



**TRANSPORT
SCOTLAND**
CÒMHDHAIL ALBA

Research and Analysis of Options for Ferry Freight Fares

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Executive Summary

Transport Scotland's Ferries Plan 2013-2022 recognises the need to develop an overarching policy for freight fares. The aim is to:

- deliver a new fare structure that is simple, transparent and does not advantage one part of the network over any other part; and
- balance the wellbeing of communities against the public sector cost.

Building on this, Transport Scotland committed to undertake a comprehensive review of freight fares policy and develop options for future fares strategies.

Research was undertaken to inform the review. The first objective of the research was applied to both Transport Scotland and local authority operated services. This involved undertaking a review of current procedures and charging mechanisms for freight carried by trailers, containers and other means across Scottish Government directly subsidised ferry services and local authority operated services. The second objective of the research applied specifically to Transport Scotland's two tendered ferries networks (the Clyde & Hebridean Ferry Services and the Northern Isles Ferry Services). It should be noted that this review did not consider commercial ferry services. The findings of this research are contained in this report.

It should be noted that the purpose of this research is to propose, analyse and consult on options for revised fares structures. The aim of this exercise is to develop an evidence base which will help to inform Transport Scotland in the review of freight fares policy. The research is not intended to recommend a single option to be taken forward by the Scottish Ministers, rather to develop and consult on a range of options which could form the basis of future freight fares policy. The findings of this research will be used by Transport Scotland to inform the actual review of ferry freight fares.

Current Practice – Commercial Vehicles

In the context of this study, Commercial Vehicles (CVs) are defined as self-propelled vehicles used for the transportation of commercial goods. CVs therefore comprise: vans and rigid (lorries) as well as trailers attached to a cab/tractor unit (e.g. articulated lorries).

The key points with regards to the current charging of CVs are as follows:

- with the exception of the Corran Ferry, which is charged by weight, CVs on all tendered ferry services in Scotland are charged on the basis of length, with the lane metre being used as the unit of measurement.

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- some operators, such as CalMac, charge on the basis of the incremental half lane metre or lane metre whilst others, such as Shetland Islands Council, charge on the basis of lane metre bandings.
- CalMac and a number of other operators define a vehicle as a CV when it is longer than a certain length threshold, typically five or six metres. Others, such as Serco NorthLink, charge all commercial traffic as CVs, although judgement is required to determine when a vehicle is on commercial business.
- fares on the Transport Scotland tendered networks are uplifted annually by CPI inflation. Local authorities tend to increase fares on a similar basis, although any increase is at the discretion of Elected Members.

Current Practice – Non-Commercial Vehicle Freight

In the context of this study, non-CV freight was defined as including unaccompanied traffic (e.g. drop trailers); freight on mafi trailers; agricultural vehicles and equipment (self-powered or towed); specialist industrial plant and equipment (self-powered or towed); loose loaded cargo (e.g. bags and pallets); livestock cassettes; loose livestock; containers (LoLo); abnormal or wide loads; and other goods craned and lifted onto the vessel.

The key points with regards to the current charging of non-CV freight are as follows:

- the vast majority of non-CV freight carried in Scotland is in fact CV-derived, drop trailers, mafis and wide-loads for example. The basis of the charge is, where practical, generally the lane metre or lane metre equivalent.
- the market for non-CV freight has been in significant decline in recent years, driven firstly by the growth of the haulage market and latterly by the expansion of the parcel delivery market.
- on routes not operated by Ro-Ro ferries or where a lane metre based charge is impractical, the basis of the tariff is typically tonnage or defined parcel rates.
- whilst there is generally a rationale for the charging of non-CV freight, an issue to emerge across all of Scotland's publicly funded ferry networks is the lack of a clear basis for current fare levels. There was very little understanding amongst the majority of operators as to why fares are set at their current rates. In many cases, it appears that the fares charged are based purely on historical precedent and bear little relation to distance or cost of operation. The common practice has been to apply an annual inflationary increase to all fare classes.

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International Benchmarking

As part of this research study, a detailed international benchmarking exercise was carried out. The focus was principally on non-CV freight but also covered elements of CV based freight. The key findings of this exercise were:

- public sector and tendered operators will typically use a single metric as the basis of the fare, whilst larger and more complex commercial operators will use sophisticated matrices combining each of these factors. Whilst height, weight and volume are used as the basis of the fare in a small number of examples, the overall trend is to use the lane metre as the basis of the charge.
- the fares charged by the majority of ferry operators are for quay-to-quay transport only. This will include the marshalling of the freight onto the ferry, transit and unloading. The majority of operators tend to include berthing and pier dues within the fare. A small number of operators will charge a handling fee for unaccompanied freight (such as drop trailers), whilst some operators will offer optional add-ons such as time charged quayside storage space.
- the majority of commercial operators will charge a fuel surcharge or bunker adjustment factor to insulate them against future fuel price increase.
- a number of publicly supported ferry operators in Europe and beyond make use of peak and shoulder-peak pricing to encourage commercial traffic (CV or otherwise) to travel on less busy or dedicated freight services.

Option Development

As well as the need to be consistent with the Ferries Plan and existing policy directives, Transport Scotland set the following criteria for the initial appraisal of fare options:

- **acceptability:** Acceptable to the freight industry, island business communities and the wider island community.
- **affordability:** Affordable for the Scottish Government, by ensuring any change to the fares structure is sustainable going forward.
- **consistency:** Fares are set in a consistent manner, i.e. in a way that involves applying the new fares regime, e.g. distance based or volume based, in a consistent and equal basis across all directly subsidised Scottish ferry routes. Applying the fares regime consistently will remove any perceived anomalies in the setting of

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freight fares, and will ensure that no part of the network is advantaged relative to another part.

- **sustainability:** The level of fares supports the future sustainability of island local economies and communities.
- **transparency and simplicity:** Simple for the directly subsidised ferry operators to put in place and operate and transparent so that users can easily understand how fares are set.

The benchmarking research suggested that **the basis of the future fare should be the lane metre, or lane metre equivalent**. A series of in-principle fares options were developed on this basis. The fares set out for each option were for the average vehicle length on each route and assumed both a position of revenue neutrality and zero demand elasticity. These 7 options are set out in the table below:

Distance Based Route Specific £/Mile	Distance Based £/Mile	Fixed £ ie Flat Fare
(1) Best fit function on current published fares £/mile varies with distance.	(4) Constant rate per lane per mile.	(6) Flat rate per lane metre.
(2) Fixed charge plus constant rate per lane meter per mile.	(5) Constant rate per lane metre per mile within distance band.	(7) Flat rate per lane metre within distance band.
(3) Fixed charge plus rate per lane metre per mile based on distance threshold.		

Each of the seven options was consulted on with operators, public sector stakeholders and industry bodies. Consultees were given an Options Paper with a series of consultation questions to respond to within an 11 week period. A total of 24 organisations were invited to participate in the consultation of which 15 submitted a formal response. Several key themes emerged during the consultation:

- there was a majority view that **fares should be linked to the distance of the crossing, with the application of one or more distance bandings** to ensure that there are no disproportionate fare changes for given route lengths;
- whilst one or more distance bandings are seen as desirable, consultees stressed the need for a **pragmatic and fair approach to allocating routes to each banding**, so as to ensure that there are no clear distortions at the margin (although it is acknowledged that this would be a challenging task);

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- there was a broad although not unanimous consensus that **there should be a fixed cost element to the fare**; and
- there was a widely held view amongst the majority of stakeholders that **at least the Aberdeen – Lerwick route should be contained within its own distance band**, given that it is longer by some margin than any other route.

In light of the consultation responses, the following options were rejected from further consideration, principally as a result of their large negative impact on one or more routes (caused by the absence of distance banding).

- option 2: Fixed Charge plus constant rate per lane metre per mile;
- option 4: Constant rate per lane metre per mile; and
- option 6 : Flat Fare per lane metre.

The following options were deemed as worthy of further consideration by consultees (although note that there was not consensus on this):

- option 1: Best-Fit Function – Variable rate per lane metre per mile; At the 4th Working Group Meeting on 26th February 2015 it was agreed that Option 1 (Best Fit) could be dropped, as it does not resolve existing inconsistencies and lack of rationale, it merely removes the extremes.¹

The following three options are to be taken forward for further consideration:

- option 3: Fixed Charge plus rate per lane metre per mile based on distance threshold;
- option 5: Constant rate per lane metre per mile within distance band; and
- option 7: Flat Fare per lane metre within distance band.

Each of the above options was seen by stakeholders to be broadly acceptable for further consideration because they retain a clear link to the distance of the crossing, are consistent, transparent and inherently fair.

The following table summarises the key issues for each of the three options based on the quantification analysis exercise and shows the routes that would be more adversely affected by each of these options.

¹ The pros of option 1 are: 1) Relatively small fare changes *vis a vis* the current situation and 2) Maintains a link between cost and distance and minimises the overall change in fares. The cons of Option 1 are 1) Upholds the current fares structure and its anomalies and inconsistencies. 2) Lacks rationale for the current shape and position of the best-fit line. The routes with Most Adverse Impact are 1) Uig-Tarbert-Lochmaddy and 2) Lerwick-Kirkwall.

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Option	Pros	Cons	Routes with Most Adverse Impact
Option 3: fixed charge (assumed at £50) plus rate per lane metre per mile based on distance threshold	1) Limits the impact of fares changes on long routes. 2) Includes a fixed cost element aimed at cost recovery. 3) Maintains link between cost and distance	1) Long routes suffer disproportionately large increases under the example formula. 2) Particularly large increases for the Northern Isles	1) Lerwick – Aberdeen 2) Kirkwall - Aberdeen
Option 5: constant rate per lane metre per mile within distance band	1) Relatively small fare changes <i>vis a vis</i> the current situation. 2) Maintains a link between cost and distance and minimises the overall change in fares.	1) Defining distance bands would be challenging and could disadvantage one community over another 2) Lacks a fixed cost element aimed at cost recovery.	1) Oban – Castlebay / Lochboisdale 2) Uig – Tarbert / Lochmaddy
Option 7: Flat Fare per lane metre within distance band	1) Relatively small fare changes <i>vis a vis</i> the current situation. 2) Maintains a link between cost and distance and minimises the overall change in fares.	1) Defining distance bands would be challenging and could disadvantage one community over another 2) Lacks a fixed cost element aimed at cost recovery.	1) Lerwick – Kirkwall 2) Kirkwall - Aberdeen

Discounts, Surcharges and Policy Questions

The research also considered and consulted on issues related to existing discounts, surcharging and wider policy questions. The following key points emerged:

- there was a majority consensus amongst all stakeholders that the current vehicle surcharging regime is entirely appropriate, in that a surcharge is levied for wide loads only;
- there was relatively widespread support amongst consultees for the retention of existing drop trailer services and the extension of such operations where there is a demand and it is operationally practical to do so;
- there were mixed views on whether it is appropriate or otherwise for the operator to include a transparent handling charge for drop trailer units.

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The issue of applying a handling charge for drop trailers is one which will require further detailed consideration;

- there was majority support amongst consultees for the implementation of demand management measures, with the key caveat that very few stakeholders support the concept of peak pricing. The consultation suggested that the majority of stakeholders are willing to consider a range of other demand management measures including trough pricing by time of day or day of the week; drop trailers; restriction of high sided vehicles on peak sailings; and improved management of block bookings;
- it was consistently explained by stakeholders that demand management measures are less appropriate on routes where there were less than three ferry crossings per day;
- there was not an appetite for a Bunker Adjustment Factor (ie a fuel surcharge) amongst operators, trade bodies and the majority of local authorities. However, a number of stakeholders, including the Northern Isles local authorities, expressed a willingness to explore options related to an enhanced inflation based adjustment to the fuel element of the fare;
- there was a broad spectrum of opinion and little consensus amongst stakeholders with regards to the appropriateness of different types of discounts. However, what was abundantly clear from the consultation feedback (and a point referenced by a number of stakeholders) was that there lacks a clear body of evidence on how each discount influences patterns of economic activity in the islands and the outcomes at the business, sectoral and island levels;
- consultees across the board acknowledged that developing an effective definition of a CV is and always will be challenging. Overall, there was broad support for Serco NorthLink's approach of defining any vehicle engaged in a commercial activity as a CV and charging them accordingly. It was acknowledged that this introduces a degree of subjectivity in that ticket staff need to make a professional judgement on whether a van, for example, is being used for commercial purposes;
- there was a majority consensus amongst all stakeholders that increasing fares to reflect network improvements is an unacceptable option and should not be considered further; and
- there was a majority consensus amongst stakeholders that where a loose freight operation meets a need that cannot be economically satisfied in any other way, it should be retained. Stakeholders explained that, on islands where a loose freight service runs alongside commercial parcel operations, further research is required to identify the need for such a service and the benefits it brings to the island in question.

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Conclusions

There was a majority consensus amongst stakeholders that:

- the lane metre or lane metre equivalent should be used as the basis of the charge for all freight carried; and
- fares should bear at least some relationship to distance, with a view that the £/mile fare should decline with distance travelled.

The options that are taken forward for further consideration are the following²:

- option 3: Fixed Charge plus rate per lane metre per mile based on distance threshold;
- option 5: Constant rate per lane metre per mile within distance band; and
- option 7: Flat Fare per lane metre within distance band.

The research also considered the full range of issues pertaining to surcharges, discounts and wider policy questions. It found that there was no appetite amongst stakeholders for any major changes to the current surcharging regimes; commercial fuel surcharges; or increased fares to reflect network improvements.

The debate around issues such as drop trailer handling charges, fuel related surcharges and discounts was more nuanced and there was an acknowledgement amongst stakeholders that further research is required on how each of these areas links impacts on individual islands, economic sectors and businesses.

² Although Option 1 Best fit function was considered during the consultation process, at the 4th Working Group Meeting on 26th February 2015 it was agreed that it could be dropped, as it does not resolve existing inconsistencies and lack of rationale, it merely removes the extremes.

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1 Introduction

1.1 Overview

1.1.1 Transport Scotland's Ferries Plan 2013-2022 recognises the need to develop an overarching policy for freight fares. The aim is to:

- deliver a new fare structure that is simple, transparent and does not advantage one part of the network over any other part; and
- balance the wellbeing of communities against the public sector cost.

1.1.2 Building on this, Transport Scotland committed to undertake research designed to inform a comprehensive review of freight fares charging mechanisms and develop options for future fares strategies.

1.1.3 The first research objective was to undertake a review of current procedures and charging mechanisms for the setting of fares for freight carried by CVs and trailers, containers and other means across Scottish Government directly subsidised ferry services and Local Authority run ferry services. It also aimed at undertaking an international benchmarking exercise reviewing how fares for non-CV freight are set in Europe and internationally.

1.1.4 The second objective aimed at developing an over-arching set of principles and procedures for the setting of fares across the Scottish Government subsidised ferry services.

1.1.5 The research was initially agreed to be carried out in two pieces. The first piece of research, the review of current practice and charging mechanisms for the setting of fares for freight carried by CVs was undertaken in-house by Transport Scotland. The second piece of research, the review of current practice and charging mechanisms for the fare setting for freight carried by trailers, containers and other means as well as the best practice review and option development for an over-arching fare regime was commissioned to SYSTRA, together with their partners Peter Brett Associates LLP (PBA), ProVersa Limited and The Maritime Group International Ltd (TMG), in May 2014.

1.1.6 **It should be noted that the purpose of these two pieces of research is to propose, analyse and consult on options for revised fares structures. The aim of this exercise is to develop an evidence base which will help to inform Transport Scotland in the review of freight fares policy. The research is not intended to recommend a single option to be taken forward by the Scottish Ministers, rather to develop and consult on a range of in-principle options which could form the basis of future freight fares policy. The findings of this research will be used by Transport Scotland to inform the actual review of ferry freight fares.**

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Combining the Research

- 1.1.7 The freight market on publicly supported ferry services in Scotland has historically been one of the more complex and less well understood aspects of the service. Transport Scotland initially commissioned two separate research projects on the expectation that there remained a significant volume of non-CV freight moving on Scottish ferries. However, following an initial review of the non-CV market by PBA, it became clear that such traffic is now either CV-derived (eg drop trailers, wide loads etc) or a very marginal part of the overall operating envelope.
- 1.1.8 Following this initial study, Transport Scotland judged it more effective to combine the two separate research pieces into a single entity. The single research study was taken forward by the consultants.

1.2 Scope of this Study

- 1.2.1 This study was commissioned by Transport Scotland and will therefore be used by the agency to inform the review of future fares policies on their two tendered networks – ie the Clyde & Hebridean Ferry Services (CHFS) and the Northern Isles. The option generation and testing is heavily based on future options for these two networks.
- 1.2.2 However, the research specification for this study specified that it should also consider current practice on the local authority run services as the outcomes of the research may be taken forward or amended by the local authorities.
- 1.2.3 We have identified six publicly supported ferry networks in Scotland. These are:
- Argyll & Bute Council;
 - Clyde & Hebridean Ferry Services (CHFS), operated by CalMac Ferries Ltd;
 - Highlands Council;
 - Orkney Islands Council;
 - Serco NorthLink Ferries; and
 - Shetland Islands Council.
- 1.2.4 The research does not consider services in the Comhairle nan Eilean Siar area (as its services are operated by CalMac) or SPT (as these are passenger only services). In addition, the research also does not include the Transport Scotland tendered Gourock – Dunoon route, as this is a passenger

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only service. It should also be noted that no commercial ferry services were covered in this study.

