

# **LOCAL GOVERNMENT AND TRANSPORT COMMITTEE**

Tuesday 28 March 2006

Session 2

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## LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

### 10<sup>th</sup> Meeting 2006, Session 2

#### CONVENER

\*Bristow Muldoon (Livingston) (Lab)

#### DEPUTY CONVENER

\*Bruce Crawford (Mid Scotland and Fife) (SNP)

#### COMMITTEE MEMBERS

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

\*Dr Sylvia Jackson (Stirling) (Lab)

\*Paul Martin (Glasgow Springburn) (Lab)

\*David McLetchie (Edinburgh Pentlands) (Con)

\*Michael McMahon (Hamilton North and Bellshill) (Lab)

Tommy Sheridan (Glasgow) (SSP)

#### COMMITTEE SUBSTITUTES

Colin Fox (Lothians) (SSP)

Mr Bruce McFee (West of Scotland) (SNP)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

Dr Elaine Murray (Dumfries) (Lab)

Murray Tosh (West of Scotland) (Con)

\*attended

#### THE FOLLOWING GAVE EVIDENCE:

Barclay Braithwaite (Aberdeen Harbour Board)

Alan Burns (Forth Ports plc)

Bill Burns (Clydeport Ltd)

Michael Dowds (BAA Scotland)

Alex Johnson (Highlands and Islands Airports Ltd)

Donald MacNeill (Highlands and Islands Enterprise)

John McConnell (BAA Scotland)

Captain Colin Parker (Aberdeen Harbour Board)

Paul Stonehouse (Infratil Airports Europe Ltd)

#### CLERK TO THE COMMITTEE

Martin Verity

#### SENIOR ASSISTANT CLERK

Alastair Macfie

#### ASSISTANT CLERK

Euan Donald

#### LOCATION

Committee Room 3



## Scottish Parliament

### Local Government and Transport Committee

*Tuesday 28 March 2006*

[THE CONVENER *opened the meeting at 14:02*]

### Freight Transport Inquiry

**The Convener (Bristow Muldoon):** I welcome all members of the public and press to today's Local Government and Transport Committee meeting. We have received apologies from Andrew Arbuckle, Fergus Ewing and Tommy Sheridan. I understand that Paul Martin is attending another committee meeting but is likely to arrive later.

Without further ado, we move to evidence in our freight transport inquiry from representatives of BAA Scotland and Infratil Airports Europe. I welcome John McConnell, BAA's head of property services, Michael Dowds, BAA's Scottish planning manager, and Paul Stonehouse, Infratil's freight development manager. I give each organisation the opportunity for an introduction, after which we will have questions and answers.

**Michael Dowds (BAA Scotland):** BAA is pleased to present its evidence to the inquiry. BAA Scotland owns and operates Aberdeen, Edinburgh and Glasgow airports, which collectively handle more than 20 million passengers per annum. Our airports act as gateways for the air freight transport industry and enable the transportation of goods and commodities between Scotland and the rest of the world.

Our most recent data show that air freight volumes at our three Scottish airports have grown to almost 44,000 tonnes per annum, which is a 9 per cent increase on the previous year. BAA has played and is committed to playing an important role in the air freight transport industry in Scotland through the provision of land and buildings to airlines, freight forwarders and express air freight companies.

**Paul Stonehouse (Infratil Airports Europe Ltd):** Infratil Airports Europe Ltd owns three airports in Europe, the head office being at Glasgow Prestwick airport. The freight business at the airport, which is predominantly on freight-only aircraft, has generated 29,000 tonnes in the past year. That is a slight decline on previous years—in fact, in the past four years, there has been a year-on-year decline. We are obviously interested in improving the business through the airport and the freight business in Scotland as a whole.

**Michael McMahon (Hamilton North and Bellshill) (Lab):** I thank Paul Stonehouse for the interesting visit that we had to Glasgow Prestwick airport some time ago, which gave us food for thought. I have thought about what we saw that day and have questions about Prestwick's competitiveness and about the competitiveness of air freight compared with other modes of transportation. You mentioned the slight decline in the amount of freight that goes through Prestwick. Is that trend long term or has it been created by particular issues?

**Paul Stonehouse:** I have been with the airport for just over six months, but I understand that the historical high of more than 40,000 tonnes occurred when the electronics industry was operating at a high level in Scotland. We can see a parallel between the decline in that industry and the decline in freight movements through Prestwick airport. However, in the past six to 12 months, the throughput of freight seems to have stabilised, as has the number of rotations per week by individual customers. In the past few months, in preparing our budgets for next year, we have spoken to our main customers, who tell us that they plan to remain with the same number of freighters. We expect the tonnage level to be stable for the coming year.

**Michael McMahon:** If the market will stay fairly stable, you will be competing against other airports for a share of it. How are you placed to take on airports such as Manchester and Birmingham in securing a reasonable amount of the freight that is available to go via airports?

**Paul Stonehouse:** Our airport group is considering how to provide advantages over other airports. For example, as a dedicated freighter airport, we can provide quick turnaround. We are trying to increase our marketing. Historically, the airport has not been marketed aggressively in certain fields, which we hope to change by putting into effect a new marketing plan. We aim to attract foreign carriers, predominantly from the far east, that do not at present operate into the United Kingdom—we hope to get a foothold with such flights. The majority of freight that comes through Prestwick comes from other parts of the UK, so attracting new carriers from the far east is one of our key aims.

**Michael McMahon:** Prestwick has a reputation for reliability because of the favourable weather conditions. Is that true? I just want to get that on the record. If so, does the road and rail infrastructure in Scotland disadvantage you and act against the advantage that you gain from the reliable weather?

**Paul Stonehouse:** Very much so. You may have noticed that, in the past couple of weeks, when bad weather closed the other Scottish

airports, quite a lot of aircraft were diverted to Prestwick. The good weather allows aircraft to come in, including diverted aircraft, when other airports cannot let aircraft land.

While we can be competitive on pricing and costing at the airport, one of our biggest problems is onward travel on the road and rail network, which is outside our control. Of the freight that goes through Prestwick, 43 per cent of exports come from the London area and that is the destination for nearly 30 per cent of imports. One of the biggest problems is the cost of routing the freight by road.

We are looking to be able to provide the customer with an all-in competitively priced package and a good service to allow them the possibility of using rail. We are hoping to get freight on to the rail network. That would be a lower-cost and more environmentally friendly method of transporting freight further south and linking up with the network down there.

**Bruce Crawford (Mid Scotland and Fife) (SNP):** I am interested to see the different information with which BAA and Prestwick have provided us. Edinburgh airport now seems to be becoming Scotland's hub for particular types of freight. Much of that is to do with the high-tech industries that are located in Glenrothes, Livingston and Edinburgh. Prestwick airport, on the other hand, previously had quite a dominant electronics industry in its area, but that is not so prevalent now. That makes me wonder how Prestwick's strategy can reverse its decline. Is there a level of air freight traffic at which the critical mass would no longer be available for it to be sustainable as a freight airport?

I have a further question for all the witnesses. What information do you have on the trafficking of goods from Scotland to other airports in the UK or on goods being flown in from other areas? That is a market that BAA in Scotland could tap into, if it would not mean pinching business from other BAA activities, or that could help Prestwick by generating more activity. There seems to be an analogy with the arrival of the Superfast Ferries service at Rosyth. Stuff on board its ships goes directly to the continent. If we could fly freight directly from here, rather than having to truck it down the road, that might keep costs down. However, I do not have a feel for the scale of the issue.

I think that there were two main questions in that.

**Paul Stonehouse:** The key thing is that the aircraft that come into Prestwick are freighter aircraft. They are predominantly 747 freighters, as well as charter aircraft that do not take passengers. The decline will not be at all easy to

reverse. It is a big challenge. We believe that the situation will stabilise, but it will be more difficult to turn the situation around and to start growing the business again. It comes down to the fact that more than 50 per cent of the business that comes through Prestwick does not originate there—I refer to both imports and exports. The majority of the traffic comes from the rest of the UK, partly from Manchester and Birmingham but the majority from the London area.

We are trying to establish what more we can put in place to attract people and to attract new carriers, as well as to move carriers that are already in place at different airports. That is difficult to do, as the infrastructure will be in place for them to operate where they are. There is also the cost of moving to consider and the difficult proposition of enabling adequate onward travel from our airport to satisfy their customers.

We are looking to provide cheap onward connections. From some of the meetings that I have attended recently, I know about the work that has been done in the past on trunking, which addresses the number of vehicles that go south to collect freight and come back up north empty. It would be good to be able to tap into that network and to offer the customer an all-in package that moves freight to the final destination at a reasonable price.

14:15

**John McConnell (BAA Scotland):** On critical mass, Edinburgh airport has two key markets. The cargo market is now at 29,000 tonnes. It also has a large mail market; Edinburgh airport is the UK's number 3 mail provider. Those two markets certainly give us a critical mass at Edinburgh airport.

There is also critical mass from utilising aeroplanes in other ways. Some of our customers fly passengers during the day and cargo at night. Using the same aircraft gives the companies critical mass because it means that their aeroplanes are in constant use and it gives them very strong business from Edinburgh.

A big percentage of Glasgow airport's freight is trucked out; 15 per cent is flown and 85 per cent is trucked. Therefore, Glasgow airport is more like a hub where companies who are based there collect cargo, some of which is flown on but most of which goes on to other airports in the distribution network.

