

# **TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE**

Tuesday 13 May 2008

Session 3

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## TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

### 10<sup>th</sup> 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)  
Richard Baker (North East Scotland) (Lab)  
Gavin Brown (Lothians) (Con)  
Tavish Scott (Shetland) (LD)

\*attended

#### THE FOLLOWING ALSO ATTENDED:

Liam McArthur (Orkney) (LD)

#### THE FOLLOWING GAVE EVIDENCE:

Andrew Banks (Pentland Ferries Ltd)  
Bill Davidson (NorthLink Ferries Ltd)  
Gordon Ross (Western Ferries (Clyde) Ltd)  
Lawrie Sinclair (CalMac Ferries Ltd)  
Peter Timms (David MacBrayne Ltd)

#### CLERK TO THE COMMITTEE

Steve Farrell

#### SENIOR ASSISTANT CLERK

Alastair Macfie

#### ASSISTANT CLERK

Clare O'Neill

#### LOCATION

Committee Room 2



## Scottish Parliament

### Transport, Infrastructure and Climate Change Committee

*Tuesday 13 May 2008*

[THE CONVENER *opened the meeting at 14:00*]

### Ferry Services Inquiry

**The Convener (Patrick Harvie):** Good afternoon and welcome to the 10<sup>th</sup> meeting of the Transport, Infrastructure and Climate Change Committee. I remind everybody present that mobile devices of all sorts should be switched off. We have received apologies from David Stewart.

This is the sixth evidence session in the committee's inquiry into ferry services and the last session before we hear from the Minister for Transport, Infrastructure and Climate Change. Today, we will hear from the ferry operators. We have the chance to discuss a number of the issues that previous witnesses, including ferry users, have raised.

I welcome our first panel and thank them for joining us. We have with us Peter Timms, chairman of David MacBrayne Ltd; Lawrie Sinclair, managing director of CalMac Ferries Ltd; and Bill Davidson, chief executive of NorthLink Ferries Ltd. I invite the witnesses to make introductory remarks before the committee begins its questioning.

**Peter Timms (David MacBrayne Ltd):** Good afternoon. Thank you for inviting us to give evidence and for doing the introductions for me.

I have been the non-executive chairman of the David MacBrayne group since 2006, having previously been a non-executive director of Caledonian MacBrayne since 2000 and of both NorthLink companies since 2002. I have lived on the Isle of Bute for the past 27 years.

The committee has heard and received considerable evidence to date and has received documentation from us, so I shall confine my remarks to three topics.

First, although Caledonian Maritime Assets Ltd now has responsibility for the Clyde and Hebrides ships, piers and terminals, we still have most of the staff for and all the experience of looking after and operating the services.

Many people offer the view that the shortest distance between an island and the mainland, together with the fastest vessel, offers the shortest journey time, greatest frequency and most capacity. However, that ignores the cost of implementing such an upheaval in terms of the 30-

plus-year service life of the existing fleet, together with the present ports and mainland infrastructure.

We operate all year round in some of the most severe weather in Europe. Our vessels are designed for that and are custom built, mostly with shallow draughts and narrow beams to fit the limited access at many of the ports that we serve. Of course, we do not sail when conditions are so bad that they are unsafe, yet many passengers nowadays expect us to operate whatever the weather.

It has been suggested that instead of replacing vessels like for like, we should be innovative and replace one large monohull with two smaller and faster catamarans. We have commissioned an independent study of the advantages and disadvantages of operating a catamaran compared with a conventional ferry on the Uig–Lochmaddy–Tarbert routes. That study might be available before the committee reaches its conclusions, and we would be happy to provide you with a summary of the outcomes.

The whole of the west coast United Kingdom ferry industry is hugely interested to see how the Pentalina B operates in bad weather when it comes into service on the Pentland Firth later this summer. It is rarely noted that we already operate a small catamaran between Gourock and Dunoon and all our experience, and that of some Irish Sea operators, is that a monohull will continue to run in bad weather when a catamaran has long been tied up due to Maritime and Coastguard Agency wave height restrictions.

Secondly, both NorthLink and CalMac engage with and consult communities, hauliers, and ferry users and will continue to do so. Both companies and the then Scottish Executive undertook significant consultation to take account of community views before publishing the detailed tender specifications.

Speaking personally, I regret that the shipping services advisory committees have been discontinued, because they gave us and our customers a formal opportunity twice a year in which to discuss collectively the very issues about which you have heard complaints. Now we engage directly with each community separately, and in some cases with more than one group with differing views within the same community. In the past 12 months, some of our directors and managers have visited virtually every one of our destinations and consulted community representatives and business sectors formally and informally.

I will point out some of the differences between the two companies. CalMac operates about 30 ships on 24 routes, whereas NorthLink operates five ships on three routes. We operate about 350

services a day in the west, but there are just about 10 a day to the northern isles. Each year, about 5 million passengers use the Clyde and Hebrides services; NorthLink carries little more than 300,000. CalMac's vessel turnaround times between sailings are generally short. It can take 20 minutes to disembark up to 1,000 passengers and embark another 1,000, which makes flexibility somewhat difficult. In contrast, NorthLink's turnarounds are long, which makes flexibility somewhat easier for it.

We both provide some services that operate at or near vessel capacity in summer, yet in winter we might have to sail with just a handful of passengers. You have heard evidence about the competing needs of different sections of communities, the perishable nature of island produce and the wishes of the retail trade for fresh product to be delivered early. In some cases, there is only a limited opportunity for visitors and residents to spend time at opposite ends of the same route; in others, there is a need to cater for sporting interests and other socioeconomic needs.

With such a wide variety of user needs and volumes, we appreciate that we are not going to be able to please everyone all of the time, but we are certainly trying to do so. We are much more proactive with our customers today, partly through innovative marketing, including award-winning website activity and television advertising. Incidentally, there will be a CalMac advert at half-time during the UEFA cup final. We are setting new, higher standards for our publications. We are helping to market some destinations to fill a gap that is not serviced by communities or local businesses. We use independent surveys to monitor service quality and to arbitrate on local issues, for example on Bute and Mull. We give significant support to community and cultural events. We are committed to the national plan for Gaelic. We also have much closer relationships now with other public bodies such as the National Trust for Scotland, Historic Scotland, VisitScotland and Highlands and Islands Enterprise.

NorthLink's customer care programmes benefited from a new company ethos from the very start, but it is taking a while longer to implement such programmes in CalMac, where attitudes that have been developed over decades are being overcome. I would be the first to agree that we could improve still further, and there is evidence to support the view that our performance is often better than it is portrayed. You will have heard it said that CalMac has a take-it-or-leave-it attitude, that it is unhelpful, that it will not listen or that it operates to the benefit of its crews rather than its customers. Those views are often a result of our inability to meet the service improvement or ticket price demands of some, which might be due

to hours-of-work restrictions, to vessel or port unavailability, or simply to affordability factors.

Thirdly, our public service contracts are prescriptive. They specify which vessels to use on which routes, the precise timetables to operate and the prices to charge. They include a performance regime that requires services to arrive within a specified time, and there are heavy financial penalties for service failures, although a number of relief events are detailed to provide for matters outside our control, such as having to wait for delayed public transport or essential lifeline produce.

We are expected to innovate whenever possible, and we are keen to do so. However, in order to adjust any aspect of our services—except to reduce fares at our risk—we must initially consult interested parties in the community involved to procure their broad agreement, and then we must seek the approval of the Scottish ministers to vary the contract. That is relatively straightforward if there are no extra costs, but it is much more complex when additional costs are incurred, particularly in the context of the recent spending review.

We understand the wish of communities for more frequent or earlier or later sailings, or for other service improvements, and we acknowledge that the cost of ferry travel represents a barrier to economic welfare. However, those are ultimately matters of policy for the Scottish Government. We discussed fares reviews with previous Administrations, but we were told that the level of grant could not change under the circumstances. With that restriction, any fare reductions would have been accompanied by corresponding fare increases elsewhere. Understandably, ministers were not keen to proceed. In that context, the road equivalent tariff study is to be welcomed, although its impact on demand and capacity will not be clear until it has operated for some years.

I hope that you find my remarks helpful.

**The Convener:** You mentioned the specificity of the contracts to which you operate, the flexibility that is built in and the requirements with which you must comply before exercising that flexibility. To what extent is flexibility exercised? What genuine scope do your companies have to identify new routes or services outside contracts? If that flexibility has not been exercised, where does responsibility lie for identifying new routes or services?

**Peter Timms:** Our contract specifies exactly where we are to operate. If a new route is proposed—we proposed one at the time of our tender submission—determining whether to proceed with it is a matter for ministers. The process that we must follow might involve a

Scottish transport appraisal guidance appraisal and certainly would involve an assessment of cost, traffic and long-term economic benefit.

**The Convener:** To what extent do service innovations other than new routes come through in the flexibility that is built into the contract?

**Lawrie Sinclair (CalMac Ferries Ltd):** We are to make one change to the timetable that was quoted in the tender, which affects the service across the Sound of Harris. We spoke to communities about a change and decided that it would benefit the communities on each side of the Sound of Harris. We submitted a timetable change to the Government's officials and within 10 minutes we had the go-ahead to change the timetable.

The public service contract includes timescales that we and the Government must meet for any timetable changes.

**The Convener:** Given that fairly tight constraints exist, how should changes be made? Should more flexibility be built into the system? Should the contracts offer more opportunity to innovate?

**Peter Timms:** We have a public service contract that was put out to open tender, so one consideration is changing too quickly things that have a material effect on the contract. Nevertheless, we frequently discuss with the Government changes to services that communities request or which are needed in the long term for one reason or another.

As a matter of fact, we will meet the Scottish Government and CMAL tomorrow to discuss long-term planning for the routes. In ordinary circumstances, a commercial operator might not get involved in that. Conversation is frequent, but it is informal at this stage. As I said, if a change is to become formal, we must make a submission.

**The Convener:** I welcome Liam McArthur, who has joined us for the meeting.

**Rob Gibson (Highlands and Islands) (SNP):** I am interested in exploring the possible benefits of developing a Scottish ferries strategy. I note that CalMac's submission states:

"The network approach offers a consistent level of service across 24 routes which could not be matched by a single service provider."

We might explore flexibility in a while, but that leads me to ask first whether someone should have an overview of the development of Scottish ferry services.

**Peter Timms:** Are you suggesting a regulator?

**Rob Gibson:** At present, we are interested in knowing about policy development, not regulation.

**Peter Timms:** I asked my question because, when the European Commissioner for Transport was in Scotland, he referred to the need for a regulator, and we understand why. The landscape is a little crowded in some areas where not just we but commercial operators run services. It would benefit the industry as a whole to have an independent regulator who would also be—

**Rob Gibson:** I would rather talk about a regulator later, as other questions link in better with that. We should stick to policy development for ferry services.

**Peter Timms:** Fine. Ferry policy development is a matter for ministers. Historically, we have had no input to policy development.

14:15

**Rob Gibson:** You may have been involved in the past with the civil service, which was involved in managing CalMac.

**Peter Timms:** Yes, we provided substantial amounts of information to the civil service.

**Rob Gibson:** Transport Scotland deals with roads and railways.

**Peter Timms:** But not with ferries.

**Rob Gibson:** Yes, so is there a need for a body to organise a ferry strategy?

**Peter Timms:** Possibly. Now that the tenders have been let, there will be almost a five-year period of stability, so what you suggest might be beneficial.

**Bill Davidson (NorthLink Ferries Ltd):** Can I contribute? A paragraph in the national transport strategy dealt with ferries. In essence, it provided a commitment that, once the tender was let for the CalMac west coast services, the development of a ferry strategy for Scotland would be undertaken. Colloquially, it is referred to as the root-and-branch review. As Peter Timms said, the two ferry companies have been invited to join civil servants tomorrow for the opening session of the development of the ferry strategy.