1.3 State Aid

- 1.3.1 A key issue underpinning this research is that of State Aid. State Aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. The ferry freight fares system in Scotland should comply with State Aid regulations.
- 1.3.2 When taking forward fares options, it is imperative that Transport Scotland consult with the State Aid Unit on the legality of different fares systems and discount regimes. Further comment on State Aid issues is provided throughout this report.

1.4 Note on Terminology

- 1.4.1 A wide range of terminology specific to the freight & logistics and ferry industry is used throughout this report. To assist in the interpretation of key findings, a glossary has been provided in Appendix A.
- 1.4.2 It is worth explaining one specific piece of recurring terminology used in this report. When discussing ferry based freight, we refer to two types of vessel:
 - Roll-On, Roll-Off (Ro-Ro) – ferries where vehicular traffic can drive onto and off of the vessel; and
 - non Ro-Ro – ferries where goods have to be lifted, craned or manually handled onto the vessel.

1.5 Structure of this Report

- 1.5.1 The initial chapters of this report reflect the original differentiation in this research project between CV and non-CV freight. Chapter 2 reviews the current charging practice for CV freight across the study area, whilst Chapter 3 does the same for non-CV freight.
- 1.5.2 Chapter 4 provides the results of the international benchmarking exercise. Whilst originally undertaken for the non-CV aspects of the study, much of the content is also relevant to the large CV market.
- 1.5.3 Chapter 5 sets out the option development process. Chapter 6 reviews the consultation feedback on the in-principle options developed and Chapter 7 sets out the response to the consultation questions on surcharges, discounts and policy questions. Chapter 8 provides conclusions and recommendations on how to take the findings of this research study forward.

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2 Current Practice – Commercial Vehicles

2.1 Overview

- 2.1.1 This chapter sets out the findings of Transport Scotland's benchmarking analysis of fares for commercial vehicle freight.
- 2.1.2 In the context of this research, commercial vehicles are defined as self-propelled vehicles used for the transportation of commercial goods. Commercial vehicles therefore comprise: vans and rigids (lorries) as well as trailers attached to a cab / tractor unit (e.g. articulated lorries). A large commercial vehicle is defined as a commercial vehicle over 5 metres in length.
- 2.1.3 The full paper prepared by Transport Scotland is provided as an addendum to this report and is available on the [Transport Scotland website](#).

2.2 Commercial Vehicles – Key Issues

- 2.2.1 The following sections set out the approach to charging for commercial vehicles.

Charging Mechanism

- 2.2.2 There are similarities in the charging mechanisms used for CVs across the network as, for the most part; fares are set on the basis of vehicle length and route length. Vehicle length is a key determinant of CV fares in CalMac, Serco NorthLink and all Council services except Highland Council.
- 2.2.3 CalMac and Serco NorthLink charge rates per metre (Serco NorthLink) or half metre (CalMac) which increase with route length. Argyll & Bute Council and Shetland Islands Council both charge fares for different bandings of vehicle length. However, whereas Argyll & Bute Council's fares differ by route, Shetland Islands Council's CV fares do not, so that a CV of a particular length travelling on any Shetland Islands Council route will be charged the same fare. This flat fares structure is not seen on any other part of the network.
- 2.2.4 Highland Council, on the Corran Ferry, is the only operator which charges by vehicle weight and composition (number of axles). The fares charged for CVs carried on the Cromarty-Nigg service, funded by Highland Council, are fixed fares and not dependent on the vehicle weight or composition.

Basis on which a vehicle is classified as a CV for charging purposes

- 2.2.5 The basis on which a vehicle is classified as a commercial vehicle for charging purposes differs across the different networks. All CVs (regardless of

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length) are charged commercial rates on Serco NorthLink, Orkney Islands Council and Highland Council services.

- 2.2.6 On the other networks (CalMac, Argyll & Bute and Shetland Islands Council routes), there is a length based threshold at which a vehicle becomes defined as CV rather than a car (typically 5-6 metres)³.

Fares Increase Mechanism

- 2.2.7 Only the two Transport Scotland tendered operators, CalMac and Serco NorthLink, have set fares increase mechanisms in place, both of which are based on CPI inflation and are determined by Scottish Ministers.
- 2.2.8 Fares increases on all council run services are determined by the councils themselves. Fares increases in Argyll & Bute Council and Orkney Islands Council services are generally based on inflation, except for in exceptional circumstances. Whilst Shetland Islands Council does not have any set fares increase mechanism in place, fares are regularly reviewed and any significant change to fares requires a strong political consensus. Fares increases on the Corran ferry services are determined by the need for cost recovery.

2.3 Network Specific Findings

- 2.3.1 The sections that follow provide a more detailed summary of the key findings by operator.

CalMac Ferries Limited

- CalMac Ferries Limited operates ferry services on 30 routes across the Clyde & Hebrides, under Public Service Contracts with the Scottish Government. The nature of the contract requires any change to fares to be agreed by Scottish Ministers.
- CV fares on CalMac services have been set using a number of different regimes in recent years due the introduction and subsequent removal of the Road Equivalent Tariff (RET) for CVs on one section of the network (ie the Western Isles, Coll and Tiree).
- there are currently differences in the classification of CVs across the CalMac network. On non-RET routes⁴, CV fares are applicable only to CVs exceeding 5 metres (or exceeding 3 metres in height, 2.3 metres in width or 3.5 tonnes in weight) whereas on RET routes⁵, the length

³ The definition of large CV varies from 6m on CalMac RET routes to 5m on CalMac non-RET routes. Setting the definition of large CVs as 5m for the purposes of this research ensures that all are captured.

⁴ Non-RET routes are routes that do not currently have RET but will receive RET for passengers and cars from October 2015.

⁵ RET routes are routes where RET fares are already applicable for passengers and cars.

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restriction is increased to 6 metres. However, this discrepancy will be removed when RET is rolled out to the remaining CHFS routes in October 2015.

- currently, on all CalMac routes, vehicle length is the key variable in determining fares for CVs that are plated to operate in excess of 3.5 tonnes.
- on all routes (except those to the Western Isles, Coll and Tiree where RET was previously in place for CVs and subsequently withdrawn), the CV fare is the product of the vehicle length and the rate charged per half CV metre. The rate per half metre varies by route and is broadly based on the length of the crossing, with longer crossings generally having a higher rate per half metre. The rate per half metre is a flat rate which means a 14 metre CV travelling on a particular route would face a fare exactly double that of a 7 metre CV. Each year, the rate per half metre is increased by the general fares increase applied to all CalMac fares, which is generally based on CPI inflation.
- on the Western Isles, Coll and Tiree routes where RET was previously in place for CVs, the fare comprises a fixed element and rate per half CV metre. The rate per half metre is a flat rate, although the fixed element of the formula means that a 14 metre CV travelling on a particular route would face a fare less than double that of a 7 metre CV. CalMac offer a number of concessions to CVs. The availability of some discounts is dependent on whether RET is in place on the route (this is covered in more detail in the next chapter).

Serco NorthLink Ltd

- Serco operate ferry services on four routes to the Northern Isles using the 'NorthLink Ferries' name under Public Service Contracts with the Scottish Government. The nature of the contract requires any change to fares to be agreed by Scottish Ministers.
- Serco NorthLink does not distinguish between large and small CVs; irrespective of size, all CVs are charged at CV rates.
- CV fares are set in a consistent way across all Serco NorthLink routes. Vehicle length is the key variable in determining CV fares. The CV fare on a particular route is the product of the vehicle length and the rate charged per CV metre.
- the rate per metre is based on the length of the crossing, with longer crossings having a higher rate per metre. The rate charged per metre on a particular crossing is a flat rate so that a 10 metre CV travelling on a particular route faces a fare exactly double that of a 5 metre CV.

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- separate rates per metre are in place for vehicles booking in advance and for vehicles booking three days or less prior to departure. However, in practice, the three day premium rate is rarely applied as most CVs book well in advance.
- ‘Wide load’ CVs greater than 2.6 metres in width are subject to a 50% surcharge on the standard fare.
- Serco is contractually required not to increase overall fares receipts, other than by Minister-approved annual increases based on CPI inflation. However, as set out in the contract, Serco NorthLink varies the fares increase at the individual route level as a demand management strategy.

Argyll & Bute Council

- Argyll & Bute Council run four ferry services within the local authority area. Three services are operated directly by the Council and one is contracted out. These services are funded by the Council and are indirectly subsidised by the Scottish Government through the block grant they receive. The Council has sole responsibility for setting and approving fares.
- two of the Council’s ferry services are available for the use of large CVs. The other two routes are foot passenger-only.
- CV fares on Argyll & Bute Council routes are applicable only to CVs exceeding 5 metres in length. CVs under these measurements are charged as cars.
- for the most part, CVs are charged on the basis of length, with different fares charged for different bandings of vehicle length. These fare bandings differ by route. Fares per mile on the shorter Cuan-Luing route are higher than on the longer Port Askaig-Feolin route.
- whilst CV fares for the Port Askaig-Feolin route are published for single journeys, fares for the Cuan-Luing route are published for return journeys and five journey returns. Fares for both services exclude the driver and exclude VAT.
- marginally lower fares per journey are available to hauliers using the Cuan-Luing route through purchasing a five journey return ticket rather than the standard return ticket. The discount is however small, averaging at around a 2% reduction on the standard return fare. Discounts of this kind are not available on the Port Askaig-Feolin route.
- each year, with a few exceptional circumstances, Argyll & Bute Council ferry fares are subjected to an inflationary increase.

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Orkney Islands Council

- Orkney Ferries Limited, a company wholly owned by Orkney Islands Council, operates the Orkney inter-island ferry services, connecting the Orkney mainland to 13 islands. These services are funded by the Council and are indirectly subsidised by the Scottish Government through the block grant they receive.
- fares structures and levels are set by the Council.
- the general rationale for the setting of CV fares is largely historical but has an over-arching basis of:
 - location/journey time: there are four CV fares 'blocks' based on location / journey time: Outer North Isles; Inter-Outer North Isles; South & Inner North Isles; and Inter-South & Inner North Isles.
 - vehicle length: All CVs are assumed to be 5m or over (if a CV is under 5m, it is charged the 5m fare) and the charging regime is based upon increased charges for every 0.5m increment over 5m.
- the standard single CV fare for a route in any of the four blocks is calculated using the same method. The fare is calculated as a fixed charge plus the product of the rate charged per half CV metre and the number of half metres the CV's length is in excess of 5m. In this way, a 5m CV will only be charged the fixed charge.
- both the fixed charge and the rate per half CV metre vary by route, with the longer routes having a higher fixed charge and a higher rate per half metre. Published CV fares are generally for single journeys and exclude VAT. Fares exclude the driver.
- Orkney Islands Council undertakes annual reviews to inform the setting of the following year's tariff. Ordinarily, fares are subject to an inflation-based uplift however the Council takes local economic conditions into consideration when deciding whether or not to impose an increase each year.
- two forms of concessions are available to CVs which significantly reduce the fare paid per single journey - multi-journey tickets and automatic discounts. These discounts are available for CVs travelling on all four CV fare blocks.
- multi-journey tickets, which are available to all hauliers paying up-front, can reduce the fare paid for a single journey by 25%-50%.
- automatic discounts are available to Orkney-based Account Customers only and allow hauliers to benefit from a discount without having to pay

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the high cost of a multi-journey ticket upfront. The discount received differs depending on whether the Account Customer is Orkney mainland-based or Orkney-isles based.

Shetland Islands Council

- Shetland Islands Council is responsible for the network of inter-island ferry services, connecting the Shetland mainland with nine islands. These services are funded by the Council and are indirectly subsidised by the Scottish Government through the block grant they receive.
- all services, except one, are operated directly by the Council. The Council has sole responsibility for setting and approving fares.
- most services, with the exception of services to Foula and Fair Isle, are Ro-Ro and are available for the use of self-propelled commercial vehicles.
- the Council classifies commercial vehicles into three categories: commercial vehicles; tankers; and plant.
- CV fares on Shetland Islands Council services are determined by two factors:
 - Vehicle type: separate fares structures are in place for traditional CVs and tankers.
 - vehicle length: different fares (rather than rates per metre) are in place for different ranges of vehicle length, with the length bandings depending on the vehicle type (5.51m-8.00m, 8.01m-12.00m and 12.01m-18.00m for commercial vehicles and up to and including 7.5m, 7.51m-10.00m and 10.01-16.00m for tankers).
- there is some inconsistency in how CVs are treated for charging purposes in terms of vehicle length. Fares for CVs (as defined by the Council) are in place for CVs of length 5.51m or over. CVs under this length are charged as cars. Tankers are however all charged commercial rates, with the lowest fare band taking in all tanker lengths up to and including 7.5m.
- there is some inconsistency in how fares are presented. Whilst fares (for both CVs and tankers) for services to Bressay, Whalsay, Yell, Unst and Fetlar are published for return journeys, fares for services to Skerries and Papa Stour are published for single journeys. However, when the return fares are converted to a single journey equivalent, we see that fares are equal on all routes so that a CV of a particular length travelling on any inter-island route will face the same fare and a tanker of a particular length travelling on any inter-island route will face the same fare (albeit at a different rate to that faced by a commercial vehicle). This flat fares structure is not seen in any other part of the Scottish ferries network.

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- as a flat fare is charged regardless of the route, the fare per (route length) mile decreases as route length increases. This results in a significant spread in the fare per mile charged across the network with CVs on the longest route facing a fare per mile of £1.14 and CVs on the shortest route facing a fare per mile of £52.20.
- fares for both CVs and tankers include VAT and include the driver.
- there is no set fares increase mechanism for fares on Shetland Islands Council services. There is no restriction on increases/decreases in fares however any significant changes require strong political consensus to implement.
- Shetland Islands Council does not offer concessions for CVs on any of its routes.

Highland Council

- Highland Council runs / tenders four ferry services in the Highland area. Two of these services carry large CVs. These services are funded by the Council and are indirectly subsidised by the Scottish Government through the block grant they receive.
- whilst the Council itself operates the Corran ferry, operation of the Cromarty-Nigg ferry is contracted out.
- For the Corran Ferry:
 - Highland Council has sole responsibility for the setting and approval of fares on the Corran ferry. For those services that are tendered out, the setting of fares is at the operator's discretion. The setting of fares on Highland Council services therefore differs by route / operator.
 - in contrast to the other operators who generally charge by vehicle length, Highland Council classifies CVs according to weight and vehicle type for charging purposes.
 - CVs under 3,500kg are classified as 'light goods vehicles' (LGVs) and are charged the same fare as private cars. CVs over 3,500kg are classified as 'heavy goods vehicles' (HGVs) with the fare charged increasing with the number of axles and the vehicle weight.
 - published rates for HGVs are for single journeys and include VAT. The driver is not charged.
 - books of 30 tickets are available for LGVs (and private cars) and HGVs. These ticket books reduce the price paid for a single journey and are therefore effectively a concession for frequent ferry users. The

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discount received when purchasing as part of a 30 ticket book ranges from 71% for an LGV (and private car) to 11-15% for an HGV.

Evidence suggests that this concession is well used, with 85% of LGVs travelling using discounted tickets in 2012/13.

- the level of fares set by Highland Council is primarily determined by their wish for the service to operate without subsidy. Changes in fares therefore appear to be broadly determined by changes to costs.
- For the Cromarty-Nigg Ferry:
 - the Cromarty-Nigg ferry is privately operated by the Cromarty Ferry Company and not the Highland Council. However, the service is funded by the Highland Council.
 - in contrast to the other operators who generally charge by vehicle length, the fares for CVs carried in the Cromarty-Nigg service are fixed. This results from the vessel's capacity constraints; it can only carry vehicles with maximum length of 6 metres.
 - the published fares for vehicles larger than cars are for 'Mini buses', the category CVs up to 6 metres fall into.
 - published rates for Mini Buses are for single journeys and return journeys and include VAT. They are fixed fares and do not vary by vehicle length. The driver is not charged.
 - the fare is essentially historic and it has not been reviewed in recent years. The fare has only been adjusted through a series of inflationary increases.
 - on the Cromarty-Nigg service when a return ticket is purchased, a discount of 22% is received. No other concessions are available on the route.

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3 Current Practice Non-CV-Freight

3.1 Overview

- 3.1.1 This chapter summarises current practice with regards to the charging of non-CV freight on Scotland's publicly supported ferry networks. An extensive working paper covering the specifics of non-CV freight charging in some detail is provided as an addendum to this report and is available on the [Transport Scotland website](#).

3.2 What do we mean by Non-CV Freight?

- 3.2.1 In advance of reviewing current practice, it is worth briefly pausing to review what we mean when referring to 'Non-CV Freight'. In our initial proposal for this study, we defined what we thought to be the different types of non-CV freight. This was confirmed at the first project Working Group Meeting and formed the basis of the reporting in the early tasks. The agreed types of non-CV freight were therefore defined as:

- unaccompanied (e.g. drop trailers);
- freight on mafi trailers;
- agricultural vehicles and equipment (self-powered or towed);
- specialist Industrial plant and equipment (self-powered or towed);
- loose loaded cargo (e.g. bags and pallets);
- livestock cassettes;
- loose livestock;
- containers (LoLo);
- abnormal or wide loads;
- other goods craned and lifted onto the vessel; and
- any other types not included above.

- 3.2.2 The next section briefly summarises the types of non-CV freight carried on each of Scotland's publicly supported ferry networks and the means by which it is charged.

