,725
	<u>385,987</u>	<u>644,590</u>

Sources: National Harbours Board
New Westminster Harbour Commissioners.

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CANADIAN RAILWAY CAR FERRIES ON THE WEST COAST

<u>Ferry</u>	<u>Car Capacity</u>	<u>Owner</u>	<u>Can Use Indicated Slips</u>
1. Canadian National 107	15	C.N.R.	C.N.R.
2. Canadian National 109	15	C.N.R.	C.N.R.
3. Canadian National 111	14	C.N.R.	C.N.R.
4. Canora (self-propelled)	17	C.N.R.	C.N.R.
5. Griffco	12	Griffiths S.S. Co.	C.P.R., P.G.E.
6. GRIFFSON	16	Griffiths S.S. Co.	(2)
7. Island Logger	15	Island Tug & Barge	C.P.R. (1)
8. Island Tug 40	6	Island Tug & Barge	C.P.R., P.G.E.
9. Island Tug 42	6	Island Tug & Barge	C.P.R., P.G.E.
10. Island Tug 44	6	Island Tug & Barge	C.P.R., P.G.E.
11. P.G.E. No. 2	12	P.G.E. Railway	C.P.R., P.G.E.
12. P.G.E. No. 3	12	P.G.E. Railway	C.P.R., P.G.E.
13. Prospect Point	14	C.P.R.	C.P.R.
14. Transfer No. 3	15	C.P.R.	C.P.R.
15. Transfer No. 4	22	C.P.R.	C.P.R.
16. Transfer No. 9	17	C.P.R.	C.P.R.
17. Yorke No. 1	6	F.M. Yorke & Son	Gt. Northern, P.G.E., (3)
18. Yorke No. 2	4	F.M. Yorke & Son	
19. Yorke No. 3	4	F.M. Yorke & Son	
20. Yorke No. 4	4	F.M. Yorke & Son	
21. Yorke No. 5	4	F.M. Yorke & Son	
22. Yorke No. 6	12	F.M. Yorke & Son	Gt. Northern, P.G.E., (3)
23. Yorke No. 7	6	F.M. Yorke & Son	Gt. Northern, P.G.E., (3)
24. Yorke No. 9	12	F.M. Yorke & Son	Gt. Northern, P.G.E., (3)

Total Car capacity 266

Notes on slips

- (1) Could fit P.G.E. if one dolphin were shifted.
- (2) Could be adapted to fit C.N.R. slips at one end and C.P.R. and P.G.E. at other end.
- (3) Fits C.P.R. slips at Nanoose and Ladysmith.

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RAILWAY CAR FERRY SLIPS WITH RAILWAY SYSTEM CONNECTIONS ON
VANCOUVER ISLAND, THE B.C. MAINLAND, AND PUGET SOUND

<u>Site</u>	<u>Connecting Railway</u>	<u>Car Barges Using Slip</u>
<u>VANCOUVER ISLAND</u>		
1. Victoria (Ogden Point)	C.N.R.	C.N.R.
2. Victoria (Point Ellice)	C.N.R.	C.N.R.
3. Cowichan Bay	C.N.R.	C.N.R.
4. Ladysmith	C.P.R. (E.&M.)	C.P.R., Island Tug
5. Nanoose	C.P.R. (E.&M.)	C.P.R., Island Tug
<u>B.C. MAINLAND</u>		
6. Vancouver Harbour	C.P.R.	C.P.R., P.O.M., Island Tug
7. Vancouver Harbour	N.H.B.	(Not regularly used) X
8. Vancouver Harbour	Great Northern	Yorke
9. Port Mann	C.N.R.	C.N.R.
10. Squamish	P.G.E.	P.G.E., Yorke

X Barges with parallel sets of tracks may be moved to connect the individual tracks in turn with the single track on the apron of the N.H.B. slip at Vancouver.

PUGET SOUND (Washington)

11. Bellingham	Chicago, Milwaukee, St. Paul and Pacific	Not used by Canadian car barges.
12. Everett	"	"
13. Seattle	"	"
14. Tacoma	"	"

25

38-8-4

October 18, 1952.

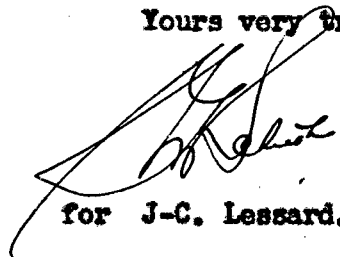
Mr. S. F. Dingle,
Vice-President,
Canadian National Railways,
360 McGill Street,
Montreal, Quebec.

Dear Sir:

Thank you for your letter dated October 16th,
file 3925-43.

I am grateful to you for making this information
available.

Yours very truly,



for J-C. Lessard.