To answer Mr Gibson's specific question, it would be helpful for the industry and the communities that we serve to know where we are all trying to go with ferries for the future. I hope that the process that starts tomorrow will take us down that road.

**Rob Gibson:** We are pleased to hear that. Our inquiry will, of course, produce a report that will include the development of a ferry strategy. What form should a body that is responsible for that development take?

**Bill Davidson:** That is an interesting question. The ferry services have developed over the years.

Historically, the CalMac services came from the Clyde, then we had inner circle and outer circle services, then point-to-point ones, then services moved to roll-on, roll-off, then to drive-through ro-ro. The question for all of us is where we go next. What type of ferry services would the island communities like? What level of ferry services is the taxpayer prepared to fund, given that most islands cannot support the costs of the services that they would like?

I do not want to speculate about where we will end up, but interesting ideas and technology are coming along. There are developments in other countries, and we can learn from their experience. To pick one at random, the Norwegians are experimenting with ferries powered by liquefied natural gas, which provides a clean fuel burn but is expensive. In general, we can discuss how ferry policy can fit in with other policies that the Government might like to pursue.

**Rob Gibson:** Are you interested in having a Government agency that would be responsible for ferry policy?

**Peter Timms:** Yes.

**Rob Gibson:** That is consistent with what you said.

**Cathy Peattie (Falkirk East) (Lab):** I want to explore the issue of consultation, to which Mr Timms referred earlier. How do both your companies consult ferry users? Are your consultation mechanisms effective? How do you implement the results of consultation? Perhaps you can give us examples of that. You will be aware that we have heard criticisms that the ferry operators do not listen to service users.

**Peter Timms:** There are formal and informal meetings. The formal ones take place with ferry user committees, councillors and community councils, and they are sometimes public meetings. We had a public meeting in Bute last year, to which the better part of 100 people turned up. The meeting was interesting for many reasons. People had strong views, and the meeting followed a period of particularly bad weather the previous winter. However, the meeting was cathartic, because views were expressed that were relevant many years ago but which did not reflect current circumstances.

Informal meetings tend to take place when specific issues are developing, for example when we are planning a new vessel or when a sector requests a change to the service.

As for what we can and cannot do at present, the principal question is whether whatever we do is going to cost anything. Like most Government-owned bodies, we are under considerable pressure to save costs. It is relatively easy to

make service alterations that cost nothing. Indeed, we have done so not just on the Sound of Harris but on Gigha, to allow schoolchildren to travel to the mainland in the morning and back in the evening, rather than have them spend all week in Campbeltown.

**Bill Davidson:** We had good relations with the local authority-organised consultation groups on Orkney and Shetland. Of course, everything changed with the formation of regional transport partnerships, but despite the fact that we now have to deal with Zetland transport partnership, Highlands and Islands transport partnership and north east of Scotland transport partnership, the arrangements still work quite well.

When a potentially contentious proposal was made to change the timetable on the Pentland Firth, Orkney Islands Council cascaded it to all community councils, business organisations and others and collated the responses, and we as the ferry company undertook to speak to the community councils and, indeed, to anyone else who wanted us to speak to them. That approach worked quite well. Interestingly, although the majority of people understood the reason for and were content with the change, when the final decision was made to implement it, the few who did not like it got back on the ramparts. Despite all the consultation, we still had to deal with that. However, by and large, consultation works reasonably well.

As far as service developments are concerned, one thing that has come up in our discussions with civil servants is that, if we can find different ways of doing things that save money, they seem willing to allow us to recycle some of those savings back into small service developments and enhancements—all the money will not necessarily automatically be used to reduce our already substantial subsidy. That is a good move, as it gives us a bit of freedom to do things without having to ask for funding.

**Peter Timms:** One of the unfortunate effects of CalMac's history is that some people still do not believe us, and it has been quite difficult to persuade them that we are interested in hearing what they have to say or, indeed, that we have tried to listen to requests that are flatly impossible to meet. Such cases are rare, although one is cooking away at the moment. On the Wemyss Bay to Rothesay service—I will stick with that example, because I know it well—there is a complete mismatch between the train and ferry timetables. The ferry operates every three quarters of an hour, while the train service operates every hour. We have asked the community whether, outside of commuter times, the ferry service should be hourly to allow people without cars who travel in the middle of the day to connect with the train. I have



to say that the proposal has been received with some suspicion—people are thinking, “CalMac must have an ulterior motive. They’re trying to drop services to save fuel.”—but the fact is that we are simply asking people what they want. We will continue to do so, but if the community does not want something, that is fine.

**Cathy Peattie:** With regard to NorthLink’s consultation process, Mr Davidson said that people are more likely to accept decisions if they have been made aware of the proposals. I know that some people will always be cynical, but do you accept that if you take people with you and discuss things as you go along to ensure that they feel consulted and aware, they are less likely to be cynical about every decision that you make?

**Peter Timms:** Yes, for certain aspects of the service, but there are other issues—for example, ticket prices—over which we have no control. I know that many communities have long campaigned for further reductions in ticket prices, especially for islanders, but under the contract we cannot adjust ticket prices without the Scottish ministers’ permission. As I said in my introduction, we can reduce them at our own hand, but in doing so we carry the financial risk.

**Cathy Peattie:** We are aware of the pricing issue, but we want to pursue the question of consultation with service users.

Mr Timms highlighted the problem of integrating ferry, bus and rail services. People feel that the timetables are quite inflexible, and we all know the frustration of seeing our train leave just as our ferry is arriving. We have heard about the difficulties in getting service providers together to discuss timetabling. Are there ways to deal with that that take on board what customers say? If the last train has gone by the time the last ferry gets in, customers are left on the pier. Are you considering ways round that?

**Peter Timms:** We have asymmetric performance regimes. I will let my colleague explain in more detail what we are doing to try to get the two sides closer together.

**Lawrie Sinclair:** We have consultation with the bus and train companies. If we wait for people in the middle of the day, it knocks the ferry service out for the rest of the day, which means that the customers on the ferry miss their connections to different parts of the island, or that when the ferry returns it misses the train and bus connections. The buses cannot wait, and the trains certainly cannot wait, because they have a limited slot to get into the main stations. If it is the last sailing of the day, we try to ensure that the ferry waits for passengers who are late.

**Bill Davidson:** I can give you a couple of examples from our situation. The Stromness to

Scrabster service across the Pentland Firth—particularly the lunchtime crossing—ties in with the Citylink bus service and the railway service from Thurso. We have had passengers walking towards the bus to get on when the bus’s departure time has arrived, its doors have closed and it has driven off. We have ended up getting a man in a yellow jacket to leap in front of the bus to stop it getting away. That is the level of silliness, and we have had to try to resolve the situation.

Last year, during the dry dock season, the vessel was away in dry dock and we used another vessel that could not do the same timetable because it had a slower crossing time. People were going to miss the lunchtime train connection from Thurso, so we laid on a bus to take them down the A9 to Tain to catch up with the train. That bus ran for 10 or 12 days, with a handful of passengers on it. We put in place a mechanism to retain transport integration, but the reality was that it was used very little. That is the difficulty.

We have built up a reputation of high reliability for our services into Aberdeen by using the vessel’s speed and capability. If the vessel is delayed earlier in the voyage, the master can turn up the wick—when it is safe to do so—and get the ship in on time. That means that we regularly get into Aberdeen at 10 to 7 of a morning, which allows people to get away and catch trains. However, that comes at a fuel cost. Our contract arrangements have some perverse elements in them. If I was not so keen on customer service I might try to save fuel, and as a result people would miss the train and we would lose the integration. There are balances to be struck.

**Cathy Peattie:** On consultation and access, the committee has heard evidence from the Mobility and Access Committee for Scotland on the experience of disabled people who use ferry services. MACS said that there are difficulties with smaller ferries, which sometimes require disabled people to get on and off via steps. On the medium-sized ferries, access via linkspan or hard ramps can be problematic and unsafe for people with disabilities. NorthLink and larger CalMac vessels appear to be better. Do companies have strategies to deal with access issues? What steps are you taking to improve access for customers?

**Lawrie Sinclair:** Most of our small ferries are 20-plus years old. The newer ferries are much more customer friendly for those who are disabled. We have just completed the Loch Shira for the Largs to Cumbrae route, and we had the needs of disabled people in mind when it was built. It is difficult to change a ship once it has been built, but we look at the best way forward with all our new ships, large and small.

**Cathy Peattie:** Consulting people who work with people with disabilities and consulting disabled

families to find the best way forward is vital. I accept that older ships are an issue, but there needs to be some way of supporting people who use lifeline services. Have you explored that? I understand that it is not easy, but it is important.

14:30

**Lawrie Sinclair:** Unfortunately, MACS and the MCA do not quite get on together. Ships have combings to prevent water going into passenger accommodation, which makes things more difficult. We do our best to fit ramps going into passenger accommodation, but it is extremely difficult. We do our best to ensure that ships meet the required standards.

**Bill Davidson:** We were fortunate, because we were able to specify what we wanted when we built new ships, so we designed them bearing in mind people with mobility difficulties. I am not talking only about people in wheelchairs—many people have angina, bronchitis and other conditions that give them mobility difficulties. People can also have buggies or suitcases on wheels, for example. We received a lot of valuable input from Disability Shetland, which dealt with the specific requirements of people in Shetland for whom we were designing the vessels. We have also had quite a lot of involvement with MACS. In fact, it held one of its meetings on board one of our vessels so that people could see what it offered.

We ran into difficulties with ports. Obviously, we must deal with multiple port authorities. However, I am pleased to say that we won the day. All the ports were prepared to put in place the necessary infrastructure to allow level access to the ships. There was a bit of a struggle with some ports initially, but we got there in the end. There were interim arrangements in some places, which lasted for the best part of two years in one place, where we used a rented minibus with a tail-lift to provide access to and from the vessel. We got there in the end, but it was a bit of an uphill struggle.

**Charlie Gordon (Glasgow Cathcart) (Lab):** Is there a mechanism for sharing best practice between the companies in the David MacBrayne group?

**Peter Timms:** Yes. Best practice is shared in operations and in employment. We use a subsidiary human resources company to provide HR services to both companies. The companies' terms and conditions are not identical, but they are managed professionally. Bill Davidson and Lawrie Sinclair attend the formal board meetings that take place every two months. Issues of interest to both CalMac and NorthLink, as well as independent issues, are considered and discussed at those

meetings, so there are opportunities for the companies to share best practice.

**Bill Davidson:** I have just realised that as a result of my previous incarnation—Gordon Ross is a former colleague of mine—my involvement with the northern isles and CalMac probably predates that of my colleagues.

**Peter Timms:** It is incestuous.

**Bill Davidson:** The technical input into the NorthLink ships all came from CalMac, off the back of the latter's experience of designing, building and managing ships over many years. One of the advantages that we had when we gave specifications for the NorthLink ships was that they were to be privately funded. We considered the long-term value of vessels and the level of service that we wanted to provide. We did not have to try to produce something at the lowest possible capital cost, so we took a different approach to the specifications for access, finishing and the standards of on-board services—hence the cost. That approach allowed colleagues from CalMac to contribute many things that they would have liked to have done. I am pleased to say that many of the things that we put into the NorthLink ships are now flowing into the newer CalMac vessels; ideas are going back. We have taken the lead on changing fuel grades to save costs and a number of CalMac ships have also been converted. There is to-ing and fro-ing between the two companies at the management and technical levels. As Peter Timms said, we now share HR services to look after our crews.

**Peter Timms:** The same department provides technical services to both companies.

**Charlie Gordon:** Mr Davidson's remarks about procurement have implications for a question that will be asked later.

On operational best practice, I recently went to Lerwick on a NorthLink ferry. One arrangement that catches the eye at the port of Aberdeen is that for articulated lorries. The driver and tractor unit leave the trailer and a NorthLink Ferries tractor unit loads the trailer on to the vessel. Presumably, that has implications for the space available on the vessel. I understand that that is not generally the case on CalMac routes.