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3.3 Network Specific Findings

Argyll & Bute Council

- Argyll & Bute has two Ro-Ro routes and two passenger only routes. The business model on the vehicular services involves the carriage of freight from quay-to-quay only.
- there is very little non-CV freight moved on the network – the majority of freight is either consolidated onto a commercial vehicle or taken onto the ferry as hand-baggage.
- fares for non-CV freight on the Ro-Ro routes are determined on the basis of lane metre bandings. The Council previously used a weight based measure but converted to lane meterage in 2013 due to disputes over the definition of a commercial vehicle in a weight based tariff structure.
- the fare level is a reflection of historical precedent. The prevailing fares when Argyll & Bute Council assumed control of the services have been maintained and simply uprated for inflation.

CalMac Ferries Ltd

- CalMac Ferries Ltd operate the most complex of Scotland's domestic ferry networks, serving 30 routes (two of which are seasonal) and 49 ports across 22 island communities. The CHFS network, perhaps more than any other, has been tailored to meet island specific needs over a long period.
- with some limited exceptions, CalMac operate the carriage of freight from quay to quay, with no handling activity pre or post journey beyond immediate loading to and from the vessel if this is not organised by the customer.
 - exceptions include the Mallaig – Small Isles route, where CalMac offer a freight consolidation, carriage and onward delivery service on company owned vehicles.
- CalMac carry a wide variety of non-CV freight, including agricultural vehicles and equipment; mafi trailers; specialist industrial plant and equipment; abnormal and wide loads; loose loaded cargo on the Firth of Clyde, Small Isles and Sconser – Raasay; and drop trailers on the overnight freight service between Stornoway and Ullapool.
- fares on the CHFS network are set in the tendered contract administered by Transport Scotland. There is no flexibility to change fares in CalMac's contract without Transport Scotland's consent – fares are clearly defined in the tender and are reviewed annually by Scottish Ministers. The annual

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review typically involves a percentage fares increase applied to all fare types, including those for non-CV freight.

- the standard charging unit for any wheeled freight is the lane metre, with charges being levied in incremental half lane metres above six metres on RET routes and five metres on non-RET routes. Excess charges are levied for wide loads. Loose freight is typically charged on the basis of weight bandings.
- there are a number of generally historical inconsistencies in the fares structure for non-CV freight on the CHFS network – these are contractually mandated in the tendered service specification and include:
 - the operation of the drop trailer service on the overnight freight service on the Stornoway – Ullapool route. This service offers a reduced lane metre charge because no tractor unit is carried and a 10% discount for using the overnight freight only service. For operational reasons, a drop trailer service is not currently operated on any other route.
 - in recognition that there are limited prospects for obtaining a backload on various types of agricultural vehicles, these freight classes are only charged on the outbound leg of the journey or receive some other discount. The tariff on the return journey is limited to the pier dues (where applicable), which are simply pass-through revenue to the port authority.
 - differences between RET and non-RET routes. For example, vivier trailers benefit from a free return journey (except for the payment of pier dues) on RET routes, something which is not the case on non-RET routes. This is the result of a specific concession made by the Minister.
 - freight groupage (ie grouping small individual consignments of freight into a single vehicle, usually in pallets) services are undertaken by CalMac on the Mallaig – Small Isles route only.
 - loose parcel services are operated on the Firth of Clyde routes but on no other part of the network.
- CalMac explained that the current fares system reflects a series of arrangements developed over time “which work”. The company would welcome simplification of the fare system (such as through RET) but made it clear that care must be taken not to unnecessarily disrupt some of the current arrangements which, whilst inconsistent, are key to the social and economic wellbeing of a number of island communities.
- the key issue for CalMac at present is the impact on CV carryings on the RET routes brought about by the change in the length threshold of a car / van from five metres to six metres.

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Highland Council

- Highland Council operates / tenders a combination of Ro-Ro and passenger only routes. The business model on the vehicular services involves the carriage of freight from quay-to-quay only.
- there is very little non-CV freight moved on the network – the majority of freight is either consolidated onto a commercial vehicle or taken onto the ferry as hand-baggage.
- fares on the Corran Ferry are determined by weight, in the same manner as occurs for CVs. Freight fares on the Knoydart Sea Bridge are set at the operator's discretion – the contract states that freight must be carried but does not set out a tariff structure for this, although charges are believed to reflect a reasonable cost recovery to operate the service.
- there was little information on the rationale underpinning current fare levels, although in most cases, it appears the fares reflect historical rates uprated for inflation.

Orkney Islands Council

- Orkney Ferries operates a combination of Ro-Ro and non-Ro-Ro ferries, including Lo-Lo operations where goods are craned onto and off of the vessel. The majority of freight is typically Ro-Ro in nature, although Graemsay, North Ronaldsay and Papa Westray do not have Ro-Ro facilities and still make use of Lo-Lo (lift-on, lift-off) crane operations.
- non-CV freight is a very low proportion of overall freight shipped. Non-CV freight carried includes drop trailers and loose items (on Lo-Lo routes in particular).
- Orkney Ferries' business model involves the carriage of freight from quay-to-quay only. There are no handling activities pre or post journey beyond immediate loading to and from the vessel by crane where required. The loading of unaccompanied Ro-Ro traffic is the responsibility of the customer or, in exceptional circumstances, the vessel crew.
- non-CV fares on Ro-Ro routes are typically determined by incremental half lane metres (for vehicles longer than 5 metres), whilst on non-Ro-Ro routes, tonnage (ie weight) is the measure used.
- there was little information on the rationale underpinning current fare levels, although in most cases, it appears the fares reflect historical rates uprated for inflation.

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- Orkney Islands Council sets the tariff structure and levels. Annual reviews are generally carried out, with the consent of Elected Members required for the next year's tariffs.
- there are a number of inconsistencies in the tariff structure, most notably price differentials between lane metre and weight based charges for the same commodities. Charges also have little correlation to the cost of operation or crossing length.
- the current tariff structure is well understood by users but the Council explained that the lack of correlation to distance or operating costs means that this is seen by some people to be unfair.
- a 50% tariff discount is available for freight companies based in the islands and 25% tariff discount is available for companies based on Orkney Mainland.

Serco NorthLink Ferries

- Serco NorthLink Ferries operates three routes using a combination of large, modern Ro-Ro vessels and dedicated freight vessels on time charter.
- Serco NorthLink's business proposition involves the carriage of freight from quay to quay; tariff inclusive holding of trailers within a defined area of the quayside for an indefinite period; handling of trailers and loads to and from the vessel; and all necessary securing of the equipment to the vessel for the voyage.
- types of non-CV freight carried include loaded and empty drop trailers; livestock cassettes; bulk bag freight; roll trailers (mafi); agricultural plant and equipment; industrial plant and equipment; containers and project related cargo.
- the structure and level of tariff set by Serco NorthLink is a contractual requirement of the Public Service Contract. Serco NorthLink explained that the current structure and level of the tariff is consistent with that offered by the previous operator, although the company has no understanding of the original basis of the fare.
- the default charging unit for all freight, CV or otherwise, is the lane metre, or lane metre equivalent.
- the current rate structure is set in a way that does not allow the business to match supply and demand across the network.

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Shetland Islands Council Ferries

- Shetland Islands Council operates a combination of Ro-Ro and non-Ro-Ro ferries, including Lo-Lo operations where goods are craned onto and off of the vessel. The majority of freight is typically Ro-Ro in nature.
- Shetland Islands Council offers the carriage of freight from quay to quay, with no handling activity pre or post journey beyond immediate loading to and from vessel if not customer organised.
- non-CV freight carried includes agricultural vehicles and equipment; specialist industrial plant and equipment; loose loaded cargo; and abnormal / wide loads. As with the majority of the other networks, non-CV freight makes up a very small proportion of the total.
- the structure of the tariff relates to vessel type – non-CV freight on Ro-Ro vessels is typically charged on the basis of lane metre bandings, whilst non-Ro-Ro freight is charged on the basis of weight (tonnage). There is no correlation between the tariff for freight, accommodation of freight on the vessels and the vessel operating costs on the route. Tonnage charges, where used, also have no relationship with the lane metre equivalence.
- the tariff level on the internal Shetland services is largely based on historical convention. The fares have a very weak correlation to route distance and operating costs.
- Shetland Islands Council has sole responsibility for setting and approving the tariff.
- the Council see the current system as being equitable and low-cost to the user. However, they acknowledge that the fares structure has limited or no correlation with operating costs and route distance.

3.4 Non-CV Freight – Key Issues

- 3.4.1 This section sets out some of the key issues pertaining to non-CV freight which should be considered in developing options for a new fares system.

The Market for Non-CV Freight

- 3.4.2 One of the most pertinent findings to emerge from our research is the evolution in the means by which freight is carried on ferries. A brief review of the history of many of Scotland's ferry routes, particularly in the Clyde & Hebrides, hints at the importance of loose freight to the overall demand for ferry connections. Many of the earliest ferry services throughout the UK were known as 'packet' services which, as the name suggests, were intended to raise revenue from carrying loose cargo as well as passengers. Ferry

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connections were actually often scheduled liner services calling at multiple ports to deliver freight, post and parcels to the islands.

- 3.4.3 The advent of the Ro-Ro era gradually began to change the way in which freight was conveyed over water. Road haulage firms began to compete for parcel and packet carriage, offering consolidated shipments at low prices. This trend accelerated throughout the 1970s, 80s and 90s. The growth of the road haulage market and Ro-Ro ferries meant that the traditional relationship between the freight customer and ferry companies began to change. Before the mass market penetration of road haulage, customers would organise conveyance of goods directly with the ferry company, which would in turn have a lengthy tariff list for all types of individual commodities. This still happens on a handful of routes in Scotland and in neighbouring European countries like Ireland and the Netherlands.
- 3.4.4 However, on the majority of ferry routes in Scotland, there has been a clear trend towards the consolidation of small individual consignments onto vans and large commercial vehicles. Prices for individual goods still therefore exist, but it is now the haulier and not the ferry company which charges these rates to the customer. This situation has been further amplified by the emergence of parcel delivery providers such as FedEx, DHL and UPS, who deliver van-based consignments direct to individual addresses. This process has led to a situation where the carrying of non-CV freight is now a very marginal element of total freight, even on the smallest Ro-Ro routes. Even within this category, the majority of freight being moved is CV derived – eg drop trailers, mafi-trailers, wide loads etc.
- 3.4.5 In responding to this change, operators have generally simplified their tariff structure, with fares being based typically on a single variable. Such freight has also become of relatively little significance to an operator and disaggregated data on what is being carried and to where it is being carried are limited.

Ferry Operations

- 3.4.6 Modern day ferry operations are very time pressured – companies need to maintain a timetable and ensure that they comply with regulations on crewing hours. Of critical importance in this respect are vessel turnaround times whilst in port, which range from around five minutes on a number of routes in the Shetland Islands and several *Loch* Class routes in CHFS, to 30-45 minutes for larger vessels such as the MV *Isle of Lewis* and MV *Clansman*.
- 3.4.7 These challenging operating conditions create a desire amongst ferry companies to minimise the carriage of any freight which is not self-propelled. For example, drop trailers are only accepted on the less time sensitive overnight freight route between Stornoway and Ullapool, the Serco NorthLink routes to the Northern Isles and internal Orkney Islands routes (although they are discouraged by Orkney Ferries).

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- 3.4.8 Where an operator does have to carry freight which is not self-propelled, it is common to group such freight onto wheeled vehicles (eg mafi trailers, vans and standard CVs) at the quayside. This happens from some of the longest routes, such as those operated by Serco NorthLink, through to much smaller operations. Indeed, even on the routes to the Small Isles and Sconser – Raasay (where CalMac is effectively the haulier), goods are grouped onto commercial vehicles (typically vans) at the quayside before being shipped. Similarly, Orkney Islands Council operates a freight consolidation facility at Hatston, which allows consignments being sent to the islands to be grouped into self-propelled vehicles.
- 3.4.9 Going forward, it seems likely that ferry companies will continue to seek ways of reducing non-CV freight as it impinges on operational efficiency and potentially adds to cost.

Redefinition of CV Lengths

- 3.4.10 The recent redefinition on RET routes of the length at which a car / van becomes a commercial vehicle from five metres to six metres has also had an impact on non-CV freight. This change has to some extent reduced consolidation of goods into large commercial vehicles (reducing CV carryings markedly). It has made it easier to convey small consignments (eg bags, pallets etc) in a “pal’s van” rather than on a CV, reducing the amount of non-CV freight carried by CalMac, but also reducing revenue from CV carryings and driving up the subsidy.

Rationale for Non-CV Charging

- 3.4.11 As a general rule, the basis for vehicle and freight fare setting on a ferry is to charge the customer on the basis of the scarcest of ‘commodities’ which they are consuming – this commodity on a Ro-Ro ferry is typically vehicle deck space, expressed in terms of lane metres or a lane metre equivalent (as the majority of ferry decks are divided into lanes designed to accommodate vehicles of a relatively standard width).
- 3.4.12 On almost all routes across all publicly supported ferry networks in Scotland, the common basis of charge is the lane metre or some form of lane metre equivalent (eg a set number of loose bags per lane metre). The use of lane metres as the basis of charging provides a consistent, transparent and easy to understand fare structure.
- 3.4.13 There is some difference between networks which use an incremental half lane metre or lane metre (CalMac and Serco NorthLink) for charging compared to lane metre bandings (eg Shetland) as the basis of the charge. The latter is simple and easier to administer, but it can lead to incentives at the margin to keep a vehicle within a particular length class, as the incremental step in fare to the next banding could be substantial. This was a

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common issue faced by CalMac with vans which were specially designed (or hastily amended) to fall within the length of a standard car.

- 3.4.14 On routes not operated by Ro-Ro services, such as those to North Ronaldsay and Papa Westray, the basis of the charge is often weight / tonnage, typically defined in a series of weight bandings.
- 3.4.15 Where a vehicle exceeds the footprint of a standard lane metre, typically in terms of width, some operators, such as CalMac and Orkney Ferries, will levy a surcharge to account for the fact that the freight is consuming a potentially revenue earning area of deck space. Surcharges can also be levied for excess weight. Whilst the majority of ferries can convey large payloads, some smaller vessels have deadweight restrictions. Therefore, where a single piece of freight is putting an excess weight burden on a vessel, a surcharge may be levied.
- 3.4.16 There are a number of inconsistencies in the charging basis on different networks. For example, one type of inconsistency that can be seen is the fare differences for carrying the same commodity depending on whether it is defined on the basis of length or weight. There are also many examples of where the fares for routes of a similar length differ markedly.

Level of Current Fares

- 3.4.17 Whilst there is generally a rationale for the charging of non-CV freight, an issue to emerge across all of Scotland's publicly funded ferry networks is the lack of a clear basis for current fare levels. There was very little understanding amongst the majority of operators as to why fares are set at their current rates. In many cases, it appears that the fares charged are based purely on historical precedent and bear little relation to distance or cost of operation. The common practice has been to apply an annual inflationary increase to all fare classes.

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4 International Benchmarking

4.1 Overview

- 4.1.1 One of the initial tasks on the non-CV research was to undertake an international benchmarking exercise reviewing how fares for non-CV freight are set elsewhere. Whilst this research was initially focussed on non-CV freight, there were a number of crossovers with standard CV freight. This chapter sets out the findings of this benchmarking exercise – the full paper is provided as an addendum to this report and is available on the [Transport Scotland website](#).
- 4.1.2 The purpose of this exercise was to understand the rationale for fares setting and the mechanics of the fares system in different national and institutional contexts. We do not compare the level of fares *per se*, rather the rationale underpinning how the fares are set.
- 4.1.3 We divided the benchmarking exercise into three distinct sections:
- European Union Member States which operate publicly supported ferry services (the classification into which Scotland falls);
 - non-EU states which operate publicly supported ferry services; and
 - commercial operators.

4.2 Research-Wide Findings

Types of Goods and Trends in Carriage

- 4.2.1 Two of the most critical factors in operating a successful ferry service are reliability (in terms of maintaining the published timetable) and the minimisation of operational downtime (ie time not spent at sea). An important determinant of both of these factors is the turnaround time of the vessel in port, which is a function of the time required to unload and load passengers, vehicles and freight from the ferry.
- 4.2.2 In addressing this need, our research on best practice suggests that the majority of non-CV freight, particularly on high volume routes, consists of drop trailers, mafi trailers and project specific freight (e.g. wind turbine towers); effectively wheeled freight that is quicker and easier than loose freight to marshal on and off of the ferry. These non-CV freight types are both very closely linked to conventional driver accompanied CVs. The goods being conveyed are typically no different and are often shipped in similar quantities to CV freight, but the solution is used to maximise the efficiency of road logistics by avoiding the expense and dead time associated with a driver and tractor unit sitting idle for extended periods on longer routes.

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- 4.2.3 The exceptions to wheeled non-CV freight are on the lifeline routes serving very small island communities in countries like Ireland and the Netherlands. Some of these routes do not carry vehicles or, where they do, it is uneconomical for a haulier to serve the island. In such cases, the ferry itself almost becomes the haulier offering the groupage service, providing tariffs for a huge range of individual products and commodities.
- 4.2.4 The trend in ferry operations suggests that ever increasing competition within the ferry industry, as well as competition with other shipping services and other modes of transport will make “asset sweating” ever more important (the key to this being quick turnaround times). This would suggest that the trend towards standardising freight carriage onto wheeled vehicles will accelerate except on the smallest of routes or where vessel turnaround time is not a high priority.

