

# Scottish Chambers of Commerce

Position Paper

## Ferry Services in Scotland

**Based on consultation with members and responses to the Parliamentary enquiry on ferries.**

### Introduction

Scotland has 790 islands of which 97 are inhabited, with a total population of nearly 100,000, some 2% of Scotland's total population. These, along with some mainland peninsulas, are to a large extent reliant on ferry services for communication with the mainland in the form of the transport of goods and people. In addition, in an arc from Ireland to Iceland across to mainland Scandinavia and the Baltic and down the North Sea as far as Belgium we have existing or potential ferry links with fifteen countries.

The general policy of the government is that essential ferry services must be guaranteed to ensure the viability of island economies, and the affordability of travel to the mainland and other islands. Because of the relatively low population of the islands and the expense of running vehicle ferries, services are subsidised by central government at a total cost of £63m in the year 06/07. There is less clear government commitment to international links.

In addition, the government owns the dominant players in the domestic ferry industry. These include CalMac Ferries, which operates a near monopoly in the Hebrides. Calmac's sister company David MacBrayne Ltd also runs the Northlink franchise between Orkney and Shetland and the mainland ports of Scrabster and Aberdeen. Caledonian Maritime Assets owns 31 vessels (plus one under construction) and 21 ports on the West Coast of Scotland. CMAL makes these assets available to operators to provide the Clyde and Hebrides lifeline ferry services. The operation of these services having been tendered in an open competition won by CalmacFerries Ltd (CFL) for six years starting 1.10.07. Inter island ferries in the Orkneys and Shetlands are run separately by their respective councils.

The Scottish Chambers of Commerce (SCC) general position is that **government must indeed play a role to ensure effective ferry services to the islands, and that taxpayer funded subsidies are therefore necessary for the foreseeable future. However, there is much that can be done to improve the economic utility of ferry services. We should be exploring the economic potential of much improved international links.**

The question is therefore how best to organise and arrange ferry services to maximise economic benefit at reasonable cost to the taxpayer, and how best to encourage private investment in the services. A number of issues need to be addressed, therefore.

## 1. The level and nature of subsidy

The overall level of subsidy for Scotland's ferry services is clearly a political matter. Government must weigh this element of expenditure against its other priorities, within the wider context of a level of government spending that is compatible with economic success. It must also consider the differing needs of islands that exist in contrasting economic circumstances. However, a number of specific issues warrant attention, especially with regard to the Road Equivalent Tariff (RET) proposals that are being piloted on routes to the Outer Hebrides:

- The pilot scheme is limited to specific islands. There may be negative impacts on other islands that might suffer from a competitive disadvantage in terms of attracting tourism and other business.
- A fare system based on RET will be hard to adjust in the future. In particular it will be politically difficult for ferry companies to raise new revenue if needed from increased fares;
- An RET system implies a greatly increased overall subsidy package, with greater pressure on government budgets. This will enhance the risk that funds will be diverted from long term investment in new vessels, port infrastructure and new capacity. The average age of the fleet is eighteen years and there are a number of vessels over thirty years old.
- Other possibilities exist for lowering the financial disadvantage experienced by islanders and island businesses in terms of transport. For example, islanders could be given more valuable discounted ticket packages. In some European countries inhabitants of remote island travel for free on ferries, while in the Orkneys similar schemes work for air transport users.

## 2. Domestic routes

How useful are the current ferry routes, and what potential is there for new routes?

- The priority among hauliers is to have ferry services as fast as possible, because of time costs and specific issues such as the need to get fresh produce to market. There is therefore a preference for direct routes to the mainland rather than island hopping.
- There is little evidence of demand for additional inter-island routes from SCC members.
- There is a lobby to reinstate the Campbelltown – Ballycastle route, driven partly by the economic challenges faced by Campbelltown. However all the industry evidence points to a particular lack of financial viability for this route. A four year old study suggests a minimum annual subsidy of £1.7m for an eight month service annually. Today that figure would be in excess of £2.5m. Fuel cost pressures do not make it attractive route to freight hauliers because of the lengthy onward road routes from Campbelltown. It is difficult to see the attraction for a sufficient volume of tourism traffic to build viability.

- There are some indications from Orkney and Shetland farmers that the former Animal Ferry to Invergordon is missed, because of the trucking difficulties on the A9 Scrabster to Inverness route. However, since there is an alternative on the Orkney – Aberdeen route, an extra service would not be a priority.
- Overall, the most important domestic ferry routes from a business point of view are already covered by existing services. This is not to say that other routes should not be encouraged if a market can be found for them. Such innovation requires a flexible policy approach that encourages new ideas and experimentation.