**Lawrie Sinclair:** CalMac drops trailers on one route. We have a freight ship running from Stornoway to Ullapool, on which we have a Tugmaster. We drop trailers on that vessel. For the rest of the network, we do not drop trailers. We run ro-ro vessels—drive on and drive off, in other words. The timescale between arrival and departure can be anything from 15 minutes—seven minutes, in some cases—to half an hour, so there is not the time to drop trailers.

The service from Stornoway to Ullapool is one overnight return trip. There is plenty time to load in Stornoway, with about an hour to an hour and a half to load in Ullapool. If we drop trailers, we must lash them to the deck, which is what takes up the time. That takes up valuable space and limits the number of cars or other commercial vehicles that can get on to our services.

**Charlie Gordon:** So you do that where you can, but the constraint comes from the turnaround time, essentially.

**Lawrie Sinclair:** We drop trailers only on the overnight service between Stornoway and Ullapool.

**Charlie Gordon:** There is no potential to do that on other routes.

**Lawrie Sinclair:** No.

**Charlie Gordon:** You mentioned a freight-only vessel. I gather that NorthLink has a couple of freight-only vessels, too. Where such vessels are available, are hauliers looking for overnight services? Will their operational requirements differ from those of car drivers, tourists on foot and others?

**Lawrie Sinclair:** One of the difficulties throughout the west coast is that the islands that we serve have a very limited population. The population of Lewis is roughly the same size as that of Orkney or Shetland. The amount of traffic that comes off helps—I am not saying “justifies”—to allow the Isle of Lewis to carry a considerable number of cars.

Back in 2001, a private operator came in and took all the commercial traffic off the route to Stornoway. At the time, CalMac was not allowed to compete. We had to continue to run the service as timetabled and using the fares that were already in place. The private operator could run whenever he wanted at whatever price he wanted to use. From March until the beginning of August that year, CalMac lost practically all the commercial trade. Unfortunately, or perhaps fortunately for CalMac, the private operator disappeared—and I mean disappeared—leaving us with all the traffic. That showed us—it certainly showed me; I had not been in the company for long—that we were effectively constricting the route. The amount of commercial traffic that was going between Ullapool and Stornoway limited the number of cars that we could carry. During the summer, we could have anything up to 25 cars on standby. When the night service started, we were able to carry all the cars that were going to the island, and that is still the case.

**Charlie Gordon:** On balance, you feel that the advent of freight-only services, perhaps operating

at night, gives you potential for growth in the other categories of traffic.

**Lawrie Sinclair:** On that particular route, we were constricting the traffic and the night service was the answer. We have a similar difficulty on Islay. Last autumn, we were asked by the whisky producers if we could put a vessel on over the winter period. That was not in the tender. We met the whisky producers and they told us what they required to operate. The quantity of whisky that was coming out of Islay to meet the demand in China and India allowed us to run that vessel. In the summertime, we run a two-vessel service to Islay, again because the one vessel is not large enough to handle the commercial traffic. We have a meeting next week with whisky producers to give us an indication of what they require for next winter and to find out whether they wish us to consider a two-vessel service to Islay for that period.

**Alison McInnes (North East Scotland) (LD):** Both the ferry companies indicated in written evidence that the terms of their contracts with the Scottish Government inhibit or limit innovation. You have spoken a bit about that and have explained that there is a process for renegotiating the ferry contracts if you want to do so. Can you give examples of innovative ideas that have not gone ahead and say why that has been the case, given that you can renegotiate contracts?

**Bill Davidson:** One must be slightly cautious on that issue, because we want to innovate to provide a better service and reduce the amount of taxpayers' money that we consume. However, the difficulty that civil servants have is that the competition that was run in awarding the contract involved a specification. The civil servants must be careful not to alter what they buy so much that an aggrieved bidder might argue that what was being done was sufficiently different from that which was originally tendered. There is a tension there.

We have difficulty trying to provide an improved service. Last autumn, hauliers in Shetland, particularly of salmon, were concerned that one of our freight vessels was rather elderly—one is 36 and the other is 37, so they are both towards the end of their normal economic life. We undertook an exercise and identified an alternative vessel that would have fitted our ports and met the demand and the customers' requirements, but to implement the plan would have required an increase in the subsidy because, as the vessel was more modern, it would have cost more to charter it. Although there was a lot of sympathy, obvious funds were not available to allow us to do a like-for-like replacement by taking out one ship and putting in a better one to meet the needs of the market, because that would increase the

subsidy. The level of subsidy is, in effect, the amount that is being tendered.

Another example relates to cabins, which is a topic that comes up again and again. We have a difficulty with demand at peak times. At many times, we have vast quantities of empty cabins but, at other times, we have far more people than available cabins. We put additional cabins in Hjaltsland and Hrossey last year, at considerable cost. The Royal Bank of Scotland paid for that, but that resulted in an amendment to the charter fee so, by that route, the Government is paying. The Government agreed to our proposal after we had undertaken a fairly extensive exercise to prove that the revenue that we would get from the additional cabins would more than cover the additional costs of the charter rate. That was a bit of an exercise to go through, but we achieved a service improvement for our customers. We added cabins, although that still did not take us as far as many people would like us to go, but we are knocking on the limits of what we can fit in the ships.

**Alison McInnes:** On the first example that you gave of wanting to improve vessels, is the pricing structure so rigid that you could not increase the price to offset some of the costs? Is the pricing structure prescribed?

**Bill Davidson:** The pricing structure is prescribed and set by ministers. Ministers have the right to change prices up or down as they see fit, if they so wish. If they do so, the contract requires them to adjust the subsidy to compensate the ferry companies, so that we end up in a neutral position. We cannot increase the price that we charge for freight to cover the costs of a newer ship. The hauliers would say that it is difficult for them to pass on the cost to their end customers—it would go from the haulier to the salmon processor to the salmon farmer—because they sell products in an international market. They compete against Chilean salmon that is air-freighted into France at a lower price than it costs to deliver the product from Scottish salmon farms.

14:45

**Peter Timms:** Even pre-contracts, Scottish ministers in effect controlled fares. We were required to make annual price submissions to Government, via the civil service. Ministers would then either approve those prices or come up with an alternative. That is still true today. [*Interruption.*]

**Alison McInnes:** You said that you had to apply to Scottish ministers to vary any contract, and you said that that might be more difficult now because of the recent spending review. Have ministers told you that funding is now tighter than before?

**Peter Timms:** We have one vessel on order, which is not due to be delivered until 2011. The calculations are not rocket science: if we have 30 vessels and each of them has a 30-year lifespan, we should be replacing one a year. The spending review does not allow CMAL to procure an additional vessel, which is one of the issues that we will be talking about tomorrow.

**Bill Davidson:** I gave the example of the change of the freight ship. We made a case, and I am sure that, in an ideal world, officials and ministers would have agreed to it. However, we could not show how we could achieve savings elsewhere or increase revenues in order to cover the additional cost of a newer ship. We would therefore have required additional subsidy, but that was not available.

**Alison McInnes:** You have anticipated my final question, which was about how you plan for the procurement of new vessels when you have such short-term contracts. Because the contracts are short term, are you unable to do any blue-sky thinking or long-term thinking? Is there a need—and this links to Rob Gibson's question—for a longer-term strategy, so that we can see what we need in future?

**Bill Davidson:** This is one of my hobby-horses. When I came to this subject in 1997, when I was working for external advisers, I could not believe that the European Commission restricted contracts to five years when people were being asked to make major investments in ships with an economic life of 20 to 30 years. At the end of the five-year contract, people had no certainty about what would happen next.

Ferry companies around Europe campaigned, and it was speculated that the Commission would increase the length of the contracts. Figures between 12 and 15 years were bandied around. In the end, after extensive consultation, the Commission changed it from five years to six.

We are therefore left with the same problem: how do we spend a lot of money on building new ships? We spent £100 million building ships, and we did so by coming up with a mechanism that, in effect, made the ships available for three contracts. At the time, a contract was for five years, so three by five took us up to 15 years and we had options to go up to 18 years. The ships were to be available to each of the operators that would come in for each of the five-year or six-year contracts, and they were to be available at exactly the same price to each operator. That gave the bidders a level playing field. Historically, the incumbent operator in the northern isles was the only one with ships that could do the route, so there was no real competition. The mechanism made the vessels available; we were able to have

vessels designed for the routes, based on the available knowledge of the expected demand.

Fortunately, we have been phenomenally successful in the growth in passenger numbers. As a result, we have run out of space in cabins many years before we expected to. We are a victim of our own success.

The vessels are there for up to 15 years, and there are clauses and mechanisms by which they can be taken out or changed. However, the five-year or six-year restriction really is significant; it prevents any form of blue-sky thinking or long-term strategy.

**Alex Johnstone (North East Scotland) (Con):** Is your only option the complex and apparently expensive procedure of constructing vessels to cater for particular routes? Or, for example, do you have an option under the existing contract to subcontract some of the work? In the examples of costs in your submission, you mention the requirement for a new vessel on the Gourock to Dunoon route. Would it not be easier just to ask your neighbour to do the work for you at a price?

**Bill Davidson:** We already do that. We have five vessels; we operate four and the fifth, which is a freight ship, is chartered to us. We are fortunate in that many of our ports are not restricted in terms of the draught of the ship. Many CalMac ports are restricted in that way and if you search the world you will find that the only ships that fit them are CalMac or ex-CalMac ships. We have the option of sourcing vessels from elsewhere, with or without crew, to meet our requirements. I am conscious of the fact that Lawrie Sinclair and Peter Timms have more significant problems and restrictions.

**Peter Timms:** On the Gourock to Dunoon route we do just as Alex Johnstone suggests; one of the vessels that we operate is chartered with a crew.

**Lawrie Sinclair:** Although CalMac has more than 30 vessels, two of them are chartered. One is the Ali Cat, which runs between Gourock and Dunoon and is a passenger-only vessel and the other is the freight vessel that runs between Stornoway and Ullapool.

I will explain how procurement of vessels was carried out. There was a lot of consultation on the last four vessels that CalMac built. On the two for Rothesay, a committee was set up with the internal staff to ensure that the ships were built to suit the requirements of the route. In addition, we held two public meetings to go through the details of the vessels. The hall was not big enough for the first meeting that we held in Bute, so we had to go back and have another meeting in an even bigger hall. We did the same for the Loch Shira, the Largs to Cumbrae vessel. The hall in Millport was full; we had more than 100 people there. When we

were procuring the Islay vessel, we took the drawings, plans and an artist's impression of the ship to the meeting in Islay. We went through all the different aspects of the ship with the community there, who asked questions about the propulsion and so on.

The CalMac ships were usually built with an observation lounge, a cafeteria and a bar. Over the past few years, our bar retail has declined considerably. We did not put a bar on the Islay vessel and the community asked about that. We said that if people required any type of alcohol they could get it in the cafeteria. We got a cheer for that, because not having a bar was better utilisation of the space and was more customer friendly. The way forward is that we have to listen to what our customers are saying and not just give them an observation lounge, a cafeteria and a bar. People expect an awful lot more now.

**Liam McArthur (Orkney) (LD):** I have a brief supplementary on that. You have outlined the benefits to the operators of the length of your tender period. Have you made any calculation of the potential benefit to the public purse by getting better value from any subventions that are required from extending the period of the tender to eight, 10, 12 or 15 years? Is there support for that among other European maritime member states?

**Bill Davidson:** My understanding is that ferry operators that operate subsidised ferry services in other European countries campaigned fairly extensively to get the five-year limit upped to 12 to 15 years, but it ended up at six years.

I mentioned the 30-year asset point. A lot of costs are associated with setting up and running a ferry company. If the contract is for only five or six years, companies have to recover all those costs and make profits within that period. That restricts companies considerably. The more that they can spread that over the piece, the better the end result in respect of the level of subsidy that is required and the greater the opportunity to do things within the contract period. If the contract period is only six years, companies are not that far into it before the tendering process starts all over again. Companies that have good ideas would wonder whether to implement them or hang on to them and implement them if and when they win the new contract. The constant tendering inhibits companies and determines when they do things. It adds fairly substantially to the costs.

