

TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

Tuesday 3 June 2008

Session 3

£5.00

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TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE 12th 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 GAVE EVIDENCE:

John Ewing (Scottish Government Transport Directorate)
Graham Laidlaw (Scottish Government Transport Directorate)
Alan McPherson (Scottish Government Transport Directorate)
Stewart Stevenson (Minister for Transport, Infrastructure and Climate Change)

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 3 June 2008

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

Ferry Services Inquiry

The Convener (Patrick Harvie): Good afternoon, everybody, and welcome to the 12th meeting this year of the Transport, Infrastructure and Climate Change Committee. I record apologies from David Stewart MSP. I remind everyone present that mobile phones and other mobile devices should be switched off.

The first of the two items on our agenda today is to take evidence from the Minister for Transport, Infrastructure and Climate Change, Stewart Stevenson, as part of our inquiry into ferry services in Scotland. He is accompanied by Scottish Government colleagues: John Ewing, who is director of the transport directorate; Graham Laidlaw, who is deputy director in the ferries division; and Alan McPherson, who is branch head in the ferries division. I welcome the minister and his colleagues. Does the minister want to make any opening remarks?

The Minister for Transport, Infrastructure and Climate Change (Stewart Stevenson): I will make a few opening remarks if I may.

We are absolutely committed to delivering first-class ferry services for our remote and island communities. The need for regular and affordable lifeline services for our most peripheral communities is crucial, so we welcome the committee's inquiry into ferry services in Scotland. Clearly, the committee's work will complement our work on developing a strategy that will point the way forward for the future development of ferry services.

On the specifics of our ferries portfolio, I remind members that the Clyde and Hebrides ferry services were tendered to bring the subsidy arrangements into line with European law, including the maritime cabotage regulations and state aid rules. In September 2007, the contract was awarded to the sole bidder, CalMac Ferries Ltd, to operate services from 1 October 2007 to 30 September 2013. For the first time ever, the new contract includes a performance regime that requires punctuality and reliability to be monitored but takes into account the lifeline nature of the services. The contract includes scope for changes, either with or without the Scottish Government's support.

On the Gourock to Dunoon service, we recognise that the European Union needed to respond to complaints that were made. We welcome the initiative that the EU is taking across a range of ferry services, including the Gourock to Dunoon route, as that will give clarity for the future. We are keen to identify a solution for the Gourock to Dunoon route that addresses local aspirations while respecting European law. We remain committed to delivering the best possible outcome for the local communities involved. Of course, Cowal Ferries Ltd and CalMac will continue to provide a passenger and vehicle service on the route.

The contract for the northern isles passenger and freight ferry service was concluded on 6 July 2006 with the award of a six-year contract to NorthLink Ferries Ltd. The tendering exercise for the northern isles lift-on, lift-off service was completed on 29 May 2008 with the award of the contract to Streamline Shipping Group Ltd.

I referred to the EU investigation. On 16 April this year, the European Commission started its current investigation into support for Scottish ferry services. Although the investigation covers the term of previous Administrations, the new Scottish Government will co-operate fully with the Commission to reach a successful conclusion. In particular, we welcome the Commission's reassurance that the investigation

"does not question the need for a regular and affordable lifeline ferry service for local communities, nor does it threaten the continued provision of such essential services in the future."

We understand that the Commission anticipates making a final decision by the end of the year. We hope that that will bring an early resolution to the complaints that have been made.

We believe that the contracts for the Clyde and Hebrides and northern isles ferry services are already compliant with EU maritime law and state aid regulations. Officials have worked closely with the Commission over the years as it developed the tendering of the Clyde and Hebrides and northern isles services.

We understand the genuine concerns of people in remote and fragile communities about the affordability of ferry travel and the impact that that has on island communities. That is why we are investigating the road equivalent tariff as the basis for ferry fares in Scotland. Our study commenced in August 2007 and has three phases. Stage 1 of the study has been completed and we are currently finalising the arrangements for the pilot. We expect that the report on stage 1 of the RET pilot will be available for publication next week. We will of course ensure that the committee is provided with an early copy.

The second stage of the study will involve a pilot exercise that will run from 19 October 2008 for two and a half years on all the mainland to Western Isles routes, including Oban to Coll and Tiree. It is obvious that we have to be selective in running a pilot and that it is not possible to include all 69 routes in Scotland at this time. However, we will use the pilot to inform consideration of the introduction of RET to other routes when additional resources are available.

We have had a range of liaison meetings with interested stakeholders to inform them of the progress of the study and to gather views on the implementation of RET. That includes Highlands and Islands transport partnership; Strathclyde partnership for transport; NorthLink, CalMac Ferries Ltd; Caledonian Maritime Assets Ltd; Highlands and Islands Enterprise; and Argyll and Bute, Highland, Orkney Islands, Shetland Islands and Western Isles councils. We will keep them informed as the pilot progresses. Noting the committee's interest, I will ensure that officials keep the committee informed as well.

We are scoping the remit for a comprehensive review of lifeline ferry services in Scotland, which will take account of the committee's review. The existing contracts for lifeline ferry services are in place until 2012 for the northern isles and 2013 for the Clyde and Hebrides. Given the timescales that are required to take forward the relevant procurement options for both those contracts, the review needs to be completed in the next year or two if it is to successfully influence the future provision of services in the next round of contracts.

The challenge, therefore, is to take forward the commitment that is made in Scotland's national transport strategy to develop a long-term strategy for lifeline ferry services within the context of the Government's economic strategy. The work should then inform the next spending review to make the case for future investments and lifeline ferry services.

I am happy to take questions from the committee.

The Convener: Thank you very much. We will use the beginning of the session to discuss briefly the recent announcement on the proposed cessation of the Rosyth to Zeebrugge ferry service. As you will be aware, our inquiry focuses on the internal ferry network and the bulk of our session today will focus on that. However, we thought that it would be sensible to take the opportunity while we have you with us to ask one or two questions about that issue.

Can you advise the committee what discussions the Government has had with the Attica Group, which is the parent company of Superfast Ferries?

What was the timing and the nature of those discussions? What advice, assistance or other actions were taken by the Government to prevent the withdrawal of the service?

Stewart Stevenson: I will start by stating the obvious: it is a commercial service, albeit one for which the Government of the day made substantial investments in the infrastructure at Rosyth. Those investments are, of course, available for a wide range of services from here on in. There has also been revenue support through the appropriate freight grant for carriage of freight on the route, and the funding grant that was made in that regard is not yet exhausted. That sets the parameters.

Attica first approached the Government in January, not directly on the withdrawal of the service but seeking, because of difficulties that it was experiencing, to sell us the service. We explored that with Attica, but a commercial operation was not something that we wished to take on.

We asked Attica for the opportunity, working with Forth Ports plc, which has a huge interest in ensuring that the service continues under whoever's operations, to allow Forth Ports and the Government to engage with other operators to actively market the route. That permission was granted during the course of a meeting that I had with Attica in Athens in April—comparatively recently. Since then, Forth Ports and the Government have been engaged with virtually every operator that we can imagine. If anyone wants to suggest any that we have not thought of, we will be happy to hear it.

We believe that the factors that made it difficult for Attica to sustain the service will not necessarily affect other operators. Attica itself has suggested that another operator could make a success of the route.

The Convener: So, before January, the Government had no indication that Attica was not interested in continuing to operate the route.

Stewart Stevenson: To make sure, I will check with my officials.

No, there was no such indication.

The Convener: You said that there was a suggestion that the Government should take the service on. What were the balancing factors for the Government and would you have reached a different decision if any of them had been different?

Stewart Stevenson: The only basis on which we could have taken on the service would have been as a commercially viable proposition and it would simply not be right for us to run a commercial service. The service is a commercially

viable proposition that has been run commercially for a number of years and the company itself says that the route is still commercially viable. It is not a question of being able to put Government money into the project; we would clearly be at risk under state aid rules if we did that. In any event, it appeared that there should be options for other companies to consider the route.

