

TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

Monday 28 April 2008

Session 3

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TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE **8th Meeting 2008, Session 3**

CONVENER

*Patrick Harvie (Glasgow) (Green)

DEPUTY CONVENER

*Cathy Peattie (Falkirk East) (Lab)

COMMITTEE MEMBERS

*Rob Gibson (Highlands and Islands) (SNP)
*Charlie Gordon (Glasgow Cathcart) (Lab)
Alex Johnstone (North East Scotland) (Con)
Alison McInnes (North East Scotland) (LD)
Shirley-Anne Somerville (Lothians) (SNP)
*David Stewart (Highlands and Islands) (Lab)

COMMITTEE SUBSTITUTES

Alasdair Allan (Western Isles) (SNP)
Gavin Brown (Lothians) (Con)
John Park (Mid Scotland and Fife) (Lab)
*Tavish Scott (Shetland) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Hamish Balfour (Shetland External Transport Forum)
Ken Duerden (Zetland Transport Partnership)
Brian Kynoch (Orkney Means Business)
Dan Thompson (Yell Community Council)
Councillor Allan Wishart (Shetland Islands Council)

CLERK TO THE COMMITTEE

Steve Farrell

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Clare O'Neill

LOCATION

Town Hall, Lerwick

Scottish Parliament

Transport, Infrastructure and Climate Change Committee

Monday 28 April 2008

[THE CONVENER *opened the meeting at 13:30*]

Ferry Services Inquiry

The Convener (Patrick Harvie): Good afternoon, everybody. Welcome to the eighth meeting this year of the Transport, Infrastructure and Climate Change Committee. We have apologies from Alex Johnstone, Alison McInnes and Shirley-Anne Somerville.

I welcome to the meeting Tavish Scott MSP, who is here as a committee substitute for Alison McInnes. I remind everybody that mobile phones and other mobile devices should be switched off.

This is the fourth of seven evidence sessions in the committee's inquiry into ferry services in Scotland. At its meeting in Oban, the committee heard from ferry users in the west of Scotland. Today, I am pleased that we are meeting in Lerwick town hall on Shetland, where we will hear from representatives of the Shetland and Orkney islands. Unfortunately, because of a problem with the air link—not with the ferry link—there are fewer witnesses here from Orkney than we had hoped there would be, but we will get as much written evidence as we can from the witnesses who could not attend the meeting so that we know their views.

Our first panel consists of representatives of Yell community council, Shetland external transport forum and Orkney Means Business. Following their evidence, we will hear from the local authorities and regional transport partnerships.

Obviously, we are aware that ferry services are profoundly important to people who live on the islands—they are important to the islands' economy, environment and tourism, for example.

Before we take evidence, I will set out clearly the purpose and focus of our inquiry and of today's evidence session. We are considering issues such as ferry routes, the frequency and timetabling of services, capacity and integration with other modes of public transport. The main theme of today's session will be how ferry services can be delivered in response to local needs. The committee believes that it is important to hear directly from local users of ferry services. For that purpose, the committee will make fact-finding visits elsewhere tomorrow.

I welcome the first panel of witnesses. Daniel Thompson is chair of Yell community council, Hamish Balfour is a member of the Shetland external transport forum, and Brian Kynoch is the chair of Orkney Means Business. We had hoped that we would hear from Danny Marcus, who is a member of the Orkney ferry services consultative committee, but we have been limited to only one witness from Orkney.

I will begin with a general question. Do the current interisland and NorthLink ferry routes meet the transport needs of island residents and businesses? If they do not, what changes to routes would you like to be introduced?

Brian Kynoch (Orkney Means Business): My business is a large mover of freight. We use both the roll-on, roll-off service that NorthLink provides and the lift-on, lift-off service from Aberdeen.

The timetabling of the services seems to be fine tuned now. A couple of years ago, there was a furore about the removal of the early morning sailing from Scrabster, but the initial worries about that seem to have disappeared, and there are no timetabling issues to report.

The tourism sector has been looking for an earlier ferry arrival at Kirkwall from Aberdeen for a long time, but I think that that has been sought by a few operators outwith the Kirkwall area. Perhaps people do not arrive at accommodation in such areas until around midnight. However, there has been no significant push for such a service; only one or two people want it. In general, I think that people are happy with the quality of the service and the comfort of their travel. The 11 o'clock arrival of the ferry in Kirkwall does not seem to be too big a problem.

Hamish Balfour (Shetland External Transport Forum): I will speak primarily about the NorthLink service.

We have found that the ferry timetable is suitable to a certain extent, but we are coupled to the Orkney connection, which Brian Kynoch mentioned. Although people in Orkney are looking for an earlier connection from Aberdeen, that would be at our expense here in Shetland. If there were any change to timings in Orkney, we would be at a serious disadvantage, because the ship sails from Aberdeen or Lerwick, calls into Kirkwall and then moves on to the other port. The timings are as critical for us as they are for Orkney. We have the passenger ship and the freighter sailing on pretty much most days. However, if only the passenger ship is sailing, with a connection through Orkney, it leaves here at 5.30 in the afternoon, which is really not suitable for what we need to do. In that respect, we find ourselves at a disadvantage.

We had a timetabling issue with one northbound sailing, but that has been resolved through negotiation; it has been removed completely from the picture, which is better for us here.

Do you want me to talk about capacity and suchlike?

The Convener: Other members will ask about capacity issues. We really wanted to know about routes initially. You have commented on timetables, too.

Hamish Balfour: The basics are okay. If the timings are moved any further, that could pose problems.

The Convener: Thank you. Mr Thompson, do you wish to comment at this point?

Dan Thompson (Yell Community Council): Yes. I represent Yell community council, but I have been nominated by the Association of Shetland Community Councils to speak about interisland ferry services. I am not aware of any serious timetabling problems. There are some problems, but the concern is that communities have grown because of the level of service, but now they are not. The services must be protected, as any reduction in services would devastate communities socially and economically.

The average age of interisland ferries is 17 years and the oldest is 33 years. Some of the terminals are more than 30 years old and badly in need of replacement. It is clear that the local authority will not be able to do all that is necessary.

The fares are said to be low, but they are not really low for someone who is earning the minimum wage and is having to commute.

There are capacity problems on some of the routes, but other routes are okay.