Determinants of Fare Structure

- 4.2.5 The determinants of the fare structure for all types of freight are in almost all cases defined by one or more of the limitations of the vessel. Public sector and tendered operators will typically use a single metric as the basis of the fare, whilst larger and more complex commercial operators will use sophisticated matrices combining each of these factors. The determining factors of the fare structure commonly include:
- available lane meterage (length and width);
 - weight;
 - height; and
 - volume.
- 4.2.6 The most common determinant of the fare, both for CV and non-CV freight is lane metres, as this is effectively the capacity constraining factor on the car deck. This typically takes the form of an increment per lane metre or half lane metre for freight over a defined length threshold. On some routes, the lane metre charge is applied on the basis of bandings.
- 4.2.7 A common practice across all types of operator is the application of a surcharge where a piece of freight is wider than one lane on the car deck (typically defined by a standard width rather than the actual width of any given lane on any given ferry). The level of this surcharge varies, with some operators only applying a small additional fare and others applying a surcharge of up to 100%.
- 4.2.8 Some smaller ferry operators use weight as a determinant of the fare, particularly for non-vehicular freight. This is common on routes where the vessels are small and may have a deadweight constraint placed upon on

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them. Height or total vehicle dimensions are also used as the basis for fare charging on some routes with smaller vessels, such as in the Åland Islands.

- 4.2.9 Large commercial operators with sophisticated booking systems are often capable of tailoring each of the above factors to develop bespoke fares, particularly for out of gauge loads.

What is included in the Fare?

- 4.2.10 The fares charged by the majority of ferry operators are for quay-to-quay transport only. This will include the marshalling of the freight onto the ferry, transit and unloading. The majority of operators tend to include berthing and pier dues within the fare. A small number of operators will charge a handling fee for unaccompanied freight (such as drop trailers), whilst some operators will offer optional add-ons such as time charged quayside storage space.
- 4.2.11 A small number of operators will offer integrated freight services, which include collecting goods from a landside address; transport to the port; loading onto the ferry; transit on the ferry; unloading from the ferry; and delivery to the final destination.
- 4.2.12 The majority of commercial operators will charge a fuel surcharge or bunker adjustment factor to insulate them against future fuel price increase. Fuel prices are generally the second largest operational cost for a ferry operator and even small increases in oil prices can have a significant impact on profitability and operational viability. A fuel surcharge allows the operator to insure themselves against unexpected increases in fuel costs.

Demand Management

- 4.2.13 A number of publicly supported ferry operators in Europe and beyond make use of peak and shoulder-peak pricing to encourage commercial traffic (CV or otherwise) to travel on less busy or dedicated freight services. This is a practice which could be considered in Scotland where capacity constraints currently exist or where they may emerge as RET for passengers and cars is rolled out.

Differences between Commercial and Tendered Services

- 4.2.14 The majority of tendered operators apply a consistent and advertised tariff to all customers using their services. The fares are often directly specified or subject to a fare cap defined in the PSC. This practice is common when the contracting authority chooses to influence fares with a view to promoting social objectives, such as maintaining island communities. Any discounts offered on tendered services are typically universal, such as off-peak rates, free returns for empty specialist trailers, island based discounts or multi-journey ticket books.

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4.2.15 This approach is directly at odds with that adopted by commercial operators. The non-CV freight market is highly competitive and relatively low margin, meaning operators must use innovative pricing approaches to maximise capacity and profits. It is common for a small number of customers to account for a large volume of the freight carried by a particular operator. This volume provides a base demand for running a service and securing more high value carryings. With this in mind, operators develop bespoke rate cards for customers, with large buyers benefitting from significant volume related discounts.

4.3 European Union Member States Operating Publicly Supported Ferry Services

4.3.1 The table below summarises the charging mechanisms for non-CV freight in European Union Member States which operate publicly supported ferry services.

Table 4.1: Freight Charging Policy – European Union Member States Operating Publicly Supported Ferry Services

Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
Bornholmer Færgen	Denmark	Drop trailers, agricultural vehicles, specialist plant & equipment and loose cargo	Contractual requirements stipulated in tender – maximum fares for each user class.	Standard tariff with price per incremental lane metre. Loose cargo charged on basis of weight bandings up to 25kg
Scandlines	Denmark	Agricultural vehicles & specialist plant and equipment.	Commercial	Standard tariff with price per incremental lane metre. Surcharges for wide loads and heavy loads.
AS Saaremaa Laevakompanii	Estonia	Trailers	Contractual requirements stipulated in tender.	Fare based on weight. 50% supplement on peak services. Surcharges for wide and high loads.

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Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
SNCM	France	Not known	Commercial on 'Open Routes', defined by PSC on 'Closed Routes'	Unknown but likely to be based on a number of factors (lane metres, width, weight, choice of sailing etc)
Reederei AG EMS	Germany (Lower Saxony)	Various non-CV vehicles and loose packages.	Commercial	Highly disaggregated freight tariff based on lane metres. Weight based charge for loose freight – levied on a declining per kilogram basis. Surcharge for wide loads.
Reederei Norden Frisia	Germany (Lower Saxony)	Trailers	Commercial	Fare based on weight. Headage charges for the movement of livestock.
GmbH	Germany (Lower Saxony)	Various non-CV vehicles and loose packages.	Commercial	Highly disaggregated freight tariff combining lane metres, weight, headage and piece rates.
Schiffahrt und Inselbahn AG Wangerooge	Germany (Lower Saxony)	Various non-CV vehicles and loose packages.	Commercial	Highly disaggregated freight tariff combining lane metres, weight, headage and piece rates. Rate includes onward rail travel on the island.
Neue Pellwormer	Germany (Schleswig)	Unknown	Commercial	Fares appear to be based on lane

Research and Analysis of Options for Ferry Freight Fares

Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
D'schaft	Holstein)			metres but this has not been verified.
ANEK	Greece	All freight is CV based.	Defined in PSC / Commercial	Fares are based on lane metres with peak pricing to manage demand. Surcharges applied for cargo deemed as "irregular".
Blue Star Ferries	Greece	All freight is CV based.	Defined in PSC / Commercial	Fares are based on lane metres with peak pricing to manage demand. Surcharges applied for cargo deemed as "irregular". Port surcharges also levied.
Superfast Ferries	Greece	All freight is CV based.	Defined in PSC / Commercial	Fares are based on lane metres with peak pricing to manage demand. Surcharges applied for cargo deemed as "irregular".
Hellenic Seaways, Minoan Lines and NEL Lines	Greece	All freight is CV based.	Defined in PSC / Commercial	Unknown but likely to be based on a number of factors (lane metres, width, weight, choice of sailing etc)

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Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
Wagenborg	Netherlands	Agricultural vehicles & trailers	Commercial	Fares principally based on incremental lane metres. Summer / winter pricing differential.
Doeksen	Netherlands	Agricultural vehicles & trailers	Commercial	Fares based on incremental lane metres and piece rates.
TESO	Netherlands	Agricultural vehicles & trailers	Commercial	Fares based on incremental lane metres. Surcharge for wide loads.
Transmaçor	Portugal (Azores)	Trailers	Licenced by local government	Fares principally based on weight although trailers charged on under/over 2.5m lane metre bandings.
Atlânticoline	Portugal (Azores)	Trailers	Licenced by local government	Fares principally based on weight although trailers charged on under/over 2.5m lane metre bandings.
Naomh Ciaran II Oilean Cleire Ltd	Ireland (Cape Clear)	Passenger only – carries only loose freight	Defined in PSC	Fares loosely correlated to weight. Piece rates prominent.
O'Malley Ferry Services	Ireland (Clare Island)	Tractors, trailers and loose freight	Defined in PSC	Highly disaggregated freight tariff combining lane metres, weight, headage and piece rates.
Destination Gotland	Sweden (Gotland)	Drop trailers, agricultural	Defined in PSC	Fares are based in incremental

Research and Analysis of Options for Ferry Freight Fares

Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
		vehicles, mafi trailers, specialist plant & project cargo		lane metres, with a surcharge for wide loads. A surcharge is also applied for the handling of drop trailers.

Non-EU Member States Operating Publicly Supported Ferry Services

4.3.2 The table below summarises the charging mechanisms for non-CV freight in non-EU Member States which operate publicly supported ferry services.

Table 4.2: Freight Charging Policy – Non-EU Member States Operating Publicly Supported Ferry Services

Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
Bornholmer Færger	Denmark	Drop trailers, agricultural vehicles, specialist plant & equipment and loose cargo	Contractual requirements stipulated in tender – maximum fares for each user class.	Standard tariff with price per incremental lane metre. Loose cargo charged on basis of weight bandings up to 25kg
Ålandstrafiken	Finland (Åland Islands)	Trailers and tractors	Set by local government	Fare based on height. Season tickets available.
Corsica Ferries	France (Corsica)	Not known	Commercial – economy pricing model.	Standard tariff with price per incremental lane metre.
SNCM	France	Not known	Commercial on 'Open Routes', defined by PSC on 'Closed Routes'	Unknown but likely to be based on a number of factors (lane metres, width, weight, choice of sailing etc)
Reederei AG	Germany (Lower	Various non-CV vehicles and	Commercial	Highly disaggregated

Research and Analysis of Options for Ferry Freight Fares

Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
EMS	Saxony)	loose packages.		freight tariff based on lane metres. Weight based charge for loose freight – levied on a declining per kilogram basis. Surcharge for wide loads.
Reederei Norden Frisia	Germany (Lower Saxony)	Trailers	Commercial	Fare based on weight. Headage charges for the movement of livestock.
GmbH	Germany (Lower Saxony)	Various non-CV vehicles and loose packages.	Commercial	Highly disaggregated freight tariff combining lane metres, weight, headage and piece rates.
Wyker D'schaft GmbH	Germany (Schleswig Holstein)	Loose packages and small freight	Commercial	Fare based on weight.
Neue Pellwormer D'schaft	Germany (Schleswig Holstein)	Unknown	Commercial	Fares appear to be based on lane metres but this has not been verified.
ANEK	Greece	All freight is CV based.	Defined in PSC / Commercial	Fares are based on lane metres with peak pricing to manage demand. Surcharges applied for cargo deemed as “irregular”.
Blue Star Ferries	Greece	All freight is CV based.	Defined in PSC / Commercial	Fares are based on lane metres with peak pricing to manage

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Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
				<p>demand.</p> <p>Surcharges applied for cargo deemed as “irregular”.</p> <p>Port surcharges also levied.</p>
Superfast Ferries	Greece	All freight is CV based.	Defined in PSC / Commercial	<p>Fares are based on lane metres with peak pricing to manage demand.</p> <p>Surcharges applied for cargo deemed as “irregular”.</p>
Gozo Channel Lines	Malta	Trailers	Defined in PSC	Fares based on lane metre bandings. Surcharge for wide loads.
Wagenborg	Netherlands	Agricultural vehicles & trailers	Commercial	<p>Fares principally based on incremental lane metres.</p> <p>Summer / winter pricing differential.</p>
Doeksen	Netherlands	Agricultural vehicles & trailers	Commercial	Fares based on incremental lane metres and piece rates.
TESO	Netherlands	Agricultural vehicles & trailers	Commercial	<p>Fares based on incremental lane metres.</p> <p>Surcharge for wide loads.</p>
Transmaçor	Portugal (Azores)	Trailers	Licensed by local government	Fares principally based on weight although trailers charged on

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Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
				under/over 2.5m lane metre bandings.
Atlânticoline	Portugal (Azores)	Trailers	Licenced by local government	Fares principally based on weight although trailers charged on under/over 2.5m lane metre bandings.
Naomh Ciaran II Oilean Cleire Ltd	Ireland (Cape Clear)	Passenger only – carries only loose freight	Defined in PSC	Fares loosely correlated to weight. Piece rates prominent.
Clare Island Ferries	Ireland (Clare Island)	Tractors, trailers and loose freight	Defined in PSC	Highly disaggregated freight tariff combining lane metres, weight, headage and piece rates.
Trans-Mediterranea	Spain (Balearic, Canaries and North Africa)	Unknown	Defined in PSC / Commercial	Unknown but likely to be based on a number of factors (lane metres, width, weight, choice of sailing etc)
Destination Gotland	Sweden (Gotland)	Drop trailers, agricultural vehicles, mafi trailers, specialist plant & project cargo	Defined in PSC	Fares are based in incremental lane metres, with a surcharge for wide loads. A surcharge is also applied for the handling of drop trailers.

Non-EU Member States Operating Publicly Supported Ferry Services

4.3.3 The table below summarises the charging mechanisms for non-CV freight in non-EU Member States which operate publicly supported ferry services.

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Table 4.3: Freight Charging Policy – Non-EU Member States Operating Publicly Supported Ferry Services

Operator	Country	Types of Non CV-Freight Carried	Determinants of Fare	Composition of Fare
Red Funnel Ferries	England	Drop trailers and loose freight (via CV groupage services)	Commercial	Unknown but likely to be based on a number of factors (lane metres, width, weight, choice of sailing etc)
Wallenius Wilhelmson Logistics	Worldwide	Wide range of cargo from industrial supplies to rail rolling stock. All goods consolidated onto CVs.	Commercial	Based on a number of factors (lane metres, width, weight, choice of sailing etc) targeted at achieving revenue maximisation. Bespoke prices for regular customers. Fuel surcharges levied on all goods.
Black Ball Ferry Line	USA	All freight carried on CVs.	Commercial	Fares are based on the incremental lane feet.

5 Options Development

5.1 Overview

5.1.1 This chapter sets out the option development and appraisal process. The options developed and other issues raised as part of this process formed the basis of the consultation, which is reported in the next two chapters.

5.2 The Appraisal Framework

The Ferries Plan

5.2.1 The criteria for assessment for this study were based on the findings of the Ferries Plan. In the Ferries Plan 2013-2022, Transport Scotland committed to carrying out a review of freight fares policy. The aim of this review is to deliver a new fares structure for commercial vehicles (CVs) and to develop an overarching set of principles and procedures for the setting of fares for freight carried by trailers, containers and other means (excluding CVs), both of which are to be implemented across all Scottish Government directly subsidised ferry services.

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5.2.2 The Ferries Plan noted that any new fares structure would need to adhere to the following three principles:

- simple and transparent;
- does not advantage one part of the network over any other part; and
- balances the wellbeing of communities against the public sector cost.

Our Islands, Our Future

5.2.3 In the period since this research commenced, the Scottish Government has issued its *Empowering Scotland's Island Communities Prospectus* as part of the “Our Islands, Our Future” initiative. This initiative specifically addresses the issue of ferry fares, stating that:

- “The Scottish Government is committed to assessing the affordability of ferry travel to and from island communities, with the aim of bringing in fairer fares for islanders, tourists and businesses”.

5.2.4 The commitment from the Prospectus forms part of the context for the research undertaken and the development of options.

Criteria for Assessment

5.2.5 The criteria for assessment reflect the outcomes of the Ferries Plan and create a framework for future freight fares policy on the Transport Scotland subsidised ferry services.

5.2.6 It should be noted that, at this stage, the criteria are high level and have not yet been made ‘SMART’⁶.

5.2.7 The criteria for assessment were defined as:

- **acceptability:** Acceptable to the freight industry, island business communities and the wider island community.
- **affordability:** Affordable for the Scottish Government, by ensuring any change to the fares structure is sustainable going forward.
- **consistency:** Fares are set in a consistent manner, i.e. in a way that involves applying the new fares regime, e.g. distance based or volume based, in a consistent and equal basis across all directly subsidised Scottish ferry routes. Applying the fares regime consistently will remove any perceived anomalies in the setting of freight fares, and will ensure that no part of the network is advantaged relative to another part.

⁶ Specific, Measurable, Attainable, Relevant and Time Specific

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- **sustainability:** The level of fares supports the future sustainability of island local economies and communities.
- **transparency and simplicity:** Simple for the directly subsidised ferry operators to put in place and operate and transparent so that users can easily understand how fares are set.

5.2.8 In addition to the above five criteria, a pre-requisite for any option, before the criteria are applied, is that it is **legal**, i.e. compliant with State Aid rules and other legal requirements.

5.2.9 A scale of 1-5 is used to assess the extent to which each option meets the criteria. Descriptors of the scoring, which are tailored to each criterion, are provided below:

- **acceptability:** 1: unacceptable to all groups; 2: unacceptable to most groups; 3: unacceptable to some groups and acceptable to others; 4: acceptable to most groups; 5: acceptable to all groups
- **affordability:** 1: increases the subsidy paid significantly; 2: increases the subsidy a little; 3: no impact on the subsidy; 4: reduces the subsidy paid a little; 5: reduces the subsidy paid significantly.
- **consistency:** 1: fares are set in different ways across all parts of the directly subsidised ferries network and there is significant advantage for some parts of the network over other parts; 2: fares are set in different ways across most of the directly subsidised ferries network and there is some advantage for some parts of the network over other parts; 3: fares are set in the same way in some parts of the network but not others and there is little advantage for some parts of the network over other parts; 4: fares are set in the same way across most of the directly subsidised ferries network and there is very little advantage for any part of the network over other parts; 5: fares are set in the same way across the whole directly subsidised ferries network and there is no advantage for any part of the network over other parts.
- **sustainability:** 1: significantly risks the future sustainability of island economies and communities; 2: risks future sustainability somewhat; 3: no likely impact on future sustainability; 4: likely to increase future sustainability somewhat; 5: likely to increase future sustainability significantly.
- **transparency and simplicity:** 1: not feasible to put in place and operate and very difficult to understand; 2: difficult to put in place and operate and quite difficult to understand; 3: no more easy to put in place or more transparent/easy to understand than the current framework; 4: relatively simple to put in place and operate, fairly transparent and quite easy to

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understand; 5: very simple to put in place and operate, fully transparent and very easy to understand.