Glasgow airport's critical mass comes through its belly-hold operation. Airlines such as Continental Airlines and Emirates carry a large volume of cargo direct to different markets.

**Bruce Crawford:** How much product that originates in Scotland is being trucked out and flown from other airports? Do we know that? Is that information out there?

**John McConnell:** We can get those data for you.

**Bruce Crawford:** It would be useful to have that. I would have thought that that is a potential area for growth.

**John McConnell:** Trucks leave Glasgow and Aberdeen airports every day to go down south where the freight is then flown on to other destinations. There is a big market in trucking from Scottish airports.

**Bruce Crawford:** That is useful. I have one other complementary question. Forgive my ignorance about this, but I assume that people such as you are examining the internet's impact on the movement of goods and considering the growth that will result from it. There will inevitably be growth in the movement of goods around the world, which will require flights. I assume that you will be looking for niches in markets in which the packages are smaller, and the TNTs and DHLs will be in there with you. What sort of projections are there for the movement of goods that are bought and sold on the internet, given that we all have the capacity to do that?

**John McConnell:** It is certainly a big part of Edinburgh's market. Edinburgh is dominated by freight forwarders, so companies such as DHL and TNT consolidate all those small parcels. Last year's growth in that market was 8 per cent. We predict that growth will be 3 to 4 per cent going forward, but one new aeroplane based at Edinburgh would mean a significant increase in that growth. There was strong growth in that area at Edinburgh last year.

**Bruce Crawford:** Is that what is keeping the focus on Edinburgh that is evident in your written submission, where you say that Edinburgh airport is the second busiest in the UK? Is that type of business helping Edinburgh to achieve that second position?

**John McConnell:** When we wrote the submission, we were second in the UK but we have been pipped by East Midlands airport in the mail market. We are being beaten by only a few thousand tonnes, so we are number three in the mail market. Edinburgh airport is at about number seven in the general cargo market, but we had strong growth of about 8 per cent last year, which has pushed the numbers up.

**The Convener:** I have a specific question about Prestwick airport. Given the current mix of passenger and freight flights from Prestwick, I imagine that its freight goes by dedicated freight

transport and very little, if any, is carried in the hold of passenger aircraft. Does Prestwick intend to develop the more traditional carriers to enable it to take advantage of belly-hold business, particularly on transatlantic routes in competition with Glasgow?

**Paul Stonehouse:** On the passenger development side, a key to continued growth is to get more planes into the airport and more passengers going through the airport. Work to attract transatlantic flights is on-going, but unfortunately it is a very competitive market.

On the freight side, we have been trying to source business so that we can say to any potential customers, "If the flight comes here, this amount of freight is moving to these areas, so you could possibly obtain X amount of revenue from carrying it in the hull." We are working almost in tandem with the passenger side. Freight can offer a different proposition to passenger carriers as it can bring added value and more revenue to the route that they are looking to operate. There is obviously an on-going effort with the passenger side of the business.

**The Convener:** Do any low-cost carriers carry freight or are they not interested in that side of the business?

**Paul Stonehouse:** We have tried to pursue that option, but the only freight business that they will carry is their own spares. It comes down to the 25-minute turnaround.

We own Lübeck airport, so we investigated with Ryanair the possibility of a trial of the Prestwick to Lübeck route with freight on board but, unfortunately, Ryanair has pulled out of the route so we will not have that opportunity. The carriers reckon that it would ruin their turnaround times if they carried freight.

**The Convener:** I have general questions for both groups of representatives. First, on costs, aircraft fuel is not taxed in the same way as fuel for road freight transport is. It is obvious that no individual country will make the move on its own, but there is talk of international co-operation on the taxation of aviation fuel. Do you expect that to happen? If so, what impact would it have on your freight business?

Secondly, on the Scottish Executive's role in developing the air industry in Scotland, the route development fund is available to try to establish new routes. From your perspective, to what degree does the route development fund take account of the potential for freight movement? Does it focus solely on passenger movement? Perhaps BAA could answer those questions first.

**Michael Dowds:** I will be very honest. I am not a tax expert, so I cannot comment on the tax

situation. From BAA's perspective, I cannot comment on the taxing of airlines; it is for airlines to factor the tax situation into their economic and business models.

The Executive's route development fund and our route development fund have both been instrumental in growing the cargo business from our three Scottish airports, in particular Glasgow airport. That is because the long-haul carriers that have been attracted to Glasgow airport by the route development funds have serviced the routes with large Boeing and large Airbus aircraft, the holds of which are ideally configured for air freight. Over the past year, that has resulted in significant growth in air freight volumes at Glasgow airport. We continue to see the route development funds as a key enabler in maximising the air freight industry in Scotland in the next few years.

**Paul Stonehouse:** I am not aware of how the tax would be applied, but we should bear in mind how the current fuel situation has affected not so much carriers into Prestwick but carriers into Kent international, which is another of our airports. Historically, a lot of charter business came into that airport from east Africa—the aircraft carried vegetables for supermarkets in the United Kingdom. Much of the freight would come on aircraft such as DC8s, which I am sure you are aware need a fair amount of fuel. Many of those aircraft have not been operating out of Africa because of the cost of operating that length of route due to the price of fuel. Our scheduled carrier into Kent has retired all of its DC8s because of the price of fuel. It becomes uneconomical to fly charter aircraft and no one wants to pay the price. A tax on aviation fuel would have a serious effect.

In the dealings that I have had with the route development fund, I have only ever seen it work with passenger transport, not with freight. Unlike the other airports, where there is belly-hold capacity on the passenger flights, we deal purely with freighter aircraft. At the moment, I am not sure how the fund would work with freight, but there is potential, when we go out to see airlines, to discuss what we can do and, on the back of that, what the Scottish Parliament can do. I believe that there would be some legwork in that.

**David McLetchie (Edinburgh Pentlands) (Con):** My first question is for the representatives of BAA Scotland. In relation to all three airports, your written submission states that

"new developments will be undertaken only as a result of specific requests from cargo operators."

What type or length of contract would you have to sign up to before you would make an investment of that nature?

**John McConnell:** It really depends on the type of development. If you are talking about

developing aircraft stands, we do not sign contracts; they are used as they are required. That is one element. The second element is the warehousing that we provide. Contracts for warehousing can be from five years to 25 years. We are fairly flexible, and airports generally have shorter lease periods because freight companies grow, expand and contract more quickly than companies in other areas.

**David McLetchie:** So, when you say that "new developments will be undertaken only as a result of specific requests",

it is a function of the volume of business rather than of a particular customer saying that they want you to do something for a specific length of time.

**John McConnell:** Yes.

**David McLetchie:** In relation to the on-going discussion about airport expansion, I read paragraph 1.3 of your written submission, which mentions Edinburgh airport, as saying that, from a cargo or freight point of view, there is no need for expansion of the airport; its expansion is being driven by passenger traffic and projections of passenger traffic volumes. Is that a fair reading of paragraph 1.3?

**John McConnell:** Way back in 1995, we bought RAF Turnhouse, which is where our cargo operation is situated, and we started to develop our cargo facility across RAF Turnhouse. A few years ago, we undertook a study in conjunction with Scottish Enterprise, which identified the capacity that we could have on the land at that end of the airport for cargo development. The study showed that we could build another seven aircraft stands and that that quantity of land could be dedicated to 250,000ft<sup>2</sup> of warehousing. Because the cargo operation is at one side of the airport, we have the land to expand it in the future.

**David McLetchie:** So that potential already exists.

**John McConnell:** Yes.

**David McLetchie:** That is fine. My next question is for Paul Stonehouse. The bullet points at the end of the written submission from Infratil Airports Europe talk about ways of helping to develop new business for the airport. The second bullet point is:

"An incentive for new carriers to operate to GPA rather than other freighter friendly airports in the UK."

What kind of incentives do you have in mind? Why do you think that GPA is uniquely deserving of them—other than the fact that you have an interest in that?

14:30

**Paul Stonehouse:** There is obviously a lot of self-interest there. That refers to the type of incentives that would work hand in hand with the



route development fund to make it worthwhile for aircraft to operate to what is perceived as the periphery of the UK instead of going directly to the middle, to airports such as East Midlands airport—another freight-friendly airport—or Stansted airport. Judging by the way in which the cargo industry is going at the moment, financial incentives would be the only way forward.

Glasgow Prestwick airport is an airport in the north of the UK that is able to cater for the market in Scotland, parts of Ireland and the north of England for freighter aircraft. There are no other airports that are capable of handling the aircraft that we can take—Antonov 124s, which are really large aircraft—which move a lot of the business from Aberdeen and that area of Scotland.

We want to be able to continue to generate business and to make it sustainable, but it goes back to the question of critical mass, which I did not answer properly earlier, and the point at which it becomes unprofitable to keep operating. We are a fair way off that as an airport company. We do everything, so we are able to cross-utilise at the airport and do not have dedicated staff who would stand idle. However, unless we are able to generate business, to keep growing the business and to see the benefit, we would have to consider whether to put the freight business out to a third party to reduce the overall cost. We are concerned that, if we did that, there are only certain third-party handlers that would handle the freight. They are based at other airports throughout the UK and it would make no difference whether the plane went to a different airport for the freight to be handled there. We are looking to remain as profitable as possible so that we can do everything in our power to attract new people. We are looking for assistance to do that, bearing in mind the fact that the majority of the freight would have to be transported elsewhere. Obviously, the incentives would have to be financial.