The Convener: So, there are no specific changes to the existing routes, timetables and frequency that you want us to consider.

Dan Thompson: There was work done on the timetabling for some of the islands. It is difficult for people on Unst and Fetlar, because they have to travel through Yell. We had to try to devise a timetable to allow time between the Yell Sound crossing and the crossings to Unst and Fetlar, which are covered by the same ferries. There are timetabling problems, but things are as good as they can be at the moment.

David Stewart (Highlands and Islands) (Lab): How well do ferry services integrate with other forms of public transport?

Dan Thompson: They integrate reasonably well at some times of the day. It is possible to get across on a ferry in the morning and get to Lerwick

for a 9 o'clock start and then to get back again at knock-off time. That is only the ferry and bus service on mainland Shetland. People still need to get to the ferry terminal on the other side. They can get there by public transport at those times but, at other times of day, although they can get a bus service as far as the Yell Sound ferry on mainland Shetland, they have to use their own transport on the other side.

David Stewart: Mr Balfour, do you have anything to add?

Hamish Balfour: There is no integration with anything else that we do. We are sort of tied to the overnight service in each direction.

Brian Kynoch: I am not aware of any integration issues on the Orkney side.

Cathy Peattie (Falkirk East) (Lab): Do you have any concerns about the carrying capacity of the NorthLink or interisland services? If so, how could those concerns be dealt with? Mr Balfour started to talk about capacity.

Hamish Balfour: The stock ship to Shetland has been abolished this year, so all stock movements will be made by ro-ro vessels. We know that space will be tight at some times of the year. We have not experienced that arrangement before and we hope that it will be okay, but there are concerns about capacity.

The two non-passenger ferry ships—NorthLink owns one and the other is chartered in to cover the service—are old. We have tried to encourage moves to bring in more modern vessels and give the service more capacity. We might scrape through this year, but if increases occur in the following years, as it looks as if they will, we will have a bigger problem. My biggest point is that those two vessels are 36 and 37 years old. If they have a major breakdown for any reason, we will have a huge problem.

Dan Thompson: There is no capacity problem on Yell Sound, because we are fortunate to have two new ferries and new terminals. The Whalsay route and the Bluemull Sound route between Yell and Unst have capacity problems at times. I am not aware of capacity problems in general for the smaller islands, although such problems will probably arise at some times of the year because of stock transport.

Brian Kynoch: The situation is the same in Orkney, where some of the busier routes have capacity problems—for instance, making bookings for the Westray service is a problem in the summer months and when stock is being moved. It is a pity that Orkney Islands Council's representative is not here, because the council has commissioned more than one report on

replacing the ferries, but I am not up to speed on that. However, capacity problems definitely exist.

Cathy Peattie: As the convener has said, we will ask for written submissions.

What input have local people had into the development of interisland and NorthLink services, such as meetings with operators to discuss timetable changes or the design of new vessels? Have service users communicated with service providers?

Brian Kynoch: I was involved in the consultation before NorthLink took over the service, which was at an unprecedented level. Everybody was well informed about vessel designs and everything along the road. We cannot criticise NorthLink on that point.

13:45

Tavish Scott (Shetland) (LD): I have a supplementary question on service design. Mr Balfour described haulage issues, which I suppose are particular to Shetland, and the long-term question that the age of the ships raises. Will he explain to the committee why the age of the ships is important to the future provision of shipping and why the ability of haulage companies such as his to get their product to market is important to the local economy?

Hamish Balfour: As Shetland has a large aquaculture industry, and as we ship nightly for markets the next day, timing is of the essence. Any delay brings a problem. Although we have received new ships on the passenger routes, it is critical that we consider the provision of new or newer ships for back-up of the service. That would give confidence that the service will continue as it should. As I said, if we have a problem with one ship, that creates huge problems, both with capacity and with the timing of getting product to market.

Tavish Scott: I want to stress the importance of the nightly sailing for the fresh product, as Mr Balfour has illustrated. I am sure that the committee has gathered that there are two ways to get product out of Orkney whereas here there is only one.

Rob Gibson (Highlands and Islands) (SNP): Concerns have been raised that ferry services are operated to suit the needs of service providers rather than ferry users. If you agree with those concerns, can you provide any evidence in support of that? If not, your answers may be very short.

Hamish Balfour: I would like to meet the man who is saying that.

Rob Gibson: The concerns have been raised by people on the west coast, and I suspect that they may have a basis there. However, are there any concerns here about services being geared to the needs of the provider?

Hamish Balfour: No. The Shetland service is provided nightly from each end and we are tied to that, as we have been for many years. Nobody is getting an advantage over somebody else in the marketplace, on matters such as timings. So the answer is no.

Dan Thompson: The local authority provides the interisland service. It tries to timetable services to meet the needs of the user as much as it can.

Rob Gibson: We were not always going to get answers at great length on some of the issues.

What is your view on the provision of ferry services by private operators?

Hamish Balfour: It does not make any difference who provides the service—the service levels must remain the same, if not better, and the cost must be comparable, or less. The issue is fairly simple.

Rob Gibson: I take it that the present publicly provided service would be difficult to match for a provider coming in, certainly in Shetland.

Hamish Balfour: Yes—very difficult.

Rob Gibson: What about Orkney?

Brian Kynoch: One concern would be whether a private operator would be able to build in vessel replacements. The vessels that we have at present on the external passenger routes are of fantastic quality. That would need to be maintained.

Rob Gibson: There has been mention of linkspans. Does the local harbour trust own Lerwick linkspan, or does the ferry company own it?

Tavish Scott: The harbour trust.

Rob Gibson: Right. In Aberdeen, the harbour authority owns the linkspan. What about in Orkney?

Brian Kynoch: In Orkney, the linkspans are owned by the local authority.

Rob Gibson: In some places, CalMac owns the piers, so it would not be possible for another company to use them. However, as the harbour authority or council owns the piers here, it is theoretically possible that a private operator could use them.

Brian Kynoch: Yes.

Rob Gibson: What state are the linkspans in?

Dan Thompson: For interisland ferries, the linkspans are owned by the local authority, as are the ferries. Somebody else could perhaps run the ferries, but the linkspans would still have to be provided by the council. Some of the linkspans are very old and in urgent need of repair.

Rob Gibson: Are there some linkspans that are very old? People elsewhere in the country have raised the issue that some linkspans are very old and in need of repair.