Alison McInnes (North East Scotland) (LD): You said that you have been in discussions and that, earlier in the week, other operators showed encouraging signs of interest. Can you provide any further information to the committee on the nature and seriousness of that interest? What assurances can you give that the changeover will be seamless with no inconvenience to passengers? Have you had any discussions with your Belgian counterparts at the other end of the route?

Stewart Stevenson: I will start with your final question. The Flanders Government minister for Europe and tourism, Geert Bourgeois—I hope that he will forgive me if my pronunciation is not terribly good—has been in touch. The Flemish share our concerns about the situation, although there are a number of ferry routes out of Zeebrugge. He told us that the Bruges hotel sector is particularly concerned because a number of hotels view Scotland as an important ferry market and that the Flanders tourist board particularly likes Scottish tourists as they spend more money than their English counterparts. All frivolity apart, the Flanders Government is very much engaged. We will work with it to see what value we can derive from a joint effort on the situation.

I cannot expand greatly on what I have said previously about the prospects of particular companies. I am not in a position to comment on confidential discussions with companies that might take their interest no further. We also have to preserve the confidential information that we and Forth Ports are exchanging with those companies that continue to take an interest. Forth Ports is leading the discussions and we are supporting its efforts.

Will there be a seamless changeover between Attica and its successor operator after the last sailing from Rosyth on 13 September? I do not know at this stage. It will depend on how the discussions go.

14:15

Alison McInnes: Can I have your assurance that you understand the value of there being a seamless transition, especially in respect of freight? Once the traffic has been lost, it is harder to get it back again. I ask you to ensure that the issue is highlighted in discussions.

John Ewing (Scottish Government Transport Directorate): That is what we are doing. As the minister said, we are working closely with Forth Ports. It has proposals for the expansion of the network, because it perceives that there is greater demand than the existing service can meet. The plan is to develop a joint marketing document that we can take to other potential operators over the next few months to see whether we can negotiate with them to take over from Superfast and, for the reasons that you outlined, have as seamless a transfer as is possible.

Cathy Peattie (Falkirk East) (Lab): My question is along the same lines and relates to a concern that haulage companies have expressed. Although it is perhaps too early in the process to expect the minister to be able to give an answer—and we have perhaps had a bit of an answer—I am interested in knowing what consideration has been given to the amount of freight that is carried on the service and what support may be available for companies that rely on it.

Stewart Stevenson: Forth Ports believes that there is potential for 60,000 freight vehicles a year to be carried in a potential market of 200,000 or perhaps a bit more. Attica also thinks that there is untapped potential. We are currently down to a figure of 28,000, so we can see immediately that there is potential to more or less double the number of freight vehicles carried. We are supporting the transportation of freight through various grants and still have the money to continue to support it. I make it clear that that is not a commitment to a new operator until we go through due process, but I seek to ensure that the committee understands that there is not a financial impediment to support being given.

You also asked what support we can give to the hauliers who now have to drive to Hull. That is a fundamentally more difficult issue for us. I will not return to too many of the arguments that have taken place on fuel pricing. I think that the Westminster Government would be able to make some interventions, and I hope that it seriously considers those. The best support that we can give to hauliers is to support the efforts of Forth Ports and to contribute our expertise and knowledge to the effort to get a new operator in. Although fuel costs for maritime transport are rising, it is likely that those rises will have less impact than the increased fuel costs that are incurred by having to drive to Hull. We understand the issue.

Cathy Peattie: I appreciate your answer. It would be good if you could keep the committee up to date with the discussions that are taking place.

Stewart Stevenson: I will seek to do that within the limits of commercial confidentiality; you will understand that there are limitations. In a sense, it

is an issue for Forth Ports, which is leading the commercial negotiations. I know that there is also interest in the issue at Westminster, because international ferry services are of interest to it.

The Convener: I reinforce the point that the committee and the rest of the Parliament would appreciate being kept informed as soon as there is any clarity, even about the timescale on which the matter is likely to be taken forward.

Stewart Stevenson: In case no one had noticed, I note that John Park has put up for debate at members' business a motion that usefully encompasses the issues. Whether such a debate takes place is up to business managers—including the Labour Party's business manager—but, were it do so, I would welcome it.

The Convener: It is useful to have that on the record.

We will move on and consider the issues that clearly fall within the remit of our inquiry. You will be aware of the six evidence sessions that we have held in the course of the inquiry and the range of views that we have heard from those who have given us evidence.

Members have a number of questions. I will kick off with one about the commitment that the Scottish Government has made to undertake a comprehensive review of lifeline ferry services, which you mentioned in your opening remarks. Could you give us a little more detail about where things stand on that piece of work?

Stewart Stevenson: At the moment, we are working up to the review with some research that we are looking to commission. As far as timescales are concerned, we are being driven by the expiry of the two contracts in 2012 and 2013. Your committee's investigation—and, indeed, the report that I expect will emerge—is giving us a focus and considerably helping our work, so we might be able to short-circuit things. I do not want to make a commitment to a particular timescale, but we have taken the first steps. Perhaps I do not have as much to say on this matter as you might have wished me to.

The Convener: Could you give us a sense of the nature of public consultation and parliamentary engagement for the review?

Stewart Stevenson: We certainly want to ask communities around our coasts some of the questions that you have been asking in your inquiry. For example, is the route network the right network? Should certain routes be redirected or added? Have things moved on to such an extent that some routes are no longer required? There are clearly areas where people want improvements and others where they are broadly satisfied with the network. We need to flesh out such matters.

In developing ferry policy, we should remember that ferries are provided not only by the Government but by a number of commercial operators and by the councils in the Western Isles, Argyll and Bute, the Orkneys, Shetland and the Highlands. The whole range of actors in the ferry environment should be party to the policy's development, and we want a quite significant consultation to ensure that we get and understand their views.

As I say about transport in general, ferries are transport for a purpose. In other words, a ferry service is part of the economic infrastructure of our remote communities and one of the lifeline services that we provide. As a result, the businesses that depend on such services will be key consultees in the process. In fact, engaging with businesses will be just as much of a priority in developing ferry policy for Scotland as it has been in the RET pilot, which I am sure we will discuss later.

The Convener: So a significant consultation exercise will inform the review process.

Stewart Stevenson: Yes.

The Convener: I imagine that the review's recommendations will be put into the public domain. What will be the nature of any consultation on or parliamentary scrutiny of those conclusions or recommendations?

Stewart Stevenson: It is up to the committee to take its own view on the matter, but I would be surprised if it did not wish to engage with the Government on the results of the consultation and any proposals that we might make.

However, I do not wish to make any commitment on the exact detail of this issue, apart from making the general comment that I expect Parliament and its committees to form an integral part of the process. Until the consultation is complete and its conclusions are analysed, we will not necessarily know the steps that we will wish to take. For example, one of the subjects that the EU is broaching in its investigation into what is happening in Scotland is the option of having an independent ferry regulator. If that should form part of our way forward, we will obviously need to take certain actions. On the other hand, if we and the EU conclude that we do not need such a regulator, we will not need to take those actions. You will forgive me, convener, if, apart from my generic statement of our wish for engagement and discussion, I am less than specific about the detail of what might happen a couple of years from now.

The Convener: Will the research that is being conducted define the review's remit, or has the remit already been pinned down?

Graham Laidlaw (Scottish Government Transport Directorate): At the moment, we are trying to scope the exercise. To do that, we have taken on a new member of staff, carried out some internal workshops and liaised with our ferry operators.