**The Convener:** That brings us to the end of our questioning of this panel. I thank Paul Stonehouse, Michael Dowds and John McConnell for their evidence.

We proceed to our second panel of the afternoon. I welcome representatives of Highlands and Islands Airports Ltd and Highlands and Islands Enterprise. Alex Johnson is the commercial and marketing manager for HIAL and Donald MacNeill is the senior transport policy manager for HIE. You have the opportunity to make some introductory remarks to the committee, after which we will move to questions and answers.

**Donald MacNeill (Highlands and Islands Enterprise):** Thank you very much for the opportunity to speak today. We have submitted a written paper to your inquiry, which focuses on

what is important in transport infrastructure from an economic perspective—as you would expect from a regional development agency. There is a gross value-added gap of something like £1.8 billion a year between the Highlands and Islands and the rest of Scotland. HIE is focused on addressing and closing that gap.

We have a small population and, following from that, a small internal market. The bulk of the material that is produced in the area is exported to markets in the south, whether in the central belt, in England or further afield. Those exports are mainly fish, whisky and agricultural products, and it is important that they get to market efficiently and affordably.

Recently, we produced a new strategy, which was in part informed by a substantial questionnaire. The main issue for the respondents was transport, which they regarded as the biggest obstacle. We have, therefore, developed a list of priority transport projects for the Highlands and Islands and we are taking them forward. They include the arterial road network, the ferry network that serves the island communities, improvements to rail, and a couple of air issues, although they are on passenger transport rather than freight transport. We want the national policies and strategies that are developed to reflect the Highlands and Islands context.

**Alex Johnson (Highlands and Islands Airports Ltd):** Thank you for the opportunity to speak today. We operate 10 airports throughout the Highlands, from Shetland in the north to Campbeltown in the south. The largest is Inverness, through which most of the freight goes. In 2004, it handled 4,200 tonnes of freight, which represents about 5 per cent of Scottish air freight. That sustains three full-time jobs and one part-time job with a freight-forwarding company at Inverness airport. There are also about eight full-time jobs on the west coast.

The bulk of freight is fish, mail and papers. Each flight to London Gatwick with British Airways Connect can carry about 1 tonne of freight—that is the main flight. We have a flight to Heathrow with bmi but little freight is carried on it because of the timings—when it gets to Heathrow, most of the connecting flights are away.

A lot of fish leaves Scotland—and particularly the Highlands—in vivier trucks. That market could, in time, be developed into an air freight service direct to the Spanish markets. Part of the problem is that it is difficult to co-ordinate the fishing industry, from the fishermen who catch the fish to the people who take it on and sell it. Some co-operative working is required.

**Dr Sylvia Jackson (Stirling) (Lab):** Will you elaborate on the comments in your submission

about ferry services, particularly in relation to freight rates?

**Donald MacNeill:** The ferry network is one of the priority projects that I mentioned. Almost everything that arrives in or leaves island communities in Orkney, Shetland, the Western Isles or Argyll goes by ferry. The only exceptions are some bulk materials such as fuel oil. As we state in our submission, it costs about £697 to get a 15m articulated trailer to Tiree. It costs £1,518 to get such a trailer to Shetland, but that cost was addressed in the recent announcement of reductions in freight tariffs to the Shetland Islands.

Everything that goes to and from the islands goes by ferry, the cost of which is borne by some of the most economically peripheral communities in the UK. That is why we believe that the matter needs to be addressed. I know that that view is shared by the Highlands and Islands strategic transport partnership. We do not have any worked-up proposals at the moment, given where we are with the tendering process, but we will be looking to them in the next round of tendering.

**Michael McMahon:** I have a question for both witnesses, although it is perhaps primarily for Highlands and Islands Enterprise. In our inquiry, we have heard a lot about the road infrastructure in the Highlands. Do you have a prioritised list of roads that you want to be upgraded or improved? Also, which roads should be upgraded or improved to make it easier to get things to the airports?

**Donald MacNeill:** It is all too easy to list priority road projects for the Highlands and Islands. If we imagine sitting in a balloon 50 miles up and looking down on the key arterial roads that need to be addressed, we would see that they are the A9 from Perth to Inverness, the A96 from Inverness to Aberdeen and, because of its condition, the A82 from Tarbet on Loch Lomondside to Fort William. The A82 serves a massive catchment. Last year, HITRANS had a study undertaken on it, which projected that road improvements would bring economic benefits of about £400 million and 1,000 new jobs, given that the road serves a catchment from Argyll and Lochaber to Skye and into the Western Isles.

Those are the key arterial routes. It is all too easy to go beyond them and consider locally significant road infrastructure but, in the interests of prioritising, we are focusing our attention on those three routes.

**Alex Johnson:** We agree about the A9 and the A96. We have a new access road from the A96 to Inverness airport, which should open later this month and should make a big difference. We should have more bus interconnectivity with the airport, because the new road will make it much easier for buses to access it.

**Michael McMahon:** There seems to be agreement about the priorities. It is interesting that, when we were in Motherwell a couple of weeks ago, we heard that road hauliers believe that the standard of the roads and of the equipment on the roads has increased to the point that a higher speed limit is possible, and we heard that the current speed limits are having a detrimental effect on the economic viability of freight transport companies. Do you agree? Do you agree that increasing the speed limit might be possible on the A9, which would make vehicles safer and help the area's economy?

**Donald MacNeill:** The question of speed limits is challenging. I drive the A9 regularly. The safety case must be examined. I am not best placed to make the argument.

As for speed limits for freight traffic, one issue for freight hauliers is not journey time but journey reliability. It is a benefit to hauliers if they know that it will take them two and a half hours to go from Perth to Inverness and they know that they can do that time day in, day out, because they can plan their fleets.

Our train was cancelled today, so we drove down to Edinburgh. Supermarket trucks adhere rigidly to the 40mph speed limit, and Morrisons trucks caused platooning of the rest of the traffic, but I suspect that the artics' journey time is fairly reliable. Any speed limit issues might be short term; the real issue is the quality of the infrastructure that serves one of Scotland's growth areas.

**Michael McMahon:** You have general concerns not just about the availability of the roads in the Highlands, but about their maintenance to a standard that allows people to use them reliably.

**Donald MacNeill:** That is another issue. Putting in place the infrastructure is a challenge. I think that I am right in saying that the Highlands and Islands have about 50 per cent of Scotland's tarmac mileage. Given the geography, we have a huge amount of road infrastructure. The other issue is the continuing commitment to maintain that infrastructure. Maintenance has led to some of our challenges, such as the stretch of the A82 along Loch Lomondside. Work is being done there, but it could be characterised as a sticking-plaster approach, when something more fundamental is required.

**David McLetchie:** I will pick up the topic that Sylvia Jackson raised and ask about Caledonian MacBrayne's freight services and prices. Do your criticisms derive partly from a lack of transparency about the costs of servicing routes? I understand that many requests by potential competitors of CalMac for information about the costs of routes have been met with non-disclosure, on the basis

that such matters are commercially confidential. If those costs cannot be disclosed, it must be difficult for HIE to examine the cost assumptions that underpin the freight rates about which your submission complains. Is that a fair comment?

14:45

**Donald MacNeill:** What has been outlined is more or less my understanding of the way in which the freight tariffs are set. They are not set in an open fashion.

Along with HITRANS and HIE, Western Isles Council carried out a study—I apologise for continually referring to new studies that are not necessarily available to the committee—on ferry fares mechanisms at the end of 2004 and the beginning of 2005. The study's assumptions on the cost base for setting the ferry tariffs have not been particularly challenged by CalMac, which has said that they are in the right ball park. On the basis of those assumptions, we set out a notional new structure for freight tariffs and passenger tariffs. However, as I said earlier, we have not taken that much further forward, because the current position in respect of the tendering exercise means that there is probably not much to be gained by focusing on it at the moment. A longer-term gain might be achieved if the issue is considered the next time that the networks are tendered.

**David McLetchie:** That lack of transparency about costs is reflected in the charges. Is it fair to say that the lack of transparency is a function of the tendering process, whereby all routes are bundled together in one tender? Would the charging and cost structures be more explicit if routes were unbundled?

**Donald MacNeill:** An unbundling approach would by definition result in specific costs being set against particular routes. However, we are slightly cautious about such an approach. Although the Hebridean network includes some more or less commercial routes on which an operator could almost make a return, the network also includes routes at the other end of the spectrum, such as those that serve the smaller islands, on which the costs would be much more substantial without cross-subsidy. We would have concerns about the viability of services to those islands.

**David McLetchie:** I understand that, but I draw from what Donald MacNeill said—he can tell me if I am putting words into his mouth—that hauliers who carry freight to and from some island communities are paying higher prices than they would if routes were unbundled. The corollary of that is that other people currently pay less than they would in the event of unbundling, but a

different social subsidy might be appropriate for those high-cost routes. Is the implication that some people are currently charged too much?

**Donald MacNeill:** I am afraid that I cannot unpick the current structure to that detail.

**David McLetchie:** Is it the case that nobody is able to do that because the details are regarded as confidential?

**Donald MacNeill:** Yes.

**David McLetchie:** So neither you nor I can answer the question because of the way in which the system is currently set up.