GMS/LC

CANADIAN NATIONAL RAILWAYS

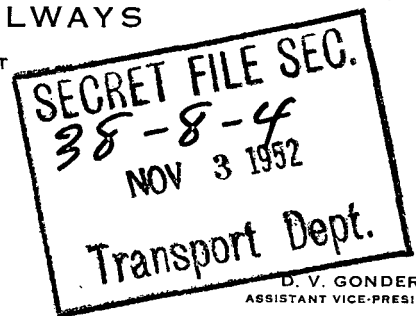
OFFICE OF THE VICE-PRESIDENT
OF OPERATION

S. F. DINGLE
VICE-PRESIDENT

J. C. KENKEL
ASSISTANT TO VICE-PRESIDENT

W. H. KYLE
ASSISTANT VICE-PRESIDENT

R. C. JOHNSTON
ASSISTANT VICE-PRESIDENT



D. V. GONDER
ASSISTANT VICE-PRESIDENT

MONTREAL, QUE.
October 16, 1952.
3925-43.

6117

Mr. Schuthe

J.-C. Lessard, Esq.,
Deputy Minister of Transport,
Ottawa, Ontario.

Dear Mr. Lessard:

With reference to your letter of September 15th, and further to discussion between Mr. Schuthe of the Canadian Maritime Commission and Assistant Vice-President, Mr. Kyle, at a meeting attended also by Officers of the Canadian Pacific Railway Company, relating to certain aspects of railway car ferry services between Vancouver Island and the British Columbia Mainland:

The various points on which Mr. Schuthe desired information were compiled in the form of memorandum of questions and answers, and attached, for your information, is copy of this memorandum which it is hoped provides the data which you desire in connection with the Canadian National barge services referred to.

It will be appreciated, of course, that the cost figures contained in this memorandum are rough estimates only, and are incorporated merely to serve as a guide to the comparative size of the projects mentioned.

If any further information is desired, please do not hesitate to call upon me.

Yours sincerely,

S. F. Dingle
Vice-President.



C.N.R. BARGE OPERATIONS, PACIFIC COAST

23

1. Q. Does our "Canora" operate to Victoria and Cowichan Bay?

A. Yes

2. Q. What is car capacity of each of our barges in Vancouver service?

A. "Canora" - 17 cars
Barge 107 - 15 "
Barge 109 - 15 "
Barge 111 - 14 "

3. Q. Description of C.N. barge slips at each point of call:

A.	Port Mann	Pt. Ellice	Cowichan Bay	Ogden Point
(a) Length	72'	72'	72'	72'
(b) Width	9'	9'	9'	9'
(c) Depth at low tide	20'	20'	30'	20'
(d) Percentage of time daily slip can be used	100%	83%	50%	83%
(e) Tidal range at each slip	8'	12'	18'	12'

4. Q. Can our barges operate into C.P. slips, and vice versa, (including "Canora")?

A. No.

5. Q. At James Island and Harmac are there any rail facilities or interchange with the C.P.R.?

A. James Island - no rail connection except to ferry slip, which is used by C.N. and C.P.

Harmac - no rail connection except to ferry slip, which is used by Yorke and Son and an American barge to and from Tacoma.

6. Q. Schedules of C.N. barges - average monthly sailings ex Port Mann and ex Island points?

A. Ex Port Mann - Mon, Tues, Wed, Thurs, Sat - Cowichan Bay
Sunday and Friday - to Victoria.
Ex Victoria - Saturday and Monday direct to Port Mann.
Ex Cowichan Bay - Mon., Tues., Wed., Thurs., Sat. - to Port Mann
Chemainus direct - round trip about once weekly.
James Island - one call weekly enroute from Victoria or Cowichan Bay.

7. Q. Traffic - peak month?

A. Month of December, 1951:

To Vancouver Island - 334 cars coal
62 " grain, feed and foodstuffs.
147 " miscellaneous
543 "

From Vancouver Island - 309 cars forest products
6 " fish
48 " miscellaneous
363 "

No information available as to tonnage of this traffic.

8. Q. If barge slips at C.N. Port Mann and C.P. Vancouver were disabled, what alternative facilities would there be, (a) In Canada? (b) in U.S.A. (Bellingham, Everett, etc.)?

A. (a) N.H.B. slip and G.N. slip, Vancouver, could handle C.P.R. barge, working centre track only.
(b) No information immediately available.

9. Q. If C.N. and C.P. barge slips were disabled, could carload traffic be handled to and from barges by cranes, and at what piers at Port Mann and Vancouver?

A. Traffic could not be handled from barges at any existing slips by cranes on piers in Vancouver or Port Mann.

10. Q. If barge slips, C.N. and C.P., are not interchangeable for operation, what is the governing disability, and what would be a rough estimate of the cost to make them interchangeable?

A. Governing disability is that C.N. barges and slips have tracks converging at ends, whereas C.P. barges and slips have three parallel tracks. Estimated cost of making them interchangeable would be as follows at each location:

Aprons and machinery	\$75,000.
Approach trestle and trackage	30,000.
Alterations to wing walls	<u>35,000.</u>

Total \$140,000.

11. Q. Can C.N. barges and barge slips now handle traffic in motor trucks, and if not, what would be involved in the way of work, and expense, to provide for this.