I had anticipated that I would speak to HITRANS later this week, but that meeting has been cancelled for various reasons. I certainly anticipate that, as part of the scoping exercise, we will liaise with and consult a range of operators, users and local authorities. I imagine that the subsequent process will involve a number of work streams and will be similar to the exercise that we are doing on the RET study, which has involved a key stakeholder group. As part of that work, I spoke to local authorities on a number of occasions. I gave a presentation to Argyll and Bute Council members and had meetings with members and officials at Western Isles Council. There will be a great deal of engagement with local authorities and other key stakeholders and, given the extent of the exercise, I imagine that there will be public consultation, too, which has been a feature of the development of our ferry services over a number of years.

Rob Gibson (Highlands and Islands) (SNP): You have given us a number of things to think about, but I want to focus on two specific issues. Who should develop the strategy? Should it be your department, Transport Scotland or some other body?

Stewart Stevenson: It is quite clear that the responsibility lies with the transport directorate. I am not minded to substitute the team that I have in place, which I think is highly capable of making progress, by redistributing that responsibility.

It has certainly been suggested from time to time that Transport Scotland should look after ferries; I am pretty agnostic on that. I see no case for change at the moment and want to make progress with the team that we have in place.

Rob Gibson: You mentioned the possible creation of a regulator, which would involve some reorganisation. As part of the changes in organisational structure, some of your staff might become part of the new regulator's authority. Is now not the time to think about giving responsibility for ferry development to a specific group?

Stewart Stevenson: If I may, I will take a slightly different view on the subject. We first considered the setting up of a regulator as an option that we should think about in the autumn of last year but did not progress the idea at that stage because, to be blunt, there was a hiatus in policy making while we waited for the EU to take action. I am glad that the EU has now taken action

because that means that we can move forward by working with the EU to ensure that we provide compliant and appropriate services for our communities.

Although the EU says that it intends to make a decision by the end of the year, I gently indicate that I am not prepared to bind myself to its timetable and to leave the future of our ferry services in someone else's hands. What I as minister must do is engage on the issues. I must consult, analyse and come forward with a view. Over the piece, further information will come to the table, such as the EU's view on the complaint that has been made. It is far too early to talk about Joe Bloggs moving from one department to another, or to start mapping out new organisational structures. The process should be driven by an understanding of and a response to the needs of the communities that rely on our ferries rather than by organisational change.

Rob Gibson: Indeed. In that case, in the consultation will you seek people's views on a regulator and on who should run a ferry strategy?

14:30

Stewart Stevenson: You should remember that we are working up what should be in the consultation. I expect that we will consider including a question on a regulator. We may choose not to mention the proposal, of course, and to deal with it separately, although I suspect that we will not. Even if we were not to ask a specific question on the subject, given that every consultation boils down to a final question that asks, "Is there anything else that you would like to tell us?" I am sure that people will take the opportunity to tell us what they think. We want to engage on the issue.

Let me be quite clear: having an independent regulator does not relieve the Government and the minister of the obligation to set the policy parameters within which the delivery of ferry services takes place, nor does the regulator have the responsibility for ferry strategy. Having a regulator creates greater distance and greater transparency in what goes on, where the Government supports ferry services. That is our early thinking.

The Water Industry Commission for Scotland might be regarded as not too dissimilar—we have someone who crunches the numbers, analyses what the company is doing and receives from Government the policy that is to be taken forward and the objectives that the Government has. That is the kind of approach that any regulator in any area of government would take. However, that is all part of what we need to discuss and engage with and consult people on.

Rob Gibson: In the meantime, are you making any plans to develop ferry services in Scotland, such as on the route from Mallaig to Lochboisdale and the route from Campbeltown to Ballycastle, which is not in Scotland?

Stewart Stevenson: We have asked Caledonian MacBrayne to engage with Stòras Uibhist and it has been doing so. The key factor in identifying the right thing for the people of South Uist in particular is that we do not damage in a way that is unacceptable to other communities the services that are provided elsewhere. If Barra and South Uist were able to work together to come up with something that delivers benefits to both communities, I would of course be delighted to hear from them. I know that discussions are continuing and that that is not going to be easy. The proposals that came forward in the context of the bid from CalMac Ferries did not meet the requirements and would have been extremely costly. HITRANS has not identified such services as a priority for its transport needs in the area that it covers. However, we stand ready if the discussions come up with something that is practical and implementable. I understand the aspirations of people in Lochboisdale, South Uist and Benbecula. At the moment, ferry journeys there can be up to seven or nine hours, which is a substantial period.

Rob Gibson: They can be up to nine hours if you go from Barra to Lochboisdale to Oban.

Stewart Stevenson: Yes, that is what I was thinking of.

I am being reminded that you asked me about the Campbeltown to Ballycastle route, too. We are in the process of undertaking an appraisal under the Scottish transport appraisal guidance, which is being jointly funded by the Northern Ireland Executive, so we are moving forward. The First Minister and I reached an agreement with the First Minister and Deputy First Minister of Northern Ireland when they visited Edinburgh recently. We have made a budgetary provision to support that service. There is excellent infrastructure at the Ballycastle end, where the local authority has made substantial investment. That is the basis on which we are going forward. The First Minister will be in Northern Ireland about another matter tomorrow and I expect that we might hear more as a result of that visit.

The Convener: We have heard one or two witnesses address that issue. Like the Zeebrugge to Rosyth route, it is technically outwith the scope of the inquiry, but your comments on it are useful.

Alex Johnstone (North East Scotland) (Con): In spite of what the minister said earlier about the diversity of ferry service providers in Scotland, the majority of companies are Scottish owned. What is

the role of the Scottish Government in the work and policy direction of David MacBrayne Ltd, CalMac Ferries, NorthLink Ferries and Caledonian Maritime Assets Ltd?

Stewart Stevenson: On behalf of Scottish ministers, I appoint the directors of those companies. We have a contractual relationship with Caledonian MacBrayne and with NorthLink. In essence, our relationship with those companies is defined in the terms of the contracts.

Our role is to provide strategic direction, not to be involved in running the companies, which is for the owners. Caledonian Maritime Assets Ltd is not supplying vessels simply to NorthLink and CalMac; it is also now supplying a vessel to a Northern Ireland company. Furthermore, it is responsible for harbours as well as vessels. The company was created as a result of work that was done in the European Union, which meant that there had to be distance between the provider of the service and the creator of the infrastructure. There are limits to how long a contract can last, but vessels have a 30-year life, so companies with a contract that lasts just a few years will not invest in vessels.

As well as the appointments that I mentioned earlier, I appoint the members of the board of CMAL. It is my objective to remain at policy level and to keep well detached from operational matters.

Alex Johnstone: A number of witnesses have told us that opportunities for private sector involvement in the provision of ferry services have been extremely limited because of the approaches of the current Government and its predecessors. What does the Government do to support and assist the continuing operation and future development of privately operated, non-subsidised ferry services?

Stewart Stevenson: All harbours for which the Government has responsibility—through CMAL—are, of course, available to any private operator. Our investment in infrastructure in those harbours is therefore not simply for the benefit of the state-owned companies.

Where appropriate opportunities exist, we can use freight facilities grants to support the creation of freight infrastructure. We also offer water-borne freight grants as well.

The main difficulty is that few of our routes are commercially viable—the services are lifeline services. Earlier we spoke about the Rosyth to Zeebrugge service, which is a commercial service. A service is always at risk when the private sector is involved. Nonetheless, we have successful private operators around Scotland, many of which have been in place for many years. We very much welcome that: if commercial operators want to

take up other opportunities, we will welcome that, too.

Alex Johnstone: CMAL owns facilities that are made available to private operators. Are you wholly content that the nature of charging is clear?

Stewart Stevenson: Yes.

Charlie Gordon (Glasgow Cathcart) (Lab): Will you explain the reasoning behind the design of the road equivalent tariff pilot project? For example, how did you decide on the routes and the timescales?

Stewart Stevenson: A variety of factors led us to decisions on routes and timescales. It was clear to us that what we were considering was an economic injection into the communities whose routes we were supporting in the pilot. Part of our consideration was therefore the state of preparedness of remote communities to exploit the opportunity. We wanted to ensure that the benefits would accrue to remote and fragile communities.