**Donald MacNeill:** That is right.

**Bruce Crawford:** I am interested to find out from the gentlemen before us whether any studies have been carried out, particularly by HIE, on how the road haulage industry in the Highlands has been impacted by additional fuel costs and the issues surrounding the implementation of the working time directive, which we heard about from previous witnesses. Does the current situation open up opportunities for Inverness airport to get perishable goods such as fresh fish produce quickly to market? It would be useful to hear from the panel on that.

**Donald MacNeill:** We have not carried out any studies on fuel prices of late, at least within the year and a half or so that I have been in my current post. Clearly, fuel prices are an important issue for the Highlands and Islands as a whole. Our written submission suggests that diesel charges for heavy goods vehicle traffic have a 4 per cent uplift across the patch, but that average figure hides a great disparity between the more or less central-belt prices in, for example, Elgin and the sky-high prices on some islands. However, we have not done any detailed economic impact analysis of the effect of those prices.

The biggest fuel issue for us is maintaining a strategic fuel supply across the area. Our priority projects have more or less started with assumptions about whether issues are devolved and whether HIE can influence them. We have focused our attention on areas where we believe we can make a difference.

**Bruce Crawford:** I know that attempts have been made to export fish products via the airports, and that the problem is that most of the capacity of passenger aircraft is in the belly hold, where refrigeration is more difficult. What are Inverness airport's prospects for eating into that market, given that flying the stuff into the south of France would be a hell of a lot quicker?

**Alex Johnson:** We would like that to move forward. We want to develop the route development fund, which the previous panel

mentioned a couple of times. Apart from getting everybody in the fishing industry to work together, part of our problem is finding a carrier that will take the risk of making an aircraft available. The question is who pays if there is no catch that day? If the aircraft just sits there, the carrier still needs to pay for the crew and so on. If we could remove some of that risk from carriers, they would be more likely to put aircraft in place. In effect, we need to pump-prime the system.

When we had a close look at a similar proposal down in Campbeltown a few years ago, an amazing number of other potential users became apparent once we started talking about the idea. Fish would have been the main load, but it turned out that, for example, Springbank distillery sent a pallet of whisky to Spain every three months or so. All those things could have been added on.

The other side of the issue is that loads would need to be found for the journey back, so that both journeys were paid for. One interesting proposal was that the aircraft could bring flowers from Spain.

An awful lot of work remains to be done on the idea, but if we can pump-prime a route, or at least have a carrot to pull in carriers, we can start talking seriously to other people about putting all the building blocks in place.

**Donald MacNeill:** I meant to respond to the question on the working time directive, but I forgot to do so. We are still waiting to see what impact the directive might have on the road haulage sector, but we have one example of how it has had a direct impact on freight. Line-side loading of timber on to rail previously took place in a remote forest location in Sutherland, but drivers' rest hours requirements now apply to the driver of the timber freight truck, who also operates the crane that transfers the timber from his truck to the railway wagon. Because all that work is classed as working time, the directive has had a material impact on the viability of that seasonal project, and it may no longer take place. That is one example of a project on which the working time directive has had an impact.

**Bruce Crawford:** Convener, I have other questions, but other folk may ask theirs first.

**The Convener:** I want to return to roads issues. The HIE submission is clear about which roads are most important, but I recognise that the aspiration of many in the Highlands is ultimately for the full dualling of the A9. Has HIE carried out any economic analysis of the benefits of that? If so, can it be shared with the committee?

On a different roads issue, the trade unions suggested that one way of tackling the difficulties with the working time directive and drivers' rest hours requirements would be to introduce more

service stations and rest-type facilities on the longer roads, such as the A9, that link the Highlands and Islands with the central belt. Has HIE carried out any work on that issue? What are your views on that suggestion?

**Donald MacNeill:** We are carrying out an economic impact assessment on upgrading the A9. We have received some draft conclusions, but I hesitate to air them at this stage. I will be more than happy to pass on the details as and when we receive them. During this calendar year, HIE and HITRANS will examine the impacts from the narrow viewpoint of transport economic efficiency—TEE—and of the wider economic and locational benefits.

Dualling is an objective, but we are not naive enough to suggest that someone will say that the A9 will be dualled in the next five or six years. We advocate a commitment to that upgrading over 20 or 25 years. Such a commitment would give a growing economy substantial confidence. Dualling of the A9 tends to be seen as a Highlands and Islands issue, but if we were to start a programme of dualling from the dual carriageway that ends just outside Perth, every minute that we would save on journey time would serve not just the Highlands and Islands but north Perthshire, as far north as Blair Atholl and other places.

I am not familiar with the arguments about the working time directive in relation to rest facilities. I know that the issue of rest facilities was problematic when the A9 was developed during the 1980s. The primary rationale for not having roadside facilities was the fear in the bypassed communities that if there were such facilities nobody would come into those communities any more. That resulted in the Highland Regional Council and Scottish Office policy against having such facilities. I must admit that I do not know where things stand at the moment. There is probably a case for having rest facilities, given the traffic levels on the road, if nothing else.

**The Convener:** I appreciate the argument about the potential loss of business, but I imagine that the downside is that large vehicles travel through some of the small communities adjacent to the A9 because of the lack of rest facilities next to the road itself.

**Donald MacNeill:** That might well be the case, although I do not know the HGV traffic patterns.

**The Convener:** The other issue that I wanted to raise is rail freight. Does HIE have any aspirations to develop rail freight, either through the use of existing rail facilities or through the use of freight facilities grants? Is there much scope for an extensive shift of freight from road to rail in the Highlands and Islands?

**Donald MacNeill:** We aspire to effect such a shift. We are carrying out a piece of work to examine the infrastructure constraints on the Highland rail network to complement Network Rail's Scotland-wide route utilisation strategy. Part of that work will examine the freight gauge on the line from Perth to Inverness. We could probably enhance the line, but south of Perth there are other issues to consider, such as the tunnel and other structures to the west and east. It would be expensive to increase the gauge substantially.

There are other ways to get freight on to rail. As you know, the Scottish Executive is considering a freight strategy, part of which has involved workshops involving hauliers and customers on the demand side. We would be interested in exploring and perhaps modelling a scheduled freight service running more or less parallel to the A9. A driver could turn up with their truck at an interchange or hub somewhere at the southern end of the A9 and stick their container on to a train that they knew would be leaving at X minutes past the hour. The container would be at the north end of the A9 at X minutes past the hour, when a truck at the other end could pick it up and take it further. We do not have any data or evidence on that at the moment, but we would consider it. We aspire to shift freight on to rail, but it is not necessarily easy to deliver.

**The Convener:** Bruce, did you want to ask something?

**Bruce Crawford:** I was going to ask about freight and the problems with tunnels and so on, but you have just explored that.

**The Convener:** No other members have questions to ask. I thank Donald MacNeill and Alex Johnson for their evidence, which has been useful to our inquiry.

15:00

Our third panel of witnesses this afternoon will focus on ports issues. I welcome to the meeting Barclay Braithwaite, chief executive of Aberdeen Harbour Board; Captain Colin Parker, operations director and harbour-master for Aberdeen Harbour Board; Alan Burns, director of Scottish ports for Forth Ports plc; and Bill Burns, managing director of Hunterston container hub for Clydeport Ltd.

Members should have received written evidence from the British Ports Association, but I offer each organisation the chance to make some opening remarks before we move to questions.

**Barclay Braithwaite (Aberdeen Harbour Board):** I thank the committee for the invitation to give evidence this afternoon. By way of background, I should say that Aberdeen harbour is a trust port that serves the north-east of Scotland. It is the principal commercial port for the area; the

largest marine support harbour in Europe for the North sea oil and gas industry; the major mainland port for the lifeline ferry services to the northern isles; and a fishing port.

Our traffic is very diverse. Last year, we handled a record level of almost 5 million tonnes of cargo and about 21 million tonnes of shipping. Approximately half that cargo moves to and from the offshore oil installations; the other half is general cargo that moves to more than 30 countries worldwide, into Europe and around the coast of the UK. We have a weekly freight-only ferry service to Norway; a couple of scheduled services to west Africa; and regular sailings to other areas, primarily where oil and gas activity takes place.

The harbour plays a significant role in the north-east's economy and transport infrastructure and directly and indirectly brings about £100 million per annum into the local economy.

Like other ports, we are affected by quite a number of issues, most critically our hinterland links. Because most of the freight that passes through the port arrives and leaves by road, road links are crucial. Moreover, even though we handle far less rail freight, our rail links are equally important. That said, an active rail freight yard in Aberdeen faces closure so that shops can be built. We feel that that should not happen. Improving all those links is one of the port's major priorities.

**Alan Burns (Forth Ports plc):** I, too, thank the committee for inviting us to this meeting.

With its four trading divisions, Forth Ports is a quite diverse company. Scottish ports, which covers all our Scottish operations, is made up of six ports—which are mostly on the River Forth, but include Dundee on the River Tay—and two river terminals. We believe that, collectively, those ports act as Scotland's main marine gateway. We employ 600 people; about 40 million tonnes of cargo goes through our ports; and our business units handle a significant slice of Scotland's gross domestic product.