5.3 Option Development and Assessment

5.3.1 In our initial discussions, we attempted to distinguish the different elements of the fare system so as to better understand precisely what we were developing options for. This exercise identified five distinct considerations for this study:

- the charging mechanism – i.e. on what basis is the charge being levied?
- fare types– i.e. in what ways can the charging mechanisms be set?
- discounts – i.e. should there be any discounts on the fares?
- surcharges – i.e. should there be any surcharges on the fares?
- policy questions – i.e. what is the most appropriate way to define a commercial vehicle?

5.3.2 The following flowchart sets out the process for developing a new fares structure:

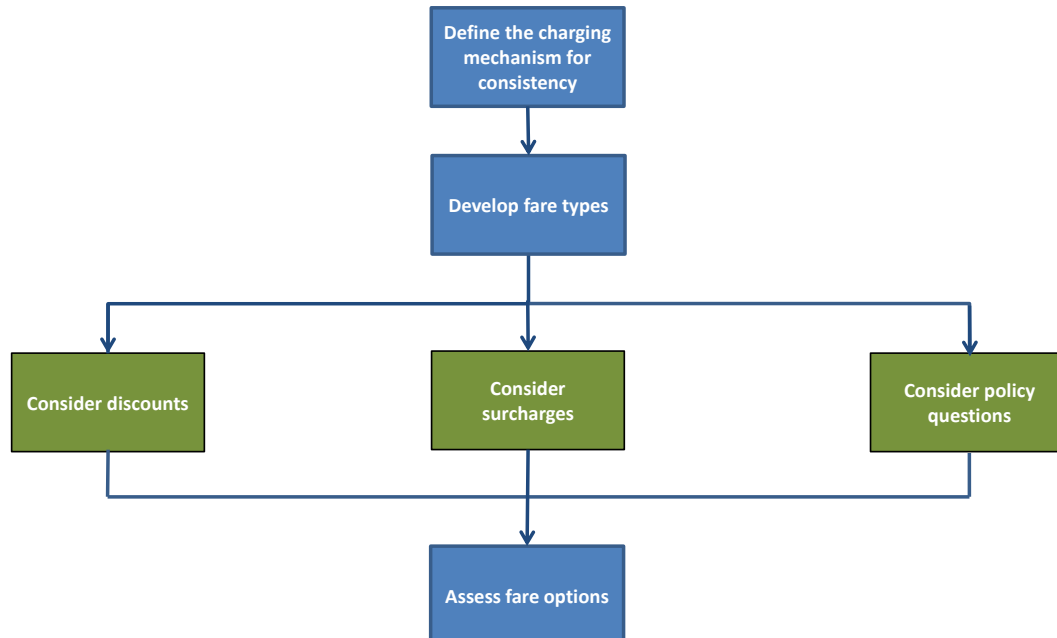


Figure 5.1: Fares Development Process Chart

5.3.3 The figure above shows that the first step in devising a new freight fares policy is to define the **basis of the charge** – i.e. what variable(s) will be used to determine the fare. Having done this, the next step is to develop and test a series of fare types for a new, over-arching, freight fares policy.

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- 5.3.4 Once the basis of the charge and broad fare types for the fares options are established, the next step is to consider any **discounts**, the type of **surcharges** and wider **policy** questions (such as the definition of a CV, or the carrying of loose parcels).
- 5.3.5 The final step in the process is the options to be taken forward for further consideration.

5.4 Charging Mechanism

- 5.4.1 Fares for CVs and non-CVs can be based on one or more variables, including:
- length;
 - width;
 - height;
 - volume;
 - weight;
 - piece rates (principally for loose packages); and
 - headage rates (livestock).
- 5.4.2 All fares on the CHFS and Northern Isles network are based on a single variable. This is consistent with subsidised operators in other countries, although it is in contrast to commercial operators, which use a complex matrix of composite variables to establish bespoke prices for their customers.
- 5.4.3 CV fares on the CHFS network are based on the lane metre, although non-CV rates are based on one of lane metres, weight or headage. Fares on the Northern Isles routes are based exclusively on the lane metre (or lane metre equivalent).
- 5.4.4 Our review of domestic and international experience found that the basis of the charge is typically levied on the scarcest of commodities being consumed, generally the lane metre (as available lane metres are the constraining factor on a vessel's vehicle deck).
- 5.4.5 Following consideration of this issue during our workshop with Transport Scotland, it was agreed that **a single variable, the lane metre / lane metre equivalent should be used as the basis for all CV and non-CV fares on the CHFS and Northern Isles networks**. This is primarily a reflection of the principle of pricing on the basis of the scarcest commodity, i.e. car deck space in this case. The only exceptions to this would be:

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- the parcel traffic on the Firth of Clyde and Sconser - Raasay; and
- the loose freight service on the route between Mallaig – Small Isles. This route will always remain an exception unless the proposed service amendments in the Ferries Plan, which include a dedicated freight vessel for the Small Isles, are taken forward.

5.4.6 Weight restrictions would be limited to the vehicle remaining within its plated (i.e. legal) weight.

5.5 Current Fares

5.5.1 There are two broad principles governing current fares:

- fares vary by vehicle length; and
- the £/Lane-Metre charged reduces with route distance, ie a ferry trip of 40 miles costs less than double the price of a 20 mile ferry trip.

5.5.2 **The 2012-13 published fares are analysed further below, note that 2012-13 is used as this corresponds to the operator revenue data provided and referred to later in this paper.**

Published Fares

5.5.3 The figure below shows the 2012-13 CV fares per lane-metre by route together with the route distance. Routes are ordered left to right in terms of distance length. Where the £/lane metre varies with vehicle length (as is the case with some Western Isles, Coll and Tiree routes) the £/lane metre has been taken from the **average length of the vehicle carried on that route.**

Research and Analysis of Options for Ferry Freight Fares

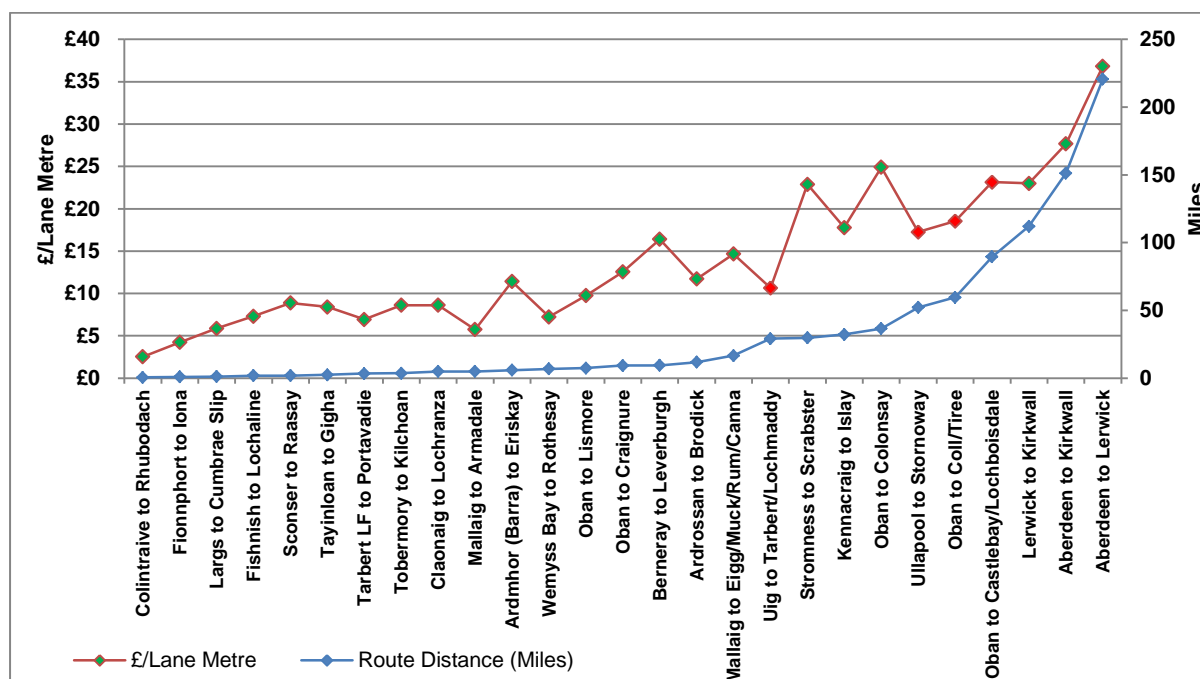


Figure 5.2 2012/13 Fares (£/lane metre) and Route Distance

5.5.4 The current fares system therefore reflects an approach whereby the £/lane metre for a CV broadly increases with route distance as would be expected, ie it costs more to transport a CV of a given length further.

5.5.5 However, the relationship between the £/lane-metre and the route distance is not totally consistent. For example:

- it costs £10.65/m on Uig to Tarbert/Lochmaddy (29.2 miles) yet more than double that, £24.90/m from Oban to Colonsay (36.6 miles);
- Ullapool to Stornoway is cheaper than Kennacraig to Islay despite being 20 miles longer;
- Ardrossan-Brodick is cheaper than Oban-Craignure and Berneray-Leverburgh despite being a longer route; and
- Scrabster-Stromness and Oban-Colonsay fares are very high compared to routes of similar length.

5.5.6 In general, the former RET route fares (shown in red in the figure) were still low compared to other routes of comparable distances in 2012/13. This gap will have closed somewhat with the 10% fares increase on former RET routes in 2013/14 (relative to around 2.6% for other routes).

5.5.7 Note that Ardmhor-Eriskay and Berneray-Leverburgh have high fares per lane-metre relative to routes of a similar length. The fares charged may

Research and Analysis of Options for Ferry Freight Fares

reflect the original longer routes (Castlebay-Lochboisdale and Lochmaddy-Tarbert respectively).

- 5.5.8 Unless a fares policy is attempting to reflect route specific issues such as the cost of provision, it would be reasonable to aim for a system where the basic fare paid (ie pre any discounting) would increase with distance without any of the anomalies seen above.

Published & Outturn Fares

- 5.5.9 There is a level of discounting and surcharging present across the subsidised ferries networks in Scotland. If there were no surcharges or discounts, the revenue generated would reflect only the published fares and the lane metres carried. This can be thought of as **Gross Revenue**. In reality, the revenue generated is less than that, ie the net impact of surcharges and discounts is to reduce this gross revenue to **Outturn Revenue**.
- 5.5.10 In the analysis undertaken here, the estimated Gross Revenue is on average 9% higher than the outturn revenue reported by the operators, ie **the net effect of discounts and surcharges is to reduce revenue by around 9% across the whole network**.
- 5.5.11 For the purposes of the fares analysis which follows here, new fares have been estimated which would reproduce the **Gross Revenue**, and these can therefore be compared to the published fares. The issue of discounts and surcharges can then be considered separately.
- 5.5.12 In determining these initial estimated fares, we have assumed no demand response to the fares changes. However, the impact of the 'new' fares on demand and hence revenues can be calculated assuming a low elasticity of response to fares changes, as evidenced in the original RET evaluation work. The impact on overall revenue is typically less than 5%, so by an iterative process a final set of fares could be established, ie applying minor adjustments to the fares reported here.
- 5.5.13 Note that the data provided by CalMac and NorthLink are commercially confidential so are not quoted directly in this report.

5.6 Development of Fares Options

- 5.6.1 The initial list of 15 options is provided below together with a brief description of each and the rationale for the scoring against the assessment criteria. The assessment criteria were used as part of the initial sift, with a view to identifying a shortlist of options which broadly delivered against the criteria and could thus be taken forward for further assessment.

	Fare Type	Acceptability	Affordability	Consistency	Sustainability	Transparency & Simplicity	TOTAL
1	No charge	5 - free fares would clearly be acceptable	1 - the subsidy paid would increase significantly	5 - free fares are completely consistent	5 - free fares would be expected to boost island economies	5 - free fares are completely transparent and simple	21
2	Revenue maximisation	1 - would lead to significant fares increases	5 - would reduce subsidy significantly	3 - there would be some variance across the network reflecting the different markets	1 - much higher fares would threaten island sustainability	2 - fares would reflect the commercial position which would not be transparent	12
3	Cost recovery at network level	1 - would lead to significant fares increases	4 - subsidy would be reduced	3 - there would be some variance across the network reflecting the different markets	2 - higher fares would threaten island sustainability	2 - fares would not reflect the cost base which would not be transparent	12
4	Road Equivalent Tariff	4 - the resulting fares reductions would be acceptable to most, although the shortest routes may not benefit	1 - subsidy paid would increase significantly	5 - fares setting would be consistent across the network	3 - the impact would likely be broadly neutral	4 - the principle is clear but the charging formula is complicated	17
5a	Best Fit Function - £/mile	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	4 - the 'best fit' function may be hard to understand	18
5b	Fixed Charge plus Constant £/mile	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	4 - the Fixed plus Variable formula may be hard to understand	18

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	Fare Type	Acceptability	Affordability	Consistency	Sustainability	Transparency & Simplicity	TOTAL
5c	Fixed Charge plus Banded £/mile	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	4 - the Fixed plus Tapered Distance based Variable formula may be hard to understand	18
5d	Network Wide, £/mile	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	5 - very straightforward	19
5e	by Route Group, £/mile	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	4 - Route Group definition is open to debate	18
5f	by Vessel Type, £/mile	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	5 - very straightforward	19
5g	by Route Distance Band, £/mile	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	5 - very straightforward	19

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	Fare Type	Acceptability	Affordability	Consistency	Sustainability	Transparency & Simplicity	TOTAL
6a	Network Wide, £	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	5 - very straightforward	19
6b	by Route Group, £	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary	4 - Route Group definition is open to debate	18
6c	by Vessel Type, £	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary though	5 - very straightforward	19
6d	by Route Distance Band, £	3 - a distributional change which will see some fares increase and some fall	3 - Broad revenue neutrality assumed	5 - fares would be set using the same approach across the network	3 - the impacts on individual islands will vary though	5 - very straightforward	19

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- 5.6.2 Following a Scottish Transport Appraisal Guidance (STAG) approach, where all potential options are included until there is a clear rationale for excluding them, options **1, 2, 3, and 4** were sifted out at this stage, principally on the grounds of scoring a 1 on Acceptability (ie being unacceptable to all groups) or on Affordability (ie resulting in a significant increase in subsidy).
- 5.6.3 In terms of the other options (5a-5g, 6a-6d) we have assumed for simplicity that these fares would be developed on a broadly **revenue neutral** basis and it can be seen that, on this basis they all have a similar score.
- 5.6.4 However, the **Route Group** options (5e and 6b) are also sifted out at this stage because:
- the route group is a somewhat artificial definition, and is a proxy for route distance, which is better represented by distance bands
 - they offer no obvious advantage over other formulations
- 5.6.5 In addition, the **Vessel Type** options (5f and 6c) are also sifted out because:
- this formulation would only really be logical if the fares were linked to the costs of operating the vessels rather than the amount of revenue raised; and
 - again these options offer no obvious advantage over other formulations
- 5.6.6 There are therefore seven fares types taken forward for quantitative analysis and these are recapped in the table below. It is assumed that these fares would all be applied on a per lane metre basis and that there would be a linear relationship between vehicle length and fare charged on any given route, ie a 14m vehicle would be twice the price of a 7m vehicle. For the sake of simplicity, the option numbering has been altered to restart at 1.

Table 5.1: Fares Types taken forward for Quantitative Analysis

Distance Based Route Specific £/Miles	Distance Based £/Mile	Fixed ie Flat Fare
(1) 'Best Fit' – Variable rate per lane metre per mile	(4) Constant rate per lane per mile	(6) Flat fare per lane metre
(2) Fixed Charge plus constant rate per lane metre per mile	(5) Constant rate per lane metre per mile within distance band	(7) Flat fare per lane metre within distance band
(3) Fixed Charge plus rate per lane metre per mile based on distance threshold		

Research and Analysis of Options for Ferry Freight Fares

5.7 Analysis of Impact of Potential Fares Systems

Revenue and carryings data (2012-13) were obtained from CalMac and Serco NorthLink and these data were used to undertake analysis to identify the **distributional impacts** of the shortlisted approaches to fares setting, ie to identify where fares would rise or fall compared to current prices. The approach taken to this analysis is outlined below.

For Distance Based fares:

- we know **total lane metre-miles** moved across the network
- we know the **gross revenue** associated with this (ie obtained from published fares)
- we can therefore obtain a rate for **Gross £ per lane-metre-mile** (revenue / lane-metre-miles)
- on each route we can then establish an average vehicle fare by using
 - £ per lane-metre-mile
 - average vehicle length carried on that route (metres)
 - route distance (miles)
- this process can be also applied to any sub-group of routes using the lane-metre-miles and revenue totals for each sub-group of routes

For Flat Fares:

- we know **total lane-metres** carried across the network
- we know the **gross revenue** associated with this
- we can therefore obtain a rate for **Gross £ per lane-metre across the network** (revenue / lane-metres)
- on each route we can then establish an average vehicle fare by using
 - £ per lane-metre
 - average vehicle length carried on that route (metres)
- this process can be applied to any sub-group of routes using the lane-metre and revenue totals for each group of routes

Research and Analysis of Options for Ferry Freight Fares

Fare Types Analysis

Note that the following initial quantification of fares and changes in fares is intended to be illustrative only. They do not represent a final set of fares and are presented here with a view to demonstrating the potential scope and scale of fares changes if any of these broad approaches to fares setting were to be adopted. Were any of these fares types to be taken forward, they would be further honed to develop a definitive set of fares.