Dan Thompson: The linkspans here were designed for the original ferries, which were very small, and they are now being used by much larger ferries. That adds to the problem. Some terminals have had work done on them already, but more repairs are urgently required. A major factor is that larger vessels are using the original terminals.

Rob Gibson: That is an issue in itself. We need to address the issue of the facilities that are available in some places and establish whether they are fit for purpose and whether the piers and so on are strong enough to cope with the current workload. Do you have any thoughts on those subjects?

Dan Thompson: As far as the terminals and ferries on the interisland services are concerned, there have been some replacements, for example at Yell and the Skerries, but for many years there was no replacement programme in place, so we have ended up with a huge amount of money being required to replace all the vessels. It is estimated that it would cost between £32 million and £48 million to replace one vessel and two terminals on one of the routes, and two routes are in severe need of such work. In a 20-year period, the replacement and running costs are estimated at £250 million, so we have a huge problem.

Rob Gibson: We can take that into account, generally.

I am interested in the shore facilities, because the issue of accelerated low-water corrosion has recently been raised in relation to many of those facilities. Have any of you seen any attempts to deal with the issue in Orkney or Shetland?

Brian Kynoch: The two external ferry service linkspans in Orkney are fairly new, but there are signs that corrosion is starting to eat into them. Some of the interisland linkspans that were built in the late 1970s with circular cell structures have just about had it now. Orkney Islands Council is spending a lot of money in Kirkwall and Stromness to put in anodes on the side of the pier, but it might be a bit late on in the lifetime of the sheet cladding. We are looking at contracts that have conditions in them for vessel replacement, but the infrastructure must also be kept up. I am sure that the council has made noises about the state of its

harbours and piers. As well as the linkspan piers, community piers and piers that are crucial to the economic situation on some of the islands are affected by the problem. Unfortunately, the issue goes beyond the ferry service infrastructure.

Rob Gibson: Convener, I hope that we can get more information from the witnesses who cannot be at the meeting. It would be useful to get information from them, because we need to get an estimate of costs for such work on the infrastructure. We know what it costs to replace ferries—the bidding has started. The physical infrastructure on shore might be just as expensive, but who knows what the cost would be?

Tavish Scott: Rob Gibson asks a pertinent question about infrastructure, not only on Shetland but on Orkney and the west coast. Allan Wishart, who will be in front of the committee later today, was previously chief executive of Lerwick Port Authority and, believe me, he had a large budget for such matters. He could probably talk about the technical aspects as well as the other issues. I am sure that the committee could also ask Shetland Islands Council, through Ken Duerden, who is currently sitting at the back of the room, to furnish it with details of the cost of such work. I am sure that other areas could also do so. It is a serious issue.

The Convener: If members want to put specific points to the witnesses who have not been able to make it to the meeting, I am sure that we can do that in writing.

Charlie Gordon (Glasgow Cathcart) (Lab): Given the limitations on the public purse, to what extent would you like to see more investment in improving ferry services as opposed to air services?

Brian Kynoch: An instrument landing system for Shetland would be quite good. It is all right to joke about it, but once such a system was installed at Kirkwall airport, it cut the number of problems dramatically. It was the best investment ever made in our airport.

The question of ferry services versus other modes of transport is a tricky one. Everyone expects a high standard now and current ferries are meeting everyone's expectations. The frequency of air travel has gone up so, other than investment in infrastructure, it is difficult to see what further improvement could be made.

The Convener: Is there anything to add to that?

Hamish Balfour: We still need a ferry service and an air service. No one is looking for anything less; that is very true.

David Stewart: What are your views about the pilot road equivalent tariff scheme, which will be

introduced on some routes in the Western Isles in October?

Brian Kynoch: I know that there have been calls to extend that pilot to other areas. My view is that it would be best to wait for the results of the Western Isles pilot. More than anything, we need price stability for freight and we pretty much have that now. I would like to see the results of the trial before making further comment on it.

David Stewart: Some of the witnesses from the Western Isles and other areas whom we talked to last week talked about the positives. However, one of the negative issues that I did not fully follow was that all other discounts will go when RET is brought in. It is obviously a balancing act. Your view is that you should wait until the three years are up and a full assessment of RET's effectiveness is done.

What is the view from the Shetland Isles, Mr Balfour?

Hamish Balfour: I am curious as to why the pilot has to take as long as three years. Unless there is something that I am not aware of, surely a 12-month cycle would be enough to allow comparisons to be made.

As you said, the discounts that were available before have now disappeared in response to RET. As Brian Kynoch said, we have realised stability in the pricing structure and we are happy enough with it—we can work with it. Unless there is going to be a reduction in the prices, we do not want the pricing structure to change to create any more disadvantage.

It will be interesting to see the results of the RET pilot, but I am curious about the timescale. If we find that it could advantage us, three years will pass in which we are at a disadvantage. We do not want to comment on it and then find that, after the study has taken place, we are put at a disadvantage compared to where we are now.

David Stewart: The formula is well known; there is no magic or science about RET. We know the distance from here to Aberdeen and the price, which is 60p, and we know what the lump sum is and what the rates are for commercial vehicles. It is quite easy to do the calculation. Other witnesses have said to us that using that calculation shows that it will be more expensive for Shetland, although possibly not for Orkney.

Mr Thompson, do you have a view?

Dan Thompson: I have not worked out what the advantages and disadvantages would be on the different routes. I guess that the road equivalent tariff would be helpful on some routes and a disadvantage on others. As I say, I have not worked it out. We could get some figures for you

by tomorrow, but I do not have any to give you off the top of my head.

14:00

The Convener: Do members have any final supplementary questions?

Members: No.

The Convener: I ask our three witnesses whether there are any issues that have not been raised so far but which they want to bring to our attention, or any aspects of their written evidence on which they would like to expand in person.

Dan Thompson: The national concession scheme covers buses, so Shetland Islands Council can recover the cost in relation to buses, but it cannot recover the cost in relation to interisland ferry or air services. If there was no water, the council would be able to claim the concessions back.

The Convener: That is probably unlikely to change in the near future, though.

Dan Thompson: Sorry?

The Convener: The water will not go away.

Dan Thompson: No. The concessions can probably be changed, but the water problem will not go away.