### 3. Timetabling on domestic routes

Are ferry services run at times that are convenient to users? A number of issues arise around this question.

- If ferry services are designed primarily to address the economic disadvantage held by islanders, should timetabling reflect their priorities first? If so, services should leave the island in the early morning and return late, making commutability and the needs of island farmers (who often require early sailings) the key to designing ferry timetables. Alternatively, issues such as the need to deliver post and other goods to the islands early should take precedence. Either way, is policy determined according to clear guidelines of maximum economic utility, and is policy consistently applied?
- A greater number of ferries would allow more flexible timetabling and more flexible working practices that comply with working time legislation. More ferries implies they should perhaps be smaller. This increases vulnerability to bad weather. This issue ties in with questions of finance and capacity.
- While improvement of rail and bus services to ferries is always welcome, the question of integrating timetables with other modes of public transport excited little specific comment from our members, because the great majority of traffic is via private road vehicles. However tourism operators are adamant that failure of connections is a permanent difficulty in promoting island traffic. The Stranraer – Ireland traffic poses specific issues dealt with below. However specific schemes such as the proposal for a loop railway line in to Rosyth (joint Clackmannanshire/Fife initiative) would be beneficial. Swift and safe access to docks for freight trucks is also a priority.

### 4. Capacity on domestic routes

Is there sufficient capacity on routes to meet the requirements of ferry users, and is that capacity distributed between ferries to strike the optimum balance between finance, capability and operational flexibility?

- Tourism operators have indicated that there are capacity issues in that at busy times there is never enough spare capacity to test the capacity of the island tourism provision. Islanders also express frustration at overcrowding at peak times. Particular examples are that the Mull and Tiree ferries are frequently full in

high season. Tiree, with its burgeoning reputation for windsurfing, walking and cycling is having its tourism potential curtailed by lack of ferry capacity. On Harris, Saturday services seem to fall well below local demand.

- There is a case for smaller, more frequent ferries. For example, on a given route it may be better to have two smaller ferries running; one in the morning, two in the middle of the day and one in the evening, rather than one large ferry daily. This would provide both timetable flexibility and the ability to react to changes in demand.
- An additional ferry as back up might alleviate such bottle necks at high season and also provide emergency capacity at times of bad weather or strike action, while not, of course impinging on safety requirements - Masters must retain full authority to allow or cancel sailings without outside interference.
- Our members point to the burdens placed on ferry spaces by passengers abusing forward reservation slots, booking several of which they only take up one, leading to ferries booked as 'full' having space at departure time. It is considered generally inappropriate to take punitive action against offenders meaning that they continue in the practice.
- However, in some cases bulk booking freight space is necessary, for example to guaranteeing space for fresh fish which may not be a predictable delivery. Ferry operators have indicated to us they have a degree of tolerance to some level of cancellation, but this may need further negotiation.
- Another issue that relates to the balance between pricing and capacity is the relationship between size of vehicle and ticket cost. A van under 5m in length travels for the same price as a car. But increasingly, small vans are designed to be slightly larger than this, meaning their owners are paying much higher rates. Can intelligent flexibility be built into pricing to alleviate the high costs of freight transport to the islands?
- In the long term, we appear to be heading for a shortage of trained cadets. Calmac uses mostly native born crews and is not reliant on migrant workers. Ferry companies should review the provision of training for maritime personnel to ensure it is adequate for future needs. This should be accounted for in the government's skills agenda.

## 5. Facilities

The issue of on-board and port facilities for drivers and passengers is not central economically, but attention should be paid to catering, particularly on longer journeys, and facilities for hauliers in ports. Comfort levels have an effect on usage as in any other market.

## 6. International routes

The greatest scope for improvement in ferry services from the SCC point of view, in terms of benefit to the whole economy, is in opportunities for international ferry transport.

Scotland's most successful ferry link (in terms of traffic numbers, second only to Edinburgh & Glasgow airports), is to Northern Ireland. Ferries currently run from Troon and Cairnryan (P&O) and Stranraer. Ferries arrive at Belfast City and Larne. There are issues here of both local and national significance. The present Scottish Government has held Ireland up as an example of the successful economies we should wish to emulate. It therefore must be assumed we would wish to maximize our trade and cultural links with Ireland as a whole.