I ran NorthLink 1, so I was not allowed to be part of the CalMac bid team that resulted in what is now NorthLink 2. I have no idea how much it cost them to submit their bid, but I know how much it cost to submit the bid for NorthLink 1—it was a substantial cost.

**Liam McArthur:** Has there been any exploration of making something short of a full tender each time—for example, an option to extend for two or three years?

**Bill Davidson:** We are limited by what the EC will allow. It is all to do with ensuring that everybody has the opportunity to tender for the subsidy. It is fair to say that, in the past, officials would have dearly loved to have had a shortened process, as such a long, complex process is expensive to run. The bidders and the Government must have all the financial, legal and technical advisers and so forth, and it can become quite a circus. When one is going through it yet again, one questions whether it will achieve the best value for money in the end. However, I understand why the EC feels that we should have open competitions at such periods. It is interesting that shipping franchises can last only for five to six years, yet it is acceptable for train franchises to last for 15 years.

**The Convener:** We will move on to a couple of other issues. I remind everyone that all mobile communications devices should be switched off rather than in silent mode, as they can interfere with the sound system.

**Peter Timms:** I apologise, convener. I thought that mine was turned off.

**The Convener:** Thank you. From time to time, we have heard the complaint that block bookings are made by holiday operators or tour operators that are subsequently not used, but your booking systems are not capable of reallocating those places. Is that the case? If so, what are you doing about it?

**Lawrie Sinclair:** Yes, that is the case. In fact, I received a phone call this morning regarding an operator who had not made up the block booking that had been asked for over the past year. We are looking at that and we will restrict the amount of traffic that is block booked for commercial vehicles. However, it is a problem not just for commercial vehicles. We were over in Mull last year and talked to the communities there about the difficulties that they had in getting on vessels. In October, the number of cars that did not turn up for specific sailings was more than 600. That was locals booking places on two or three services so that, if they missed one, they could get on the next one. We are considering ways in which to combat that, as it is not fair on the other islanders.

**Bill Davidson:** We inherited block booking and the blocking of freight space from the previous operator. The supply and demand were out of kilter, and far more trailers were trying to travel than there was space available for. We have got away from that, so that they do not have that problem. We work closely with our hauliers, who

all give us forecasts for at least the next three months. Our largest haulier has given us forecasts, sailing by sailing, all the way through to Christmas.

We work closely with the hauliers in terms of no-shows and the amount of space that they have booked. They know that, if they consistently book space and do not turn up with trailers for it—in other words, if they consistently make speculative bookings—we will cut back the quota of space that is available to them. Conversely, when they have an additional load for which they have not booked, we will work hard to get it onto the vessels.

This summer, we will take about 250 tour groups to the northern isles—it is a key part of the tourism economy of the northern isles. We work closely with the tour operators and have periods prior to the departure dates in which they must confirm or release the allocation that they have been given. The key bottleneck relates to the number of cabins. We have an overall quota for groups on any one sailing and, as the sailing date approaches, we claw back from the tour operators—or they confirm—the number of cabins that they are going to take. Within about 12 weeks of the departure, we are pretty certain how many cabins the tour operators are going to take on the day.

In the early days, we had a lot of problems with no-shows for cabins, so we changed the rules at that point. Cabin bookings are now not confirmed unless they have been paid for, which has got rid of a lot of speculative bookings. We give people refunds if they do not use the cabins. We also run a waiting list system for people who turn up and get on a vessel when there are no cabins available. As soon as the vessel sails and we know how many cabins we have free, they will be resold to those people on a first-come, first-served basis. We try to strike a balance between ensuring that those who need a space can know that it is secured and not inhibiting others getting on as a result of space being block booked and not used.

15:00

**Peter Timms:** A question was asked about freight. With routine freight, we have a pretty good idea of what is travelling but, with perishables—particularly fish—we often do not know what will be loaded on a particular day or, indeed, the next day. When the product is perishable, there is a lot of pressure from the haulier or producer to get it to market and space may not have been booked. That is a problem for both companies, but we generally try to be as flexible as we can to accommodate such loads.

**The Convener:** With capacity being a finite resource, there will be times when it is difficult to

balance the various needs of hauliers, tourists and islanders. How is that balance struck and what impact might the road equivalent tariff have on striking it?

**Lawrie Sinclair:** The road equivalent tariff will be for the Western Isles. At present, the ships are full about two or three Saturdays a year; the rest of the time, there is enough space. We are fortunate that we have a freight ship on the Stornoway to Ullapool route. It takes all the freight off the passenger vessel, which enables us to take cars away from Stornoway. Most of the commercial vehicles from Harris go out through Stornoway. *[Interruption.]*

**The Convener:** The earlier reminder about mobile phones was for everyone present in the room.

**Lawrie Sinclair:** In the Uists, we are able to cope with the traffic and—I must be careful—we are relatively confident that the ships that we have available for the Western Isles should be able to cope with it. It comes back to what is available on the island: if there is no accommodation on an island, people will not go. At present, accommodation on all the Western Isles is limited, certainly through July and August.

**Peter Timms:** There is a general principle, of course. CalMac makes intensive use of its vessels—and, indeed, has extended timetables in the summer—but does not use them at night so, if essential, when capacity problems arise, it could consider overnight or later services. However, that would be at some cost, because we would need additional crews and the ports and harbours would need additional staff to handle such services. NorthLink is in a slightly different position because its vessels tend to run 12-hour or 14-hour legs with quite a big space in between, so there would be capacity for increasing the service fairly readily.

**Bill Davidson:** In general, on the Aberdeen to Lerwick run every night, a passenger vessel takes passengers, cars and freight, while freight vessels go in each direction. Through the summer months, we tend to push all the freight on to the freight ships, which makes the maximum amount of deck space available on the passenger ships for cars, coach groups and so forth.

In the winter months, we put some of the freight back on to the passenger vessels because the masters like it for the weight, which gives them a better ride. Also, in periods of bad weather, it helps us to give the hauliers the opportunity to nominate priority trailers that we put on the passenger vessels. They have a better chance of getting through, whereas the freight ships are a bit more susceptible to bad weather.

This autumn, in the livestock season, we will hit an issue because there is the potential that lots of

people, cars, freight and animals will try to travel at the same time. We may start to get into some conflicts, which we will deal with on a first-come, first-served basis. To assist us, we have already made block bookings for freight in the system to ensure that we can accommodate the levels of freight that we expect to come to us during the livestock season. The consequence of that is that, for the first time ever, people who want to take their cars might be told that there is no space on the ferry.

NorthLink's situation is different to CalMac's. As Peter Timms indicated, our generality is 12 to 14-hour legs, but we know that, if necessary, we can do an Aberdeen to Lerwick run in nine hours so, in theory, we can do a there-and-back run in 24 hours if we have to. That would be our safety valve if the view was that we needed to put additional capacity into the system to meet customer demand. It can be done with a little extra spent on crewing, quite a lot extra on harbour dues, which is one of our biggest costs, and a substantial increase in fuel costs.

**Peter Timms:** The convener asked about capacity in the context of RET. We have not finished evaluating it, but I have seen numbers that suggest a 10 per cent traffic increase. However, the short answer is that we do not know yet.

**Rob Gibson:** I have a wee supplementary on that last point. In the calculation of RET, it appears that the subsidies that you offered to agricultural transport would be dropped. Is that the case?

**Lawrie Sinclair:** All discounts would disappear under RET.

**Rob Gibson:** Was there any discussion about keeping the discounts in place?

**Peter Timms:** There were discussions with the Scottish Government, but the minister wanted things to be as simple and straightforward as possible for everyone—no discounts and no special fares, with one exception. Everyone should pay the same, islander or visitor.

**Rob Gibson:** I have to ask what the exception is, of course.

**Lawrie Sinclair:** It is for the freight vessel, the Muirneag, to ensure that freight continues to use her, leaving the Isle of Lewis free to carry cars and passengers.

**Rob Gibson:** But that means that the freight users from the southern isles will not benefit from the discount.

**Lawrie Sinclair:** The 10 per cent discount already applies on the vessel; it has applied ever since the vessel was brought there, to try to move the freight away from day to night sailing.

**Rob Gibson:** Okay.

As you know, between 2001 and 2005, arguments were made that public service obligations and independent regulators should be the *modus vivendi* for regulating ferry services in Scotland. As Professor Neil Kay said in evidence to the committee last week:

"Commissioner Barrot confirmed in writing that, if ferry services were to be subsidised, clearly defined and justified PSOs that adhered to the Altmark guidelines should be established. From 2001, the Executive declined to recognise the case for an independent regulator and for PSOs. It also declined to recognise the relevance of the Altmark guidelines."—[*Official Report, Transport, Infrastructure and Climate Change Committee*, 6 May 2008; c 647.]

In that case, what are your views on whether we should follow that approach, which Europe has suggested more than once?

**Peter Timms:** I suspect that you know more about the matter than I do. However, PSOs and PSCs are strictly a matter for Government, which includes the Westminster Government. As I understand it, PSOs are authorised and originate there, not here.

As I said, the industry in general would benefit from the presence of an independent regulator for the whole industry—not just us, but the independent operators, too.

**Rob Gibson:** I am interested to hear that, because CalMac said in its submission:

"Funding for new vessels has always been linked to 'the execution of the public service obligations'".

If that does not take the form of PSOs, which Europe seems to want, what are the arrangements based on?

**Peter Timms:** They are based on a letter between the Scottish Government and previous administrations in the company. The term "public service obligation" has more than one meaning historically in the context that we are talking about.

**Bill Davidson:** I think that I am correct in saying that until the Transport (Scotland) Act 2001, the powers that were used to provide subsidy to ferries came from the Highlands and Islands Shipping Services Act 1960, which required an undertaking from the Westminster Parliament to provide subsidy. I think that that was the basis on which funding was provided for vessels and on-going subsidy before it was changed through the 2001 act in Scotland.

**Rob Gibson:** Indeed. Given that arrangements changed and that infraction proceedings are under way, should there be greater definition of what the public service obligations are on specific routes?

**Bill Davidson:** As an operator, I do not have a problem with the provision of a definition of what

the operator is required to do. Equally, if I were a tenderer, I would like to be crystal clear, not just on what I would be obliged to do but on the areas in which I would have freedoms.

I have heard PSOs being debated by lawyers, but I leave contractual matters for others to worry about. All that I am concerned about is being clear about what I am obliged to do and the freedoms within which I can operate.

**Peter Timms:** When we met Commissioner Barrot last week, he was at great pains to explain that the investigation that the Commission is pursuing does not threaten the services. From our perspective, the answer to your question is that provided that the operator—whether it is us or anyone else—can be assured of the legitimacy of the public service contract, how it is delivered is clearly a matter for the lawyers and Government. Our only interest is in ensuring that delivery occurs in a way that does not compromise the legal validity of the contract.

**Rob Gibson:** I understand that. There are lawyers on every side. However, a public service obligation could be laid down by a regulator because of the necessity for a particular route to be subsidised, regardless of the potential for tendering.

**Peter Timms:** Indeed. I am familiar with the argument that Professor Kay has made on several occasions over the years. Equally, I have listened to almost every legal opinion that has been given to ministers in previous Administrations on why a PSO should or should not be applied in a particular case. We are only the operator. I leave it to Government to sort out how best the system is implemented.

**Rob Gibson:** We will leave it at that.

How do VisitScotland and other tourism bodies engage with your companies to promote your services and tourism to Scotland's islands?

**Bill Davidson:** I go back to my years of involvement in such activity. I am afraid to say that VisitScotland, as an organisation, has been through over the years, and is probably still in, a fair bit of turmoil.

