FERRY SERVICES
FOR THE SCOTTISH ISLANDS

A discussion paper
prepared by the
Scottish Consumer Council

and

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The Scottish Consumer Council was established by Government to identify and represent the interests of Scottish Consumers. The SCC’s remit includes services provided by central and local government as well as by commercial firms.
1. Introduction

1.1 In recent years there have been major changes in ferry services from and to the Scottish islands. Most of these have been forced by current economic conditions and have led to a reduced standard and level of service, higher fares for passengers and losses for some operators. As a consequence, the Scottish Office and local authorities have had to provide subsidies to maintain services. In the last financial year these amounted to over £7 million and in the current year they are likely to exceed £8.5 million.

1.2 It has been clear for some time that a radical reorganisation of Scottish ferry services is needed. Steps are being taken in that direction and the purpose of this paper is to put forward the views of the Scottish Consumer Council (SCC) on how the services can be improved to the benefit of the Scottish consumer.

1.3 In their manifesto prior to the last general election the present Government gave a commitment to improvements in ferry services for the islands. An announcement is expected shortly on changes in the system of central government financial support and in particular the Government's considered reaction to the proposals for introducing a Road Equivalent Tariff (RET).

1.4 The SCC is strongly in favour of lower fares for passengers and freight traffic. It has already commented on the RET proposals, which originated from the Highlands and Islands Development Board and formed the basis of a Scottish Office discussion paper circulated last year*. However, the Council believes that ferry subsidies and fares should ideally be seen as one element of an integrated structure and that a fair system of tariffs can only be achieved within such a structure. In preparing this paper the SCC has looked closely at similar services in Norway and Canada and has tried to incorporate certain aspects of services there which are applicable in the Scottish context. This is difficult to do, and in the past some inappropriate comparisons have been drawn, but it is believed that useful lessons can be learnt, particularly from Norway*.

1.5 At present there are about 50 regular ferry services operating to and from the Scottish islands, plus a few connecting different parts of the mainland (e.g. across Loch Linnhe and the Firth of Clyde). About half of these services are for passengers and light freight only and just over 20 take cars and other vehicles. The main ones are shown on Figure 1 and listed in Table A, which are reproduced by kind permission of the HIDB.

* See Scottish Office: Sea transport to the Scottish islands: a consultative paper (March 1980).

* A summary of the Norwegian system is given in Appendix 1.
1.6 It will be seen that there is a great variety. At one extreme there are short crossings of relatively sheltered water and with low traffic levels, such as from Colintraive to Rhubodach on Bute. At the other extreme there are long distance open sea routes with considerable traffic, such as from Ullapool to Stornoway and Aberdeen to Lerwick. This makes it very difficult to come up with a standard system which could apply to all ferry services but, whether or not that is possible, it is obvious that some rationalisation of the present fragmented system is essential.

1.7 In moving towards a better system in Scotland the SCC believes that there are three key elements: an integrated approach; a licensing system; and a fair and economic set of subsidies. These are discussed in turn below.

2. Integrated approach

2.1 At present there is a multiplicity of different services in Scotland. In particular there is a great variety of different vessels and terminals, which have made cooperation extremely difficult. For example, when vessels are out of service, through accident or annual inspection, it is often difficult to find an adequate replacement vessel, particularly during the summer tourist season. Over the last two years there has been an increasing frequency of communities being deprived of a service because of such problems. The four key aspects are

i) routes
ii) harbours and terminals
iii) vessels
iv) fares.

2.2 We believe that all four have to be integrated. In turn SCC believes that improved ferry services need to be integrated with linking road, rail and air services, particularly in regard to time tables. Before any new investment takes place there should be a detailed examination of routes to see if changes could lead to better services. The present network of routes is fairly antiquated and in some areas has not adapted to markedly different economic and social circumstances, such as the growth in air traffic and the advent of North Sea oil. The provisional results of the 1981 Census of Population show that within Scotland there has been a substantial movement of population from the cities to the rural areas, including the islands. This redistribution of demand has not been accompanied by changes on the supply side and it may well be that modifications to existing routes would be beneficial.

2.3 A related problem is that quite a few routes were introduced primarily for tourist traffic and outwith the tourist season offer a poor service for locals. We have noted with interest that the attitude of the Norwegian authorities (as described in Appendix I) is to put the interest of local people first and not necessarily provide special facilities for the summer traffic peaks. A similar approach in Scotland would suggest modifications in certain routes, particularly for the Argyll islands.
2.4 Secondly, we believe that there should be a move towards the standardisation of vessels and terminals. An excellent case for this was put forward by the Highlands and Islands Development Board last year in their report on "The future of ferry services in the Highlands and Islands", which detailed the different types of terminal and vessel currently in use. The Board has commissioned a general arrangement design for a Norwegian standard type terminal suitable for installation in Scotland. It believes that three types are particularly well-suited to needs in the Highlands and Islands.