Stranraer's peripherality to Scotland's mainstream economy should be balanced by its excellence as the connection point to Ireland. Currently that position is not secure. The nature of Loch Ryan requires slow transit from vessels, however fast they can cross the Irish Sea, for the safety of smaller vessels. Spiralling fuel prices have forced the operators to lower their transit speeds and therefore extend crossing times.

This makes their destinations disadvantageous against competitor destinations in England, Wales and Scotland. The appropriate solution, which is to move Stranraer's port facilities nearer the mouth of Loch Ryan has been offered support of £150m by Stena Line but is dependant on the improvement of connectivity. This means that improving the safety, speed and capacity of the A75/A77 road routes is vital. It also suggests the need to extend the rail connection to any new destination. Furthermore, if the port is moved and the rail line is not extended it threatens the survival of the rail link south of Ayr for local transport needs.

It is Scottish Chambers of Commerce view that the Scottish Government must recognize the importance of solving this conundrum for the good of our national connectivity and the local benefits which Stranraer and district receives in consequence are a bonus. In addition positive action is needed to ensure major waterfront regeneration for the town. Any failure to deliver will have major employment consequences for the town.

Elsewhere:

- The Rosyth-Zeebrugge route has all along been successful for passenger transport. The reduction of the original service came about through a lack of sufficient freight interest. Despite the apparent full booking of ferries and profitable operation Superfast have now announced withdrawal of the service. This appears to be driven by the operator's ability to use the existing ferries more profitably on other routes. We applaud the Scottish government's attempts to resolve this issue, but point out that fast action is essential.
- Support for the Norshukon proposition (Kristiansund, in mid Norway to Shetland and a UK mainland port, possibly Rosyth. And potentially Zeebrugge, Belgium) is vital.
- Government action is required to see what can be done to alleviate the pressure of fuel costs. Measures to alleviate the level of taxation for maritime fuel usage would be as welcome for the ferry industry as for fishing fleets. As an island nation there must be arguments to support this based on the disadvantages of isolation.

- Government support for the Motorways of the Sea policy should be clear unequivocal and backed by action.
- We very much support the choice of Rosyth as the UK landing point for new routes involving Scandinavia and the Baltic (especially the new EU accession states), where geographical positioning gives us a clear advantage, and there is an overlap with stated government economic policy.
- We believe that the proposals for de-bulking at Scapa Flow and the Clyde should be pursued, with both ports being used as bases for short-sea shipping transfer. This could offer opportunities to reduce land-based container miles, thus reducing road congestion.

## 7. Competition

The issue of competition is the central conundrum of the ferry debate from the business point of view. The resolution of the island ferry ownership issue has removed a potentially difficult dimension from this debate for the short term, but the question of competition cannot be ignored indefinitely.

- The SCC would welcome more competition in the Scottish ferry sector. The theoretical advantages are plain to see from other industries: more innovation, lower costs, better service, greater efficiency and less damage from industrial action.
- Many of the issues outlined above could thus potentially be addressed by a more competitive market, including better timetabling, more flexible capacity and pricing, better facilities, new routes and so on.
- It is unclear whether the recent tendering process for both the Hebridean and Northlink contracts was open and fair. We are now in a situation where the same government company operates both contracts. Whilst it is arguable that the processes *were* open and fair there is also a feeling amongst potential bidders that entrenched positions favoured the contract winner.
- The Parliamentary enquiry was keen to know what it would take to increase private sector interest in competing. The answer is self-evident – the ability to make a profit. This then suggests that increasing subsidies would attract more private sector interest which effectively renders the whole process meaningless, as a key function of competition should be to keep cost down. SCC does not pretend that this is an easy problem to solve, and the current solution seems reasonable under the circumstances. Perhaps we must accept that ‘lifeline’ means exactly that – a service which is supported from the public purse for the common good.
- The need to maintain loss-making routes as part of lifeline ferry services to vulnerable communities means that the market cannot be left to operate without some government intervention.
- A completely liberalised market would allow operators to cherry pick profitable routes at the expense of the integrity of the overall service. Offering individual routes for tender would not represent free and fair competition as it would leave a ‘residual operator’ (most likely CalMac) picking the routes no-one else wanted.

- The government is thus right to take a robust line in defending a solution that works for Scotland's special circumstances.

Nonetheless there exist a number of possible solutions that would harness the benefits of competition within the policy framework of maintaining affordable lifeline services. A workable solution of dependable services in the hands of different operators backed by public finance should be possible.

The Scottish model of splitting the asset ownership and operation is increasingly being recognised around Europe as a pragmatic way of ensuring that unique assets are protected in and attract investment over the long term whilst ensuring the actual operation be subject to competitive tendering.

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