The Convener: Thank you all for being with us and answering our questions. The inquiry will continue for a while longer and we will continue to take evidence for a number of weeks. If there are further points that you want to feed in after the meeting, please feel free to do so in writing.

14:02

Meeting suspended.

14:06

On resuming—

The Convener: Like panel 1, panel 2 is a couple of witnesses short due to transport problems. I welcome Councillor Allan Wishart from Shetland Islands Council and Ken Duerden from Zetland transport partnership. We hoped to hear from Councillor Jim Foubister from Orkney Islands Council and Naomi Coleman from Highlands and Islands transport partnership, but they cannot be with us. Obviously, we will pursue some issues in writing with them to ensure that they can give us their evidence.

I invite our witnesses to tell us why ferry services in Orkney and Shetland have not been put out to tender, when that was required of the northern isles and Clyde and Hebrides ferry services.

Ken Duerden (Zetland Transport Partnership): The Shetland interisland services are owned and operated by Shetland Islands Council. In the mid-1990s, we were aware of an interpretation of the legislation that seemed to indicate that tendering was required. However, since then there has been a series of notable judgments, such as the recent Agência Nacional de Viagens judgment, that suggest that, if a lifeline service is owned and operated by a public body, it may not have to be put out to tender under the maritime cabotage regulations and European Union state aid rules, although the procurement regulations might require it to be put out to tender if the council is of a mind to do anything other than simply continue to operate the services itself. Although I am not aware of those judgments being tested in relation to Shetland Islands Council's interisland services, we believe that the view is moving towards the position that those routes do not need to be tendered. We hope to do some work in the coming months to explore the issue further.

One of the requirements when setting up the Zetland transport partnership was that it would become a model 3 transport partnership, which involves the transfer of a number of functions. Buses have already transferred, and air and ferry services could transfer. We will explore that with Scottish Government officials in the coming months.

The Convener: When do you expect to be able to make your position public?

Ken Duerden: We do not have a deadline, but we hope that our internal scheduling will allow us to have something by the end of the calendar year.

The Convener: Councillor Wishart, do you want to add anything?

Councillor Allan Wishart (Shetland Islands Council): Ken's answer was comprehensive, so I have nothing to add at this time.

David Stewart: Does either witness have a view on the argument that lifeline ferry services, which we have in this area, should be designated as having public service obligations, as happens with air services?

Ken Duerden: We are working on the benefits and possible disadvantages of PSOs and, indeed, public service contracts for internal and, perhaps, external air services that are not currently covered by them. However, our work so far suggests that they involve difficult processes, and we are not sure that they would allow the type of commercial innovation that existing operators undertake. We are not ruling out PSOs and PSCs, but we need to convince ourselves of their benefits before we go down that road.

Councillor Wishart: Ken is right: the air services are not subject to PSOs, but we are considering that position. On ferries, we must keep all our options open and consider any possibility, given the present situation and costs.

David Stewart: We will hear from Neil Kay in a few weeks, who has argued that, under European law, it is appropriate for socially desirable routes to use public funds and that doing so would not clash with the tendering approach as long as it followed the decision in the Altmark case. Do you have a view on that?

Ken Duerden: There could be a place for both approaches. My understanding is that going down the PSO route would not exclude tendering, if it was felt that it could benefit the service's sponsoring body or the users—or preferably both. We will consider PSOs in parallel with the state aid and maritime cabotage rules and assess how they interact.

Tavish Scott: What happens when the council seeks a tender for interisland air services with a PSO? Am I correct in thinking that doing that cost Shetland Islands Council a considerable amount of money and management time, because only one company was interested? Is that one of the problems of the approach?

Councillor Wishart: The air services will be up for tender again in 18 months. The process will be long and not straightforward, because we will have to go out to the market again. However, we have benefited from the current interisland air services.

Rob Gibson: Ken Duerden said that quite a bit of work would have to be done on the ferry service PSOs. What kind of work do you mean?

Ken Duerden: Are you referring to the interisland ferry services or the external ones?

Rob Gibson: The external ones.

Ken Duerden: The external services have been tendered, so ZetTrans will assess whether the PSO approach would benefit the interisland services.

Rob Gibson: What sort of work will be required? Councillor Wishart said that it would be expensive.

Ken Duerden: It seems that it will be expensive, because we will have to take advice on the process and investigate whether the PSO approach would benefit the users and the funding body.

Rob Gibson: Are there examples of other European ferry services that might help?

Ken Duerden: Yes. The nearest are obviously the west coast ones that were tendered recently. However, Scandinavian services are funded in

different ways, and we will assess whether we can learn from best practice there.

14:15

Rob Gibson: What are your views on the RET fares pilot in general and its possible introduction for Shetland and Orkney interisland ferry services?

Ken Duerden: First, it is unfortunate that the current pilot study restricts the way in which ferry fares are set to RET. As you will be aware, RET is only one way of setting ferry fares. It has a number of shortcomings, not least the fact that it does not allow the peak demand that all the services suffer from to be managed through the fares structure.

Setting that aside, it is unfortunate that the pilot is being implemented only on certain routes and not across the network. The reason given for that is that there has to be a control to allow a comparison to be made but, with the effective survey techniques that are now available, if RET was implemented across the network it would still be possible to make comparisons with mainland rather than island destinations.

The non-pilot routes are at a disadvantage when it comes to perception. Given that occasional users and users who can choose their destinations will view the pilot routes as cheaper, they will be more likely to go where those routes take them. There will be a swing—especially of tourism, and possibly even of inward business investment—away from the non-pilot routes.

It is unfortunate that with RET, fares are based on the distance of the crossing and that other aspects are not taken into consideration. The crossings to Shetland are the longest and have the highest fares in the Scottish network. We also suffer from a time disadvantage, in that it takes us 14 hours to get to the mainland—that is another disadvantage that RET does not address.

RET applies to passenger and vehicle costs, but we are not yet aware of how cabins will be priced. Members will realise that even on a night such as last night, when the sea was not too rough, it is convenient, if not a necessity—particularly if one is travelling with a family—to have cabin accommodation on an overnight crossing. We have had no indication at all about how cabins will be priced if RET is rolled out across the network.

There are a number of other operational issues. As we understand it, fares on the pilot routes will be subject to only one retail prices index increase over the 30 months of the study, whereas the non-pilot routes will be subject to three RPI increases. That is another example of how the non-pilot routes will be disadvantaged.