A. To handle motor vehicles it will be necessary to instal a deck at top of rail level on barges and to plank the approach trestle as well as aprons. The cost of planking the approach trestle and constructing roadway at Port Mann is estimated at \$15,000. At Ogden Point the estimated cost is 7,500. Regarding Point Ellice and Cowichan Bay -- the former owing to the topographical features -- the cost of approach roadway would be excessive: At Cowichan Bay the approach trestle is over 1500 feet and to meet a secondary road it would be necessary to plank to Mile 5.6, this would only give a one way movement, which is not considered satisfactory. To plank one barge is estimated to cost \$16,000.

CANADIAN PACIFIC RAILWAY COMPANY

British Columbia Coast Steamship Service

STATEMENT SHOWING PARTICULARS OF B. C. COAST STEAMSHIP TRANSFER BARGES AND OTHER INFORMATION RELATING TO TRANSFER BARGE SERVICES.

PARTICULARS OF TRANSFER BARGES

<u>NAME OF BARGE</u>	<u>GROSS TONNAGE</u>	<u>NET TONNAGE</u>	<u>LENGTH</u>	<u>BREADTH</u>	<u>DEPTH</u>	<u>BOX CAR CARRYING CAPACITY</u>
Transfer Barge No. 1 (Prospect Point)	1038	1011	232' 6"	42' 6"	12' 6"	14
Transfer Barge No. 3	977	927	250' 0"	42' 0"	12' 0"	15
Transfer Barge No. 4	1593	1522	308' 7 $\frac{1}{4}$ "	53' 2 $\frac{3}{8}$ "	11' 7 $\frac{1}{4}$ "	22
Transfer Barge No. 9	1396	1360	278' 7"	43' 2 $\frac{1}{2}$ "	12' 0"	17
"Island Logger" (Under charter of Island Tug & Barge Ltd.)		1274	252' 0"	53' 2 $\frac{3}{4}$ "	11' 6"	15

VOLUME OF TRAFFIC BETWEEN VANCOUVER ISLAND AND THE B. C. MAINLAND

	<u>Revenue Loads</u>	<u>O. C. S. Loads</u>	<u>Empties</u>	<u>TOTAL</u>
Cars from Vancouver to Vancouver Island - May 1952	913	28	789	1730
Cars from Vancouver Island to Vancouver - May 1952	1413	80	145	1638

The particulars of the principle commodity classifications are shown below:

	<u>No. of cars</u>	<u>Tons</u>	<u>Percentage</u>	<u>Commodity</u>
Vancouver to Vancouver Island - May 1952	93	613	3.0244	Autos and trucks
	8	177	.8732	Propane gas
	7	368	1.8156	Oil and grease
	28	1016	5.0128	Asphalt and tar
	69	3196	15.7687	Coal and coke
	9	359	1.7712	Sugar
	48	1462	7.2133	Flour and mill goods
	53	1744	8.6047	Feed and grain
	14	779	3.8435	Wheat and oats
	13	134	.6611	Hay and straw
	6	72	.3552	Household goods
	4	128	.6315	Malt
	2	34	.1677	Fruit
	10	123	.6068	Vegetables
	1	10	.0493	Livestock
	38	507	2.5014	Meats
	505	9459	46.6696	Mdse & Miscellaneous (Foodstuffs, furniture, dry goods, stoves).
	5	87	.4292	Butter and Margarine
<u>TOTAL</u> -	<u>913</u>	<u>20,268</u>	<u>99.9992%</u>	

VOLUME OF TRAFFIC BETWEEN VANCOUVER ISLAND AND THE B. C. MAINLAND

	<u>Revenue Loads</u>	<u>O. C. S. Loads</u>	<u>Empties</u>	<u>TOTAL</u>
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	48	1462	7.2133	Flour and mill goods
	53	1744	8.6047	Feed and grain
	14	779	3.8435	Wheat and oats
	13	134	.6611	Hay and straw
	6	72	.3552	Household goods
	4	128	.6315	Malt
	2	34	.1677	Fruit
	10	123	.6068	Vegetables
	1	10	.0493	Livestock
	38	507	2.5014	Meats
	505	9459	46.6696	Mdse & Miscellaneous (Foodstuffs, furniture, dry goods, stoves).
	5	87	.4292	Butter and Margarine
<u>TOTAL -</u>	<u>913</u>	<u>20,268</u>	<u>99.9992%</u>	

O. J. Williams
Manager.

CANADIAN PACIFIC RAILWAY COMPANY

BRITISH COLUMBIA COAST STEAMSHIP SERVICE

STATEMENT SHOWING PARTICULARS OF B. C. COAST STEAMSHIP TRANSFER BARGES AND OTHER
INFORMATION RELATING TO TRANSFER BARGE SERVICES.