Although we are based in Edinburgh, we have operations throughout Europe. We have container terminals in Finland, at Kotka and Helsinki, and a further terminal at St Petersburg in Russia. We also have our business at Tilbury on the Thames, which gives us a considerable slice of the English market. We are a public limited company, but we carry with us our statutory harbour authority and pilotage rules for both the Tay and the Forth.

There is a range of measures that could make a real difference to the economy. I agree with Barclay Braithwaite that hinterland support is always vital. Undoubtedly, Scotland's main port these days is Grangemouth, which is growing in importance, but there is no direct motorway link to

the port. It is served by two junctions that allow people to travel either east or west, but not by a single junction that allows them to do both. It would be sensible and wise if something along those lines could be considered.

Some years ago, the Scottish Office identified Grangemouth as a transport hub for Scotland, because of its excellent rail links and motorway connection and its superb location. It is an east coast port, but it almost touches the west coast. It is 26 miles from the centre of Edinburgh and 26 miles from the centre of Glasgow. Those advantages enabled it to be developed originally by London & North Eastern Railway Company Ltd and, before we took over the business, by the old British Transport Docks Board. It is very much a railway port. We are looking at how we can enhance the rail connections.

Generally, we view Grangemouth as Scotland's super-regional port, based on its container traffic, which in the past five years has grown by 120 per cent. We estimate conservatively the growth for containers alone in the coming year at 15 per cent. I will be disappointed if that is all we achieve. Volumes are growing dramatically at Grangemouth and we are concentrating our investment there. This year we will invest £25 million in updating, modernising and improving the port.

**Bill Burns (Clydeport Ltd):** I represent Clydeport, which is now part of the Peel Ports group—the second largest port operator in the UK. We are the statutory authority for the Clyde, the Mersey, the Manchester ship canal and the Medway ports. We also control Sheerness and Chatham.

My particular interest is in containers. I came back to this country after spending most of my working life abroad working with container shipping companies and container ports. I want to speak from that point of view and to add to Alan Burns's comments about what is happening in the containerised industry. We may have moved away from a mainly manufacturing base, but we will have to move consumer goods. As containers carry primarily consumer goods, they will have a major impact on the future of transportation in Scotland. We need to address that issue.

This is not really a narrow approach, because containerisation involves all of the transport modes—water, road, rail and, from a logistics point of view, air, for the sea-air business. The various logistics issues need to be connected. The goods must get to and from the ships via the ports. They must be sorted, warehoused and distributed from the factories to retail outlets and so on. Scotland's market today is approximately 623,000 20ft equivalent units, or TEUs, of container. That is about 8.22 per cent of the total UK market, which

correlates more or less with Scotland's contribution to the UK GDP. It is estimated that the total UK market will double by about 2016. That estimate is based on studies that we have done with Ocean Shipping Consultants, one of the leading consultancy companies in the field. If Scottish GDP increases at the same pace, Scottish containerisation will double in that period. Currently, most of it is transhipped via European ports or comes up from the ports of south-east England.

Scottish ports could also serve the markets in northern England economically. Scotland and the north of England make up 29.7 per cent of the United Kingdom market, so Scotland has an opportunity in the north of England. From a west coast perspective, we are also able to serve the transshipment market for the Atlantic arc, which is drawn by taking a line from Iceland, down through western Scandinavia, the UK and Ireland and down to the Iberian peninsula. That is about another 3.5 million TEU, most of which is currently transhipped.

Through the ports, we have a major opportunity to increase our share in the market and employment in the ports and allied industries. If more containers came directly to Scotland, not only Clydeport's ports, we would reduce the costs for Scottish industry by having more direct services, we would be able to deliver closer to the point of origin and to the end users—which would cut out some of the length of the logistics chain—and, for Scottish industry in particular, we would be able to reduce the inventory, the lead times and, consequently, the costs. By developing ports, we can increase the amount that we move by short sea shipping and our waterways.

Ports contribute quite a bit to the economy. In general, for every job a port creates directly, it will create one outside the port. That is a global figure that I have found. If it is possible to add a logistics and transport base, light manufacturing and light assembly—all of which containerisation engenders—that ratio can become three jobs created outside the port for every job created directly in the port, but it is necessary to have the infrastructure to support that.

There is no single answer or panacea. We need to take an integrated approach that brings together all modes of transport instead of considering them in isolation, which happens occasionally. We should consider the matter from a lines-of-business point of view. The answer to the question, "How did that get there?" is not, "The van delivered it," because it has gone through a massive process before that. We need to do a full lines-of-business study to understand the cause and effect. That includes any delays, because any delay, no matter where it is in the logistics chain,

costs business. It might drive business away from the country and it will certainly discourage inward investment for more business.

At Hunterston, we intend to build, over a period of time, a major container port that will serve the UK and transshipment markets. On the Manchester ship canal, Peel Ports is building the largest inland container depot—it has planning permission now—so we can take a ship from Hunterston down into the ship canal and get into that market. That would take cargo that is moving on the roads north and south. In the modal split that we envisage, about 50 per cent of the freight would go back out by ship to Ireland. More than 500,000 TEU of Irish traffic is transhipped back from Rotterdam to Ireland every year, and that is a market that we can tap into.

Round about 40 per cent of the freight would move by rail. We have rail connections into the container terminal at the moment and we have done various studies on rail. We would not have a major issue moving high-cube containers to the central belt or to the south and into England. I will put it into perspective quickly. It will cost about £75 million for Felixstowe to get high-cube capability and it will cost about £52 million to get to the west coast main line from Southampton, but our studies show that we can get to the west coast main line by spending £330,000.

The balance of the freight—about 10 per cent—would be shipped out by road and mainly for the Scottish market. We need to think about how we can control that and invest in the infrastructure. We are four and a half miles from the dual carriageway system of the new three towns bypass. Extending that into the port would not be a major undertaking.

As we work through the process, we would like policies that support our initiatives to be in place. I stress the word “support”—we do not want it to turn into interference, although that is not a criticism. We need support that allows the private and public sectors to work together. The private port sector in this country works well, but we do not want anything that adds to our bureaucratic burden. I am pleased with the attention that freight is getting and I believe firmly that Scotland is heading in the right direction. Certainly, given the projects north and south of the border, Scotland is leading in the UK in its consideration of the transport business. However, I would like more co-ordination between the different modes of transport and between everyone who is involved in transport as we progress.

15:15

**Dr Jackson:** Forth Ports and Peel Ports—which owns Clydeport—own ports in Scotland and in

England. How do you judge Scottish solutions in the UK context? You talk about bringing different modes of transport together. Do you have views on how the situation is being dealt with in Scotland compared with south of the border?

**Bill Burns:** Westminster, through the Department for Transport, is pushing for a ports policy, on which discussion is on-going. Most of the people to whom I talk agree that we need to do something to ease the congestion in our ports—we had a bad time with that last year. From a Scottish perspective, why should all our containers come in through southern ports, when we could handle them? Our aim should be to get those containers. Because of the complexities of the global networks that the major liner operators operate, the transshipment markets will not disappear, but we have an opportunity, through Grangemouth, Aberdeen and other ports, to take containers in directly closer to source from various areas. I have considered taking containers by water from Hunterston up through the Caledonian canal to Inverness, to take the pressure off elsewhere.

I am concerned that a mismatch might arise if Scotland does not have a ports policy or if it has a policy that is totally different from the overall UK one. The people to whom I speak south of the border agree that we are focusing a lot more on the matter and achieving a lot more as we progress.

**Dr Jackson:** Do you mean in Scotland?

**Bill Burns:** Yes.

**Alan Burns:** Bill Burns and I probably have different philosophies, which are reflected in the strategies that our companies follow. There is no doubt that the English economy, certainly in the south-east, where we operate, has a real buzz about it. There is a queue at the door for new inquiries, which means that if we ever lose business south of the border, replacing it is straightforward. However, that is not my experience of the Scottish economy. We have had blows in the past three or four years, with the disappearance of the electronics export market and of several companies that we traditionally served, such as the Alcan site in Burntisland and the tyre factory in Newbridge.

There is in Scotland a litany of industrial failure, which has been reflected in the ports industry. Despite that, we remain successful and aggressive, but it is easier to get the required investment criteria south of the border, because the economy there has greater impetus.

I am not sure that there is a crying need for a ports policy. Ports act as economic drivers in and tend to integrate into the local area, whether through the enterprise network or by working in

association with local councils. A fairly joined-up approach is taken, but we need to consider giving sea-borne options a level playing field on which to compete. Rail and road are subsidised by the Government to some degree, but the sea is not.

I was interested to hear the airline industry witnesses talk about something called a route development fund. I would like to have one of those; it sounds good to me. I do not know anything about it but it has the right parlance. If people were encouraged to start new sea-borne freight opportunities, the sector would flourish. It would not take too much encouragement because there are a lot of good entrepreneurs out there and the sea freight industry could be advanced.

We are working closely with the enterprise network at the moment, and we are likely to link in to European opportunities around the motorway of the seas scheme, which is designed to assist the peripheral areas of the EU to develop bridgeheads and links. We could maximise those opportunities extremely well. Because of the investments that we are making at Grangemouth and the fact that it is facing Europe, where our main markets are, we can service European door-to-door traffic as well as link in to global connections that are more inclined to go where the population base is.