We have adopted a fairly cautious approach. We have set the cost per mile for the pilot at the upper end. We are working to ensure that we have set the price so that use will not be driven up to the extent that capacity is insufficient to meet need. We are working to ensure that capacity exists to allow islanders to ply their trade across the Minch by having access to their ferries. We are also working to ensure that the effects on local housing markets are not too great. As we open up access to the islands, we open up access for people to go there and put pressure on the housing market. We want to have enough bed and breakfasts to exploit the new visitors whom we hope will go to the islands. We are considering a range of matters.

Why did we choose the routes? We wanted a set of routes. Our early thinking was about a single route to the Western Isles, but we realised more or less at once that if we supported one route, all that would happen is that traffic from an adjacent route would be diverted. We therefore concluded that we need to support all the routes to the Western Isles, to prevent that effect from distorting the pilot scheme's results.

When we looked for a set of routes whose scope was modest enough to allow us to move relatively quickly and to manage the pilot, the routes to the Western Isles were an obvious candidate. That option was also obvious because, in the past 20 years, the population of the Western Isles has dropped by 19 per cent. In comparison, Shetland's population has dropped by 1 per cent, as has Orkney's population. The average wage in the Western Isles is £50 a week less than that in Shetland and perhaps £30 or £40 a week less than that in Orkney. It is clear that the Western Isles are suffering economically and would benefit particularly from that economic injection. A wide

range of factors influenced our decision on where to run the pilot.

Why is the pilot for two and a half years? The question is how quickly people will adapt when they know that the ferry fares are lower. The system's introduction in the autumn is no accident. The winter season has lower carryings, so that gives us time to adapt, refine and respond. It is much better to introduce the pilot then than at peak time. We need two summers for the pilot, because it is clear from examining ferry operations around the world that the pattern of use of ferries in response to service changes continues well into the second year. We chose that length of time because when a pilot is designed, such a choice must be made.

Charlie Gordon: I am grateful for that comprehensive answer. Mr Laidlaw talked about meetings with stakeholders during the technical preparation—the scoping—for RET. It is fair to say that the committee has heard evidence—indeed, complaints—from people who regard themselves as stakeholders but who feel that they were not consulted on the RET project's development. Will you comment on that?

Stewart Stevenson: I will explain some of the time pressures that are involved in making things happen. In order that we could introduce the pilot in the middle of October this year, we needed to make the key decisions early enough for timetables and prices to be published in August—we worked back from that. I believe firmly that we did a good job in trying to consult as many people as possible and in having an open consultation, so that if we did not go to people, they could come to us.

We talked to councils, operators and a wide range of people; the consultation was pretty comprehensive. Of course, the consultation is not finished. As we move into the implementation stage, we will continue to consult, review and engage with the operation of the pilot. At its conclusion, we will need to ensure that we get the views of everyone on how it went and how we can refine it.

14:45

Charlie Gordon: Obviously, people who live in areas outwith the Western Isles that are not going to be served by the pilot have expressed concern to the committee. They are worried about the issue that you mentioned, which is the potential for displacement—I think you called it diversion. They are worried that they could lose out economically, for example, as a result of a negative impact on tourism during the pilot period. What is your response to those concerns? If any of those fears are confirmed, can you flex the pilot to respond to what would then be justified concerns?

Stewart Stevenson: We understand the issue and will monitor the pilot's effect on patronage on the other ferry routes. That is a key part of our monitoring of the pilot. Of course—and of necessity when constructing a pilot—we had to make choices: pilots are not universal but are restricted in scope. We have no plans to change the scope of the pilot in terms of the destinations that are served. We sought to support a package of longer-haul routes. It will still be more expensive to travel to Barra than to Mull, for example, even although the boat to Barra passes Mull en route. I would be surprised if the pilot were to have a huge economic effect on Mull.

I have heard the issues that people on Colonsay have raised. Of course, we are also supporting Argyll and Bute Council's introduction of air services to Colonsay, which will be a significant boost for the island's economy. The Government gives a variety of support to communities around Scotland. That said, we will monitor the pilot. As I said, pilots are, of necessity, selective.

Charlie Gordon: You said that people still have the opportunity to influence the RET pilot. Do you accept that people also want the opportunity to influence monitoring? I take the point that the numbers on ferry services throughout the country will be counted, but people who are concerned about the potential for diversion also have a view on other aspects of monitoring.

Stewart Stevenson: Mr Laidlaw is doing the monitoring.

Graham Laidlaw: At the last stakeholder session in Inverness in February, I said to all those who attended—including the Highlands and Islands strategic transport partnership, Strathclyde partnership for transport, NorthLink Ferries, CalMac and all the councils involved—that I would hear their views on monitoring. Back in March or April—I cannot remember the exact date—I gave a presentation to all the councillors on Argyll and Bute Council. At that point, as the minister mentioned, I said that a key aspect of the pilot is monitoring. We want to see what is happening on the pilot routes and on the other routes that may or may not be affected as a consequence of a potential diversion. Clearly, we have opened up that avenue to those people. I said that once we have received proposals from the consultants on how to take forward monitoring of the pilot, I would re-engage with people fully and effectively on monitoring.

Cathy Peattie: Witnesses have mentioned discounts to the islanders and companies that use ferry services. Their real concern is that RET will make them worse, rather than better, off. What are your views on that?

Stewart Stevenson: As a matter of principle, the policy position that I have laid down is that nobody should be worse off under RET. That does not necessarily mean that their previous arrangement will be further discounted: my policy position is that no one will be disadvantaged. However—I should develop this “however”—over a very long time, the company has built up a set of locally determined discounts for a wide range of specific interests. It is fair to say that, on occasion, the company discovers a discount that people at head office do not know about.

Cathy Peattie: Can you ensure that that is taken into consideration when you monitor RET? A bit of research into that would be helpful.

Stewart Stevenson: I am happy to fall into line with that.

The Convener: Will you clarify what you mean by the statement that you have just made that the policy decision is that no one should be worse off or disadvantaged? If it appears that that has happened inadvertently, will the Government take some other action during the pilot to correct it?

Stewart Stevenson: I prefer to wait and see whether any examples are brought to my attention. A range of examples have emerged in advance of the October start as people who will benefit from the arrangements have brought them to our attention. We are ensuring that CalMac engages with and addresses those issues within the policy framework that I have laid down, and I believe that that is happening. My crystal ball is not functioning today; I will wait to see what happens. I will not know what my response should be until I have been given a problem to which to respond.

John Ewing: It is worth reflecting on the fact that RET is a new principle for setting fares. It is fair to say that, in some comments that have been made to the committee, the expectation has been expressed that people will continue, as they have previously, to benefit from the discounts from the CalMac higher fare level. However, the move to RET is partly because those additional discounts will not be needed if we get the RET level right. As we develop the pilot, there will be discussion of how that works.

The Convener: We might want to take an interest in that after the inquiry is finished and as the situation develops to ensure that the Government is achieving its policy commitment to the extent that it would wish, if I can put it that way.

Rob Gibson: Have you received any submissions from the Scottish Crofting Foundation on the agricultural subsidies that CalMac provided? I declare an interest in that I am a member of the Scottish Crofting Foundation, but I do not know the answer to the question.

Stewart Stevenson: Yes, we have received representations, particularly in relation to headings for cattle.

Rob Gibson: Is that covered by Mr Ewing's remarks, or is it going to disadvantage some people on certain routes?

Stewart Stevenson: I come back to the broad statement that the number of arrangements on different routes—we are not talking about a huge number of routes—is substantially greater than I expected. The exercise is proving to be useful in bringing greater clarity. However, the bottom line is that we intend that no one will be disadvantaged by RET. We want to hear if anything in our proposals suggests that we are running counter to that policy position so that we can take the earliest possible opportunity to consider how to respond.