Rob Gibson: I am sure that you agree that the economic circumstances of the Western Isles are

much more precarious than the economic circumstances of Shetland.

Ken Duerden: I do not necessarily agree entirely with that. Some areas of Shetland are suffering similar, if not as extreme, conditions as the Western Isles.

The principle of what RET seeks to deliver—cheaper transport for island residents and visitors—is commendable. I would not like it to be thought that we are against that principle. However, the issue is how it is applied. It needs to be applied more sympathetically, so that it does not cause other problems, such as exacerbating the existing problems with peak capacity.

Rob Gibson: On the capacity that the ferry company can provide, if more people want to travel, we might have to build in more capacity, so that the ferries can cope with demand.

Ken Duerden: Possibly, but that would bring problems as well as benefits. The lead time for increasing capacity across the Scottish ferry network would be such that, in the short term, island residents who, for example, had to travel at short notice could experience disadvantages until the extra capacity was provided.

Rob Gibson: If I may say so, your answers suggest that you view the issue as a problem rather than as an opportunity.

Ken Duerden: No—I hope that we would adopt a positive view. We certainly welcome any initiative that would make it easier and cheaper for island residents and visitors to get to and from the islands. If a reduction in fares can be delivered, that will be a good thing. Our two main concerns are that we are not convinced that RET is the right mechanism for setting fares and that, in comparison with the pilot routes, the non-pilot routes might be at a disadvantage.

Rob Gibson: Indeed, which may be why RET was resisted by the previous Executive. It might not be an answer for all services, but we are agreed that a pilot scheme for certain services might provide the answer for those services.

Ken Duerden: It might, but, as I said earlier, I would rather that the pilot scheme considered options other than just RET.

The Convener: I have a couple of follow-up questions. I am a little unclear about the relationship between the different answers that we have heard on this question from some of our witnesses. On the one hand, you say that basing the pilot simply on road equivalence and distance is not appropriate; on the other hand, you say that you regret the fact that it does not apply here. Is there something else? Do you want to propose another basis? It goes without saying that people who use a particular ferry route would benefit from

lower prices and would want prices to come down. Do you wish to propose a basis other than road equivalence on which fares should be calculated?

Ken Duerden: There are a number of examples. The way in which ferry fares were set on the west coast networks before took into consideration the cost of providing the service plus the cost of pier dues and things like that. Although that was not ideal, it went some way towards addressing the peaking problems and ensured some consistency in how fares were applied.

Cheaper fares would be welcome. Another option would be to examine how the islanders benefit from their discount scheme for air services at the moment. Reduced fares already exist in the area, albeit for a different mode of transport. It would be worth seeing whether that could be translated to seaborne transport.

The Convener: The previous panel also suggested that it might be appropriate for the pilot scheme to be shorter than three years. Others have suggested to us that it will take that long for demand and capacity issues to feed through, so that we know what the impact of the pilot has been. What is your view on that?

Councillor Wishart: We understood that the pilot scheme was going to run for one year to begin with, which seemed to be thought sufficient to get all the ups and downs of the seasonal demand on the ferries. It was, therefore, a surprise to us when we heard that the pilot scheme was going to run for three years. You have already heard our concern about demand being created in the other islands and being taken away from the northern isles.

Rob Gibson commented on the economic condition of the Western Isles compared with that of Shetland. I am not sure about the rationale behind his conclusion. We are further away from the mainland. The anomaly is that although the price per mile travelled is probably cheaper on the ferries that we have, because of the distance the journeys are actually a lot more expensive. There is also a time deficit.

I understand that there are other methods of addressing the subsidy, such as those that can be found in Scandinavia. We would prefer one of those methods rather than the straightforward RET formula that is used at the moment, which would have little or a detrimental effect on our route.

Rob Gibson: I was interested to hear Mr Duerden remark that he would like the 40 per cent discount that is currently applied to air services to be applied to ferry services. Surely that is not better than allowing for more trade—for more people and more business to come to the islands.

RET can allow that, but the short-term discount schemes cannot.

Ken Duerden: Yes. I should have said that, although the air discount scheme benefits island residents, there are drawbacks, because it does not apply to inbound business. We put that in our submission to the recent work on the air discount scheme. I was thinking more about a reduction in fares than about a discount just for island residents. As you rightly point out, we like to attract visitors to the islands—people visiting friends and relatives—rather than have the residents always going away.

Tavish Scott: The air discount scheme is fair to all island groups—that point has been made rather well.

Without getting into the politics of the issue—it would be inappropriate for me to do so—I ask our witnesses to clarify the important point that they made in response to Rob Gibson's question about capacity. I am sure that the committee has heard about capacity issues in the Western Isles, too. People here have difficulties in obtaining bookings in the summer, when most schools are off and families are trying to go away. Those difficulties are not NorthLink Ferries' fault. Would the witnesses like to add to the evidence that is before the committee on the practical difficulty of increasing capacity? If the size of ships is increased, it may not be possible to get them into Aberdeen harbour, which is an important point in this context.

Councillor Wishart: There are capacity issues at peak times, especially holiday times. The concessions system for people who are of my vintage or older—and sometimes younger—creates difficulties, as it increases demand.

You are right to mention the problems associated with increasing ship size. It is not the case that bigger ships would not be able to get into Aberdeen harbour; the difficulty relates to berthing arrangements. Here, we often discuss the possibility of a ship of similar size running more often—probably doubling up at the weekend—but the operator will say that there are difficulties with crewing arrangements, time and so on.

Rob Gibson: Running other vessels—not bigger ones, given the side issues in relation to Aberdeen harbour—would create more capacity. Being part of a bigger network group creates flexibility to use ships for that purpose, which could be of benefit in the future and enable us to deal with pressure points. The pressure points may be different in Shetland, because the school holidays here may be different from those in the Western Isles.

Councillor Wishart: I imagine that peak times coincide fairly closely across the network, which

means that at some times there would be overprovision in ship numbers. At times of high demand—the summer, Easter, Christmas and so on—ships are used to full capacity.

Ken Duerden: The approach that Rob Gibson suggests would be beneficial in terms of overhaul relief. Increasing the number of available vessels would make it easier for operators to be more flexible and to address our concerns about how overhauls are managed.