Note also that any future fares regime would be introduced on an incremental basis, with transitional arrangements likely to be put in place over time.

5.7.1 Table 5.2 describes the shortlisted options and summarises the distributional impacts of each:

Table 5.2: Summary of Distributional Impacts of Shortlisted Options

	Option	Description	Impact
Distance Based Options	1 ‘Best Fit’ - Variable rate per lane metre per mile	<ul style="list-style-type: none"> Distance based fare with no fixed element Route specific variable rate per mile based on a ‘best fit’ function <p>The function explores the relationship between rate per lane metre per mile and distance. A power function was plotted on that relationship to show the best fit with the observed data. The function uses current published fares to increase previously ‘low’ fares and decrease previously ‘high’ fares.</p>	there would be fares changes in the range of +59% to -34% or +£74 to -£91 in absolute terms the biggest absolute reductions would be Scrabster-Stromness and Oban-Colonsay. the biggest absolute increases would be Uig-Tarbert-Lochmaddy and Lerwick-Kirkwall.
	2 Fixed Charge (assumed at £25) plus constant rate per lane metre per mile	<ul style="list-style-type: none"> Distance based fare with fixed element Fixed charge and a constant rate per mile charge <p>Fares would be reduced for shorter trips and fares would increase for longer trips. The fixed element could be adjusted to change balance.</p>	There would be fares changes in the range of +124% to -63%, or +£620 to -£108 in absolute terms The biggest absolute reductions would be Scrabster-Stromness and Berneray-Leverburgh. The biggest absolute increases would be Kirkwall-Aberdeen and Lerwick-Aberdeen where fares would more than double.
	3 Fixed Charge (assumed at £50) plus rate per lane metre per mile based	<ul style="list-style-type: none"> Distance based fare with fixed element Rate per mile differs above and below distance threshold of 50 miles <p>When route mileage is 0-50 miles, £50 + £X</p>	There would be fares changes in the range of +130% to -50%, or +£158 to -£128 in absolute terms The biggest absolute

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		Option	Description	Impact
Flat Fare Options		on distance threshold	per lane metre per mile. When route mileage >50 miles, reduce the rate per mile by 50% for the additional miles over 50, i.e. £50 + 0.5 x £X per lane metre per mile.	reductions would be Scrabster-Stromness and Berneray-Leverburgh. The biggest absolute increases would be Kirkwall-Aberdeen and Lerwick-Aberdeen.
	4	Constant Rate per lane metre per mile	<ul style="list-style-type: none"> Distance based fare with no fixed element Constant rate per mile based on the actual route distance <p>Fare increases with route distance.</p> <p>This approach would produce very large fares reductions for shorter trips and big fares increases for longer trips.</p>	There would be fares changes in the range of +165% to -90%, or +£827 to -£126 in absolute terms The biggest absolute reductions would be Scrabster-Stromness and Berneray-Leverburgh. The biggest absolute increases would be Kirkwall-Aberdeen and Lerwick-Aberdeen.
	5	Constant Rate per lane metre per mile within distance band	<ul style="list-style-type: none"> Distance based fare with no fixed element Constant rate per lane metre per mile based on route distance bands. <p>The same rate would be charged for any route distance within the same distance band.</p> <p>Distance bands in miles: 0-5, 5-10, 10-20, 20-40, 40-100 and >100</p> <p>The rate would decrease with distance, e.g.</p> <ul style="list-style-type: none"> Distance band 0-5, highest rate per lane metre per mile Distance band >100, lowest rate per lane metre per mile 	There would be fares changes in the range of +100% to -35%, or +£64 to -£101 in absolute terms The biggest absolute reductions would be Scrabster-Stromness and Oban-Colonsay. The biggest absolute increases would be Oban-Castlebay/Lochboisdale, Uig- Tarbert/Lochmaddy and Tobermory-Kilchoan.
	6	Flat Fare per lane metre	<p>A flat fare per lane metre for all routes across the network.</p> <p>Extreme scenario.</p> <p>All short routes would see very large fare increases.</p> <p>All long routes would see very large fare reductions.</p>	There would be fares changes in the range of +420% to -65%, or +£95 to -£322 in absolute terms All short routes would see very large fares increases. All long routes would see very large fares reductions.
	7	Flat Fare per lane metre within distance band	<ul style="list-style-type: none"> A flat fare per lane metre within distance band The same flat fare per lane metre would be charged for any route distance within the same distance band <p>The rate would vary from per lane metre depending on distance band e.g.:</p> <ul style="list-style-type: none"> distance band 0-5 lowest rate per lane metre. distance band >100 highest rate per 	There would be fares changes in the range of +95% to -45%, or +£153 to -£92 in absolute terms The biggest absolute reductions would be Scrabster-Stromness and Oban-Colonsay. The biggest absolute increases would be Lerwick-Kirkwall and

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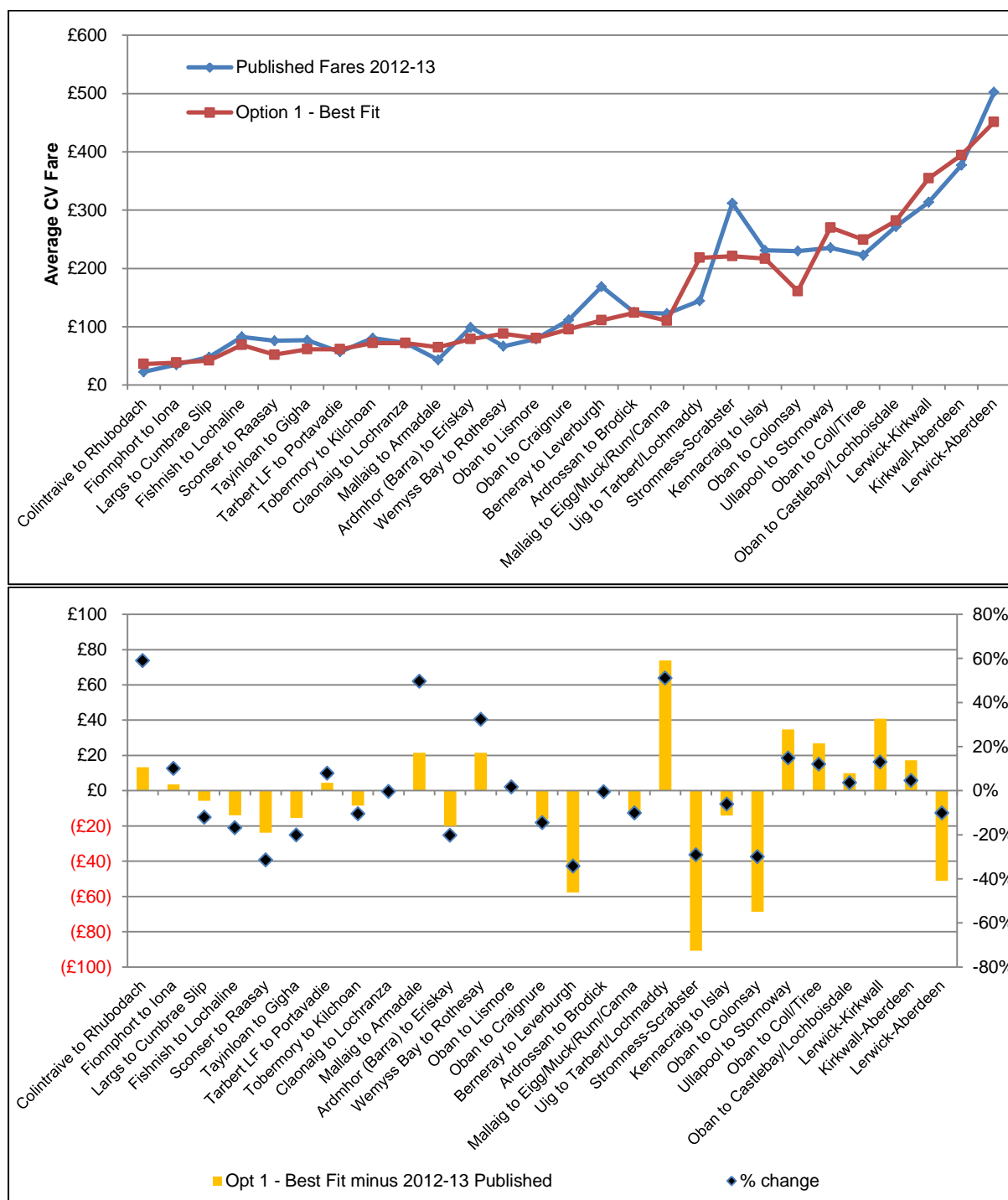
	Option	Description	Impact
		lane metre.	Kirkwall-Aberdeen.

5.7.2 In the pages which follow, for each of the 7 fares options, there are two charts which are shown for each route:

- the fare per CV based on published fares 2012-13 and the average vehicle length (blue line), in order of route distance (short to long)
- the fare per CV based on the fares system under consideration (red line)
- the absolute difference in £ between the two (test minus published, so a positive number indicates a fares increase) (yellow bars)
- the % difference between published fares and the test (black diamonds)

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Option 1: Best Fit Function – Variable Rate per Lane Metre per Mile



- this approach explores the relationship between rate per lane metre per mile and distance. It irons out the anomalies seen in the published fares in a consistent way – previously 'low' fares are increased and previously 'high' fares will come down - the red line does not show a continuous

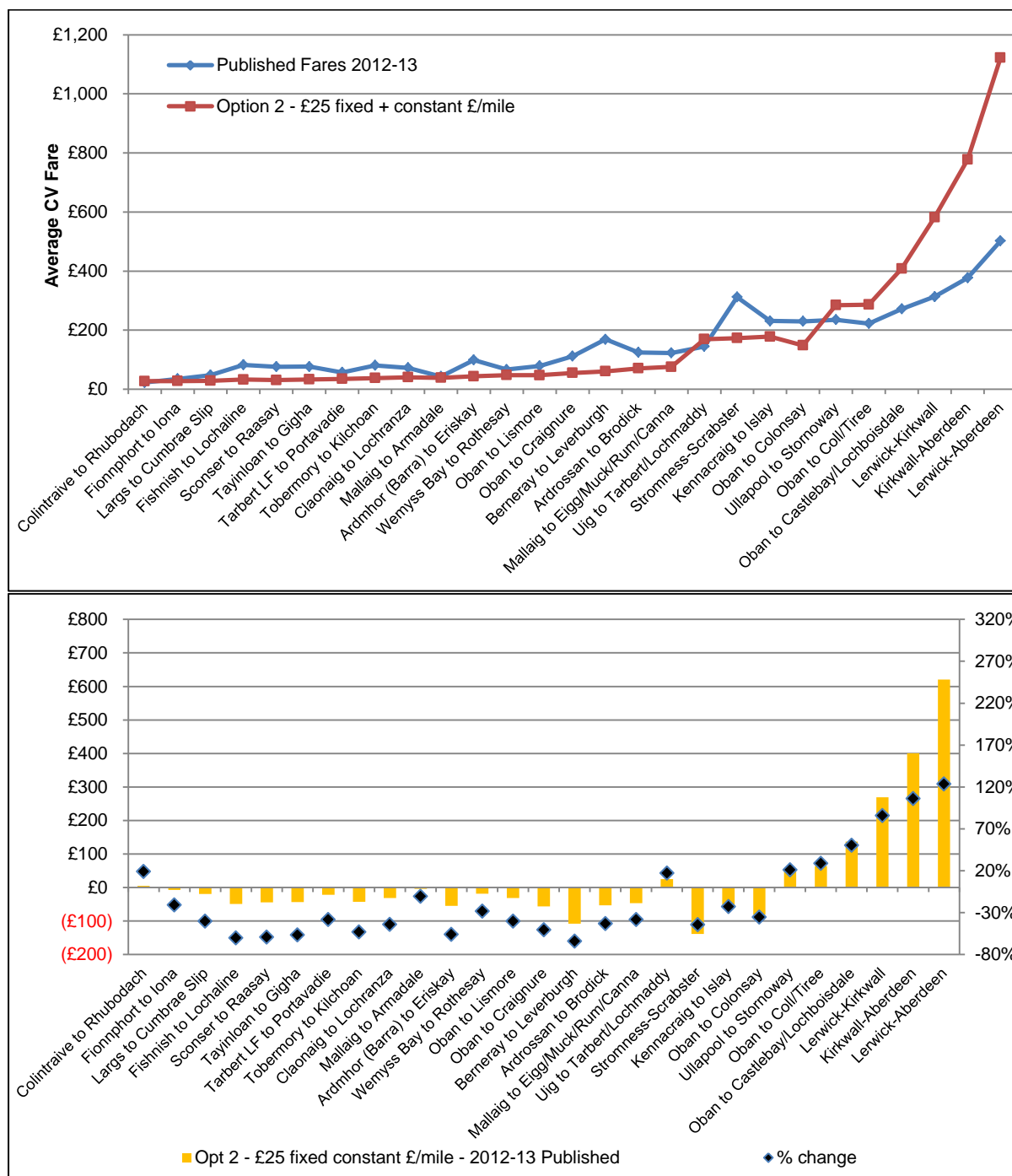
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increase with route distance though as the fare per CV varies depending on the average vehicle length on the route.

- there would be fares changes in the range of +59% (+£13) to -34% (-£58) or +£71 to -£91 in absolute terms.
- the biggest absolute reductions would be Scrabster-Stromness and Oban-Colonsay.
- the biggest absolute increases would be Uig-Tarbert-Lochmaddy and Lerwick-Kirkwall.

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Option 2: Fixed Charge (assumed at £25) plus constant rate per lane metre per mile

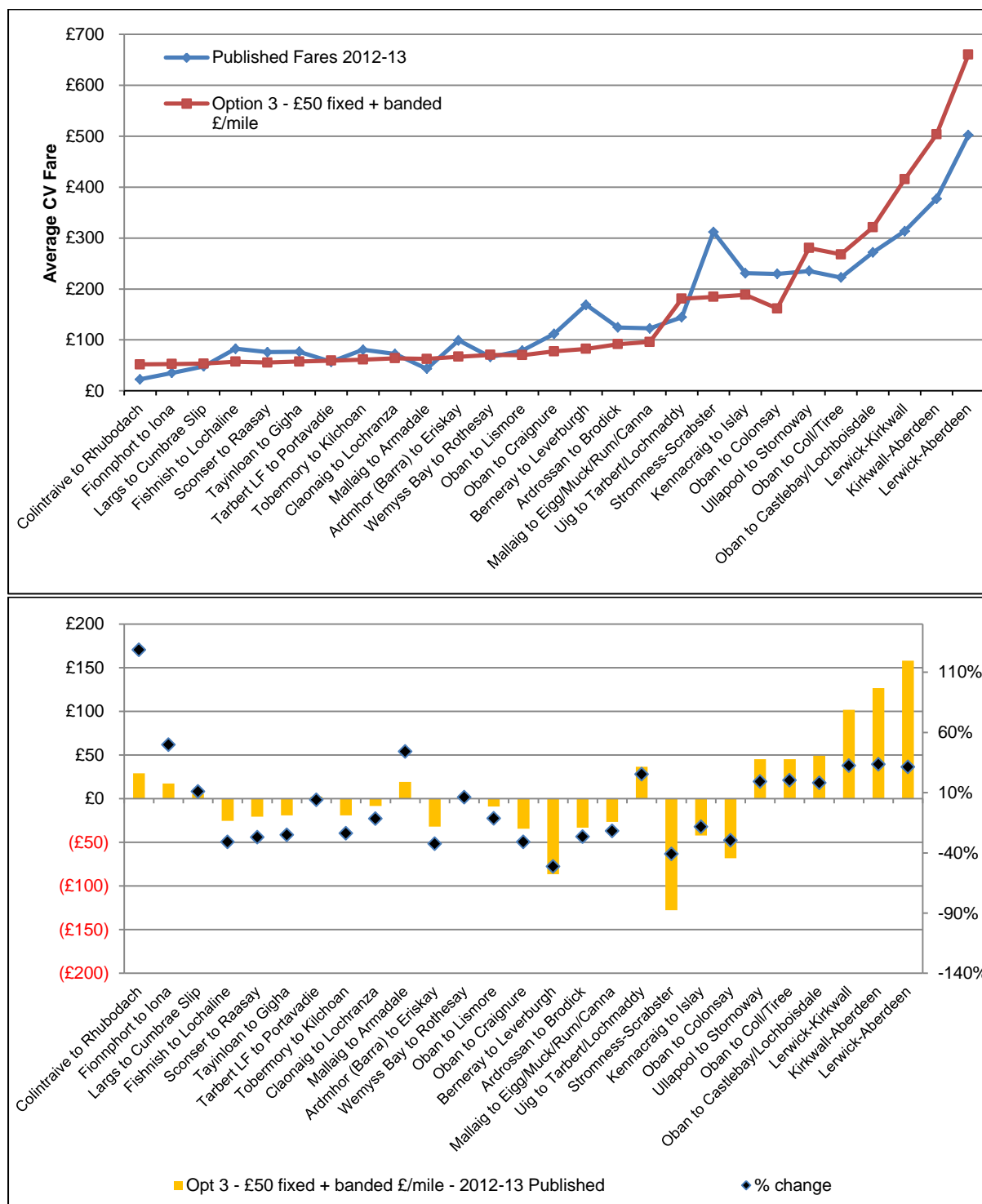


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- this approach would see fares reductions for shorter trips and big fares increases for longer trips – this balance could be adjusted by increasing the fixed cost element from the £25 used here.
- there would be fares changes in the range of +124% (+£620) to -64% (£108) or +£620 to -£108 in absolute terms.
- the biggest absolute reductions would be Scrabster-Stromness and Berneray-Leverburgh.
- the biggest absolute increases would be Kirkwall-Aberdeen and Lerwick-Aberdeen where fares would more than double.