The Convener: We are moving on from RET, but are still with Rob Gibson.

Rob Gibson: The air discount scheme provides a benefit to privately owned airlines, and witnesses have suggested that it is having a negative effect on patronage of publicly owned ferry services. Is that the case and, if it is, what do you intend to do about it, if anything?

Stewart Stevenson: The transport needs that are addressed by airlines are rather different to those that are addressed by the ferries. The air discount scheme is very successful and we continue to support it. We have gained permission from the European Union to continue, which I welcome. The scheme delivers a benefit only to the residents of the islands and the far north of Scotland, or people who live in the vicinity of Wick, for transport originating in that area. I have seen no evidence that there has been a transfer of traffic from ferries to airlines. On the contrary, if we have a problem in respect of our ferries, it is in managing capacity so that we effectively meet demand.

Rob Gibson: That is obviously to do only with passengers, but RET involves much wider issues. When the 40 per cent discount scheme was being talked about, there was an uneven provision throughout the Highlands and Islands because of some routes being covered by public sector obligation arrangements.

John Ewing: There was a debate around the Highlands and Islands strategic transport partnership's proposals to introduce a general network of PSOs, but ministers at that time concluded that the discount scheme was a better solution. That was because it delivered the benefits to residents of the islands and the remote communities in a way that worked with the grain of the airline industry to develop the routes, because the benefits flow not to the airline operator but to the passenger, who pays a lower fare. However, if

the number of passengers who use a route can be increased, that encourages the operators to operate bigger planes and more frequent services. That has brought about a benefit in terms of the ADS.

Some PSOs involve extremely thin air routes to places such as Campbeltown, Barra and Tiree where—realistically—the ADS would not have any impact and a PSO is the only effective way of maintaining an essential lifeline connection.

Stewart Stevenson: It might be worth making the point that RET, like ADS, is operator neutral. The principle of RET is to support the user of the service, not the provider of the service—although, of course, it might result in increased traffic, which would benefit the provider. RET, therefore, would be available to privately owned and state-owned companies. The air discount scheme is in the same kind of position, in broad terms.

Alison McInnes: A common theme that has emerged in our inquiry has been the lack of integration between buses, trains and ferries. Respondents have cited numerous examples of poorly co-ordinated timetables and of services failing to wait when a connecting service is running late. Concerns have been raised that the integration of ferries with rail services in particular is harmed by the inflexibility of the ferry and rail service contracts.

Given that the Scottish Government is responsible for encouraging integrated transport and is the contracting authority for ferries and the rail service, what do you intend to do about the situation?

Stewart Stevenson: There are a number of actions that we intend to take. In last week's debate on climate change, Des McNulty drew my attention to one of those simple things that one tends not to notice, which was that people who set the timetables for different modes of transport have different views about when summer starts and ends. I certainly have a job to do in that regard.

By Easter next year, we aim to have installed on all the buses in Scotland equipment to read the card that older and disabled people use to access free bus services. That creates an opportunity to use that infrastructure on trains and other forms of transport to create through-ticketing. That is one strand of our approach. When we have through-ticketing, integrating timetables and ensuring that the various modes of transport connect with each other will become an obligation on the parties that are involved in the system.

There is no magic bullet that will deliver the aim. With privately run buses, we can use bus quality partnerships to help. With regard to the Gourock to Dunoon route, a through ticket from Dunoon to

Glasgow, with better synchronisation of trains and ferries, will help the situation.

I have certainly had a number of reports that there is a clear mismatch at Mallaig and Oban, and we want to address that. We will continue to talk regularly to the operators.

15:00

Alison McInnes: You anticipated my second question. Smart card ticketing will indeed be welcome and will deal with mismatches that exist in timetables, but another problem arises when one service is running late and the other service cannot wait for it because of the inflexibility in the contracts as they are written and the penalties that accrue to operators. Is there scope for you to create a little more flexibility in the system to allow, for example, a train to wait for a ferry that has been delayed?

Stewart Stevenson: There might be inflexibility in contracts, but there is also inflexibility in the infrastructure. For example, the trains that have to meet and merge on the west coast have to integrate with trains to the south. They have to connect with other modes. In the performance regime for the ferries, in particular, we allow for the knock-on effects of delayed sailings and we provide relief in contractual terms. In doing that, we try to relieve the ferry companies of the pressure of feeling that their performance will be marked down if they respond to events.

We must continue to keep the matter under review. Obviously, things such as ambulances and funeral arrangements are specifically built into the contracts as allowances. We can continue to work on the matter.

Alison McInnes: In my final question, I pick up on something that we heard when we were up in Mallaig, where there is a poor service in the winter—three services a week, perhaps. If one of the sailings does not happen because of bad weather, there is no attempt to make another sailing quickly. People have to wait for the next scheduled service, and as a result they are sometimes off the island for almost a week. Is there scope to be more flexible on that and reach a point at which the operator is expected to make the sailing as soon as is practicable?

Stewart Stevenson: One of the practical difficulties in transport is that one person's flexibility is another person's missed connection or delay. Therefore, when something has happened—mechanical failure, weather-created circumstances or whatever—operators simply have to exercise their judgment. We cannot prescribe things in contracts all the time. Were we to state that the train at Mallaig must always wait for the boat to arrive, people would not get on the sleeper to London at Glasgow.

Often it is best that decisions are made locally and that the local manager is accountable for the decisions that they make. That is not about the minister trying to escape responsibility. If I stood on the pier head at Mallaig, would I make better decisions than the local manager? No, I would not.

We do our best to build in enough flexibility to the requirements that we lay on the transport companies and ensure that they have the equipment to cover reasonable outages and difficulties, but on thin routes that have limited capacity, we will never deliver the service that is delivered by the 22 bus to Ocean Terminal, which I catch regularly to go to my office at Victoria Quay. Because the bus comes every four minutes, it is not a big problem if one does not arrive. That is quite different from the position in Mallaig.

Cathy Peattie: Transport Scotland is responsible for rail and road transport, while the transport directorate is responsible for ferries. Why are the responsibilities divided in that way? Would organisational change help to deliver the Government's transport objectives in a more integrated and effective way? Many people have raised concerns that Transport Scotland is not responsible for all transport issues. I am interested in your views on that.

Stewart Stevenson: The division of responsibilities predates my time, but I will not use that as a get-out-of-jail card. Transport Scotland is primarily about the delivery of transport infrastructure, running big projects and bringing together in one place the expertise in doing so. We are beginning to see some of the real benefits of that change, which was introduced by the previous Administration. In the previous world, before Transport Scotland became engaged, the promoters of railways had to be outside Government, which stretched the capabilities of some bodies. Transport Scotland's involvement brings greater coherence and more experience to infrastructure projects. That is the key thing that Transport Scotland does. The transport directorate is more about engaging on the provision of services.

The distinction is not clear cut, but that is the principal division between the two. Although when I came into office I saw the temptation to throw the organisation up and change it, I was not minded to do so, because I wanted to make the existing organisation work more effectively. One way in which a minister can do that is by keeping out of the way of the people who do the job, such as those who are sitting with me at the table. When I have a meeting on transport, the people from Transport Scotland and those from the transport directorate are there, working closely together; I see every evidence of that happening. The committee's report might influence me, but I am

not as yet persuaded that there is a need for wholesale reorganisation, although fine tuning will always take place. I am engaged with getting the job done.

John Ewing: I will expand on that, since Transport Scotland was created on my watch. As the minister said, the principal purpose was to create an entity that could deliver the main public transport projects, but there was a recognition that doing so needed a proper understanding of the rail and road networks. It made a lot of sense to gather that expertise into a single body. In addition, we were inheriting new rail responsibilities, so it made sense to recruit that expertise into the body. Transport Scotland has no expertise on ferry matters—that is in my directorate. As the minister says, we could have put that expertise into Transport Scotland, but there would have been no particular gain from doing so. However, we work closely with Transport Scotland. The minister would have my hide if I did not discuss with Malcolm Reed from time to time common areas of interest.