Councillor Wishart: It is difficult to assess current unmet demand. What I am about to say may be subject to correction by NorthLink, but I imagine that if people are unable to make a booking online, they will choose to go by air or to go somewhere else—probably to the Western Isles, because it is cheaper. We do not really know what capacity is required to meet unmet demand. Considerable study would be needed to establish that.

David Stewart: A number of witnesses have mentioned capacity and the points that they made apply to the whole network, rather than specifically to Orkney and Shetland. You will both be aware that there is a world shortage of vessels: if my memory serves me correctly, it took CalMac about eight years to get the Polish vessel that it is seeking to put into service. A Swedish company that produced an interesting assessment for CalMac recommended that it look at the lease market, because eastern European vessels occasionally become available. Obviously, such vessels must comply in respect of berthing arrangements and so on. An Estonian company managed to pick up two vessels at a good rate. Other witnesses have suggested that there are always vessels available somewhere, because we could use a vessel during peak time here and move it elsewhere when it is our winter and someone else's summer. Because of the various constraints that have been identified, it is difficult for us to snap our fingers and provide a vessel, but some innovative approaches are available. What are your thoughts on the points about capacity that other witnesses have made?

14:30

Councillor Wishart: The huge demand for shipping means that there is a long lead-in time for building ships. Before the present system with NorthLink, P&O ran what had previously been cross-channel ferries, but the ships that are in use now have moved on very much from those vessels.

I am bound to say this, but we have to deal with unique demands with regard to the relationship between freight and passengers on the services. Given those demands and other sea-keeping,

speed and timetable-keeping issues, it might become more and more difficult to get a vessel that suits the specific requirements of what is a rather long overnight journey.

Ken Duerden: There is a problem with availability of vessels. For example, when in a separate exercise we looked into getting ships for another route that we are trying to start, the cost of chartering vessels increased by 40 per cent over the period of the study, simply because there is a shortage.

David Stewart: I suppose that, as NorthLink pointed out to us, it does not really matter who owns the vessels, just as long as they are there.

Ken Duerden: Exactly.

David Stewart: What input did your organisations make into the drafting and award of the northern isles ferry service contract? How might the tendering process be improved?

Councillor Wishart: You will have to ask Ken Duerden about that, because I worked for a different organisation at the time.

Ken Duerden: When the NorthLink 1 ferry was out to tender, I was on the other side of the negotiation process, and came to Shetland only after that contract had been signed and sealed.

I have to say that we did not have much input into the process for NorthLink 2. Unfortunately, one change from the NorthLink 1 contract was that NorthLink was not required, for NorthLink 2, to charter a vessel for overhaul relief.

David Stewart: Given that public subsidies are involved—and given the European imperatives—one can understand why there needs to be a tendering process. However, anyone playing devil's advocate might point out that companies are not exactly queuing up across our network to provide services. Indeed, if my memory serves, no one else tendered for the CalMac services. I realise that you cannot suddenly manufacture a £30 million vessel but, apart from the European imperatives, is the tendering process always required? I know that you are examining that for your interisland services.

Ken Duerden: That is an interesting question. Under the NorthLink arrangement, a new tender will be coming up in 2012 and a number of bodies have been established to ensure that, through the new tier 1 and tier 2 ferry consultation arrangements, users have more structured input to the process. We have already started dialogue on that matter with the Scottish Government.

Irrespective of how good or bad the process until now has been, we hope to be able to feed into the 2012 tender process and have an opportunity to

consider some of the different route-delivery options that have been suggested.

David Stewart: So, the voice of the consumer will be key in the future.

Councillor Wishart: For the last contract, there was a pretty good consultation process that covered just about every demand source in the isles—it certainly did so in Shetland. However, the difficulty was in finding the right balance between the conflicting demands of tourists, of crofters with their lamb exports, of importers, of fish exporters and so on, and in finding a vessel that at that time could fit Aberdeen harbour. For the next tender, we will need a very good consultation process that perhaps takes more of a Scottish transport appraisal guidance approach.

Cathy Peattie: What are your views on NorthLink ferry services, including timetabling, ferry design and port facilities?

Councillor Wishart: Issues about timetabling come up from time to time. I am not saying this because my Orkney counterparts are not here, but it has been noted that three or four nights a week the vessel departs two hours early both when it leaves Shetland and when it returns from Aberdeen. That said, I understand that the arrival and departure times on Orkney are much more inconvenient. Generally, however, the timetabling arrangements are okay.

There might be difficulties with inflexibility in the contract specification. Again, I am sure that the operator could comment more extensively on that. We export a lot of fish from Shetland: sometimes it does not arrive in time for it to be taken away, or there is a rush. I am not sure that the operator has the flexibility to hold back the ferry for an hour or two to get things away. The difficulty with doing that, of course, is that it becomes a custom.

Ken Duerden: We appreciate how the management of NorthLink Ferries, in particular, work with us. Although we do not always agree, they are always willing to listen. Since they began to run the route, they have done a lot not only to grow the business but to improve information flows between users and the company and to take suggestions on board. They are prepared to attend a lot of meetings with a lot of different groups. Recently, we set up an external transport forum and the NorthLink management have been willing participants in it. On the whole, NorthLink is doing a good job—certainly for Shetland.

Cathy Peattie: Councillor Wishart said that there are some problems with timetabling. Do you have any ideas or suggestions for how things could be improved?

Councillor Wishart: Again, I am not sure how tightly the contract specification is set down, but I

wonder whether it would help if there was a little more flexibility so that the operator had the power to make decisions on minor day-to-day alterations to the timetable.

Rob Gibson: You mentioned port facilities. We asked the previous panel about accelerated low-water corrosion and the like. Do you have anything to add?

Councillor Wishart: In my previous job, I worked for the port authority here in Lerwick, and there was a huge problem with accelerated low-water corrosion. Solutions were devised by the islands' engineering companies. From memory, during a period of three or four years, remedial works cost the port authority between £3 million and £4 million.

Accelerated low-water corrosion causes rapid deterioration and can be dangerous if it is not attended to. It affects almost every port in the United Kingdom, so it is a big issue. The British Ports Association is attending to the problem as well. The problem even attacks ships—it is not limited to pier structures.

Rob Gibson: That is helpful. Lerwick is a large port with a good turnover, so money is available to tackle the problem. In the case of small piers, however, tackling the problem could be enormously expensive and there might be no income to fund it.