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Option 3: Fixed Charge (assumed at £50) plus rate per lane metre per mile based on distance threshold (50% reduction when miles >50)



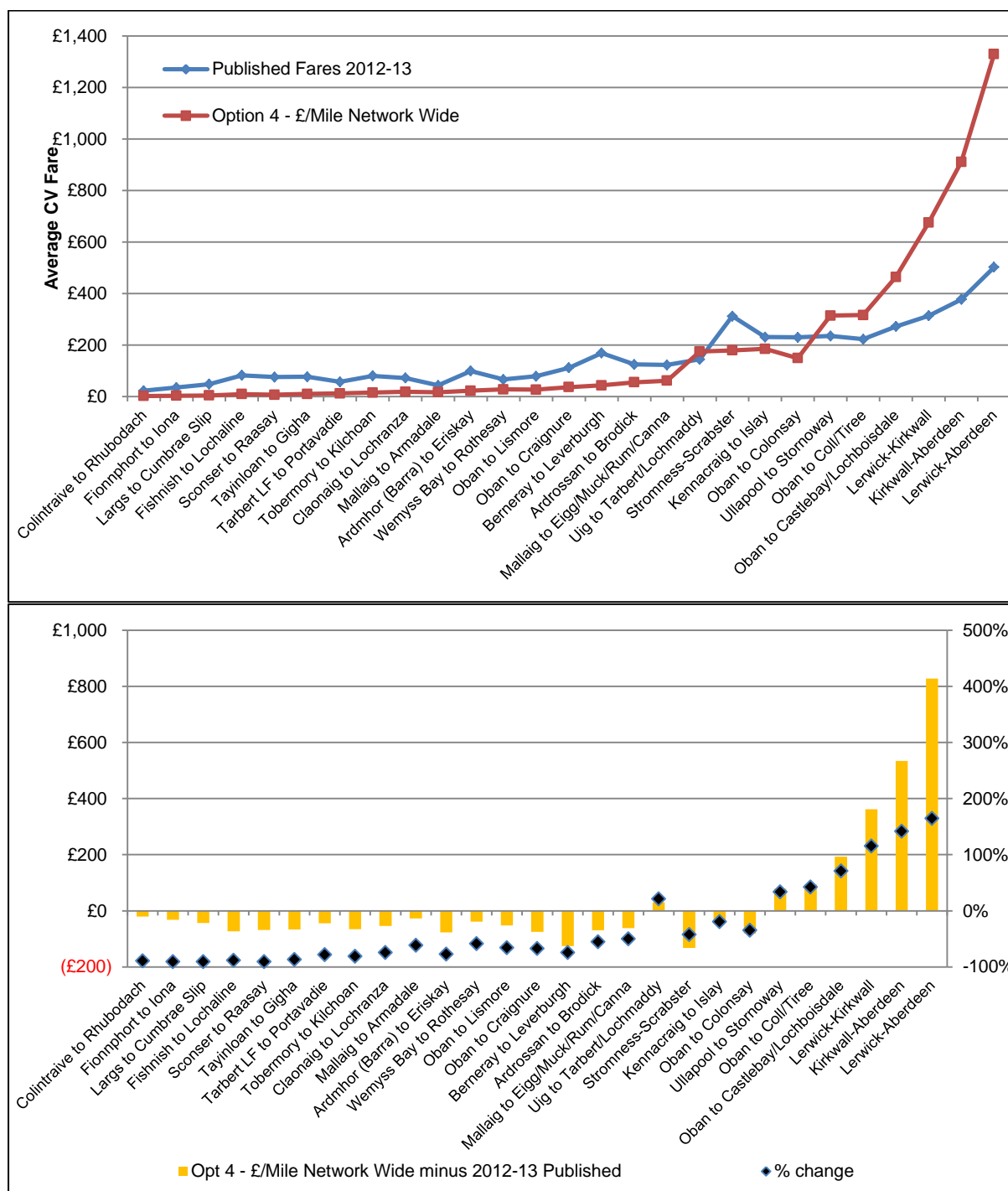
- increasing the fixed element and reducing the £/mile rates over 50 miles by 50% brings down costs for longer routes compared to Option 2 – overall there is a much better match with the scale of current fares compared to Option 2.

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- there would be fares changes in the range of +130% (+£29) to -50% (-£87) or +£158 to -£128 in absolute terms.
- the biggest absolute reductions would be Scrabster-Stromness and Berneray-Leverburgh.
- the biggest absolute increases would be Kirkwall-Aberdeen and Lerwick-Aberdeen.
- the fixed element, rates and banding of £/mile discounts could be further adjusted to reach an optimal position.

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Option 4: Constant Rate per lane metre per mile



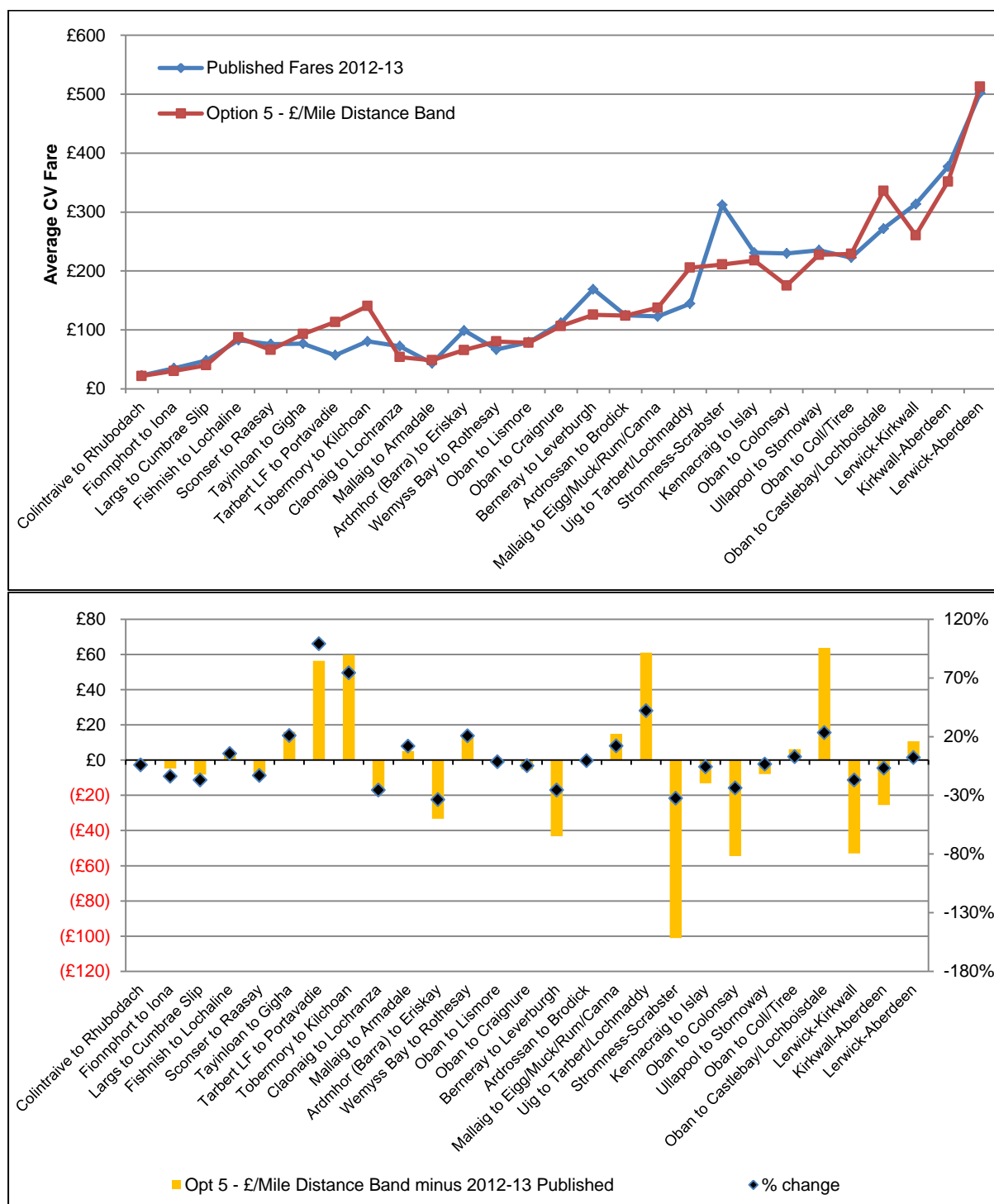
- this approach is based purely on route distance and would produce very large fares reductions for shorter trips and big fares increases for longer trips.
- there would be fares changes in the range of +165% (+£827) to -90% (-£20 to -£69) or +£827 to -£126 in absolute terms.

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- the biggest absolute reductions would be Scrabster-Stromness and Berneray-Leverburgh.
- the biggest absolute increases would be Kirkwall-Aberdeen and Lerwick-Aberdeen.

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Option 5: Constant Rate per lane metre per mile within distance band



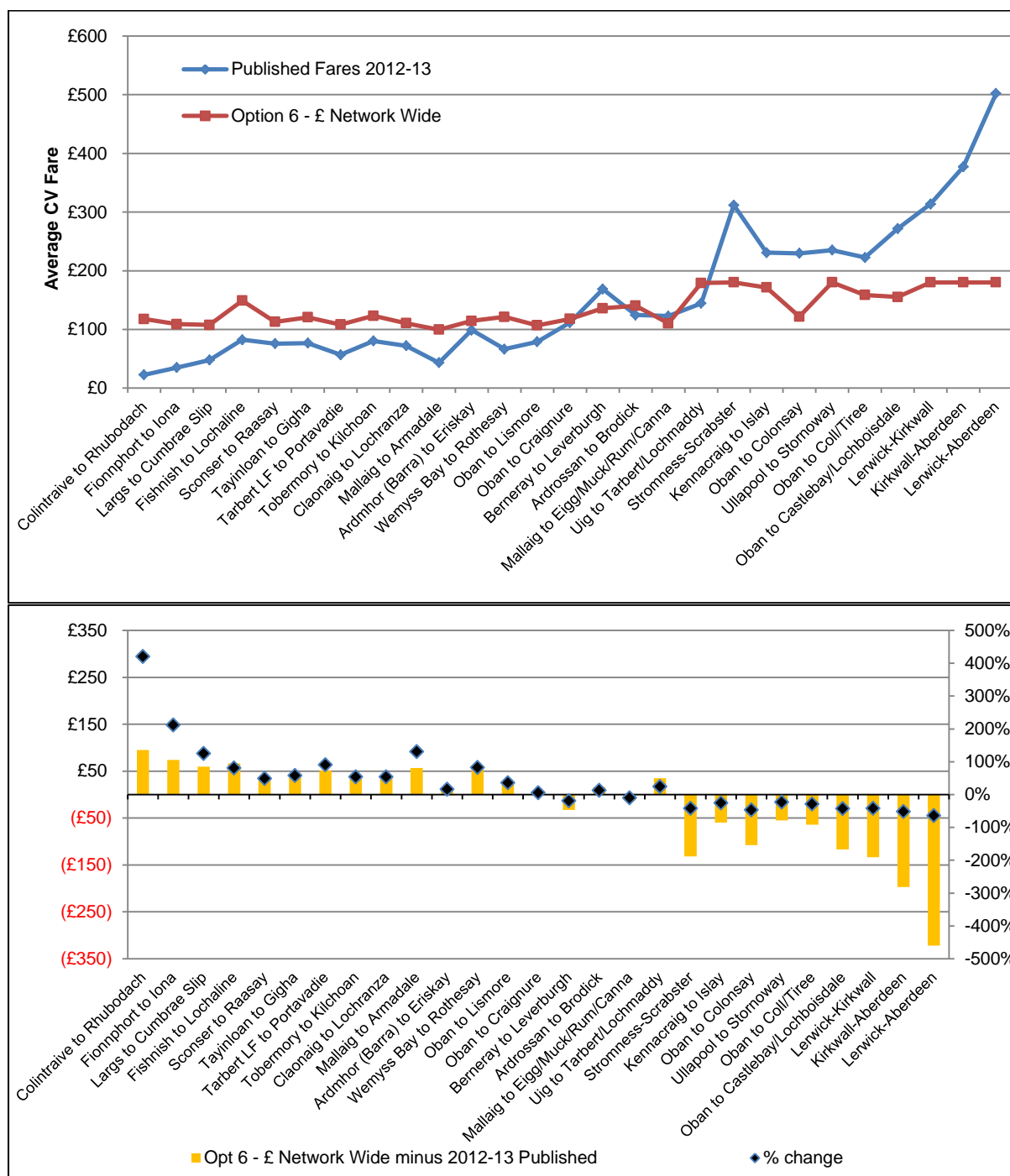
- the £/mile paid would vary widely by the six distance bands defined here – the same rate would be charged for any route distance within the same distance band and it would decrease with distance.

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- the main drawback of this approach is that artificial steps are created when moving between distance bands – this could potentially be adjusted out though.
- there would be fares changes in the range of +100% (+£56) to -35% (-£33) or +£64 to -£101 in absolute terms.
- the biggest absolute reductions would be Scrabster-Stromness and Oban-Colonsay.
- the biggest absolute increases would be Oban-Castlebay/Lochboisdale, Uig- Tarbert/Lochmaddy and Tobermory-Kilchoan.

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Option 6: Flat Fare per lane metre

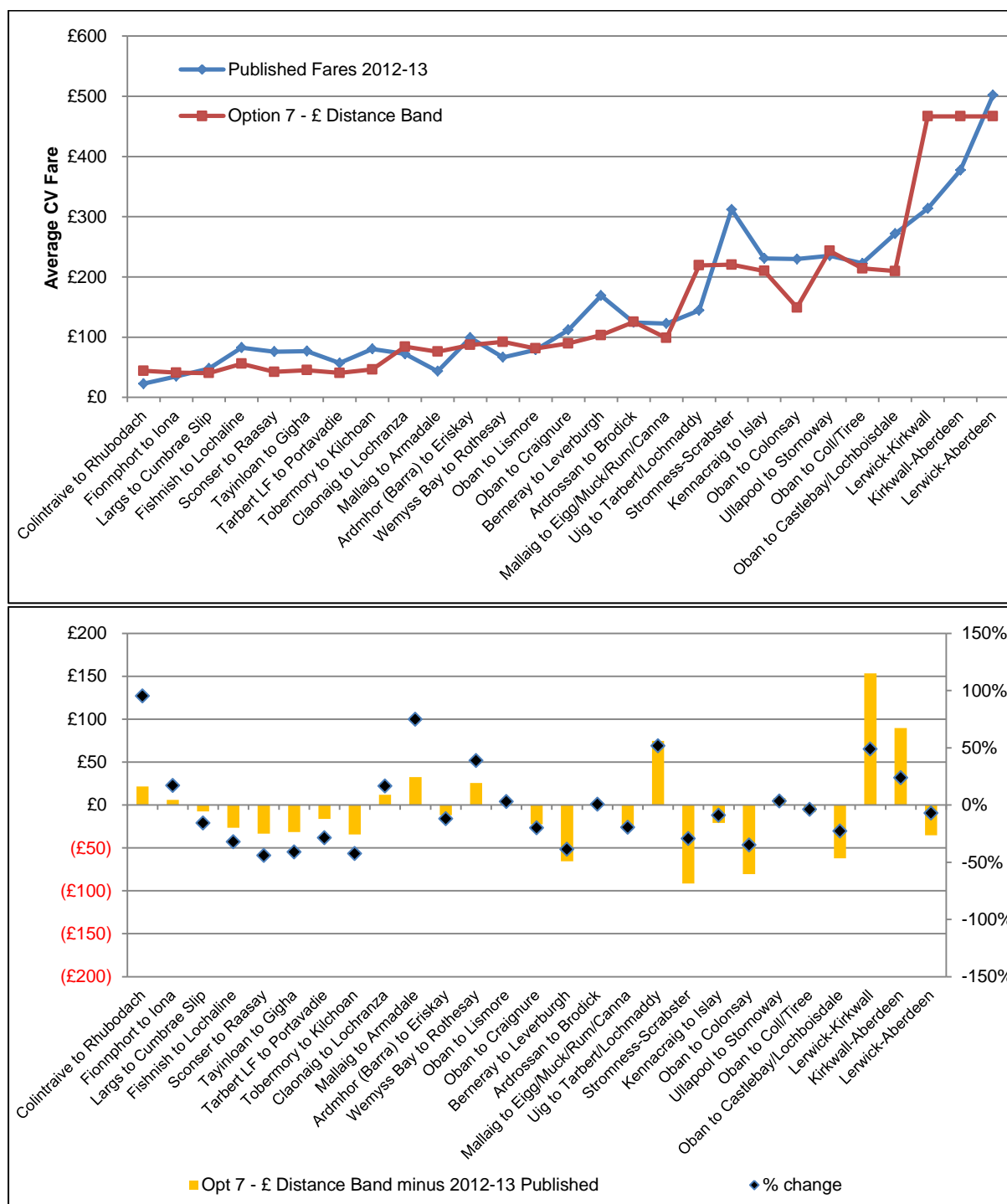


- a flat fare per lane metre for all routes across the network is an extreme scenario, given that route distances range from 0.5 to 221 miles.
- there would be fares changes in the range of +420% / +£95 (short routes) to -65% / -£322 (long routes) or +£95 to -£322 in absolute terms.
- all short routes would see very large fares increases.