2.5 Given the heavy historical investment in both terminals and vessels, it will take a long time to move towards standardisation. That makes it crucial to make the best choice when the need for new investment arises, as is the case at present with the reorganisation of the southern isles services in Orkney. Probably the best approach is to regard services as a series of regional groups within which the standard terminals and vessels should be the aim. Clearly this is possible for the Orkney services and the Shetland inter-island ferries.

2.6 Regarding fares, there is similarly a great variation, for example on a cost per route mile basis, and this has led to complaints from people who have felt that their islands were being discriminated against. An example is the northern isles services which, unlike those to the western isles operated by Caledonian MacBrayne, did not receive a Government subsidy until 1979. Our proposals for a more equitable system are outlined below in the section on subsidies.

3. Licensing system

3.1 We recommend that each route, or group of routes, be licensed by the appropriate authority (which must include those providing financial assistance if required - see below - and those responsible for marine safety). These would be advertised and tenders invited. The licence period would normally be five years, unless exceptional circumstances suggested that a different timescale was more appropriate. The successful bidder would be licensed to operate services on those routes, subject to the contract made with the licensing authority. This would cover the number and types of vessels to be used, frequency of service and such like. No changes would be allowed without the prior agreement of the authority.

3.2 It is not necessary for the successful bidder to be that which offers the lowest cost. The licensing authority should pay particular attention to the quality of service, expected liability, reputation of the operator, local ownership and other relevant factors. A drawback of a licensing system is the danger that a low cost operator may experience difficulties and withdraw from the service during the contract period. This has parallels on the air traffic side and the system we are suggesting is similar with that operated by the Civil Aviation Authority. Local people and other interested parties would have the opportunity to put their views to the licensing authority and in any case the authority itself would be more representative of local interests than is the case with the CAA. To ensure the representative nature of the licensing authority, it would need to include consumer members. Such a system would protect the interests
of established operators who have invested considerable sums of money, built up good labour forces and so on, whilst at the same time giving new operators the chance to provide a better service.

3.3 Clearly, competition has been lacking from much of the Scottish ferry system, which may account in part for the deteriorating service. The threat of competition should at least force established operators such as MacBrayne, P and O and Western Ferries to maintain a good standard of service.

3.4 Towards the end of the five year licence period, bids would be invited for the next period. Although financial considerations would be important, so would other factors such as the operator's performance on that route (and others), size, financial standing, local ownership etc.

3.5 The operator would normally be responsible for providing the vessels, although there may be occasions when these are owned by the licensing authority (or other public body - e.g. as with the Shetland inter-island ferries) and leased to the operator. The financial arrangements would allow for adequate repair and maintenance and investment in new vessels. The system would therefore give the licensing authority the power to influence the purchase of new vessels and consequently move towards a standard, integrated system.

4. Subsidies

4.1 We believe that the best financial system would be one in which the Government pay the difference between revenue and costs (the latter including a suitable margin for profit). This would need to be backed by an efficiency audit, so as to ensure that costs were kept to an absolute minimum commensurate with an acceptable standard of service and safety. Tariffs and profit levels would then be related to the costs of efficient operators. The fares would be set by Government but controlled by the relevant licensing authority. This would seem necessary so as to avoid markedly different levels of tariff on similar routes resulting in discrimination against some passengers. Each year in advance the operator would submit a detailed estimate of costs, including repair and maintenance, depreciation, staffing levels and other items of expenditure. Eligible expenditure would be agreed with the authority.

4.2 Actual accounts would be submitted each quarter. If the revenue exceeded the costs there would be no problem. If the opposite, the Government would meet the difference. The Government subsidy would be paid in four instalments, the first three quarterly in advance. The final payment would take account firstly of the difference between the forecasts and the actual revenue and expenditure incurred during the year and secondly the results of the efficiency audit. This is similar with the Norwegian system described in detail in the appendix.

4.3 Fares would be revised annually (if necessary) and be announced in advance. The expectation will be that these will be maintained at that level for the whole year. Presumably the method of calculating
the appropriate fares for passenger, freight traffic, vehicles and other traffic would be based on the policy to be announced by the Scottish Office in the near future. A Road Equivalent Tariff has been put forward by various parties, although it has not received universal support, and in any case there are quite a few different interpretations of RET. It may be a good idea to drop the term RET in order to avoid the emotion which it seems to generate.