**Rob Gibson:** As has NorthLink.

**Bill Davidson:** Indeed.

We have tried several times to engage constructively with VisitScotland to promote tourism in the area. In Orkney and Shetland, we have excellent working relationships with managers at local level, but their hands are tied on the extent to which they can get involved, particularly if that involves writing a cheque. For that reason, we have largely had to take the lead in promoting the islands as a destination. In other



words, we have had to drum up tourism trade for our ferries.

When I first became involved in such activity back in about 1997 or 1998, a ferry operator elsewhere in the United Kingdom advised me that tourism was far too important to a ferry operator to an island to leave to the local tourist board. I was told that, as the ferry operator, we would have a key role to play if we wanted tourism to provide a large slug of our income. That is why we have marketed ourselves extensively—with a degree of success, I hope—to the tourism sector, both to individuals and to groups. I like to think that, in doing so, we have had the active co-operation, support and approval of the local tourist boards and VisitScotland, even if they are not hugely involved in our work.

**Lawrie Sinclair:** CalMac's director of communication is a member of the scenario planning group. We go to exhibitions with VisitScotland and find that we work well with the organisation.

**Peter Timms:** I met Peter Lederer recently and we both had the same item on the agenda, which was that we should meet formally more often to promote tourism to the destinations that we serve.

**Rob Gibson:** I have a question—

**The Convener:** Briefly.

**Rob Gibson:** It is on a related matter and it is important. People on Arran told us that they have to pay to advertise their businesses or activities on the ferry, which generates extra income for the ferry company. Is that the case?

15:15

**Lawrie Sinclair:** We have a contract with a company that looks after all the advertising throughout the network. It is no different in Arran than it is on any of the other routes. The adverts on the ships are paid for, by all groups on every ship that we operate.

**Rob Gibson:** So there is a middle man, in place of you dealing directly with people on the islands that you serve.

**Lawrie Sinclair:** As I said, we have a contract with a company that specifically deals with what it is asked to do. It is asked to drum up enough business on all the islands to advertise on board the vessels. We used to do that work ourselves, and failed miserably at it.

**Rob Gibson:** Does NorthLink use that practice?

**Bill Davidson:** No—we considered it, but the key difference between us, as Peter Timms mentioned, is footfall: CalMac has some 5 million passengers a year, while we have 300,000. We do

not carry the same volume of people who see the adverts. I accept that if that volume is multiplied by our journey times we can make people look at the adverts for much longer, but that does not translate into sales.

**Liam McArthur:** You referred to the turmoil within VisitScotland. Given the further centralisation of VisitScotland; the overlay of Orkney and Shetland with Highlands and Islands Enterprise; and the fact that the Aberdeen-Kirkwall-Lerwick route is vital to the tourist industry—particularly in Shetland but also in Orkney—did you make representations in that regard? Did you raise any concerns with ministers or VisitScotland?

**Bill Davidson:** No, we did not make specific representations. Experience has shown us that we are probably better off cracking on and doing what we think is appropriate: working closely with those who are involved in tourism on the islands, and ensuring that VisitScotland and its local representatives are aware of and content with what we are doing. Since 1997-98, when we started on that, we have found that we have had to take the lead in trying to drum up tourist interest.

**Alex Johnstone:** Can you explain the reasons behind the recent increases in taxpayer subsidy that are required by your companies for the operation of the northern isles and Clyde and Hebrides ferry services?

**Peter Timms:** I can explain it in relation to CalMac. Simply, we pay for things now that we never used to pay for. We pay leasing costs for vessels of £10 million a year—when we owned the vessels, that cost was largely written off. We pay rather more now for fuel than we used to. Costs have historically risen faster than revenues, partly because of legislation, safety requirements and changed European requirements. As that has developed over the years, the need for additional funding has arisen.

**Bill Davidson:** Our accounts are there for anyone to look at; Audit Scotland has been through them, as have PricewaterhouseCoopers and various others. It is about the balance between the costs of running the service and the revenue that comes in from the fare box. We have been very successful at drumming up additional revenue, but the costs are substantial, as Peter Timms indicated. The price of fuel is shooting up, and harbour dues—one of my biggest costs—are steadily going up; we have no control over that. There are very substantial costs that, as a ferry operator, we have to run with.

There have also been changes to some of the regimes. We used to have a separate system called tariff rebate subsidy, which was to do with support for livestock. That has been done away

with, and the funding for it comes through in the general subsidy. Various other changes have been made, and some Government policies—I am not knocking them—have consequences for us. For example, the air discount scheme is very popular in giving people flight discounts, but as a consequence they fly rather than go by ferry. The ferry company's revenue is reduced, but there is no opportunity to reduce costs.

That is one of the big problems in running a contracted lifeline ferry service. Volumes can go up and down, but the operator has no movement in terms of costs. Therefore, no matter to what extent they lose traffic—be it to the ADS or to a competitor, or if there is a downturn in a particular industry—there is no scope to reduce costs, and the subsidy is the elastic that comes and goes to balance it.

**The Convener:** In NorthLink's case, one additional difference between the period prior to the contract and the period after it is that freight costs were reduced by—

**Bill Davidson:** By 25 per cent.

**Peter Timms:** The freight prices that NorthLink charges were reduced at a stroke by 25 per cent. That amounted to revenue of about £10 million a year.

**Alex Johnstone:** The European Commission is to conduct an investigation into the subsidies that are paid to your companies, to ensure that

“there has been no overcompensation or undue distortion of fair competition”.

How do you react to the inference in that phrase?

**Bill Davidson:** I am happy for the Commission to investigate the matter, because allegations have been made. I believe that we have done what we have been asked to do. We have delivered a service and have charged the prices that ministers set—anyone is welcome to look at our books to confirm that. There are no secret discounts or side deals. We have done away with the many things that happened in the past and have had to deal with the consequences in a big way. Last year or the year before that, we were examined by the Office of Fair Trading; the Commission's inquiry is the latest in a series of three or four. We have nothing to fear from it, as we have nothing to hide. It is for others to assess whether there is distortion of competition. I could make a counter-argument, but I will not.

**Peter Timms:** Broadly, we welcome the inquiry, because it should draw a line once and for all under the question whether our contracts are fair and provide for a proper service. CalMac was regarded as a secretive organisation. We have made ourselves much more open—we publish our

accounts and route results, and will continue to do so.

**Alex Johnstone:** When Professor Alf Baird appeared before the committee last week, he argued that state-owned ferry companies provide an inherently poorer service than that which is provided by the private sector. He suggested that state-owned companies are not responsive to circumstances and customers, and that they have no incentive to innovate. How do you react to those claims?

**Bill Davidson:** I have known Alf Baird for a number of years and have spoken at conferences for him and on the same platform. Alf has some good ideas and makes some sensible points; he also says some things that are difficult to swallow. I argue that the contracts that we operate and have operated in the past and that CalMac operates are quite restrictive. Regardless of whether a company is state owned or privately owned, the opportunities for flexibility, innovation, creativity and so on that are open to it are severely limited. That is designed to ensure that we deliver the service that customers expect, that the Government wants to buy and that was tendered originally, in a fair competition with a fair outcome. We do not want to have a situation in which someone bid for service A, but is delivering service B.

I do not accept Alf Baird's argument that the fact that companies are state owned means that they are not well run. I spent many years as a management consultant, and I have visited some diabolically run private sector companies and some public entities that have excellent managers, are customer responsive and do a good job. I do not share Alf Baird's view of private good, public bad.

**Alex Johnstone:** I am sure that the badly run private companies to which you refer are not there any longer.

**Bill Davidson:** I had better not name names, but some of them are.

**Lawrie Sinclair:** Professor Baird has appeared before the committee. After reading a transcript of one conference that he attended, I wrote to him to ask whether he would like to come to Gourrock to meet the chairman of CalMac and me, so that we could go through exactly what the company does and how we see things. I continue to extend that invitation to him. If he sees exactly how we operate and what we do for our customers and for the ships that we operate, perhaps he will change his mind.

**Peter Timms:** The history of CalMac and its predecessor companies is peppered with instances of private companies investing, not investing, losing money and going bust, and of the

public sector stepping in. When services are privatised again, the cycle is repeated. That has happened five or six times since the 19<sup>th</sup> century.

**Bill Davidson:** I do not know whether the two professors who were before the committee last week mentioned it, but Alf Baird wrote a paper on the private sector being good and the public sector being bad. Professor Neil Kay undertook a critique of that paper, which was a fairly effective demolition job. I agree with a lot of what Neil Kay said. Alf Baird's arguments were not particularly well made or soundly based.

**Peter Timms:** What is good for a Greek island with a million visitors a year is different from what is required for Colonsay, which has 180 inhabitants and perhaps less than 2,000 visitors a year.

**Lawrie Sinclair:** We run a lifeline service to all the islands. If we do not run the service, what happens to the island? Islanders rely totally on getting back and forward and they rely on the transportation of food. Our ships perhaps do not have to be at the front line of technology, but they must be nearly there. We want to ensure that the ships are reliable and can operate in the seas in which we operate. As Peter Timms said, those are some of the roughest seas in western Europe.

**The Convener:** We have a few more questions. I ask everyone to be brief, as we are running a wee bit behind time.

**Rob Gibson:** We can be relatively brief with this one, which is for CalMac. What practical issues has the initial development of the RET pilot raised for CalMac Ferries?

**Lawrie Sinclair:** Our compass system, which is a ticketing system, has to be altered to suit not only the routes that are involved but the hopscotch tickets, which allow customers to go from one island to another. That all needs to be considered. We must also inform our customers of when the pilot will start and how it will operate. We will have to alter *explore* magazine, which comes out in September every year, to suit the introduction of RET.

**Rob Gibson:** Is there scope to improve the frequency or efficiency of the Clyde and Hebridean ferry services through better utilisation of vessels, for example in the middle of the night, or by the rationalisation of ports or services that are operated by CalMac Ferries?

**Lawrie Sinclair:** Our big problem can be seen in what happened when we introduced the 7 o'clock service from Ardrrossan to Brodick after consideration of the number of passengers that we could carry. We were very busy during the day, but when we introduced offers to try to get people to go at 7 o'clock in the morning and come back at

half past 7 at night, I am afraid that we failed. Tourists and the islanders will travel only when they want to travel. Seven o'clock in the morning, certainly on the shorter routes, is not particularly attractive.

**Rob Gibson:** Seven o'clock in the morning is one thing—leaving Brodick on that ferry used to be referred to as going on the death boat—but is there demand for later sailings in the evening?

**Lawrie Sinclair:** On Arran, we run a late service on a Friday night and the vessel is empty. We also run such a service on the Wemyss Bay to Rothesay route and, although the vessel is not empty, there is a lack of customers on board.

**Liam McArthur:** I understand why Mr Gibson directed the question on RET to CalMac, but I would be interested in whether NorthLink has done any calculations, even on the back of a fag packet, about the impact of a two-and-a-half-year pilot.

**Bill Davidson:** Application of the RET formula, as it stands, to the Shetland services would result in passenger fares going up rather than down because of the distance involved. Freight costs would come down, which would be welcomed by local industries. The RET formula would result in reduced fares on the Pentland Firth. Although the pilot will, in theory, increase the likelihood that tourists who may not have done so in the past will go to the Western Isles, we do not believe that it will have a major impact on tourist numbers on the Pentland Firth through the summer season. We will see how it goes this year and carry it through.

This year, the impact will be a bit difficult to assess because, as well as the introduction of RET—which has given the Western Isles quite a lot of publicity even though the pilot will not kick in until October—Andrew Banks will introduce his new catamaran service. The catamaran will be an attractive feature on the Pentland Firth, but it may simply attract more people to visit Orkney rather than elsewhere. Several confusing factors will be in the market when we try to assess whether RET has had a detrimental effect on Orkney's tourism.

15:30

**Shirley-Anne Somerville (Lothians) (SNP):** The committee has heard calls from a variety of previous witnesses for the vessels to be based on the islands rather than on the mainland. What are the reasons for the current practice? What barriers would prevent such a change from being made?