	<u>No. of Cars</u>	<u>Tonnage</u>	<u>Percentage</u>	<u>Commodity</u>
Vancouver Island to Vancouver - May, 1952	82	3130	6.6975	Pulp
	2	22	.0470	Fruit and vegetables
	963	32096	68.6780	Lumber and shingles
	172	5705	12.2073	Other forest products mostly poles
	22	412	.8815	Paper products
	11	247	.5285	Paint
	7	149	.3188	Liquor
	3	13	.0278	Livestock
	14	682	1.4593	Coal
	137	4278	9.1539	Merchandise and Miscellaneous (Foodstuffs, drygoods)
TOTAL	1413	46734	99.9996	

FREIGHT TONNAGE HANDLED DURING THE MONTH OF MAY, 1952

Mainland to Vancouver Island	20,268 tons
Vancouver Island to Mainland	<u>46,734</u> tons
TOTAL	<u>67,002</u> tons

BARGE SLIPS AT UNITED STATES POINTS

<u>LOCATION</u>	<u>NUMBER OF SLIPS</u>	<u>NUMBER OF SPURS</u>
Seattle	1	3
Bellingham	1	3
Bremerton	1	1 (Owned by U.S. Navy)
Tacoma	1	1
Port Angeles	Nil	Nil
Port Townsend	1	3
Everett	Nil	Nil

Note: All these barge slips are owned by the Chicago, Milwaukee, St. Paul and Pacific Railway Company with the exception of that owned and operated by the U. S. Navy. The Great Northern Railway previously operated the slip at Everett but no longer do so.

J. Williams
MANAGER.

VICTORIA, B. C., September 29th, 1952.

000358

FREIGHT TONNAGE HANDLED DURING THE MONTH OF MAY, 1952

Mainland to Vancouver Island	20,268 tons
Vancouver Island to Mainland	<u>46,734</u> tons
TOTAL	<u>67,002</u> tons

BARGE SLIPS AT UNITED STATES POINTS

<u>LOCATION</u>	<u>NUMBER OF SLIPS</u>	<u>NUMBER OF SPURS</u>
Seattle	1	3
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Bremerton	1	1 (Owned by U.S. Navy)
Tacoma	1	1
Port Angeles	Nil	Nil
Port Townsend	1	3
Everett	Nil	Nil

Note: All these barge slips are owned by the Chicago, Milwaukee, St. Paul and Pacific Railway Company with the exception of that owned and operated by the U. S. Navy. The Great Northern Railway previously operated the slip at Everett but no longer do so.

J. H. Williams
MANAGER.

VICTORIA, B. C., September 29th, 1952.

21

38-8-4

October 6, 1952.

Mr. H. R. Crump,
Vice-President,
Canadian Pacific Railway Company,
Windsor Station,
Montreal, Quebec.

Dear Sir:

I acknowledge your letter dated October 3rd, file
1968-3, and enclosure.

Thank you for providing the information on operations
of your Pacific Coast tow barge fleet.

Yours sincerely,

J. C. LESSARD

J-C. Lessard.

GMS/LC

20

CANADIAN PACIFIC RAILWAY COMPANY

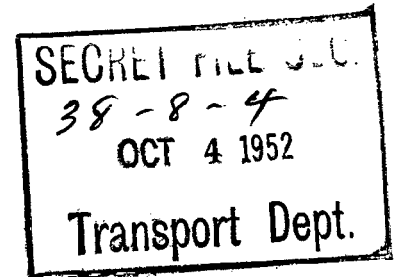
N. R. CRUMP, •
VICE-PRESIDENT

MONTREAL October 3rd, 1952.

1968 - 3

■ 5559

J. C. Lessard, Esq.,
Deputy Minister of Transport,
OTTAWA, Ont.



Dear Sir:-

I enclose a statement which contains the information requested in your letter of the 15th ultimo, file 38-8-4, concerning the operations of our tow barge fleet between Vancouver Island and the mainland of British Columbia.

Enquiry develops that due to the type of construction the slips of the Milwaukee Railroad at Port Townsend, Bellingham, Seattle and Tacoma could not be used by our barges without major modifications to either the slips or the barges.

I presume that any data pertaining to the slip at Bremerton, which is operated by the U.S. Navy, could be secured by the Department of Defence.

Yours truly,


Vice-President



~~CONFIDENTIAL~~

38-8-4

September 15, 1952.

Mr. H. R. Crump,
Vice-President,
Canadian Pacific Railway Co.,
Windsor Station,
Montreal, Quebec.

Dear Mr. Crump:

On Friday last, Mr. Schuthe of the Canadian Maritime Commission discussed some aspects of the railway car ferry services between Vancouver Island and the B.C. Mainland with Mr. Lyall and Mr. Taylor of the Canadian Pacific railway and with officers of the Canadian National Railways. The subject discussed is related to a defence problem raised by the Department of National Defence.

I should appreciate your providing the following information concerning C.P.R. West Coast railway car ferry operations:

- (a) A list of the C.P.R. railway car ferry tow barges with their box car carrying capacities.
- (b) The volume of the movement between Vancouver Island and the B.C. Mainland in a peak month in terms of:
 - 1. railway cars in each direction;
 - 2. freight tonnage in total and in the principal commodity classifications.

...

- 2 -

17

- (c) In the event of a disruption of service to the B.C. Mainland, could railway car ferry tow barges be routed between Vancouver Island and Washington State? Are there suitable slips at such points as Bellingham and Everett?

Yours sincerely,

J. C. LOSSARD

J.-C. Lossard.

GES/LC

16

C CONFIDENTIAL

38-8-4

September 15, 1952.