Stewart Stevenson: Correct.

Cathy Peattie: Several witnesses, including representatives of David MacBrayne Ltd, expressed regret that the shipping services advisory committees were abolished and raised concerns about the operation and effectiveness of the new arrangements for consultation with ferry users, which are the responsibility of the regional transport partnerships. Do you accept those criticisms and do you intend to review the arrangements?

Stewart Stevenson: When I met the chairman of the Public Transport Users Committee for Scotland recently, one of the subjects that we discussed was his committee's role in representing the interests of ferry users. I know that it intends to get more engaged in that, which it will do with my active support. Although this is a subject to which we will come on another occasion, moving the activities of the Mobility and Access Committee for Scotland to the PTUC, with the added power of mainstreaming those activities, will address some of the rather challenging issues in the ferry network for people with disabilities.

The abolition of the shipping services advisory committees happened on the previous minister's watch. I invite John Ewing to comment on that.

John Ewing: At the time, it was hoped that the integration with the RTPs would provide a better service. However, as the minister says, we need to keep the arrangements under review to consider whether they meet the purpose. The committee will recall that, when the legislation that set up the RTPs was being considered, some

members felt that we needed a public transport users committee that embraced all forms of public transport, rather than the individual committees that we had had until that point. The issue takes us back to the debate about whether we get more value from an integrated approach to public transport, so that issues such as the integration of timetables can be considered, or from a specialist service such as that which the old shipping services advisory committees used to provide. We will be interested in any views that the committee forms on that.

Cathy Peattie: Users and operators of the services thought that it was important to have such a mechanism and vehicle for consultation. We were interested in that. It is important that we raise the issue with you.

John Ewing: We have said consistently to David MacBrayne Ltd that the removal of the shipping services advisory committees does not end its responsibility for engaging with the communities that it serves and for finding alternative means of doing so. I know that the organisation's chairman is committed to trying to achieve that.

Cathy Peattie: I want to talk about disability. I will avoid talking about MACS, as there will be an opportunity in the future to speak about it.

The committee took evidence from people in Orkney in a videoconference. From that evidence, it was clear that disabled people on some Orkney islands do not have access to ferries. How will you ensure that ferry operators and those who are responsible for drafting ferry contracts hear the voices of disabled people? It is important that disabled people across the spectrum can make their views heard. The committee was concerned to hear that some Orcadians do not have access to ferries at all. How will the voices of disabled people be heard when new ferry services are being designed and when ferry services are being operated?

Stewart Stevenson: I return to my discussions with the Public Transport Users Committee for Scotland, or Passengers' View Scotland. That is precisely the sort of thing that I want it to be engaged in. I am sorry, but I have temporarily forgotten the name of that body's convener; I might remember it shortly.

Cathy Peattie: It is an age thing.

Stewart Stevenson: Yes. I remember it now: it is James King. He was previously deputy convener of the Public Transport Users Committee for Scotland.

The issue that the member raises was one of a range of issues that we discussed with Mr King. We have a powerful body that represents public

transport users, and it would seem perverse not to consider the whole range of public transport with it. James King is also a member of the United Kingdom body, which I have also met, and is therefore not constrained as an individual by the boundaries around the Scottish Parliament's responsibilities. Having such bodies that look at the whole picture is advantageous, although I recognise that the PTUC needs to extend its operation to look at ferries more.

Access to ferries is a continuing challenge, just as access to many railway stations is. The problem is partly to do with the age of our fleet, harbours and infrastructure. I want progress to be made and the PTUC to be a powerful voice in advising ministers and consulting in all directions on the subject.

The Convener: As you are aware, we have seen a number of ferry services for ourselves during the inquiry. There seems to be a broad range of provision. On some services, access issues have been taken seriously and addressed—or at least progress has been made in addressing them—but on other services there has been limited progress, to put things bluntly. Obviously, there has been a tremendous impact on disabled people who use lifeline ferries and on people who work with or support disabled people who cannot use ferries for that reason.

You are also aware that we have considered a petition on the issue, which we agreed to write to you about. If we can explore with you face to face anything further relating to the matter, that could give us answers and inform our report. To what extent can issues relating to the wider status of disability and ferry service access be clearly focused on and progressed in a way that they have not always been progressed in the past, given that some vessels or ports may have been constructed before the legislation was changed?

15:15

Stewart Stevenson: We should not need legislative change to address the issue, convener.

The Convener: We should not, but we are where we are.

Stewart Stevenson: I start from the point of view that we should not need legislative change, but we inherit an infrastructure of considerable age, which could be difficult to deal with. I want the issue to be at the heart of things as we go forward and I want us to engage with it actively. The PTUC, which draws together many interests, is far and away the best vehicle to inform ministers on the subject and on transport users' needs in general. The committee has been out and about and I would welcome its drawing to my attention, in its report or otherwise, specific examples on

which we should act. We are not short of options, but more would be welcome.

The Convener: We will consider whether we need to pursue that in writing ahead of the wider discussion on the two organisations at a future meeting.

Shirley-Anne Somerville (Lothians) (SNP): CMAL has indicated that it may need up to £200 million for vessel replacement over the next 10 years, and David MacBrayne Ltd told us:

"if we have 30 vessels and each of them has a 30-year lifespan, we should be replacing one a year."—[*Official Report, Transport, Infrastructure and Climate Change Committee*, 13 May 2008; c 708.]

We have heard some concerns about the level of investment that is available for vessel replacement over the period of this comprehensive spending review and beyond. How do you envisage the Government's future investment in ferry vessels taking place?

Stewart Stevenson: I recognise that the age of the CalMac fleet is substantial—it is in the range 17 to 19 years on a 30-year lifespan—so there is clearly a need to make new investments. The strategic transport projects review is one of the mechanisms for evaluating transport needs over the period to 2022. I am not in a position to anticipate what will be in the next comprehensive spending review and, therefore, what flexibility we will have for using money from it on such investments, but we will clearly have to make ferry investments. We are making some—we have announced what we are doing for the period going forward—and it will be up to the companies to make us aware of their specific needs and to consider the evolving ferry technologies.

John Ewing: The strategic review of ferry services, to which the minister and Graham Laidlaw have referred, will also consider future investment requirements. We are asking CMAL to undertake some consideration of the shore infrastructure and the sea-borne infrastructure. I know that the committee has had evidence from a number of people about the nature of the vessels that they can provide. The challenge is to strike a balance between providing all-purpose vessels, which can carry anything from dangerous cargoes to people's caravans, and providing fast passenger-only vessels. That is part of what the strategic review needs to consider, and that consideration can inform the spending review, as the minister said.

Shirley-Anne Somerville: Some witnesses also expressed concerns about a backlog in investment and a hiatus that took place when the tendering process was being gone through, which has left us in the situation that we are in at the moment. Has it been a problem that CalMac—or any other

operator or organisation—has not been sufficiently innovative and progressive in finding new ways to provide our ferry services?

Stewart Stevenson: One of the opportunities that having Caledonian Maritime Assets Ltd provides is that its focus is on the infrastructure rather than the operational issues of providing ferry services. CMAL is a relatively new player in ferry infrastructure in Scotland and it is conscious of the changes in ferry technology and the need to consider other ways of providing it. However, there are several constraints that will be difficult to deal with in the short term: first, the weather, as we have substantially difficult weather on some of our longer routes; secondly, the design of the harbours and linkspans to which our ferries have to connect; and thirdly, as John Ewing said, dangerous cargoes. In particular, if we put on the Islay route vessels that could not take a tanker full of whisky, which is technically a dangerous cargo, certain concerns would be expressed. The range of factors that influence the design of both ferries and harbours is significant, and responding to it will be a long-term activity.