**Lawrie Sinclair:** Exactly the same calls have been made to us by people on certain islands. Many of our ships are based on the islands, although the Arran ship is now based in Ardrrossan. As a result, we cancelled considerably

more sailings this winter than in previous winters because of the difficulty of getting in and out of the ports. On Mull, people would like the ship to be based on the island but that could cause problems. On Arran, people wanted an early boat from the mainland—leaving at 7 o'clock in the morning and arriving in Arran for 8 o'clock—to allow tradesmen to do a full day's work on the island. If we based the ship on Mull, the chances are that tradesmen would have only five hours on the island, not including the time for travelling onwards from the port. The other distinction is that we have difficulty with the ship lying overnight in Mull, where the port is not as safe as the one in Oban. We would prefer the ship to lie on the mainland side.

**Peter Timms:** The port in Mull is not a safe anchorage in winter because it is exposed to the north and north-east.

**Bill Davidson:** Interestingly, we have gone in the opposite direction for regulated reasons. P & O used to base its vessel in Scrabster in Caithness, from where it would make its first trip of the day to Orkney at 6 am. We decided to go in the opposite direction because, when the weather was bad, the P & O vessel had to leave Scrabster and run to Orkney to shelter overnight, which completely interrupted the timetable. We did things the other way round by basing the vessel in Orkney. We started with a 4.15 am departure from Orkney that arrived at 5.45 am in Scrabster, where the vessel could load up all the fresh goods for Orkney. That was how the timetable went and the vessel ended its day in Orkney. However, we discovered that the early-morning crossing that everyone had demanded received little patronage. The whole timetable for visitors was being stood on its head to meet a demand that was very small. Therefore, two or three years ago, we turned the timetable round so that the vessel, which is still based in Orkney, starts its day with a 6.30 am crossing—the crossing takes 90 minutes—and its last crossing of the day ends up back in Orkney at 8.30 pm.

I might comment in passing that, although a 14-hour day might not seem very long, the length of the day gives us problems with hours of work and rest regulations. The need to carry extra crew to allow the vessel to work that length of day pushes up costs because we need two captains and so on all the way down. If, as P & O did, we based the ferry on the mainland, we could have a shorter day but we would then have more cancellations.

**Shirley-Anne Somerville:** It has been argued that the Mull service should be based on the island to enable the islanders to commute to the mainland, which is not felt to be a possibility at the moment because of the timing of the first ferry. That ties in with the earlier questions about

flexibility and the need for earlier and later services. Has there been any investigation of whether such services would be possible and whether there is a demand for them, or is there no point considering such services because of the constrictions that exist?

**Lawrie Sinclair:** Mull is possibly the only island where that might apply. We operate from the islands. The Arran service is now based on the mainland, because the islanders wanted that, but vessels lie overnight in Bute. All the vessels servicing the Western Isles lie there overnight. We are not sufficiently satisfied with the pier on Mull to let the vessel lie there overnight. However, we have meetings coming up with the Mull and Iona ferry committee. The matter will come up, and we will investigate it.

There was a question earlier about the situation with tenders. When the tender for the Clyde and Hebrides ferry services was made, we put in a supplementary bid for the Mallaig to Lochboisdale route. We included the cost for Mallaig to Lochboisdale, but it was not accepted. However, that was not part of the overall tender. A new vessel was involved there. We also included an innovation to do Mallaig to Lochboisdale in the summer and to make improvements on other island routes. We are presently talking to Stòras Uibhist on South Uist about a way forward, but the matter would have to go back to the Government to get agreement on whether to proceed. The vessel would have to be based on the island.

**Alison McInnes:** The committee has heard that restrictions at Aberdeen harbour influenced the design of NorthLink's new vessels, which severely constrained their carrying capacity. Is that correct? If so, is there any way in which you could obtain larger vessels that could berth at Aberdeen harbour without major capital works?

**Bill Davidson:** You are absolutely correct. The people of Shetland in particular were vociferous in campaigning for Aberdeen to be maintained as the mainland link. That became a fixed item in the tender specification, and bidders had to work to that requirement. The vessel that we use is of the maximum size that can be accommodated in Aberdeen on the ferry berth, which is just at the entrance to the harbour. In theory, a larger vessel could have been accommodated if a new ferry terminal had been built at the other end of the harbour, but that would have necessitated the provision of safe access right through the harbour for the general public to get to and from the ferry terminal. It would have increased their walking distance to the station. Given security and health and safety considerations, it would have been tricky to make that possible.

Aberdeen is considering further works that it hopes would reduce some of the restrictions that

prevent us from getting in during poor weather, when there is insufficient water in the channel. It is also considering options that would allow larger vessels to be accommodated. Again, the problem is where to accommodate larger vessels in Aberdeen harbour. We are in discussions about the longer-term situation at Aberdeen harbour. Such changes cannot be made without money being spent, and they would involve civil engineering work costing many millions of pounds. However, that might be the long-term solution.

Alf Baird proposed that we should buy off-the-shelf ships that were too big to go into Aberdeen harbour and would go to Peterhead instead. The people of Shetland and, I believe, Orkney, did not particularly want to go to Peterhead. There is no ferry infrastructure in Peterhead, and there is not the same road and rail infrastructure to tie in with. Although Alf Baird's theory looked sensible in theory, it did not fit with what the customers wanted—or with what we perceived as what the customers wanted. However, if that is what the customers want in the future, and if that is what the specification says, that is what future ferry operators will do.

**The Convener:** Many thanks to all three witnesses for coming in and giving evidence. I am sorry that we have overrun slightly.

15:38

*Meeting suspended.*

15:45

*On resuming—*

**The Convener:** I welcome Gordon Ross, who is the managing director of Western Ferries (Clyde) Ltd, and Andrew Banks, who is the chief executive of Pentland Ferries Ltd. I apologise that we are a wee bit late in starting your session. Would you like to make introductory remarks?

**Gordon Ross (Western Ferries (Clyde) Ltd):** Yes. I thank the committee for the opportunity to give evidence and to participate in its investigation into ferry services in Scotland. Western Ferries has operated on the Dunoon to Gourock route since 1973. In that time, it has continued to develop and improve its service to the local community. In the past 35 years, Western Ferries has proved that delivering a commercial, efficient and community-focused ferry service is possible without subsidy. Nevertheless, that ability and the ambition to extend that business model to other communities have been frustrated by the underlying market conditions that prevail in the Scottish ferry sector.

**Andrew Banks (Pentland Ferries Ltd):** Pentland Ferries is a private company that

operates from Gills Bay to St Margaret's Hope. We are unsubsidised. We have just ordered and will shortly take delivery of a new vessel.

**The Convener:** Some of us have speculated that we might not hear precisely the same views from this panel as we heard from the previous panel on some issues. We have heard from Professor Alf Baird that privately owned ferry companies provide an inherently better service than the public sector does and that private companies respond to customers and have a financial incentive to grow custom. Do you agree? What needs to happen to ensure that the private sector genuinely adds something to improve the ferry services that are on offer throughout Scotland?

**Andrew Banks:** As members know, we are a privately owned company up in Orkney that was set up in 2001. We did very little advertising. We just started the service to see how it would go, and it took off. The public are voting with their feet. They like the short crossing and prefer it to the long crossing by the Hamnavoe, which NorthLink operates on the Stromness to Scrabster route.

**The Convener:** Is that because the service is a private sector enterprise? The arguments are about the different roles that the private and public sectors play. What, if anything, makes your service better?

**Andrew Banks:** Our service is better in the sense that it receives no public money. The timetable suits the public better; that is why it is supported. We can change times if the public demand that. We take about 80 per cent of the freight into Orkney and about 80 per cent of the sheep out of Orkney. The service is well supported.

**Gordon Ross:** In essence, the advantage is flexibility. Our timetable is unregulated. We can adapt quickly to alterations in our customers' travelling patterns. For example, we have this year increased our number of early-morning sailings. We now run a 6.15 service Monday through Friday, whereas that was previously run only on the Monday. We did that because we saw that early-morning ferries were becoming busier. I do not know whether that relates to congestion on the Kingston bridge, but the extra 15 minutes in the morning give people the ability to miss any congestion. We can alter timetables quickly to reflect customer demand.

Another advantage of being a private company is that we can move more quickly on the procurement of new vessels. Our most recent two new vessels, which were built at Ferguson's in Port Glasgow, were delivered in a 12 to 18-month period, whereas the new Islay boat, which the

previous panel talked about, will have taken 10 years from inception to delivery.

**Alex Johnstone:** If we assume that you gentlemen agree that further involvement of the private sector in ferry provision is a good idea, what do you think the Government can do to encourage ferry companies or potential ferry operators to become involved in the Scottish ferry industry?

**Gordon Ross:** The critical issue is the bundling of the subsidised ferry routes. It would probably be beyond the ability of small operators such as Andrew Banks and me to take on a network with 26 routes. Certainly, we are not prepared to take the risk of the cost of putting together such a complicated bid. If we had route-by-route or bundle-by-bundle tendering, the routes would become more attractive to Western Ferries and other operators, including European and English companies.

**Alex Johnstone:** Did the fact that all the Hebridean and Clyde routes came in a single bundle deter private companies from bidding for the contracts?

**Gordon Ross:** The factors were the single bundle and, as was reported earlier, the inflexibility of the contract.

**Alex Johnstone:** What changes to the tendering process are necessary to encourage companies such as yours to bid for services in future?

**Gordon Ross:** We are a commercial operation. We look to develop the market and provide better services to users—we design our ferry service round our users. I believe that some routes in Scotland could be run on a non-subsidised basis while meeting the requirements on fares and service levels.

**Alex Johnstone:** Before we leave the issue, I would like to raise the concept of cherry picking. It worries me that that expression is used widely, although it betrays to me that potentially profitable or worthwhile investment opportunities exist in the ferry industry. Do those routes need to be bundled with inefficient or unprofitable ones to provide cross-subsidy, or should you be given the opportunity to operate them?

**Gordon Ross:** According to CalMac's latest set of financial statements, every single route that it operates makes a financial loss and requires subsidy. Therefore, when I hear the term "cherry picking", I ask, "Where are the cherries to be picked?" Debundling the package would mean that we could identify the routes that could be run commercially and on a non-subsidised basis.

**Rob Gibson:** How could the current Clyde and Hebrides and northern isles ferry services be operated more efficiently?

**Andrew Banks:** That is where privatisation would come in. Because the services are run by the Government, there is no incentive to be efficient, whereas a private company has to be efficient because that is how it makes money. The private sector would certainly run the services more efficiently.

**Rob Gibson:** CalMac's written evidence states:

"The network approach offers a consistent level of service across 24 routes which could not be matched by a single service provider."

Are you saying that a private sector organisation could run a large group of routes?

**Andrew Banks:** Yes, I believe so. V Ships is a worldwide organisation with I do not know how many thousand employees. It is capable of running the CalMac routes.

**Rob Gibson:** Would it be more efficient if CalMac did not own the onshore infrastructure, to allow competition?

**Andrew Banks:** I am not sure.

**Rob Gibson:** In Greece, the municipalities own the ro-ro facilities, which are used by several shipping lines. Given CalMac's complaints about the upkeep and development costs of such facilities, would such an approach lead to efficiencies for the travelling public?

**Andrew Banks:** It would, if the Government owned the infrastructure and there was a set price to individual companies for using the facilities. However, that brings me back to my point that the routes should not be bundled but should be put out to tender separately. If that happened, you would find small companies coming in and operating efficient services.

**Rob Gibson:** But CalMac has said that none of its 24 routes is profitable.

**Andrew Banks:** I know of at least three or four routes operated by CalMac that could make a few million pounds a year in profit.

**Gordon Ross:** As far as ownership is concerned, what was CalMac has been split into the operating company and the infrastructure-owning company. Under its remit, CMAL, which owns the piers and harbours, will be completely fair to all operators, no matter whether it is CalMac or A N Other.