Mr. S. F. Dingle,
Vice-President,
Canadian National Railways,
360 McGill Street,
Montreal, Quebec.

Dear Mr. Dingle:

On Friday last, Mr. Schmithe of the Canadian Maritime Commission discussed some aspects of the railway car ferry services between Vancouver Island and the B.C. Mainland with Mr. Kyle of Canadian National Railways and with officers of the Canadian Pacific Railway. The subject discussed is related to a defence problem raised by the Department of National Defence.

I should appreciate your providing the following information concerning C.N.R. West Coast railway car ferry operations:

- (a) A list of the C.N.R. railway car ferry tow barges with their box car carrying capacities.
- (b) The box car carrying capacity of the self-propelled ferry "CANORA".
- (c) The volume of the movement between Vancouver Island and the B.C. Mainland in a peak month in terms of:
 - 1. railway cars in each direction;
 - 2. freight tonnage in total and in the principal commodity classifications.

....

- 2 -

- (d) Structurally, I understand, the C.N.R. and C.P.R. tow barges are interchangeable and C.N.R. barges could conceivably be used at C.P.R. slips. The "CANORA", on the other hand, can use only C.N.R. facilities. What are the technical reasons for this limitation and would it be possible, should the need arise, to adapt the "CANORA" (or the C.P.R. slips) for interchangeable operations?

Yours sincerely,

I C. LOSSARD

G-C. Lossard.

GCS/lc



August 11, 1952.

Deputy Minister,
Department of Transport,
Hunter Building,
Ottawa, Ontario.

4630

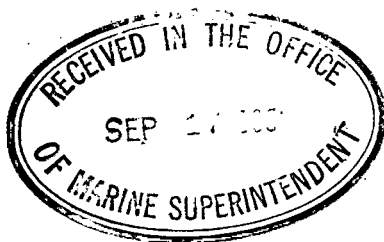
952.
SECRET FILE SEC.
38-8-4
DEC 15 1952
Transport Dept.

Dear Sir: Attn: Mr. A. Watson,
 Marine Superintendent

By letter HQS 200-25-32 of 7 April 1952, Department of Transport was requested to make an investigation of the vulnerability of railway ferries on the West Coast in the event of war.

It is understood that this request has not been acted on because it was stated in the letter "it is not intended that your department should conduct an investigation in the problem on the basis of this request, but it is considered possible that the information is readily available to you". This situation was communicated to the Tri-Service Movements Committee at its last meeting. It is the wish of this Committee that an investigation be undertaken to the extent necessary to answer the queries raised in the letter of 7 April last. It was not the intention in that letter to preclude Department of Transport making a field investigation, but rather to indicate that the nature of the problem at this time does not warrant the undertaking of an extensive or intensive investigation. What is required is to know in a general way whether the West Coast railway ferries will or will not be adequate to meet a wartime situation. If the conclusion is that corrective action is called for, a more detailed investigation will be undertaken.

Yours sincerely,

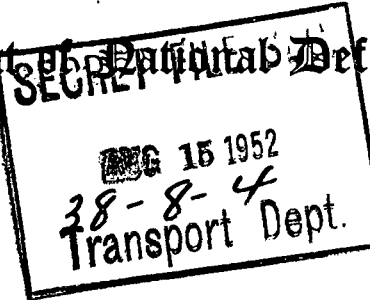


Adhunan
for Deputy Minister



No. S.200-25-32 (DSS).....

Department of National Defence



OTTAWA,

7 Apr 52 4629

Department of Transport,
Hunter Building,
Ottawa, Ontario.

Attention: Mr. A. Watson,
Marine Superintendent

Dear Sir:

Attached are copies of correspondence between the Secretaries of Joint Service Committee, Pacific Coast, and the Principal Supply Officers' Committee, located in National Defence Headquarters, on the subject of Railway Ferries on the West Coast.

This information has been passed to the Inter Service Movement Mobilization Planning Committee for study and recommendation, however, the members are of the opinion that you, in your position, will be much more familiar with the situation and would therefore be able to offer sound advice.

// Specifically, the Committee would like to determine:

- (a) Is this situation serious and would the elimination of any one major facility jeopardize the movement of supplies between Vancouver Island and the mainland?
- (b) Has the question of interchangeability been raised before and studied as a problem of national interest?
- (c) What are the technical reasons why the facilities are not interchangeable; is it a matter of rail switching to the various slips; is it the actual slip construction which will not permit entry of other ferries; or is it a matter of draught and rail connection facilities?
- (d) An estimate of the cost involved to make the CPR and CNR facilities interchangeable.
- (e) Are these facilities all necessary or have they been established on a competitive money making basis?
- (f) What alternative methods of shipment are available?

It is not intended that your Department should conduct an investigation of the problem on the basis of this request but it is considered possible that the information is readily available to you. If so, it will be appreciated.

. . . . 2

- 2 -


CONFIDENTIAL

12

You are no doubt aware that there are military installations on the Island and that these will probably be extended. As a result the Department of National Defence is vitally interested in the service provided.

An early reply would be appreciated.

Yours truly,


(E. E. Parks),
Wing Commander,
Chairman
IMMPC.

Attach.