Ken Duerden: That is the problem that the interisland ferry service suffers. You heard from the earlier panel about the problem of bigger ferries, but we also have much more frequent crossings, so there are a lot more berthings, which takes its toll on pier structures. Also, the changing climatic conditions and the rising height of tides do not help.

Rob Gibson: So you would invite us to think carefully in our inquiry about factoring in accelerated low-water corrosion as an issue that has to be tackled fairly seriously.

Ken Duerden: Yes. It is something that we have to tackle in relation to the ferry replacement, and the terminal replacement has to go alongside that. Changes were made recently to the funding arrangements for ports and harbours and we are not clear about what will take the place of the previous arrangements.

Councillor Wishart: New pier construction takes account of accelerated low-water corrosion, and protection systems are built in to new quays. However, Rob Gibson is right; for smaller ports that do not have the appropriate turnover and resources, corrosion is a big problem. As far as I am aware, there has not been a successful insurance claim on that basis.

Tavish Scott: Would it be better for local providers—whether they be local authorities or regional transport partnerships—if there were a direct funding stream? Now that no capital grants are available for regional transport partnerships, and now that the pier grant system is all being run through the CalMac model—if I may put it that way—are there disadvantages here in Shetland and in other parts of Scotland?

Councillor Wishart: I am not sure how the new system works. I understand that the piers and harbours grant has now been replaced. Instead of applying to the Government, people apply to CMAL. I have not heard any feedback on whether the new arrangements are good, bad or indifferent. Previously, for any harbour developments, the comfort factor was that one knew that access to a specific fund was available. I am not sure whether ports now have that confidence.

Charlie Gordon: Do your organisations have an issue about balancing investment between internal air and ferry services?

Councillor Wishart: Part of our regional transport strategy is to integrate ferry and air services. However, to a large extent, the services have different purposes. The ferries, especially the ferries for the small islands, tend to be based on the islands. For tourist trips and so on, it is therefore a little bit more difficult to use ferries than it is to use aircraft and, of course, air services in Shetland are often disrupted because of the weather. However, we are working towards integration, not only of air and ferry services but of the bus services that connect to them.

Ken Duerden: For the interisland services, the air and ferry services complement, rather than compete with, each other. The scheduled air services that are run by Shetland Islands Council go only to the smallest islands—usually those that are furthest out. Passenger transfer from those islands is predominantly by air rather than by ferry. The ferry is less frequent for the longer crossings and is largely for delivery of freight.

The Convener: I have a question for Ken Duerden. A few moments ago, you were discussing with members issues to do with maintenance. As far as I understand it, the regional transport strategy—as well as considering the replacement of ferries—makes wider points about harbour upgrades. Do you want to add anything to what was said earlier about what needs to be done, how much it will cost and how it will be funded?

Ken Duerden: Are you asking about the interisland services rather than the external services?

The Convener: I am asking about your whole remit.

Ken Duerden: A number of studies into the interisland services are being carried out at the moment. Realising that we would have to consider replacing infrastructure—vessels and terminals—for the interisland ferry service, we felt that it was important to consider other options such as fixed links. By fixed links I mean tunnels or possibly bridges, although tunnels would be more likely. Over the life of a tunnel, it could be more cost effective to have such a fixed link than to have several generations of ferries and terminals with their on-going operating costs.

In parallel with our consideration of whether fixed links would be appropriate, three different STAG appraisals are taking place—of the Whalsay link, the Bluemull link and the Bressay link—to see how best we can deliver them.

Councillor Wishart: I am unaware of the evidence that committee members heard previously, but it will be a big challenge to the council over the long term to provide the level of ferry service that we have at the moment. I am thinking both about ferry replacement and about infrastructure replacement. We simply must consider other means of maintaining the service to the islands. Across the network, that service is very important for employment, social care, education and so on.

14:45

David Stewart: Although Aberdeen harbour is outwith your area, it is obviously significant for the people in Shetland, who you represent. Do you think that the harbour should be redesigned so that larger vessels could berth there? Are the passenger facilities there good enough? What general views do you have about Aberdeen harbour as a facility for freight and passenger services?

Councillor Wishart: The difficulty, or challenge, with Aberdeen is that it is a natural point of contact for Shetlanders. There are good road, rail and air connections from Aberdeen. Close working and liaison goes on between health services in both areas. Sometimes, what seems most important is the shopping facilities in Aberdeen, which I find very expensive. Aberdeen has been a long-term point of contact for Shetlanders. With larger ships, or with different types of ships, there might be a difficulty with the berth configuration in Aberdeen harbour. I am not sure that a larger vessel could not be accommodated, but that would require a large amount of work.

The terminal in Aberdeen is adequate, although there are difficulties with car parking for people who are dropping off or meeting ferry passengers.

David Stewart: I experienced that yesterday.

Ken Duerden: There are issues with weather disruption in Aberdeen, although we understand that work is being done to address those. There are occasions on which the NorthLink ships are unable to get out on schedule or have to time their arrival to be off Aberdeen when they would not necessarily choose to be there. We have concerns about that, particularly given the vulnerability of fish going out of Shetland and the time-critical nature of getting it to its destination on schedule. Aberdeen harbour is not ideal. The fact that it is not an all-weather port means that we suffer disruption to service, although NorthLink works to try to minimise such disruption and has contingency plans.

The other issue with Aberdeen is the integration of the ferry services with the other modes of public transport. It is difficult for people arriving or departing on NorthLink ships to get connections from or to the railway station or the airport, although both the north east of Scotland transport partnership and Aberdeen City Council, through their local transport strategies, are looking at providing some sort of shuttle bus.

David Stewart: You have opportunities to feed in your concerns to Nestrans and the city council, so you have a good working relationship.

Ken Duerden: We have a good working relationship—and not just because Nestrans is one of our sister RTPs. We have had input on its strategy. It is part of the tier 2 ferry consultation group, which is a combined group with HITRANS for the Orkney and Scrabster interest, ZetTrans for Shetland and Nestrans for Aberdeen. We meet those bodies at least twice a year and have the opportunity to feed in views.

David Stewart: Does Councillor Wishart have anything else to add on that?

Councillor Wishart: No, that covers it.