**Rob Gibson:** It is clear from our questions that much has been left hanging in the air. Earlier, we discussed the idea of having a Scottish ferries strategy and establishing a Government agency with responsibility for ferry policy—which will

probably amount to one and the same thing. Would that kind of approach sort out the best routes and what the opportunities ought to be?

**Gordon Ross:** It is time that someone else looked at how we might create an environment in which competition would be possible. Of course, it is up to the policy makers at Holyrood to find out the best way of achieving that and to decide how ferry services will develop.

**Rob Gibson:** Tied up with that is the proposal to designate certain services as public service obligations. Would your companies bid to operate such routes if they were tendered and if the specific needs were spelled out by a regulator or in a strategy?

**Gordon Ross:** Again, setting out the essential differences of a PSO or PSC structure is a matter for the Scottish Government. In the recent tender, the routes were bundled. As PSOs must be considered on a route-by-route basis, it might be more possible for private operators to look at separate routes.

**Rob Gibson:** Of course, a ferries strategy might also bundle the routes requiring PSOs.

**Gordon Ross:** We must ensure that, in the Scottish ferry sector, private and subsidised operators can compete on a level playing field. That is certainly how I would like things to go.

**Cathy Peattie:** What are your views on the establishment of an independent Scottish ferries regulator?

**Gordon Ross:** If it ensured that there was no cross-subsidy, we would welcome such a move.

**Cathy Peattie:** Would such a regulator establish the level playing field that you mentioned?

**Gordon Ross:** I would hope so.

**Cathy Peattie:** Do you have a view, Mr Banks?

**Andrew Banks:** I think that establishing a regulator would make things better. All we want is a level playing field.

**Cathy Peattie:** Professor Neil Kay has argued that an operator of last resort should be established to ensure continuity of ferry services in the event that an operator cannot meet its contractual obligations. What are your views on that? Would your companies be interested in fulfilling such a role?

16:00

**Gordon Ross:** I am well aware of Mr Kay's view on the operator of the last resort. I cannot really answer the first part of the question. On the second part, our organisation may be a bit small to

take over the 25 routes that CalMac currently delivers.

**Cathy Peattie:** We have taken evidence from MACS on the experience of disabled people who use ferry services. It says that there are difficulties with smaller ferries, which sometimes require disabled people to get on and off via steps, and with medium-sized ferries, access to which can be problematic or unsafe via linkspan and hard ramps. Do your companies have strategies for dealing with accessibility issues? How do you engage with organisations on that and ensure that disabled people are represented? Has the new Pentland Ferries vessel been designed with accessibility for disabled people in mind?

**Andrew Banks:** Yes. The Claymore and the Pentalina, which we operated in the past, were open-decked ships; disabled people could stay in their cars on the main car deck and one of the crew would come down and look after them. The new vessel has a chairlift on the car deck and facilities for access for disabled people.

**Gordon Ross:** We run four boats. The two new boats that were built by Ferguson's basically have no steps. If someone arrives who is in a wheelchair or who has special needs, there are no steps for them to worry about. They can quite easily be taken down the linkspan. Our passenger accommodation is on the deck so there is full access for anyone with mobility issues.

**Cathy Peattie:** Do any of your companies have procedures for engaging with people with disabilities and gauging what they need from your services?

**Andrew Banks:** When people make a booking with us, they make us aware if they are disabled and will require assistance. That is noted on the manifest.

**Cathy Peattie:** So you are aware that they are coming.

**Andrew Banks:** Yes.

**Gordon Ross:** We do not operate a booking system, but all our staff are trained and have experience of dealing with people who have mobility issues.

**The Convener:** Is there no level of engagement with organisations that represent the views and interests of disabled people when you are designing the services, before people come to you with a booking request? Is there a prior stage of engagement?

**Gordon Ross:** Of course. When we are designing new boats, all the regulations on access are considered in the initial design process.

**Charlie Gordon:** What impact will the road equivalent tariff pilot have on existing or potential

private sector-operated ferry routes? I appreciate that it does not apply to your companies at the moment.

**Gordon Ross:** If RET were to be extended to the full network, I do not know how it would apply to the Gourock to Dunoon service because the vehicle service is not subsidised. If RET were to be applied to the Dunoon route, it would be a direct subsidy of a vehicle service that is in direct competition with a private operator. I do not know whether it is going to apply to the Gourock to Dunoon route.

If the RET scheme were solely included within the contract and the contract were still let on a single-bundle basis, it would not apply to private operators, which would make the possibility of starting up any competing service very remote. The issue of RET and private operators has not yet been considered, but I hope that it will be part of the RET study and its findings.

**Andrew Banks:** On our route, RET would be a good thing. It would drop our fares by about 50 per cent, which would make it more attractive for tourists coming to or going from Orkney. I would be happy if the scheme were introduced for private companies as well.

**Gordon Ross:** We have done the calculation for the RET scheme; our fares are already cheaper than RET.

**Charlie Gordon:** Have you tried to integrate your ferry timetables with connecting bus or rail services? If so, how does the process work, and how could it be improved? We have heard many complaints about a lack of what might be called operational integration between the different modes of transport.

**Gordon Ross:** I have certainly been in contact with the local Inverclyde operator, McGill's Bus Service, which is currently integrating on a half-hourly basis—two buses an hour—with our ferry service. We operate a core timetable of three ferries an hour. Sometimes, people will walk off the ferry and walk on to a bus; other times, they might have to wait five or 10 minutes.

**Charlie Gordon:** So, the frequency is such that people do not feel that they have greatly lost out if a bus leaves just as a ferry is arriving.

**Gordon Ross:** Yes. We provide 31,000 sailings a year. As I say, in our core timetable, there are six sailings an hour, backwards and forwards. At peak times, it is eight sailings an hour. We have wonderful integration with the bus service.

**Charlie Gordon:** What about integration with rail services? You are a bit further away from the railhead.

**Gordon Ross:** We are a few miles away from the Gourock interchange.

**Charlie Gordon:** Mr Banks, do you have any views on integration with other modes of transport?

**Andrew Banks:** This year, for the first time, we have tied up with Rapson's, which is based in Inverness. We will have a daily service to Inverness. The 8 o'clock boat will go out in the morning, and people will come back on the 7 o'clock boat at night. We are changing our 5 o'clock sailing to 6 o'clock to accommodate that. The bus goes across on the ferry and goes directly to Inverness, where it ties in with the airport and Raigmore hospital. People come into the centre and get connections right through. I think that that service will be quite popular.

**Charlie Gordon:** I can see that it would be.

**Shirley-Anne Somerville:** Do either of your companies offer a combined ferry-rail or ferry-bus ticket? If not, what are the barriers to providing such a ticket?

**Gordon Ross:** We do not offer a combined ferry-bus ticket as yet. We would introduce such a ticket if our customers expressed a preference for it. Introducing the ticket would just be a matter of speaking to the bus operator and working out an agreement on sharing the revenue.

**Shirley-Anne Somerville:** Have you done any surveys to see whether your customers would prefer such a ticket? People might not have asked for it directly, but that does not mean there is no demand. If you asked people, you might see a demand.

**Gordon Ross:** We have not asked.

**Shirley-Anne Somerville:** Mr Banks?

**Andrew Banks:** In the past, we have asked people whether they would prefer a link to the bus or a link to the train, and most people have said the bus. That is what we have now tried to set up.

**Shirley-Anne Somerville:** But would people need two separate tickets? Have you considered having a combined ticket so that people could go straight through?

**Andrew Banks:** You can buy a ticket in Kirkwall that covers the ferry fare as well.

**The Convener:** Obviously, everyone is aware that the European Commission intends to investigate the subsidies that are paid to CalMac and NorthLink, to ensure that there has been no overcompensation or undue distortion of fair competition. Let us exclude for a moment the Gourock to Dunoon service. Do you believe that there is overcompensation, or that recent tendering exercises have been unfair?



**Andrew Banks:** Things have been unfair. We are introducing a new ferry this year, but NorthLink has started up a family and friends service that basically offers a 30 per cent discount to people coming into Orkney from anywhere in the UK. That offer will operate in May and June, stop in July and August, when NorthLink knows that it does not need to offer a discount, and start again in September. That is a direct hit at my new catamaran service to Orkney. I would say that that is unfair competition.

**The Convener:** Are you arguing that such a practice is inconvenient for you, or that it is actually unfair competition in terms of subsidy?

**Andrew Banks:** It is unfair in terms of subsidy, because NorthLink receives £31 million a year, and now it can offer an extra 30 per cent discount to the customers.

**The Convener:** How would you respond to customers who said, "Well, that's a good deal for me"?

**Andrew Banks:** I would imagine that most of the travelling public will be delighted with it. Nobody in Orkney or Shetland will complain about the deal they get with NorthLink, because they cannot get better. It has new ships and it is very cheap.

**The Convener:** If the implication of European law were that that had to stop, would the public not feel that that law was unreasonable?

**Andrew Banks:** No, I do not think so. Most Orcadians are quite surprised at the amount of money that NorthLink receives. I have already offered to operate a free service to Orkney, with a brand new ship, if I get the same level of subsidy.

**The Convener:** Mr Ross, do you have any views on this area?

**Gordon Ross:** Are we putting the Gourock to Dunoon route back into the conversation?

**The Convener:** We can deal with the general case first, and then perhaps move on to the specific.

**Gordon Ross:** I could not possibly say—I do not know.

**The Convener:** Okay. Well, in that case, you can address the specific.

**Gordon Ross:** Thank you very much. The essence is that CalMac should receive a subsidy only for the provision of a passenger-only service to carry passengers from Dunoon town centre to the railhead in Gourock—it should not receive any subsidy at all to carry vehicles. Vehicle fares should be set on a commercial basis, and should be increased to reflect the increase in cost of providing that service on a commercial basis.

With the relevant revenue figures from the 2005-06 commercial invitation and with information on the boat, manning levels and so on, we can come to a fairly good estimate of the difference between providing a passenger-only service and providing the current combined service. The subsidy cost of the current combined service exceeds the cost of a passenger-only service. On the basis that subsidy should be used only for the purposes for which it is received, there is a level of overcompensation.

Another issue is that we recently found out that CalMac had been awarding discounts to hauliers of between 65 per cent and 70 per cent on a commercial service. The discount on the subsidised services peaks at 15 per cent, and that discount was kept very quiet. The amount of discount increased year by year, because fare increases were not applied to it. I certainly feel that that is unfair.

**Andrew Banks:** On the point about fares, every passenger who travels with NorthLink costs the taxpayer £70. That is how much it costs to operate NorthLink.

**Alex Johnstone:** I am interested to hear about these promotional fares that your competitors are offering. I am always keen to see promotional fares—whatever can be done cheaply wherever possible—but how long do you think those fares would last if they were successful in forcing you out of business?

**Gordon Ross:** That would be a question for CalMac once it put us out of business.

**Alex Johnstone:** Indeed it would.

**Alison McInnes:** You both said that the next time the contracts are up for tender you would like to them to be unbundled. If we can bear in mind that ferries are a means to an end, and a way of making island life more sustainable, that expressed desire for the tenders to be unbundled surely implies that there might be multiple operators in the market?

Given the infrastructure that is needed to operate ferries, what comfort or guarantee would you as private operators give to island communities that ferry services—which are basically lifeline services—would exist throughout the length of a contract in such circumstances? What if a company fell or went away in the middle of a contract? How do we stack things up?

16:15

**Gordon Ross:** Western Ferries has a track record of service over the past 35 years. Our services are used by 80 to 90 per cent of passengers and cars on the routes that we cover. I

like to think that we could take our reputation as an operating company to other services.

**Alison McInnes:** I respect that, but let us assume that multiple operators came into the market and one of them walked away. How would the state provide a lifeline service?

**Gordon Ross:** That would depend on what was done with the tonnage that operated on the route, the assurances provisions in the contract, whether an insurance policy existed, and whether a mechanism existed to ensure continuity of service if something happened to a private operator. That would be one of the risks that would be identified and dealt with as part of an unbundled route-by-route tender.