4.4 The SCC has argued for a common system which is easily understood and operated, and is seen to be fair throughout the country. At present there is no mechanism to ensure this, particularly in relation to fares charged by private operators. The proposed licensing system allows the authorities to exercise some influence over the level and structure of charges.

4.5 The Rural Scotland Price Survey, which is undertaken quarterly for the SCC and the HIDB, show clearly that islanders face higher prices than those which exist in most mainland cities and towns. Transport costs are one of the main reasons for these higher prices. They deter people from travelling to the mainland and thus limit opportunities for holidays, travel and such like. Also, they have a significant effect on the competitiveness and profitability of island businesses which export goods and services. Furthermore, the level of wages on the islands is lower than the Scottish average. There is a higher proportion of the population in the retired age groups, which means that many people are on relatively low incomes.

4.6 We believe therefore that there is a very strong case for a level of fares which is below the existing level. On the other hand, open-ended subsidies are unacceptable in the present economic climate. We believe that our proposals lead to a better and fairer system for the islands, would allow for greater competition and efficiency, and would still give central government and the local authorities the control which must accompany the provision of financial assistance.

July, 1981.
APPENDIX 1

THE NORWEGIAN FERRY SYSTEM

It is often useful to look at experience in other countries because such comparisons may throw up new ideas and suggest ways of improving domestic services. Given the similarities between Norway and Scotland, a number of people and bodies have studied the Norwegian ferry system with a view to proposing ways in which Norwegian practice could be transferred to Scotland. The prime example is the Highlands and Islands Development Board's proposals for the introduction of a road equivalent tariff (RET) system to replace the current fragmented arrangements.

A fairly widespread assumption is that the Norwegian ferry system is better than that in Scotland. In our discussions with the Norwegian transport authorities, ferry operators and ferry users, it has been rather amusing to discover that this view is not shared by Norwegians, many of whom have doubts about the efficiency and quality of their own services and suspect that they can learn a great deal from Scotland! Nevertheless, the differences between the two systems are substantial and repay careful analysis. In particular, we believe that one aspect - the Norwegian licensing arrangements - is well suited to the current Scottish context, and that is the key to the proposals outlined earlier.

At the outset it is essential to remember that there are differences relating to population size and distribution, economic structure and physical conditions, which influence the type and quality of service. Norway's population is slightly smaller than that of Scotland but the former is more dispersed and, both in absolute numbers and relatively, more people live on Norwegian islands than is the case in Scotland. This fact in itself has been presented by some people as evidence of the 'success' of Norwegian transport policy - success in this context being defined by a lower rate of island depopulation. This is far too simple a judgement. Many other factors are relevant, such as the general system of regional policy, the greater autonomy of local authorities and the preference of many Norwegians to live in rural areas.

Also, the indented nature of the Norwegian coastline, particularly the large fjords on the west coast, such as Hardangerfjord and Sognefjord, mean that ferry crossings are necessary on some of the mainland trunk roads. This is very different from Scotland where only a few small ferries such as Kylesku in Sutherland and Corran-Ardgour in Lochaber fall into this category, and where the volume of traffic is usually light.

Some of the Norwegian services can legitimately be described as commuter ferries because they are used daily by people going to and from work, for regular shopping trips and so on. The main examples are the islands close to Bergen, Oslo and Stavanger. Again, very few Scottish ferries fall into this category: possible exceptions to that generalisation are some of the Firth of Clyde services.
In practice there are three main types of service in Norway:

(1) mainland road crossings
(2) island services
(3) coastal ferries.

Policies for the three types differ in many respects but in the context of this discussion paper (1) and (2) can be grouped together. Type (3) includes the vessels operating round trips northwards from Bergen, calling at a series of islands and mainland ports, and taking up to three weeks for a trip. These are both scheduled and irregular services, mainly (but not exclusively) for cargo. Indeed, one of the key differences between Norway and Scotland is the carrying of cargo. For many Norwegian islands there are separate passenger/vehicle and cargo services, using markedly different types of vessel, whereas in Scotland it is common for one vessel to carry all types of traffic, which has substantial implications for costs and efficiency (usually negative, unfortunately).

Government policy towards (1) and (2) has changed markedly in recent years. A firm distinction is now made between the main services, i.e. what are known as the 'riks' routes, and local services, the 'fylke' routes. Central government, through the Roads Directorate (Vegdirektoratet), has assumed responsibility for the former and the local ferry services come under the control of the local authorities. Central government policy covers a wide range of aspects, including the actual routes, frequency of service, type of vessel, fares charged and financial assistance.

Regarding the last point, the Directorate enters into contracts (usually for a five or ten year period) with operators. Routes, frequency, type of vessel and so on are agreed and the operator has to abide by these conditions for the duration of the contract. Changes can only be made with the permission of the Directorate. This gives the government a great deal of power and control which they have been using to try to improve services and eliminate differences in quality among different parts of Norway. In particular they have been putting pressure on the ferry operators to use standard terminals and vessels, thus permitting interchangeability.