C O P Y

File Sec.JSC/PC 5-2-13

11

DEPARTMENT OF NATIONAL DEFENCE
NAVAL SERVICE

Flag Officer Pacific Coast,
H.M.C. Dockyard, Esquimalt, B.C.
March 10, 1952.

Secretary,
Principal Supply Officers Committee,
OTTAWA, Ont.

Railway Ferries - West Coast

Replying to your letter PSCC 137-2 dated 28 Feb.
1952, the following are the West Coast Ferry Slips, arranged by
ports.

VANCOUVER ISLAND

VICTORIA (C.N.R.)

- (i) Ogden Point, Victoria Harbour
- (ii) Point Ellice, Victoria (Inner) Harbour

Neither of these two slips is designed to take
vehicles, although in an Emergency planking could be
laid over or between the rails at the shore end to
make a temporary roadway.

COWICHAN BAY (C.N.R.) Not fitted for vehicles.

LADYSMITH (C.P.R.) Not fitted for vehicles.

NANOOSE (C.P.R.) Could handle vehicles.

B. C. MAINLAND

VANCOUVER

C.P.R. At Foot of Burrard Street. This slip is fitted to take
vehicles as well as rail cars.

GREAT NORTHERN or York Transportation. Foot of Campbell Avenue on
the Great Northern Dock. Not fitted to take vehicles.

PORT MANN (Fraser River)

C.N.R. This is the mainland ferry slip terminus for switching rail-
way cars for Vancouver Island points. Not fitted to take
vehicles.

SQUAMISH

PACIFIC GREAT EASTERN Slip for railway car barges. Not fitted
for vehicles.

10

2. At the time when the recommendation was first made by the JSC/PC that the railway car ferry services of the two Railway Companies should be made interchangeable, the situation was as follows:

- (i) The C.P.R. and C.N.R. lines on the mainland are close together, their car ferry termini are many miles apart. This also applies to Vancouver Island.
- (ii) The great bulk of freight between the B.C. mainland and Vancouver Island is carried by railway car barge, utilizing the car ferry slips listed on page 1.
- (iii) The present heavy rail traffic at the Western termini of both major railways is already taxing existing facilities. This volume of traffic is mainly due to the fact that most of the large sawmills in Southern British Columbia are located on Vancouver Island. Supplies of all kinds to keep these mills running come to Vancouver Island by railway car barges and the same method is used in shipping out of the mills the processed lumber for Eastern Canada and U.S. markets. The same conditions apply to the large pulp and paper mills located at Port Alberni and Nanaimo, all of which are served by these railway car ferries.
- (iv) Apart from the supplies brought to the various industries mentioned, and the transportation of finished products to Eastern markets, almost the entire food supply for the civil population of Vancouver Island is shipped in these same railway car ferries from Vancouver. It is cheaper and more efficient to send carload lots directly through from the Mainland to Vancouver Island ferry slips at Ladysmith and Nanoose from whence these cars continue by railway to Victoria, Nanaimo, Comox, Port Alberni and intermediate way points. In this way there is only one move from the railcar to the consignee. This is important, especially when it involves the transport of perishable foodstuffs requiring refrigerated cars.
- (v) The lack of interchangeability of railway car ferries and slips would, particularly in wartime, pose a serious problem of supply should either one or the other Company's facilities be destroyed. It would gravely curtail the needed supplies of all kinds to keep Vancouver Island's wartime industries in production, it would immobilize at the mainland termini much needed rolling stock, and in a short time cause severe shortages of vital foodstuffs as no great stocks are kept on hand on Vancouver Island. Obviously every military establishment on Vancouver Island would likewise be adversely affected through the food and supply shortages.

3. Since this matter was brought to the attention of the Chiefs of Staff Committee, there has been a further development which materially affects the situation. That is the fact that the Victoria Machinery Depot has been converting for Canadian Pacific Steamships, a military landing barge, known as Transfer Craft No.4, for service on the Vancouver-Nanaimo run as a flat deck carrier. This vessel should be ready within the next few days to commence this new service. This craft has been fitted with sunken railway tracks on its steel deck and will carry either 22 railway box cars or 40 trucks, or a combination of both and will be towed by a powerful tug so as to complete the 36 mile run in four hours. Facilities already exist alongside the main wharves of Canadian Pacific terminals at both Vancouver and Nanaimo. No passengers will be carried but truck drivers will proceed by the usual passenger-ferry service of the Company and arrive in time to take delivery of their trucks. For the time being only trucks will be carried.

4. The above new service is designed to meet the modern trend of greatly increased truck traffic especially noticeable in British Columbia since the opening of the Hope-Princeton Highway on the Mainland and the improvement on Vancouver Island of the Island Highway.

5. It must be conceded that this new service offers the first C.P.R. or C.N.R. alternative to the presently heavily taxed railway car ferry service and to that extent makes less urgent the former recommendation that steps be taken to encourage the C.P.R. and C.N.R. to make their car-ferry services interchangeable. Nevertheless the former recommendation that railcar ferry services should be interchangeable is still applicable as the traffic between the mainland and Vancouver Island is rapidly expanding and withdrawal or destruction of vessels or the immobilization of one or more slips could have serious repercussions to the public and Services alike.