While you were asking the question, I consulted informally. We do not think that there is any identifiable hiatus during the tendering process—the business of investment in ferries has continued—but, if you have specific evidence to suggest otherwise, I would be happy to hear it.

Shirley-Anne Somerville: The leasing of vessels has been mentioned, and examples have been given of the different timescales involved. For example, it appears to take five to 10 years for the public sector to decide that it wants a new ferry, to put that out to tender and to get it in place, while a private operator seems to be able to do that within the year—albeit without any public consultation and other things that the public sector has to do. Nevertheless, there is a large difference in timescales. Are you satisfied that we are considering all the different opportunities, such as leasing or taking vessels from other areas, to find the fastest approach to the investment?

Stewart Stevenson: In the Western Isles contract, the operator had to lease the vessels from CMAL to ensure continuity of service. In the future, we will obviously look at what we do. However, one constraint for public sector operators is the need to comply with European procurement rules. There is no such requirement if—for the sake of argument—someone wants to operate a catamaran across the Pentland Firth. That is a significant procurement issue for the public sector.

Similarly, there is a general undercapacity for building ferries in shipyards. Nobody in the United Kingdom seems to want to engage in building ferries, so naturally we have to go elsewhere,

where local requirements often have priority over ours. However, the question brings us back to the fact that on many of our routes we need ferries that are specifically designed to work with our shore-side infrastructure. That is a significant constraint that does not always exist on routes where other solutions, which their operators would describe as more innovative, are being sourced.

Shirley-Anne Somerville: A number of witnesses said that we need a larger investment in our ports to improve their safe operation in the future. How does the Government intend to assist the organisations, whether that is CMAL or anyone else, to fund that work?

Stewart Stevenson: CMAL has a funding stream to put into ports, and not simply the ports for which it is directly responsible. CMAL must demonstrate to ministers that it deals fairly in supporting other ports, such as privately and council-owned ports, so we are building a centre of expertise on ports in CMAL, too.

Ultimately, in the current comprehensive spending review period, the investment stream for ports will not deal with every port issue in Scotland. We have made some investments, such as the linkspan at Dunoon, from which we are yet to see any realistic use. We must ensure that we focus our investments in ports tightly on where they will deliver most value.

Shirley-Anne Somerville: Shetland Islands Council and Orkney Ferries both said that they will have to make major investments in new vessels by 2010 in order that their internal ferry services will meet the requirements of EU legislation. What is the Scottish Government doing to assist those operators?

Stewart Stevenson: The services in Orkney and Shetland are the responsibility of the respective councils. We are engaged in discussions with Orkney Islands Council, in particular, which took over from the Scottish Office the responsibility for ferries and the relevant assets. We recognise the substantial investment that the council may need to make to comply with regulations in the future.

Alison McInnes: In reply to a question from Shirley-Anne Somerville, you said that investment is continuing. What is the current annual funding for new vessels and vessel refurbishment?

Graham Laidlaw: Funding is in the order of £10 million a year. A vessel for Islay is on order from Gdańsk in Poland. Three vessels have been completed in the last couple of years: MV Loch Shira on the Largs to Cumbrae service, and MV Argyll and MV Bute on the Wemyss Bay to Rothesay service. There is a £25 million investment in the Islay vessel.

Alison McInnes: Is that funding from the previous spending review?

Graham Laidlaw: Yes.

Stewart Stevenson: We are continuing to make provision at the rate of about £10 million a year. Essentially, there is no change.

The Convener: I turn to other potential developments. We have heard from some areas, including Orkney and Shetland, that thought has been given to the possibility of fixed links on specific routes, or land bridges with short ferry links between islands that are in close proximity to one another, which could provide practical and more economic long-term alternatives to the current ferry services. Does the Scottish Government have a position on that?

Stewart Stevenson: The services to which you refer are local links and are the responsibility of local authorities.

The Convener: So the Government has no view on the matter.

Stewart Stevenson: It is for local authorities to manage their responsibilities in that regard and to approach the Government if they require support.

The Convener: What manner of support would be available if they made such an approach? Has the Government taken any view on the issue?

Stewart Stevenson: When approaches are made, we take a view.

The Convener: Is there nothing more to say on the issue?

Stewart Stevenson: I do not think so.

John Ewing: The only advice that we would give to a council that was considering such a project would be for it to use STAG to determine the most effective way of meeting the needs of the community. It would be up to the council to decide how to proceed.

Rob Gibson: My question relates to an issue that is outwith councils' responsibility for ferries. What is the Scottish Government's position on the suggestion that there should be a shorter route from Jura to the mainland?

Alan McPherson (Scottish Government Transport Directorate): I imagine that the issue falls within the scope of the research study that we are undertaking of the suitability of existing routes. Our analysis may indicate alternative routes that should be considered.

Rob Gibson: Will the question be asked?

John Ewing: If it is put to us, we will ask it.

Stewart Stevenson: Given that Mr Gibson has raised the issue, he may take it that the question has been put.

The Convener: We have heard a range of views on the question whether the current ferry service contracts make it difficult to make minor amendments to routes or timetables, and whether CalMac and NorthLink have sufficient ability to respond to the changing needs of ferry users. Does the Government believe that there is a need to streamline arrangements for making minor alterations to contracts?

John Ewing: We are still exploring the issue with companies, which have experience of operating different contracts. We have sent the message to boards that ministers do not want to stand in the way of sensible adjustments that meet customers' needs, as long as they remain within the cost parameters of the exercise. We are not seeking to use contracts to prevent innovation. However, the committee should keep in mind the fact that one reason for the restrictions that are contained in the contracts is that, at the beginning of the tendering process, communities were concerned that there should be safeguards regarding the nature of the service. We could have gone for a solution that essentially left it to the provider to decide more or less everything, with us just controlling the costs. However, we have a much more constrained set of options, so a balance needs to be struck between what communities are asking for in terms of certainty and what modest improvements can be made now.

15:30

Stewart Stevenson: A number of minor adjustments have already been made, which seem to have gone through without any great difficulty. We will certainly not stand in the way of sensible adjustments.

The Convener: Is the current situation sufficiently flexible?

Stewart Stevenson: Specific instances where a lack of flexibility has been evident have not yet been put to me.

The Convener: So your view is that streamlining is not required.

Stewart Stevenson: There is no evidence yet that streamlining is required, but we have the option to change the nature of the contract as well as refine the timetable within the existing contract. If people wish to bring specific instances to the minister's attention, he would, of course, be happy to look at them.

Rob Gibson: I turn to the subject of governance in respect of the European Union's views about public service obligations. We heard evidence from Professor Neil Kay that suggests that lifeline ferry routes could be subject to public service obligations and that an independent ferry regulator

in Scotland and an operator of last resort should be established. Do you have a view on those proposals?

Stewart Stevenson: Creating a formal public service obligation in relation to ferries can be done by Westminster but not by us. Of course, a PSO merely protects the route's infrastructure; it in no way provides for there actually being a ferry service, because of the different definition of PSO in the maritime world compared with the aviation world. However, within the public service contracts that are used, it is possible to specify the frequency of the timetable, capacity and service levels, and to bind the contractor into delivering services. Such contracts also enable us to protect the infrastructure, which could otherwise be protected by a PSO. More to the point, public service contracts are within our powers, so they are a more effective and quicker way of delivering the protection that our communities require than involving another party in PSOs, which would address only a limited part of what is required.

Rob Gibson: Are you concerned that, as Professor Kay said, where Whitehall is involved one might be less likely to get a sympathetic hearing, because routes in other parts of the UK might be opened up to similar PSO questions?