Cathy Peattie: I am interested in the consultation forum, although my question may have been answered. What issues has the forum discussed? Have changes been made as a result of those discussions?

Ken Duerden: There are several levels to the process. What is known as tier 1 is a local group that ZetTrans set up in Shetland. The idea was to bring together the representatives of all the different user groups. That has been going for just under a year now and has been successful. The operators come and meet us regularly and are now using those meetings as an opportunity to announce changes that they are going to make. They are also consulting us outside those meetings.

The idea is that the tier 1 meeting is held before the tier 2 meeting. We can take any issues—particularly those that involve Orkney—to the tier 2 meeting. There was an issue recently about the timing of one of the freight ship sailings, which was causing problems for the Shetland aquaculture industry. By discussing that at our tier 1 meeting and then at our tier 2 meeting, we achieved a change in the timetable to address the issue. That is one positive thing that has been achieved.

Cathy Peattie: So the people who are participating in tier 1 feel that they are being listened to and that changes have been made.

Ken Duerden: I think so. Mr Balfour represented the external transport forum on the previous panel, and I think that people realise that there is an opportunity there.

Councillor Wishart: I think that the communications are quite good. As Ken Duerden mentioned, NorthLink participates in those forums, so the users have quite straightforward contact with the operator. That is to be praised.

Rob Gibson: We could not come all this way to Shetland without hearing a little more detail about the tunnel studies that are being undertaken. People outside might be particularly interested in the Bressay tunnel, given the controversies. Can we hear any more about the progress of those studies? Can we be given any hints as to their findings?

Councillor Wishart: The study on the Bressay link—to use the preferred, less controversial title—is coming to a conclusion. In fact, I will need to be across in Bressay tonight when the team that has undertaken the study presents its findings to the Bressay community.

You will appreciate that we have followed the STAG process strictly, with a lot of consultation and feedback. The STAG process covers five elements: the economy, integration, accessibility, the environment and another element that escapes me for the moment. Different people have worked on different elements of the study.

The study provides some interesting figures on the future costs of ferries. Over a 60-year period, a ferry will cost about £90 million, whereas a tunnel would cost £32 million and a bridge would cost something in between, at about £40 million or £50 million. A lot of work has gone into the study.

Once the STAG process determines which option is seen to be the best possible solution, we then face the challenge of funding that solution. That is not straightforward. At the moment, the Scottish Government contributes some 50 per cent of the operating costs of the ferries. Perhaps if that sum was added to each year, it could lead to quite a nice capital sum to help with the

investment in fixed links. In the longer term, it is difficult to see any other solution for maintaining the population levels, employment and social life in the affected islands.

Rob Gibson: Are there other studies?

Councillor Wishart: Other studies are being undertaken on the Whalsay, Unst and Bluemull connections. Those studies are probably now about halfway through.

Ken Duerden: For the Whalsay study, we have consulted the community on the option that stacked up best against the STAG process. In our transport strategy, we took the view that we should prioritise fixed links. Whalsay came out as the fourth priority—behind Bressay, Unst and Yell, although not necessarily in that order—because a Whalsay link would involve the longest distance and the lowest benefits for the community. As we have assumed that we will need at least one more generation of ferries and terminals before we can even think about creating a fixed link to Whalsay, we need to find a ferry and terminal solution.

We are proposing one new ferry—one that is similar in size to the one on which committee members will travel to Yell tomorrow—and three new terminals. As no Mainland terminal allows all-weather access to Whalsay, we require a diversion terminal at Vidlin as well. We will upgrade both the existing Laxo terminal on the Mainland and the Vidlin diversion terminal, and we will probably create a new terminal on Whalsay. However, we have still to go through the planning process to decide exactly where that will be. We are looking at an investment of about £32 million for the vessel and the three terminals. Including optimism bias takes the total to about £48 million, so some pretty large sums of capital investment are involved.

The Bluemull study started only recently. That study is further complicated by the fact that the route is not just between the Mainland and another island but between Yell, which already needs a ferry connection, and the two islands of Unst and Fetlar. We need to balance the sometimes conflicting requirements of those different communities.

The Convener: Before I close the meeting, would the witnesses like to bring to our attention anything that we have not raised?

Councillor Wishart: The export of livestock, which is important for crofters in Shetland, is often mentioned in consultations. For a good number of years, specialist livestock-transporting vessels have been chartered in, but this year—for the first time—I understand that special two-storey containers are being built to take sheep on normal freight vessels instead.

I stand to be corrected, but I estimate that about 100,000 head of sheep and lambs are exported in the season, which is quite short—it lasts roughly from August to October. The committee might already have heard the concern that huge demand in those three months might mean that normal freight has to go on passenger ferries, which will cause capacity problems and could lead to cars not being taken on board.

That is something to flag up. In general, the export of livestock is very important. How the new system works will be watched carefully.

Ken Duerden: We have touched a couple of times on the overhaul relief arrangements. Until this year, NorthLink vessels were taken off their own routes only to be overhauled, but that practice has changed. A vessel that normally operates between Aberdeen and Lerwick has been taken away to relieve the vessel that operates on the Pentland Firth, which has meant an additional period when we have been down to one vessel rather than having the usual nightly service that is provided when two vessels operate on the route. That situation has been exacerbated by the fact that the vessel that is left on the route operates only six rather than seven nights a week. The only way for passengers with cars and passengers who do not want to fly to get away from Shetland is with the NorthLink service, but we have had 72-hour periods in which people have had no way to get off or on to Shetland.

NorthLink has tried hard to accommodate overhauls at quiet times of year and to avoid them when events happen, but it has struggled with the availability of docks. We would like the practice of taking a ship off one route to relieve a ship on another route, rather than just for its own overhaul, to be reconsidered.

The Convener: I thank both witnesses for giving their time to answer questions. It would be wrong of me to close the meeting without recording our thanks to everyone here at the town hall for the welcome that we have had. We thank the staff whom we met on the ferry crossing, who made us feel welcome—I am especially grateful for the calm weather. I also thank the clerks and other Parliament staff, who put in a lot of extra work to make external meetings possible.

Councillor Wishart: I thank the committee very much for coming to Shetland and I hope that your visit is interesting. I am glad that you had a nice journey last night and I hope that you have the same tomorrow.

The Convener: Fingers crossed. Thank you.

Meeting closed at 15:00.

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