**Andrew Banks:** I do not see any reason why the company that won the contract should not put up a fairly hefty bond. If that company failed, CalMac could put a ship back on the run.

**Alison McInnes:** That is to assume that a dual service was being run and that another shadow or skeleton service could step in.

**Andrew Banks:** I do not think that CalMac has spare ships at the moment, but something could be set up. If a route failed, it would not be long before another operator came in and set up a service. Everybody says that if NorthLink pulled out of the Stromness to Scrabster route tomorrow, there would be no service to Orkney or Shetland, but I do not think that it would be very long before a private operator came in and set up a service.

**Alison McInnes:** I suppose that “not very long” is quite a long time for island people who must wait until negotiations are completed. It is important to be clear that the ferries exist to service communities and that we should look for solutions on that basis. I am trying to pick your brains about that.

**Gordon Ross:** There was the same sort of situation with the first NorthLink contracts, especially with regard to what would happen to vessels in distress. A tripartite agreement was reached involving the operator—NorthLink 1—the Royal Bank of Scotland, Lombard Corporate Finance, which was the leasing company, and the Scottish Executive. As a result, there was security in respect of tonnage. I cannot remember the specifics of the contract or what would have happened if there had been a failure, but additional money was made available to keep the service going in the eventuality that NorthLink ran into difficulties.

**Rob Gibson:** I want to return to a matter that I dealt with earlier. In the circumstances in question, having an operator of last resort would be part of the regulation that set up any tender. Andrew Banks said that somebody would step in. Is it

important to have such a safeguard for the island communities before tenders are let?

**Gordon Ross:** We are dealing with hypotheticals, but I understand the importance of the question. Let us envisage a scenario in which numerous operators operated on the CalMac network. If one operator was in a distressed situation, other operators would be around to continue their services. I do not think that anyone envisages the disappearance of CalMac from the west coast of Scotland. Given that the Scottish Executive owns CalMac and that it still exists, it may have to step into the breach in a distress situation.

**Liam McArthur:** I want briefly to follow that up. You referred to a distress situation in relation to the first NorthLink: I bear some of the scars on my back from that experience. One obvious point to make is that when we get into such a situation, everything suddenly becomes a heck of a lot more expensive. Are there significant costs involved in having an operator of last resort?

**Gordon Ross:** The difficulties with the initial NorthLink contract have been well reported, as have all the efforts that were made by the NorthLink management and the Scottish Executive to ensure continued service. I note that the new NorthLink tender—NorthLink 2—costs even more than a distressed NorthLink 1.

**Liam McArthur:** In some senses, that is a reflection of extra stipulations that have been included in the contract. In earlier evidence, you said that costs have risen but have not yet been passed on to the customer. For people who live in remote communities, as Mr Banks and I do, everything coming in and out costs a bit more due to transport costs. Do you agree that a subsidy that keeps a ceiling on those costs is not an unacceptable public policy objective?

**Gordon Ross:** I know that a lot is said about the operator of last resort, but it comes down to the robustness of the tendering process to ensure that everything is done to minimise the possibility of a distress situation. I understand that those issues will be looked at closely, if there is to be bundling. I do not necessarily have all the answers.

**Charlie Gordon:** I have a question for Mr Banks. The committee has heard in evidence that it is difficult to procure new vessels. Can you explain the procurement process for your new vessel? Do you think the public sector would be able to procure a vessel in a similar way?

**Andrew Banks:** No—the public sector probably cannot move as fast as the private sector. We decided to have a new vessel built, and we placed the order in February last year. She is being delivered this July. The whole process took about 13 months. We took about a month to decide on

the design. I went to Australia to look at boat design, and we designed our own boat. We had it built in the Philippines by FBMA Marine.

**Charlie Gordon:** What is it about the public sector that would make it slower than that?

**Andrew Banks:** It is slower because of the inability to make decisions. You have to go through committee after committee—even basic planning permission in Orkney takes two or three months—so there are many problems. A private company such as mine can take a decision there and then and move forward. If I want another ship, I can have one here in 13 or 14 months.

**Charlie Gordon:** You do not see any reason why, in theory, companies such as CalMac and NorthLink should not do the same.

**Andrew Banks:** No—they should be able to do the same.

**The Convener:** Is there a sense in which other stakeholders, ferry users and communities would want to have the time to input into those decisions, rather than their being made very quickly?

**Andrew Banks:** No. I have been on a few committees, and they never make decisions—they cannot decide. I would prefer if one man, like me, made a decision and then stuck to it. You have to take into account what the public want, the size of vessel, its carrying capacity and the latest Maritime and Coastguard Agency rules, but that can all be done fairly quickly.

**Alex Johnstone:** I have a brief question. If any of these matters is subject to commercial confidentiality, please say so. What are the financial structures behind the purchase of the new boat? Is it wholly owned by your company, or is it leased through a third party?

**Andrew Banks:** It is wholly owned by our company. We just have an overdraft.

**Alex Johnstone:** I know the feeling.

**Rob Gibson:** Western Ferries' written evidence states the company's view that the current CalMac Gourock to Dunoon service "is being unlawfully subsidised." How do you justify that claim?

**Gordon Ross:** In our opinion, that is the case. The amount of subsidy that is given to provide continuously the combined service exceeds that for a passenger-only service, so there is oversubsidising. There is a cross-subsidy from the passenger subsidy to the vehicle side.

**Rob Gibson:** Is more traffic carried from Gourock to Dunoon by CalMac and your company than by CalMac's other services put together?

**Gordon Ross:** I think the figure for Gourock to Dunoon is about 1.9 million, and the figure across the CalMac network is five million.

**Rob Gibson:** We heard earlier that CalMac carries about 300,000 or 400,000 people a year.

**Gordon Ross:** I think that figure was for NorthLink.

**Rob Gibson:** The point is that the Gourock to Dunoon service is a significant comparison in terms of the number of people who use the service. You argue that the way in which the tender was let involves an unjustified subsidy. If there was a ferry strategy or a ferry regulator, would one of the competitors have fewer options than the other?

**Gordon Ross:** If you are talking about frequency—

**Rob Gibson:** Or carrying cars as well as passengers.

**Gordon Ross:** The CalMac service is restricted to an hourly service because it was recognised that there could be a danger of inappropriate or unlawful subsidy. Unfortunately, that has not prevented the subsidy being given to which I referred earlier, which grows year by year. However, CalMac is not restricted to providing commercial services and services that reduce the level of subsidy across the network. Until recently, CalMac ran the Ballycastle to Rathlin service, which was a profit-making route. There would be nothing to prevent CalMac from putting on additional services on a transparent and non-subsidised basis. In fact, both Western Ferries and CalMac had the opportunity to provide unrestricted unsubsidised ferry services a few years ago in the commercial invitation, but neither company submitted a bid.

**Rob Gibson:** In that case, why did Western Ferries not submit a tender for the Gourock to Dunoon service that CalMac currently operates as Cowal Ferries?

**Gordon Ross:** Because it has not been put out to tender yet.

**Rob Gibson:** If it was, would you consider it?

**Gordon Ross:** Yes.

**Rob Gibson:** You would be prepared to have only one service operator on the Dunoon to Gourock route.

**Gordon Ross:** Every other community in Scotland that is served by ferries is served by only one operator.

**Rob Gibson:** The point is about competition. I am surprised that you said that you would be

happy to have only one operator on the Gourock to Dunoon route.

**Gordon Ross:** It is about having a level playing field. If CalMac or another operator wanted the Gourock to Dunoon tender, there would be a tendering process and the interested parties would have a chance of winning. We are waiting for proposals from the Scottish Government for resolving the current Gourock to Dunoon situation, one of the dangers of which is that—in our opinion—the service is being unfairly and unlawfully subsidised. We would tender for that route to ensure that the issue of taxpayers' money not being used for the purpose for which it was given was resolved.

**Rob Gibson:** How can Western Ferries argue that there is room for it to compete on other CalMac routes but no room on the Gourock to Dunoon route for anyone else to compete with Western Ferries?

**Gordon Ross:** We will compete on a level playing field with any operator who wants to provide a Gourock to Dunoon service. At present, however, one company is receiving subsidies to provide a vehicle service in direct competition with Western Ferries' service.

16:30

**Rob Gibson:** There is no level playing field in the first place, because of the restrictions on CalMac.

**Gordon Ross:** CalMac is restricted across the network because it is providing a subsidised service, as we heard earlier. However, there is nothing stopping CalMac providing additional services on a completely non-subsidised and transparent basis.

**The Convener:** We have come to the end of committee members' questions a little sooner than I expected, so I invite our witnesses to raise any points that have not been covered in questioning or which they feel have not been addressed properly.

**Gordon Ross:** My written submission mentioned the possible comparison with the Canadian model of tendering subsidised ferry services. The essential difference is that it involves a 60-year contract—we have already been through the discussion about European tendering periods. Another significant difference is that British Columbia Ferry Services is required actively to seek other operators for its routes, on a route-by-route or small-bundle basis. Some progress has been made on that. During the first term of the contract, there was an incident that threw it off its pace with regard to seeking alternative service providers, but it has just issued

a second document on four or five routes for which it is seeking alternative service providers over the next five to six years.

The idea that you can franchise routes within certain parameters with regard to fares and service levels and still, at the end of the day, have BC Ferries as the operator of last resort, should the private company run into trouble, is a good one. I offer that as an example of an alternative arrangement. Perhaps the committee would like to hold its next meeting in Canada.

**The Convener:** As the person who is responsible for bidding for the costs of external visits, I will take that under advisement.

**Charlie Gordon:** In this country, we have franchised rail services and bus services that are provided through normal market forces, in the main. Let us be clear about your position: you are not arguing for a free-for-all application of market forces in the Scottish ferry market; you are arguing for a franchise model.

**Gordon Ross:** I am looking for the ability to tender for routes that can be run on a commercial basis. Some routes that CalMac runs will never be provided on a commercial non-subsidised basis. However, I argue that the money that is currently being spent on supporting a vehicle service would be better applied to communities that rely on CalMac.

**Charlie Gordon:** In a sense, you are arguing for off-the-water competition, rather than on-the-water competition, whereas Mr Banks is a bit of a buccaneer, and is operating by means of true market forces.

**Gordon Ross:** There is a realisation that some routes in the CalMac network could be provided on a non-subsidised basis if a different business model were used. However, I appreciate that a balance must be struck in order to ensure that customers have security in relation to fare levels and service levels.

I still see the need for a passenger-only service between Gourock station and Dunoon town centre. I am not advocating its removal; I am suggesting that taxpayers' money should not be spent in support of a service that is meant to be provided on a commercial basis.

**Charlie Gordon:** Mr Banks, would the level playing field that you want mean that there would be no competition subsidised by the taxpayer, or are you talking about a different kind of level playing field that would involve your being given the opportunity to tender for franchised—that is, subsidised—routes?

**Andrew Banks:** We are looking for a level playing field. If NorthLink is subsidised, we should be subsidised to the same tune.

**Charlie Gordon:** Would you be content with neither of you being subsidised, so that there would be a head-to-head competition between two unsubsidised operators, which is how market forces generally work?

**Andrew Banks:** Yes. The subsidy on the Hamnavoe should be withdrawn and we should let the best man win. For comparison, the new catamaran cost about a third of what the Hamnavoe cost to build and carries a quarter of the crew that the Hamnavoe carries. The daily fuel consumption of the Hamnavoe would keep the catamaran running for a whole week. That is why we do not need a subsidy.

**Charlie Gordon:** We will be fascinated to see how she does.

Incidentally, I am not saying that I agree that the best committee is a committee of one, convener, although I have been fortunate enough to have served on such a committee in my time.

**The Convener:** We will have to have an argument about which person gets to be the one.

If there are no further points, I thank our witnesses for their time and for giving evidence. We will also take account of the written evidence, which goes into more detail about issues that arose at the end.

*Meeting closed at 16:37.*



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