The provision of financial assistance is obviously a key factor. Money is available for both capital investment and operating costs. With the former it is closely tied to the standardization policy and thus grants are normally only given for vessels which meet the Directorate's criteria. Regarding operating subsidies, all those applying for assistance have to submit a budget in advance and subsequently audited accounts. The subsidy is paid in advance three times a year (first, second and fourth quarters) and any revisions in the light of actual experience are made in the fourth quarter payment. The reason for no advance payment for the third quarter (July - August - September) is that this is the peak tourist period and operators usually have a healthy flow of traffic income.
The amount of subsidy is linked directly to a standard fare system operated by the Roads Directorate on the 'riks' routes. Where the standard fares are used, the authorities pay the difference between revenues and costs (on the basis described above). Fares are set for all such routes in advance according to the length of the route, and there are different fares for passengers, motor vehicles, lorries and other traffic. In 1981, for example, the standard adult passenger fare is 4 kroner (about 40 pence) for routes up to 3 kilometres, 5 kroner for 3 to 6 kilometres, 6 kroner for 6 to 9 kilometres, and rising by increments up to 76 kroner for the largest 'riks' route (181 kilometres).

Operators do not have to use the standard fares but they are the maximum permitted and most do. However, some of the commuter routes generate healthy profits with lower fares and require no subsidy. One such route in the Bergen area carries more passengers than the whole of the Caledonian MacBrayne network.

Some people have described this fare system as a road equivalent tariff system (RET) but that is not the case. There is no link between the fares charged and comparable costs of road transport. In the early years of the scheme the economists tried to equate the cost of ferry travel with bus travel (as distinct from private cars) but at present the former is well below the latter, and the authorities and politicians are becoming increasingly concerned about the high level of subsidies. A detailed review is underway which is likely to lead to major changes.

In the Scottish context, one attempt to reduce the subsidy level is worth mentioning. In 1980 there was a 30% surcharge imposed during the summer months and for the current year the surcharge is 50%. Local people and businesses are exempt from these increases and thus the purpose is largely to increase the revenue from the summer tourist traffic.

The Directorate's operating subsidies for 1980 amounted to approximately 440 million kroner (£40 million), which is about five times higher than the current subsidies for Scottish services. In addition the coastal shipping services (type (3) above) received about 400 million kroner from central government. Also, many of the local authorities subsidize the smaller 'Fylke' ferries. Unfortunately there is no central source of information on these and the policies operated vary substantially from area to area. The lack of data is a pity because in many cases the 'fylke' services are more appropriate comparisons for Scotland than the mainland road crossings. We believe the level of assistance for such services last year was between 40 and 50 million kroner, so certainly they are not as heavily subsidized.

This is a brief summary of the Norwegian system and has concentrated on the two features which we believe are relevant for Scottish services - the licensing system and the use of standard fares. As stressed earlier, however, it would be misleading to judge the effectiveness of Norwegian policies in isolation from other important factors such as national transport policy and regional policy. In making comparisons,
physical factors such as the distribution of population, water and weather conditions, and the types of vessels used, are all important and should not be ignored. Nevertheless we believe that there are attractive features of the Norwegian system which merit consideration in the current debate about ferry services to the Scottish islands.

G.A. Mackay
Aberdeen University

July, 1981.
Present vehicle ferry route pattern

regular ferry route

summer ferry route

figures refer to route numbers in table A

Source HDB.
### Long Rough Water Routes - DOT CLASS IIa Certificate:

<table>
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<th>Route Description</th>
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<th>Summer Frequency</th>
<th>Operator</th>
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<td>53</td>
<td>3/day</td>
<td>STG</td>
</tr>
<tr>
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<td>Kennacraig (CC) - Port Askag (CC)</td>
<td>46</td>
<td>2/day</td>
<td>WF</td>
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<td>STG</td>
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<td>Uig (P) - Tarbert (P)</td>
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<td>9/week</td>
<td>STG</td>
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<tr>
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<td>STG</td>
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<tr>
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<td>Aberdeen (CC) - Lerwick (CC)</td>
<td>337</td>
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<td>P&amp;O</td>
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*Half round trip

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**Operators**

- **STG** - Scottish Transport Group
- **P&O** - P&O Ferries
- **WF** - Western Ferries
- **OIS** - Orkney Islands Shipping Company
- **CPA** - Clyde Port Authority
- **HRC** - Highland Regional Council
- **STC** - Shetland Islands Council
- **SRC** - Strathclyde Regional Council
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