(signed J.H. Marshall)
Lieut. Commander, R.C.N.
Secretary, JSC/PC.

C O P Y

RESTRICTED

PRINCIPAL SUPPLY OFFICERS COMMITTEE

MEMORANDUM TO: _____

The following extract from the Minutes of the 152nd Meeting of the PRINCIPAL SUPPLY OFFICERS' COMMITTEE held on February 26, 1952 is referred to you for INFORMATION _____

ACTION _____ PA _____

(Signed A.E. NOLAN)
Secretary
PRINCIPAL SUPPLY OFFICERS COMMITTEE
L. 8403.

Item 1388 - Railway Ferries - West Coast

PSOC 137-2

(RESTRICTED)

As requested in Item 1182 of the 135th Meeting, the PSOC had for discussion a report from the Joint Services Committee, Pacific Coast, stating that although it had been realized that the question of supply from the B.C. mainland to Vancouver Island was principally a civil responsibility, it had been considered advisable to inform the Chiefs of Staff Committee of this condition so that the Departments interested could consider the situation and take action, if necessary.

The JSC/PC did not think that the Services had the means available under the existing conditions to go into this question in detail, or make estimates of cost. It was therefore recommended that the matter might possibly be referred to the Department of Transport.

The PSOC considered that the memorandum submitted by the JSC/PC did not give the supporting military information originally requested by PSOC to enable it to formulate recommendations to the Chiefs of Staff Committee.

Decision: After discussion, it was agreed to instruct the Secretary to refer this matter back to the Joint Services Committee, Pacific Coast, and to request that Committee to prepare for PSOC, as originally requested, a military appreciation of the advantages expected to accrue concerning the standardization of railway car ferries on the West Coast, and the locations involved.

Action By: The Secretary.

C O P Y

File Sec. JSC/PC 5-2-13

7

DEPARTMENT OF NATIONAL DEFENCE
NAVAL SERVICE

Flag Officer Pacific Coast,
H.M.C. Dockyard, Esquimalt, B.C.
February 19, 1952.

RESTRICTED

The Secretary,
Principal Supply Officers' Committee,
Ottawa, Ont.

RAILWAY FERRIES - WEST COAST

Receipt is acknowledged of your letter PSOC 137-2
dated 12 February, 1952.

2. A reply to your letter, same file dated 1 October,
1951, was forwarded in my Sec. JSC/PC 5-2-13 mailed to you
18 February, 1952. As this letter may inadvertently have been
undated, will you please insert the date of 18 February 1952,
if this is the case.

(Signed J.H. Marshall)
Lt. Cdr. R.C.N.
Secretary, JSC/PC

DEPARTMENT OF NATIONAL DEFENCE

NAVAL SERVICE

Fleet Officer Pacific Coast,
H.M.C. Dockyard, Esquimalt, B.C.

RESTRICTED

The Secretary,
Principal Supply Officers' Committee,
Ottawa, Ont.

(Copy to: Secretary,
Chiefs of Staff Committee)

RAILWAY FERRIES - WEST COAST

Reference: PSOC letter 137-2, dated 1 Oct. 1951.

With reference to your letter of 1 October, 1951, the Joint Services Committee, Pacific Coast at its 88th Meeting on 10 January 1952, discussed your request for fuller information as to the military advantages expected to accrue from the standardization of Railway car ferries and fuller details of the general nature of the proposed alterations and estimate of cost.

2. While the JSC/PC had realized that the question of supply from the B.C. mainland to Vancouver Island was principally a civil responsibility, it had been considered advisable to inform the Chiefs of Staff Committee of this condition so that the Departments interested could consider the situation and take action, if deemed necessary.

3. I have therefore been directed by the JSC/PC to advise you that under existing conditions, the members do not consider that the Services have the means available to go into this question in detail, or make estimates of cost, and they feel that this might possibly be a matter for the Department of Transport.

(signed J.H. Marshall) Lt. Cdr.
Secretary, JSC/PC

C O P Y

Your file JSC/PC 5-2-13
PSOC 137-2

PRINCIPAL SUPPLY OFFICERS COMMITTEE

February 12, 1962.

Secretary,
Joint Services Committee,
Pacific Coast,
Bldg. 70, HMC Dockyard,
Esquimalt, B.C.

Railway Ferries - West Coast

I refer to your memorandum of 12 September 1951
addressed to the Secretary, Chiefs of Staff Committee,
and to the reply forwarded to you dated 1 October 1951
from the Principal Supply Officers Committee (copy attached).

I should be grateful if you would let me know
the present position of this item so that PSOC file may
be completed.

(signed A.E. NOLAN)
Secretary
Principal Supply Officers Committee
L.8403

C O P Y

PSOC 137-2

Your file Sec JSC/PC 5-2-13

RESTRICTED

4

PRINCIPAL SUPPLY OFFICERS COMMITTEE

1 October 1951

RAILWAY FERRIES - WEST COAST

At the request of the Chiefs of Staff Committee, the Principal Supply Officers Committee considered at its 135th meeting, your memorandum of 12 Sept 51, concerning the interchangeability of the car ferry services on the West Coast.