With the motorway of the seas scheme, and building on the 15 feeder connections a week from Grangemouth to Europe and the Superfast Ferries service from Rosyth, there is a real opportunity—with a little bit of assistance to even out the advantages that the other two transport modes currently enjoy—to build on existing links and give a greater role for the sea.

**Dr Jackson:** You mentioned Superfast Ferries. Are you optimistic that you will be able to get back a daily service between Rosyth and Zeebrugge?

**Alan Burns:** I am always optimistic. Despite the perceptions of that route—people seem to think that it is fragile and not a success—I think it has been extremely successful. From a standing start, it has gone from zero to 200,000 passengers a year in three years. In our best year, we moved approximately 42,000 freight units—we slipped just below that last year because of the adjustment in the sailing schedule and the loss of one vessel. We were ahead of all business expectations and budgets at that point and we had not fully exploited the freight market.

Superfast Ferries, which has a 60:40 split for passengers—60 per cent of passengers are Scots going out for their holidays or on business, for example; 40 per cent are inbound Europeans—has had a fairly dramatic impact on tourism. It has overcome the difficulty of a European traveller having a whole bunch of tourist joys to explore in England and coming to Scotland—if they came at

all—only as far as Edinburgh before heading back south again. Bringing people in north of Edinburgh has allowed them to go and discover the rest of Scotland and maybe encouraged them to finish off their holiday with the tourist attractions of Edinburgh.

The ferry route has made a real impact on the economy—and a lot more could be done on it. It is also possible to develop and exploit other international routes. We also need to consider motorway of the seas schemes to link Scotland to the main industry and population base of England.

**Dr Jackson:** Are you able to say anything about active plans to bring those ideas to fruition?

**Alan Burns:** I would prefer not to in a public forum such as this. Perhaps the enterprise network would be able to explain some of the dynamics and how we are going about things at the moment. We are particularly keen to link with some of the deep sea ports of England and Europe and develop more connections so that Scottish business is placed much closer to global distribution. Whether we like it or not, business is becoming more global in outlook. Scotland is peripheral to almost everything, so improving our sea freight link will be essential to our future.

**Bruce Crawford:** I will start off where Sylvia Jackson finished. I know that there are sensitivities involved in the negotiations and discussions that you are having elsewhere, so I do not want to touch on those.

I fully accept the argument that the Superfast Ferries route has been a great bonus for Scotland and is a tremendous success, but there is some disquiet about the types of vessel that Superfast is running and their fuel costs. If I understand the technicalities correctly, Superfast runs ships that do 29 knots at 180 tonnes fuel/day but a lot of other operators run at 24 knots at 80 tonnes fuel/day, which gives them a higher freight capacity.

Given the discussions that you have had with Superfast, do you think that the company has the right strategy? Should we encourage it to consider other shipping opportunities for the Rosyth to Zeebrugge route? Perhaps we need to consider other operators further down the line, although I am not suggesting for a second that Superfast is not doing a damn good job.

**Alan Burns:** I take it that you have been speaking to Alf Baird.

**Bruce Crawford:** Yes.

**Alan Burns:** It is a familiar story. We have Superfast on the route because we believe that, to develop the market, we need the fastest possible crossing. We are a long way from anywhere. We are 400 nautical miles from Zeebrugge. If we did



not have a ship with the capabilities of the Superfast ferry, we would not be able to offer the scheduled timetable. We might end up with a three-ship scenario, which would be a false economy.

We also have to consider what passengers expect from a vessel. Superfast has set new standards. It really is a world-class service. In four years of operation, it has never missed a sailing. Regardless of the weather, the ship arrives more or less on time. It has enormous capability. I do not think that people would have built up such a positive view of the service if it used lesser ships: the reliability of the service would not have been maintained and people would not have been encouraged to use it. It is a first-class advert for Scotland. Travelling on the Superfast ferry is a pleasant experience and it helps to create a positive view of Scotland for Europeans who travel to Scotland for the first time or on repeat business. The service has created the right gateway to Scotland.

**Bruce Crawford:** Okay. That nails that argument. Thank you.

At Grangemouth, the feeder vessels are getting bigger and bigger. I guess that there are two issues—the infrastructure that supports Grangemouth and whether the port can continue to grow. There is expansion at ports in the south of England that have the deep sea routes coming in, but they can deal with the bigger feeder vessels. Can Grangemouth continue to grow? If you cannot improve the port's infrastructure, what might that mean for the future?

**Alan Burns:** We are investing a lot of money in new cranes. The restriction at Grangemouth is not the port infrastructure; the restriction was due to the fact that the port was the first in the UK to be involved in containers. The management was far sighted and committed to the industry—as it is today, I would like to think. We had the two oldest container handling cranes in the UK, but we are replacing them.

The original cranes were built here in Scotland but, unfortunately, we had to go to Ireland to get the replacements. We will have two of the latest, state-of-the-art cranes and we will be able to handle the largest vessels that can call at the port. That has not allowed us to increase the number of sailings each week, but we have much larger feeder vessels on the route. They are sizeable, but they are still only about half the capacity that the port can handle. If required, there are opportunities to consider an outer berth to handle even bigger vessels and we could consider a container operation at our sister facility at Rosyth as well.

**Bruce Crawford:** What about the infrastructure that supports Grangemouth, such as the motorway

and railway system? If that cannot keep up with your growth, what could happen?

15:30

**Alan Burns:** We are quite encouraged by what is happening with rail. Everyone had formed the view that short-haul rail could not work. Along with WH Malcolm and Direct Rail Services, we are dispelling that myth. We have a container train that travels from Linwood to the port three times a day and we are now starting to operate, on a trial basis, an Aberdeen link.

One thing that disturbs me about rail is that there is a lack of joined-up thinking. We can make short-haul services work extremely well for the operators and for people who wish to ship containers, whether for European door-to-door delivery or global distribution. What is the point of sticking something on the railway to send it to Felixstowe or Southampton when we can stick it on the railway to send it to Grangemouth or Rosyth? With the upgrade of the Stirling to Alloa line, it would be simple to reinstate the old Fife loop and service the existing rail links that go on to the main east coast line at Rosyth. We have an awful lot of upside in rail connection.

I understand that there is a proposal for a new rail development at Gartcosh. I am at an absolute loss as to why that needs to be developed. We should be trying to enhance a transport distribution centre in the Grangemouth area. That does not necessarily have to be in the Forth Ports area of Grangemouth, but if you are looking for a strategic location for such a centre, it has to be in the Grangemouth area, where we should be building up our transport links. There is room for specialism. The ferry traffic that will undoubtedly build up as we go forward will be based at Rosyth. There will be a differentiation in the products that go through Rosyth, which will be those that are a bit more time sensitive. Whether they are used for deep-sea connection or European door-to-door distribution, containers tend to have a bit of a time lag. Only a relatively small proportion of them—what we would describe as hot boxes—require instant delivery and dispatch to ship, or vice versa.

**Michael McMahon:** Alan Burns mentioned his desire to see route development funding. I would like to put a question to all our witnesses. We already have freight facilities grants, which are designed to promote seaborne freight. Do you take advantage of those grants? If not, why not? If so, what could be done to encourage you to develop your use of those grants further?

**Barclay Braithwaite:** We have not taken advantage of the grant scheme, primarily because there have not been circumstances in which we could do so. As Alan Burns does with regard to the

Forth, we consider ways of developing coastal and short sea shipping in the Aberdeen area. We have a number of ideas, none of which is at a stage at which we could take advantage of the freight facilities grant.

Another point is that the concept of moving freight by sea needs to be higher up the awareness agenda. One of the good signs about the approach that is being pursued in Scotland is that the situation here is ahead of the situation south of the border—I am involved in organisations there as well. However, there is more to it than simply offering money through the route development fund or the freight facilities grant. A cultural change must take place, partly because ports and shipping organisations in Scotland are market led—we do not have systematic public funding. There is a job to be done in raising the profile of shipping.

**Alan Burns:** We have taken advantage of the freight facilities grant in relation to the development of the port of Rosyth by adding the freight aspects of the ferry terminal. We were not supported on the passenger side, which we had to fund ourselves.

Although the freight facilities grant arrangement can enhance port facilities, it also allows the port to offer operators a fairly aggressive tariff structure. However, the ship operators do not themselves qualify for a freight facilities grant, and in many cases support should be directed at the operators. In the initial stages, if an operator is taking a bit of a punt on starting a new route, a fair amount of risk is involved. If operators were given some comfort to limit that risk to a degree, many more speculative opportunities would be taken advantage of.

The use of the Rosyth ferry terminal has helped us to identify the enormous environmental benefits of shipping. A very strong comparison can be made with rail. The analysis that has been carried out to date has identified that moving a tonne of cargo by sea is four times more fuel efficient than moving it by road, and twice as fuel efficient as moving it by rail. There are real environmental benefits still to be got out of shipping.

We are contemplating an application for the freight facilities grant to upgrade rail links from Grangemouth. The Aberdeen service is currently operating on a trial basis—the Scottish Executive is involved in that—and an application is likely to be formulated over the next few months in connection with it. In any event, we are indeed aware of the freight facilities grant.