Stewart Stevenson: Where one can apply PSOs in maritime transport is clearly defined. Maritime transport is not a huge issue for much of the rest of the United Kingdom, in comparison with its importance in Scotland. I am not trying to do down the UK Department for Transport or its ministers, to whom I speak regularly, but it simply is more straightforward if we do things within our own competence, especially given that the public service contracts that we use enable us to specify a much wider range of matters in relation to the provision of service than a PSO would address in a maritime context. In other words, if we had a PSO, we would still need a PSC, but a PSC enables us to specify all the things that we could do with a PSO, therefore it seems more straightforward to do things within our own competence, as it does not involve anyone else. The moment you involve anyone else, however supportive they may be, you make things more complicated, create less flexibility and open up possibilities that I have sought to avoid.

Rob Gibson: Do you agree with the EC's transport spokesman who, in August 2006, stated that in applying for a tender,

"Companies have to be able to compete and know in advance what the subsidy is exactly paid for. The purpose of the subsidy has to be specified in the PSO"?

Surely that means that, even if a service is bundled with others, your actions must be underpinned by a PSO that defines the need for the public service before you apply PSCs.

Stewart Stevenson: Everything in that statement is covered by PSCs.

Rob Gibson: Everything?

Stewart Stevenson: Yup.

Rob Gibson: Why, then, did the speaker not refer to PSCs?

Stewart Stevenson: You will have to ask the person responsible for making that statement.

Rob Gibson: So we are assuming that it is easy to apply PSCs to underpin services in Scotland, but surely an independent regulator would be able to judge whether a public service is necessary.

Stewart Stevenson: The necessity for a public service is driven by the necessity for public finance to support its operation. That is the starting point. If the revenue stream related to the cost base of providing that service means that a commercial service can be run, that is what will happen. That situation would not end with the creation of an independent regulator, who would regulate all operators—private and public—and set down parameters.

With bus quality partnerships, for example, the bus companies may be private operators, but the framework allows us to specify standards of service and service operation. The same approach could be taken with an independent ferry regulator. However, we have not yet reached a conclusion on the matter. We are working with the EU on it and, indeed, are examining it ourselves.

The bottom line, though, is that a great majority of ferry services in Scotland would not be able to operate without public money. We need an environment in which we control what is delivered for that public money and can make the available public support transparent to anyone who might wish to bid for a service.

I do not claim that PSCs are the only way of doing things, but they seem to be the most straightforward way and are wholly within our competence. As a result, they give us more flexibility and allow us to move forward quicker.

Rob Gibson: The matter is complicated by the fact that London is involved; after all, the EU transport commission's recent decision went not to us but to the cabinet secretary for foreign affairs—or whatever David Miliband's title is. Can we not insulate ourselves with a system that includes PSOs and a regulator, based on the Altmark judgment? That would allow us to set out the public service that is required.

Stewart Stevenson: No. PSOs have to involve Westminster; PSCs do not. As a result, PSCs are the route for simplifying the number of actors in the equation.

When I visited Brussels last week, I engaged with both the director general for the environment and the director general for energy and transport, whose directorate is working directly with us without the need for a postbox in London. Not only will such an approach allow us to identify the correct way for Scotland to interact with Europe, it will minimise or avoid the involvement of the Department for Transport, which, of course, has taken account of all this and is happy to delegate this part of the process. Legally, it must be part of any dealings with the EU, but Graham Laidlaw and other officials deal with the Union directly by phone, by letter and in face-to-face meetings. In all that work, we are receiving excellent support from the UK permanent representation to the EU. To put it bluntly, we would be hard put to find a more effective way of dealing with the issue that confronts us, which goes back a long way.

Rob Gibson: Arguably, as I have suggested in my questions, we might have avoided the complaints that arose if we had had PSOs and a regulator, given that the complaints related to how public service was measured. Is that not the case?

Stewart Stevenson: No. In the maritime context, PSOs are about infrastructure; unlike in aviation, they are not about the provision of services. That is why PSOs would not in any sense insulate us from such complaints, which the European Union must investigate. The PSC is a way of putting into the public domain, in a transparent and open way, the operational support that is given to private and state-owned ferry operators. I sense that there is good will in Europe to work with us to come up with a system that is robust and can be defended in future. I am absolutely clear about that.

Rob Gibson: Thank you, minister.

The European Commission is investigating the subsidies that are paid to CalMac and NorthLink to ensure that there has been no overcompensation or undue distortion of fair competition. How does the Scottish Government intend to respond to the investigation?

Stewart Stevenson: We are in the course of preparing our response to the investigation. We will share much of that response with the public, provided that we have the Commission's permission, as such exchanges are normally confidential. To ensure that there is transparency, we will share much of our response with the public, with users of the ferry services and with the committee.

Rob Gibson: How can anyone decide what overcompensation is if we have no idea about the public service requirement for any route?

Stewart Stevenson: Public service contracts express the public service requirement. That is the

whole point of putting them in place. However, much of the work that the European Commission is considering dates back to before the existence of the public service contracts. Some of the arrangements date back to the 1980s, but a great deal has happened since then. A great deal of work has been done by the current Government and by my predecessor—on certain issues, I criticised him in opposition, but I will not do so here—who was involved in a great deal of engagement. We are confident that we now have a set of arrangements that are robust and defensible across the piece, and we will say so in our response. What happened before the current arrangements were in place is, well, another country.

Alex Johnstone: I will read this question carefully, because I understand that, if we do not get an answer in sufficient detail, we might write to the minister on the subject. When will the Scottish Government make a decision on the future of the Gourock to Dunoon service that currently is operated by CalMac as Cowal Ferries Ltd? Will the current European Commission investigation into the subsidies that are paid to CalMac and NorthLink have implications for the timing of that decision?

Stewart Stevenson: The investigation has implications for a wide range of our activities on ferry services around Scotland. Let me read out the Government's commitment on the issue. We said that we would

"take steps to ensure the continuity of the vehicle and pedestrian service between Gourock and Dunoon to provide a service capable of meeting the needs of the local community and delivering real economic growth to the region."

We continue to work on that.

Alex Johnstone: So you do not know as yet.

Stewart Stevenson: At the moment, I am not in a position to give a date.

Alex Johnstone: Thank you very much.

Moving on, let me look a little further ahead. What mechanism does the Scottish Government intend to use to secure the provision of northern isles and Clyde and Hebrides ferry services following the end of the current contract period?

Stewart Stevenson: That question indicates why we are undertaking research in order to bring forward our strategy for ferries. I remind you that the dates for the end of the contracts are 2012 and 2013. At this stage, I cannot give you an answer.

15:45

Alex Johnstone: When do you expect to have a procedure laid out?

Stewart Stevenson: Once we have completed the formulation of our ferry policy.

Alex Johnstone: Is the timescale adequate, given that the contracts end in 2012 and 2013?

Stewart Stevenson: Yes.

The Convener: Do members wish to ask about any other issues that have not been touched on already?

Alison McInnes: I have a question to follow up that last answer. As part of your policy making, minister, will you consider the appropriate length of time for any new contract? We have heard comments that five or six years is far too short a duration.

Stewart Stevenson: We are constrained by the European Union rules, and six years is the maximum length of contract that we would be permitted to grant under those rules.

Rob Gibson: The Government has carried the present tender system through. Is there actually a need for a tender system in future?

Stewart Stevenson: We will have to address the need for an open and transparent awarding of public funds to support ferry services. In examining our ferry strategy, we will consider whether to continue with the approach that was taken last time.

I make this comment in passing: members will be aware of the costs of the tendering exercise. Many of them were associated with the establishment of new companies and the transfer of assets from one company to another, and would not be incurred in any future tendering exercise.

The Convener: There are no further questions. I thank the minister and the officials for taking the time to attend and for answering our questions.

Decision on Taking Business in Private

15:47

The Convener: Item 2 is a proposal to take business in private. The committee is asked to consider whether to take in private all future consideration of draft reports on our ferries inquiry. Do we agree to take those future items in private?

Members indicated agreement.

Meeting closed at 15:47.

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