2 The Principal Supply Officers Committee was of the opinion that your memorandum did not contain sufficient detailed information to allow the Committee to assess the military importance of the standardization of these facilities. Therefore, to enable the PSOC to formulate recommendations as to whether or not inter-departmental action is warranted to attain uniformity of loading facilities at the jetties, I have been directed to obtain further information on the following:-

- (i) Details of the military advantages expected to accrue if the jetty facilities were standardized, particularly in regard to the present and future supply and maintenance of defence organizations on Vancouver Island.
- (ii) The general nature and estimated cost of the proposed alterations to the jetties.

3. It would be appreciated, therefore, if the above details could be advised as soon as possible.

(signed M. BLAXIAND)
Lieut. Cmdr.(S), R.C.N.,
Secretary

Secretary,
Joint Services Committee,
Pacific Coast,
Bldg.70, HMC Dockyard,
Esquimalt, B.C.

RESTRICTED

3

PRINCIPAL SUPPLY OFFICERS COMMITTEEMEMORANDUM

TO _____

The following extract from the Minutes of the 135th Meeting of the PRINCIPAL SUPPLY OFFICERS' COMMITTEE held on September 27, 1951 is forwarded to you for: INFORMATION _____

ACTION _____ PA _____

(signed M. BLAXLAND) Lt. Cmdr. (S), RCN.
Secretary,
PRINCIPAL SUPPLY OFFICERS COMMITTEE

Item 1182 - Railway Ferries - West Coast

PSOC 137-2

(RESTRICTED)

The Principal Supply Officers Committee had for discussion a memorandum from Chiefs of Staff Committee attaching a letter from the Joint Services Committee, Pacific Coast, pointing out that the facilities used to load and unload railway car ferries of the CPR and CNR Jetties on the West Coast are not interchangeable. The JSCPC recommended, therefore, that consideration be given to rectifying this condition.

The Chiefs of Staff Committee had asked for a recommendation whether this matter was of sufficient importance from a military point of view to warrant interdepartmental action to obtain standardization.

The PSOC considered that the memorandum submitted by the Joint Services Committee, Pacific Coast, did not contain sufficient detailed information to enable the Committee to make a firm recommendation to the Chiefs of Staff Committee.

Decision:

Therefore, the Principal Supply Officers Committee directed the Secretary to request the Joint Services Committee, Pacific Coast, to report in more detail on the following two points:

- (i) Details of the military advantages expected to accrue if the jetty facilities were standardized, particularly in regard to the present and future supply and maintenance of defence organizations on Vancouver Island.
- (ii) The general nature and estimated cost of the proposed alterations to the jetties.

Action By:

The Secretary.

COPY

File CSC: 1320-1 (A/Sec)

RESTRICTED

2

DEPARTMENT OF NATIONAL DEFENCE
CHIEFS OF STAFF COMMITTEE

17 September 1951.

Secretary,
Principal Supply Officers Committee.

Railway Car Ferries
West Coast

1. I attach a letter from the Secretary of the Joint Services Committee, Pacific Coast, in which he points out that the facilities used to load and unload railway car ferries of the CPR and the CNR was not interchangeable, and requests that the appropriate department be asked to take steps to have this condition rectified.

2. Before any such request can be made, it is suggested that your Committee study this problem to ascertain the military necessity of such interchangeability and recommend whether or not this matter is of such importance that the action suggested by the Joint Services Committee, Pacific Coast, should be taken.

(Signed R.E.V.)
for H. S. Rayner, Cmdr. RCN.,
Secretary

RCK/3729/mek
Encl.

000378

Office of:

Secretary,
Joint Services Committee,
Pacific Coast,
Bldg. 70, H.M.C. Dockyard,
Esquimalt, B.C.

Sept. 12, 1951.

The Secretary,
Chiefs of Staff Committee,
Room 378, East Block,
Ottawa, Ont.

RAILWAY CAR FERRIES - WEST COAST

As directed by the JSC/PC at a special meeting held in Vancouver 5 September 1951, I am directed to invite the attention of the Chiefs of Staff Committee to the above subject.

2. During the survey of shipping facilities made recently in this area, it came to light that facilities to unload and load railway car ferries at C.P.R. and C.N.R. Jetties on this Coast are not interchangeable.

3. As a result, C.N.R. railway ferries can not put into C.P.R. wharves to load or unload, and vice versa.

4. This could have far reaching effects in the event of an Emergency or some form of disaster which incapacitated the services of one or other of these Companies.

5. It is therefore recommended for the consideration of the Chiefs of Staff Committee that the appropriate Department be asked to take steps to require the two Companies concerned to make their car ferry services interchangeable. It is understood that alterations can be made at not great cost, observing that the new Pulp Company at Nanaimo recently installed a railway car jetty that can accommodate the railway ferries of both the C.P.R. and C.N.R.

(Signed R. Roberts)
for: J.H. Marshall
Lt. Cdr., R.C.N.,
Secretary, Joint Services
Committee, Pacific Coast