We would like additional support, whether it is from the enterprise network or elsewhere, in connection with the fair amount of European grants that are there to be drawn down. Those are

hugely complex, however—I am thinking of the Marco Polo programme, the trans-European network for transport and some of the other solutions. We should be looking to explore those possibilities to a greater degree, although it is an enormously complex exercise to produce the applications, understand when it is appropriate to apply and find the necessary support. In the European context, support is expected from the applying company's home Government. In our case, the Scottish Executive might not necessarily be recognised as our home Government. More detail needs to be sought on that.

**Bill Burns:** I am a committee member of Sea and Water, which has recently produced the booklet, "The Case for Water". I am not sure whether members of the committee have read it yet, but it is being distributed at the moment. It really does lay out the case for water. We also have a plan for Scotland. The Scottish Executive has agreed to give Sea and Water some funding, for which we are eternally grateful, as funding is always welcome. The booklet clearly lays out the case for what we need to do. Over the years, water has probably been neglected at the expense of rail and road. Something like a route development fund could help to get things started—but only that. Eventually, we might get a level playing field for all modes of transport. The committee should certainly be considering something to create awareness and get people to consider using transportation by water.

The various projects that I am dealing with include the development of the container ports that we control in Ireland and at Cardiff, Liverpool, Manchester and Hunterston. It is perhaps a bit early for us, but we have also looked into the Marco Polo programme. European funding is restrictive, however, and there is not a lot of money involved. It has been pointed out that the main benefit to be derived from that funding is a better chance of borrowing money a bit more cheaply, because the projects will be seen to be backed by the EU. Over the years, the EU and UK pots have been continually shrinking. That is not a bad thing as long as we end up with a level playing field. Attention needs to be paid to water in the early days to get that mode of transport moving on.

**Michael McMahon:** I invite Captain Parker to comment on the freight facilities grant.

**Captain Colin Parker (Aberdeen Harbour Board):** As Barclay Braithwaite said, we have not been involved with the freight facilities grant. Raising the profile of the use of the sea is the crucial thing. I hear that the freight facilities grant is a complicated system, and that applying for it and getting it in place are difficult. People will conclude that it is too much effort.

The use of shipping is often perceived to be something of a black art, and the option is sometimes not considered. It is frustrating when we ask manufacturers in our part of the world whether they export, and they respond that they send all their products to Southampton. We need to raise our profile, because people do not really need to go all the way down through Scotland and England to import or export.

**Michael McMahon:** What is the main funding that you would be looking for from the Executive for what you do? If it is not the freight facilities grant or the RDF, what would it be?

**Captain Parker:** It would certainly be interesting to flag up route development funding, if the Executive were willing to consider inviting applications from vessel owners to bid for that funding and particular routes. That would be interesting to port users.

**Bill Burns:** We will probably get an opportunity to consider where grants are allocated and how we might avoid future congestion and get the most environmentally sustainable methods. If we move away from the past, forget the paradigms and consider transport as a whole, including the grants, could that drive us to where we need to be?

**Bruce Crawford:** My question is about the grant mechanism. My understanding is that, whether it was a freight facilities grant or a maritime grant, or whether it was earmarked for Rosyth, the money to support the arrangement had to come through the UK department. The route development fund allows country-to-country support from the Scottish Executive, but the arrangements are different for maritime routes, and we have to go through the UK department to get support for country-to-country shipping. Am I right, or have I got the wrong end of the stick?

**Alan Burns:** No, you are right on the Rosyth deal. There is an extremely good reason for that. All the environmental benefit under which the grant was calculated accrued in England. As a result, it was considered that the Scottish Executive should not fund that particular grant. It had to go through the Department for Transport, Local Government and the Regions, as it was at the time. There was also a bit of confusion because a seaborne scheme was not necessarily considered a devolved matter.

**Bruce Crawford:** That is what concerns me. I cannot understand why it is different from the air route development fund, which can be given straight from the Executive. We need to tease that out with the minister when he eventually comes to the committee.

**Alan Burns:** It is a basis for calculation. In the case of Rosyth, we had a £20 million

development, £10 million of which was covered by the freight facilities grant. However, we have a £20 million risk, because if the service fails and we have not realised the environmental benefits that were mentioned in the application, we will have to pay back all or part of the grant. The risk for us is that if we put in place an aggressively priced port tariff in recognition of the grant, we could find ourselves undershooting. Even with grant support, there are risks.

**Bruce Crawford:** That is useful.

I have another question about funding mechanisms. People have mentioned the Marco Polo programme, which is obviously some sort of European funding structure. There must be other such structures out there. Are you aware of how successful the ports south of the border have been in attracting that type of additional money to support their investments? I presume that they have gone through the Department for Transport as the lead department for the UK.

**Alan Burns:** As far as I know, ports south of the border have had support only for railhead developments. I do not think that they have been imaginative enough or had the need to look for support for route development of the type that we pioneered at Rosyth.

**Bruce Crawford:** That is useful to know.

**Bill Burns:** There have not been as many applications. There is still a lot of money left, not because people do not want to apply for it but because of the restrictions that are put on it. Alan Burns mentioned one. The risk is still attached to the investor.

15:45

**Alan Burns:** Another issue is our need. We are a peripheral country with a small population base, so developing critical mass is sometimes difficult. The grant can ease some of the difficulties. Our experience of Tilbury is that just about everything stands up pretty robustly, because there is a big population and therefore the critical mass to drive any new project.

**Bruce Crawford:** It would be useful for us to tease that out with the minister when he appears before the committee.

**The Convener:** I want to ask about the deep-sea container port that is proposed for Hunterston. I understand that plans for the port are well advanced. There are plans for a similar deep-sea port for transhipped containers in Orkney. Can both proposals work? I understand that there are similar plans to develop deep-sea ports in England. Can Hunterston work if there is competition from English ports and the Orkney port that has been talked about? Do the proposals have implications for other Scottish ports?

**Bill Burns:** I will start with the question of Orkney versus Hunterston. A large part of our business—half or more—will be UK based, because we have road, rail and water connections. As I mentioned, the other part of our market is the Atlantic arc. The overlap would be in western Scandinavia and Iceland. We would not be competing with Scapa, which would be a North sea basin and Baltic operation and would deal purely with transshipment. Hunterston would deal with a mixture of business on the western periphery of Europe. Unfortunately for Orkney, its competition would be Rotterdam, Bremerhaven and Felixstowe, where most transshipment is done today. It would not really compete with Hunterston—I envisage only small overlaps.

Earlier, I tried to put into perspective the growth that we face in containerisation. We know which projects will go ahead. The Felixstowe development has been given final approval, and we believe that Bathside will also get approval. There may be some questions about how the current ownership of London gateway will pan out, but we know what will go ahead. In the ports industry, capacity is 82 per cent. A port is probably still profitable at 70 or 75 per cent of capacity. If we take in all the projects that we know are going ahead, including our projects and expansion elsewhere, we will be down at around 70 per cent capacity for about three years around 2010. However, the only reason for that is that all the approvals have come on line at once. As the committee knows, the Department for Transport held them back before granting them one after the other.

The UK ports will run out of capacity again around 2018. That estimate is based on figures that I have worked on with Ocean Shipping Consultants. Hunterston will be helped by the fact that the Irish ports will be highly utilised. Because they will not have the required capacity, they will have to rely on surrounding countries to feed in whenever they can. However, there will be massive overcapacity in the north-west continent, where we will not be competing. That will be an issue for ports in the northern and southern North sea and the Baltic.

The capacity of Hunterston will be about 2 million tonnes. That will not be brought on speculatively and immediately, but as needed and in stages. Hunterston is also one of the few natural deep-water ports in Europe and globally. There is a natural channel of 40m.

Two issues are containing the size of ships at the moment. One is that the power from the engine comes through a single screw. Companies do not want to put in two engines—to go twin screw—to get the speed, because of the cost of fuel nowadays. If they want to retain the speed

and get bigger ships, the ships will have to be deeper, so they will have a more defined hull form. That form is now coming out at a required depth of 16.5m. We could end up with a situation whereby the ports that would be able to handle that type of ship, fully laden, would be the outer ports in Germany and the ports of Rotterdam and Hunterston.

At the moment, ports are coping with that type of ship by bringing them in at high tide and having a ditch built alongside them so that they do not settle on to the bottom when the tide goes out. However, that restricts the ports to a tidal window—we would not be so restricted. We are focusing on different markets. Given all the expansion plans that are on the table at the moment, we need container capacity.

The other danger is that if we continue to say that all we will have is ports that handle feeders, business will gravitate towards the hubs—I have seen that happening. If the hubs are in Europe, businesses will start to gravitate towards Europe. We will end up just feedering the cargo that we need, rather than servicing and growing our industry.

**The Convener:** Will the proposed developments have any knock-on implications for the other harbours?

**Alan Burns:** If a Hunterston development met the environmental criteria to go ahead, we would have exciting plans for the Forth. I am not sure whether they would involve another major container facility, but that would be an attractive proposal. There is equally deep water in the Forth, but providing the land bank to support an operation of that size would be a considerable task.

One of the difficulties is that the deep-sea operators are consolidating. The UK's largest deep-sea operator was P & O, which is now in foreign ownership. The big players are consolidating routes and making their ships bigger and bigger. They will just want to carry out A to B operations, so the importance of feedering will grow. That is how things have been happening.

When I started out in this game 20 years ago, we had a trade imbalance: 60 per cent of the volume through ports was made up of exports and 40 per cent was made up of imports. That reflected accurately the fact that Scotland was a net exporter. That gap is a lot smaller now; the balance has changed a lot in those 20 years. We have a nearly balanced trade scenario. That will impact on our need for deep-sea connections. The world needs to be able to supply us, but I do not think that operators will come to our doorstep; they will go through a feeder operation.

**Barclay Braithwaite:** The impact on Aberdeen of developments at Hunterston is likely to be a lot less than the impact of developments at Scapa Flow. I would expect an element of feeder traffic into Aberdeen and the Forth from Scapa Flow.

**The Convener:** That concludes our questions for the panel. I thank Colin Parker, Barclay Braithwaite, Alan Burns and Bill Burns. Before we move on to the next item on the agenda I remind members that Alan McKinnon, our adviser, has offered to hang back at the end of the meeting if anyone wants to reflect on the evidence received. Members can ask him for pointers and discuss what additional information he can provide.

## Accountability and Governance Inquiry

15:54

**The Convener:** Agenda item 2 is a paper from the clerk on the Finance Committee's inquiry into accountability and governance. The Finance Committee has invited evidence from several parliamentary committees in connection with its inquiry into accountability and governance. The paper sets out the areas in which the Local Government and Transport Committee interacts with various regulatory bodies in Scotland, such as the Scottish Public Services Ombudsman, the Accounts Commission, the Auditor General for Scotland and the Office of the Commissioner for Public Appointments in Scotland. The paper is a factual statement of the situation as it applies to the Local Government and Transport Committee, and it also sets out at paragraph 30 a series of questions that the Finance Committee has asked.

I am happy to take any amendments that members may suggest to the factual content of the paper. In addition, do members wish to respond to the Finance Committee's questions in paragraph 30?

**Bruce Crawford:** I wonder whether it would be appropriate to mention the traffic commissioner for Scotland, from whom we took evidence on the Transport (Scotland) Act 2001—the buses act. I was concerned about the lack of integration between what that body was doing with regard to buses, some of the health and safety issues and its monitoring role, in comparison with what local authorities were doing. A fair bit of that activity needed to be decongested, for want of a better description. That is one area that we could suggest that the Finance Committee might consider. The evidence will show that other members shared my concerns at the time. The Finance Committee could look into that if doing so would be appropriate for this piece of work. Do you recall that evidence?

**The Convener:** Yes. The problem was due to a lack of powers primarily, but it may also have been the result of a low level of visibility. For whatever reason, the traffic commissioners did not seem to be one of the more effective bodies. I am pretty sure that we could draw that out and add a paragraph about that body to the report that we will forward to the Finance Committee. Do members have any other points to draw to the attention of the Finance Committee?

**Bruce Crawford:** There is one other area that might fit into the Finance Committee's remit—the work of the Improvement Service in comparison with work done by other arms of government and

the links with the value-for-money exercise that is being undertaken by Audit Scotland and the Accounts Commission. A heck of a lot of duplication seemed to be going on, in terms of who was responsible for what. I realise that the Improvement Service has a slightly different reporting mechanism, as it reports directly to the Executive, but other bodies are doing similar work. That is another area in which there seems to be a lack of rationale and added value being brought into the system. I cannot recall whether other members shared that view and had the same concerns.

16:00

**The Convener:** I do not think that committee members felt so strongly about the Improvement Service issues as they felt about issues around the traffic commissioners. I am relatively open-minded, however, about flagging that up as an issue for the Finance Committee to consider, if that is what you want to do.

**Bruce Crawford:** The committee touched on it, but we did not go into it in great detail. There was duplicity—I think that that is the word—in what was being done.

**The Convener:** Duplication.

**Bruce Crawford:** Sorry—duplication. Perhaps that came in when the Improvement Service was constructed.

**David McLetchie:** On the question about “confusion or overlaps”, although we can bring to that our experience as individual MSPs of relating to commissioners about specific complaints that may have been raised with us by constituents, fundamentally whether there is confusion and overlap can be shown only in the light of the experience of the ombudsmen and the various commissioners. In a sense, it is up to them to highlight where, over the past few years, they feel that there has been overlap. Whether I feel that there has been overlap is a result of my own dealings with those people, which, frankly, have not been significant on a constituency basis. I do not feel particularly well qualified to judge that.

On the budget question, I am not entirely sure how we are expected to say whether £6 million is too much, too little or just about right—it is almost impossible. That is a how-long-is-a-piece-of-string question. It all comes back to the work that genuinely has to be done by commissioners and ombudsmen whose functions do not overlap. That takes us back to the question of who is going to audit the work of the various commissioners to try to establish whether we are receiving value from them.

On finance generally—this relates to the wider issue of budgetary controls and the talk of

common budgetary controls—is it the case that the bill for the commissioners for whom the Scottish Parliamentary Corporate Body is responsible, as part of the overall budget that is submitted by the SPCB, is simply presented and that we do not have much option but to forward it? Alternatively, is there a degree of negotiation around and justification of that budgetary proposal between the SPCB and the people involved? I do not know the answer to that. Do we just accept the bill, tick the box and add it to our overall request, or is there supervision? I think that there should be. We should not just have to accept any bill that is presented.

**The Convener:** No. I agree with you. I do not know the answer to that question myself. Ultimately, the Parliament—whether through the corporate body or another mechanism—should be able to set the budget and not be merely the paymaster for a bill that is presented. I imagine that the Finance Committee is trying to look into the relationships between the Government, through the Parliament, and the various commissioners. The Finance Committee is obviously trying to find out how we can ensure that the commissioners are accountable while still giving them independence of operation. That will probably be a matter for detailed work by the Finance Committee as it gets the various organisations in and tries to scrutinise how they go about their decision making, in relation to the work that they undertake and how much that work costs the public.

We can probably indicate in our report that we agree that the Finance Committee should look at issues of duplication and how the funding relationship works. I suppose that the answer to the question of whether the commissioners give value for money can be judged only by someone with a good grip of the range of their duties and responsibilities and the work that they have undertaken over the course of their existence.

**Paul Martin (Glasgow Springburn) (Lab):** One of the other elements that we should consider is service delivery. I sometimes wonder whether someone in Springburn who had an issue that related to the role of one of the ombudsmen would have access to the relevant ombudsman. We discussed with Professor Alice Brown the fact that some communities have more engagement with the ombudsmen than other communities. Service delivery is an issue, given that most of the services that the ombudsmen provide are based in Edinburgh and other cities. The Executive might need to ensure that the ombudsmen engage with communities rather than be remote from them, as is sometimes the case.

Professor Brown showed a willingness to engage, but although everyone is willing to

engage, I am not sure that we are being creative enough in examining how we engage. The traffic commissioner for Scotland is a good example of a role of which few people are aware. Even elected members in local government might find it difficult to clarify what that role involves. Service delivery is an issue. We must consider the multifunctional role and the one-stop shop that we talked about with Professor Brown.

**David McLetchie:** Is there a code of conduct or practice governing which cases the ombudsmen and commissioners will take on and the role of members of the Parliament? I am sure that all of us have had experience of championing the cause of a constituent and getting a satisfactory result or identifying a wider public policy issue that we have highlighted in the Parliament. Is there not an element of capriciousness, depending on to whom someone complains? Is there not a case for saying that if someone has a grievance, in the first instance the appropriate channel for them to air that grievance should be through their MSP? The involvement of an ombudsman or a commissioner represents a step up from that.

I do not know whether there is such a code, but the present system seems quite capricious. There are plenty of examples of cases that we are capable of pursuing, but sometimes we might get brushed off and feel that we are hitting our heads against a brick wall. It would be quite useful if such cases went to an ombudsman or a similar body because that would add an additional dimension of clout. One could vary the workload significantly by declining cases.

**Bruce Crawford:** You raise a fair point, but it comes back to what Paul Martin said—

**David McLetchie:** Exactly. His point was about service delivery.

**Bruce Crawford:** We need clarity so that people have a better understanding of what the ombudsmen are for and what they do. Someone might go to their MSP because they thought that they had been on a waiting list for too long or had been treated badly. In those circumstances, a letter from their MSP might be appropriate, but if they had a strong grievance because they felt that a procedure had been carried out in the wrong way and they wanted financial recompense, their MSP's involvement would probably be inappropriate. There needs to be clarity about what the ombudsmen and commissioners do. Paul Martin is right. I do not think that we have a good enough understanding of what they do and, if we do not, the public certainly will not.

**The Convener:** There is probably a need for clarity about what the roles of all the organisations are and how they interlink. In the first instance, people who feel that they are not getting

satisfaction from their public services should look to one of their democratic representatives—a councillor, an MSP or an MP—to take the matter up, depending on what it relates to. The advantage of taking an issue to the public services ombudsman, for example, is that that might allow them to take an overview of a range of complaints and to identify a problem with the provision of a service by a particular council. However, the public should go to their democratically elected and accountable representatives to resolve their problems before they go to commissioners or ombudsmen. Greater clarity on the issue would be useful.

Do members have any other points?

**Members:** No.

**The Convener:** Are members happy for me, in partnership with the clerks, to make the various amendments that we have discussed and then to sign off the paper and send it to the Finance Committee?

**Members indicated agreement.**

**The Convener:** That brings us to the end of the public part of the meeting.

16:10

*Meeting continued in private until 16:18.*





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