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- all long routes would see very large fares reductions.

Option 7: Flat Fare per lane metre within distance band



- the fare paid would vary widely by distance band (from £5 to £35 per lane-metre depending on distance band).

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- again major steps are created between distance bands and this is more extreme where there is a flat fare within each distance band.
- there would be fares changes in the range of +95% (+£22) to -45% (-£34) or +£153 to -£92 in absolute terms.
- the biggest absolute reductions would be Scrabster-Stromness and Oban-Colonsay.
- the biggest absolute increases would be Lerwick-Kirkwall and Kirkwall-Aberdeen.

5.8 Surcharges, Discounts and Policy Questions

5.8.1 The next step in the process is to consider whether there should be any surcharges, discounts and policy decisions which could impact on the implementation of the fares policy.

Surcharges

5.8.2 Surcharges to ferry fares are typically applied to account for occasions where the components of the standard fare do not reflect the cost of carriage. There are various examples of the basis for surcharges, including:

- where a vehicle exceeds the width of a standard lane on the car deck (typically 2.3 or 2.6 metres but this varies depending on the ferry);
- where the weight of a vehicle exceeds a standard weight definition;
- where the height of a vehicle prevents deployment of the mezzanine decks;
- drop trailer handling charges; and
- time of day / day of week, where the available lane meterage on a ferry is in high demand and the standard fare does not reflect the demand, creating a need for peak pricing.

Width Based Surcharges

5.8.3 At present, the situation in Scotland, and with most tendered operators, is that the main form of surcharges is for excess width, with vehicles wider than the typical car deck lane being charged a surcharge / excess fare. This is a perfectly logical approach and relates to the argument that the lane metres on the car deck are the scarcest commodity on a ferry, and thus anything which has a 'footprint' wider than a standard lane should pay a surcharge for consuming additional space which cannot then be sold to another user.

Weight Related Surcharges

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- 5.8.4 Except on the smallest ferries which have deadweight constraints, there are not currently any weight related surcharges in Scotland. In particular, there are no such charges on CHFS or routes to the Northern Isles. Whilst heavy payloads may require increased fuel to propel the vessel, the overall effect is marginal. Heavy vehicles are also not consuming any more of the scarce commodity on the car deck (ie lane metres) than lightly loaded or empty vehicles.
- 5.8.5 The other issue with applying weight related surcharges is that all vehicles would have to be weighed at the port. This would require significant investment in weighbridges and portside staff and would also slow down the turnaround on the vessel.

Height Related Surcharges

- 5.8.6 On certain vessels within the CHFS network, for example the MV *Isle of Lewis*, the presence of high sided vehicles (including standard CVs) can prevent the deployment of the mezzanine decks and thus reduce overall lane meterage available. Whilst it could be argued that such vehicles are consuming scarce lane metres, one could argue that this is a characteristic of the vessels and that freight firms should not be penalised for this.
- 5.8.7 Height related surcharges are highly rare, with one of the only examples discovered in the course of our research being in the Åland Islands.

Drop Trailer Handling Fees

- 5.8.8 The only Transport Scotland subsidised routes which operate an operator administered drop trailer service are the overnight freight service between Stornoway – Ullapool and routes to the Northern Isles.
- 5.8.9 The lane metre charge for carrying drop trailers on the Stornoway – Ullapool service is identical to that for a standard CV, albeit there is a 10% discount in place for using the overnight freight service (this is a demand management measure and is applied whether a vehicle is accompanied or otherwise). There is therefore no charge for handling drop trailers, and there is additional cost to the ferry operator.
- 5.8.10 On the Northern Isles, it is our understanding that the tariff includes the cost of handling drop trailers, but this is not explicitly specified in the fares literature. Overall, it appears that the drop trailer fare is around £1 per £/LM/mile more expensive than the self-propelled fare⁷, which is unlikely to cover the overall cost of the drop trailer service.
- 5.8.11 One potential surcharge which Transport Scotland may therefore wish to consider is a handling fee for drop trailers. The fee would need to be set in such a way that it does not remove the advantage to operators from having a

⁷ <http://www.northlinkferries.co.uk/other/freight/2014-freight-rates/>

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drop trailer option but, at the same time, allows the operator to recover the cost of running a drop trailer operation. This is a surcharge successfully employed by Marine Atlantic in Canada, a government owned ferry company which operates a similar network (in terms of the number of routes and their length) to Serco NorthLink.

Peak / Off Peak Pricing

5.8.12 Peak pricing is effectively a surcharge for taking up car deck space on the ferry on high utilisation sailings, be they at a specific time of day or day of the week. Peak pricing is currently only used on limited routes in Scotland, including Ardrossan–Brodict and Oban–Craignure during the summer months and on a seasonal basis (low / mid / high) on NorthLink services.

5.8.13 The 10% discount for using the overnight freight service on the Stornoway – Ullapool service is an example of off-peak pricing. In this case there is an incentive offered to use the less utilised service.

5.8.14 More widespread use of peak / off-peak pricing by sailing / season is an option which Transport Scotland and operators may wish to consider further. Indeed, it is a consideration in the Ferries Plan.

5.8.15 However, it is perhaps only most justifiable on routes / services where there is a demonstrated capacity problem and this may occur more frequently with the introduction of RET across the network. The level of utilisation should be reviewed regularly and be discussed with the operator.

5.8.16 Any further moves to pricing flexibility would have to be reflected in the contract offered to the ferry operator and be compliant with State Aid rules.

Bunker Adjustment Factor (BAF)

5.8.17 The final surcharge which Transport Scotland may wish to consider is a Bunker Adjustment Factor (BAF), or a fuel surcharge. At present, on Transport Scotland tendered services, the risk lies either with the operator or Transport Scotland. Freight customers are protected from this risk except in the extent to which it is manifested in the Consumer Prices Index, which is the inflation index used to annually uplift fares.

5.8.18 The inclusion of a BAF is likely to be deeply unpopular and, with no history of this on Scottish ferries, it is likely to be unacceptable to the public.

Discounts

5.8.19 The review of current practice for both CVs and non-CVs identified a wide variety of discounts on the CHFS network (although less so on the Northern Isles). We are unclear as to the original rationale for these discounts, although this appears to have included the provision of support for local

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hauliers; local sectors or industries; volume based discounts; demand management etc,

5.8.20 Discounts on the CHFS network equate to around £1 million annually. If route or commodity specific discounts were removed and this pot spread equally over the network, CV fares could be reduced by around 5% across all routes.

5.8.21 There are four main types of discount offered on one or both of the CHFS and Northern Isles routes, namely:

- Volume discounts – e.g. the Traders Rebate Scheme (a scheme offering all commercial vehicle operators a rebate based on their volume of carryings on a particular route on the Clyde & Hebrides Ferry network);
- Route discounts – e.g. the 10% discount for using the overnight freight service between Stornoway and Ullapool;
- Commodity discounts – e.g. free or discounted returns for hay lorries, vivier trailers etc.; and
- Empty return discounts – e.g. a reduced fare for moving an empty unit, this issue is complicated by having to define an ‘empty’ vehicle (for example, is a livestock trailer returning to an island with a small load of fencing an empty vehicle or not?).

5.8.22 The application of discounts is ultimately a policy matter for Transport Scotland, as they may be intended to achieve a wider set of objectives than simply lowering the cost of travel. Any review of discounts should be objective led – and there should be a clear and stated rationale for the purpose of the discount.

Policy Questions

5.8.23 There are a number of wider questions Transport Scotland may wish to consider in developing any future freight policy. These are again applicable across all of the proposed options.

Definition of a Commercial Vehicle

5.8.24 Establishing the precise definition of a commercial vehicle has always been a challenge. On CalMac routes, the present definition states that all vehicles greater than 5 metres in length on non-RET routes and 6 metres in length on RET routes are CVs. The exceptions to this are trailers and agricultural tractors, which have their own specific rate, the basis for which is unclear. On NorthLink, all CVs regardless of length are charged commercial rates

5.8.25 The existence of a length based threshold creates an incentive at the margin to purchase (often bespoke) vehicles which fit under the designated length

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threshold, allowing what is effectively commercial traffic to be carried at the car rate, something which can be viewed as inequitable.

- 5.8.26 One potential solution to this is to define a CV as anything other than a car or coach and levy a lane metre based charge on this basis. Whilst there would be a challenge of people using modified cars to carry commercial goods, the definition of a 'CV as a CV' is inherently fair.

Redefinition of CV Length

- 5.8.27 As part of the roll-out of RET, Transport Scotland has mandated that the threshold at which a vehicle becomes a commercial vehicle is redefined from 5m to 6m. The early evidence suggests that this change has markedly reduced CV carryings / revenue where introduced on the CHFS network and has therefore increased the subsidy required.

- 5.8.28 This issue lies outwith the immediate scope of this study, but is another quirk in the fares system which could be considered going forward.

Paying for Improvements

- 5.8.29 Another issue worthy of further consideration is the concept of improvements on a route (eg a higher frequency, drop trailer capability etc) being reflected through the fares charged to end-users. This concept has been discussed in relation to the rail network on a number of occasions and has typically been rejected on the grounds of public acceptability. It is therefore unlikely to be acceptable in the context of ferry services. However, it should be considered if only to ensure that there is a clear rationale for ruling it out.

Parcel Rates

- 5.8.30 In undertaking a fundamental review of freight fares policy, it is important to strategically review all elements of the freight service and consider whether they remain fit for purpose going forward.
- 5.8.31 In particular, the rationale for operating a loose parcel service on the Firth of Clyde and on the Sconser – Raasay route should be considered going forward. Should these services be continued, it is likely that the historic flat weight based charges would remain in place.
- 5.8.32 The Mallaig – Small Isles route will always remain something of an exception until the commitment in the Ferries Plan to operate a dedicated freight service is realised. This is in part due to the lack of on-wards road infrastructure on these islands and the very low population levels.

5.9 The Consultation Process

- 5.9.1 The above analysis was consolidated into an Options Paper with a series of consultation questions, which was approved by Transport Scotland and

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issued to consultees on Friday 28th November 2014. Consultees had an eleven week period to respond to the consultation by Friday 6th February 2015.

5.9.2 A total of 24 organisations were invited to participate in the consultation of which 15 submitted a formal response. The table below provides a detailed list of these organisations:

Table 5.3: Consultation Responses

Organisation Invited to Respond	Submitted a Formal Response
Argyll & Bute Council;	✓
CalMac Ferries Ltd;	✓
Comhairle nan Eilean Siar;	✓
Co-operative Group;	
Federation of Small Businesses;	
Freight Transport Association;	✓
Gleaner Fuels;	✓
Highland Council;	
Highlands & Islands Enterprise;	✓
HITRANS;	✓
Jewson Limited;	
Mid-Argyll Chamber of Commerce;	
National Farmers' Union Scotland;	✓
North Ayrshire Council;	✓
Orkney Islands Council;	✓
Outer Hebrides Commerce Group;	
Road Haulage Association;	✓
Scottish Shellfish Marketing Group;	
Seafood Shetland;	✓
Serco NorthLink;	✓
Shetland Fish Producers' Association;	

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Organisation Invited to Respond	Submitted a Formal Response
Shetland Islands Council;	✓
Strathclyde Partnership for Transport; and	✓
Visit Arran.	

5.9.3 In the interests of transparency, copies of finalised consultation responses are provided online on the [Transport Scotland website](#) (where permission to publish was provided by the consultee).

5.9.4 In addition to the main consultation exercise, a haulier briefing session, arranged by the Road Haulage Association and Transport Scotland, was held on Wednesday 14th January. This session allowed hauliers to present their views on the options and ask questions. However, at this stage in the process, only the consultation views of organisational stakeholders and industry bodies are included in the research, so as to ensure the research reflects industry-wide views rather than individual opinions.

5.9.5 The next two chapters present the feedback of consultees on the in-principle options (Chapter 6) and the wider surcharges, discounts and policy questions (Chapter 7).

6 Fares Options and Consultation Responses

6.1 Overview

6.1.1 This section sets out the consultation responses to the seven options identified as the potential basis of future fare setting.

6.1.2 It should be noted that consultees were offered either face-to-face consultation (although these were restricted in number), telephone consultation or the opportunity to respond independently in writing.

6.1.3 Different consultees approached the consultation in different ways. Some stakeholders considered each option in turn, whilst others focussed on an identified preferred option. Similarly, some stakeholders preferred to take a relatively local view whilst others took a wider 'network' view. This should be borne in mind when reviewing the findings.

6.1.4 Note that if a consultee is not specifically referenced with regard to a fares option / consultation question, it can be assumed that it was in broad agreement with the consensus reported below.

6.1.5 The views reported here are those of the consultees and not necessarily those of Transport Scotland.

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6.2 General Comments

- 6.2.1 A number of stakeholders provided a series of general comments related to the options before considering the options themselves. These comments are set out below.

CalMac Ferries Limited

- 6.2.2 CalMac explained that the decision not to consider options linking fares to economic performance is perhaps a weakness in the overall research (this approach was not taken forward by Transport Scotland as it was thought that it may cause inconsistencies, which is counter to the objectives of the research). Whilst CalMac endorses the principle of consistency, it also explained that a network-wide solution could impact negatively on the economic sustainability of one or more islands. It therefore foresees the need to consider 'special cases' in the analysis.
- 6.2.3 The main issue for CalMac overall is that CV carryings across the network are in decline. A fares system which would encourage CV traffic which has switched to bulk and coaster back onto the ferry would be beneficial from a revenue perspective.

Serco NorthLink

- 6.2.4 Serco NorthLink Ferries operates in a commercially competitive market across the Pentland Firth. This research is not seen to be representative of the commercial application of fares.
- 6.2.5 Trunking and associated costs have reduced the attractiveness of the Pentland Firth Route in recent years and put increased pressure on the Aberdeen to Kirkwall service.

Argyll & Bute Council

- 6.2.6 Argyll & Bute Council explained that for any fares system to be publicly acceptable, there would need to be minimal departure from current fares, albeit ensuring greater consistency.
- 6.2.7 The Council also explained that there is a need amongst stakeholders to take a network wide view. It explained that the Council would not support any options which result in a significant step change for any routes (eg Option 2 for the Northern Isles) even if this was to the benefit of the Argyll & Bute routes.

Comhairle nan Eilean Siar

- 6.2.8 With regard to the research process adopted by Transport Scotland and the Working Group, the Comhairle is comfortable with the principle of identifying a long-list of options and the development of a short-list of options for further

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appraisal. It is however felt that the further appraisal of the remaining options must be supported by a more detailed analysis of the economic and social impacts of the respective fares structures prior to the identification of a “preferred option”.

- 6.2.9 Whilst the Comhairle very much recognise the increasingly challenging financial climate that the public sector is expected to operate in, it noted that there is no doubt that the outcomes of the Ferry Freight Fares Review will have significant potential for contributing to the economies and sustainability of the respective island communities.
- 6.2.10 In addition, given the recognition of the importance of these ferry services to the island communities and, hence, to the wider nation, and whilst recognising the increased levels of subsidy provided and investment undertaken by Scottish Ministers over the last 5-10 years, the Comhairle does not agree with the premise that any new overarching freight fares policy and structure should be “cost-neutral” or constrained within current subsidy levels.
- 6.2.11 The Comhairle noted that implementation of a revised fares structure should be considered carefully. It explained that the need for a period of transition is obvious and, given the potential impacts on certain sectors, including hauliers and their customers, it feels that this period must be sufficient to enable effective business planning and change management within those sectors.
- 6.2.12 The Comhairle noted that, given the need for a more detailed analysis and economic impact assessment of any out-turn shortlist of options, it is not, at this stage, comfortable in identifying a preferred option. Nonetheless, the Comhairle has provided comments on some individual options. In particular, the Comhairle is generally comfortable with the principle that commercial vehicle fares should in some way reflect the length of the crossing.

North Ayrshire Council

- 6.2.13 North Ayrshire Council acknowledged that fares have typically been set on the basis of historical arrangements, with a number of inconsistencies across the network. The Council explained that, for the Firth of Clyde at least, the current fares system does appear to work and care must be taken to not to overly disrupt that balance.
- 6.2.14 On that basis, the Council supports the fares option which minimises the range of absolute fare changes. It explained that island economies are fragile and large increases, even with transitional arrangements, could be detrimental.
- 6.2.15 The Council explained that there would be some merit in tying fares to the economic performance of the islands being served, although it was again explained that Transport Scotland is not in favour of this approach on the basis of consistency.

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6.2.16 Overall, the Council believes that the fares system should support the specific needs of individual islands rather than being based on a single network-wide approach.

Orkney Islands Council

6.2.17 Orkney Islands Council observed that, across all options, the Scrabster – Stromness route is an outlier and is more expensive relative to other publicly specified routes. It noted that there is logic in reaching a common approach and they also noted the potential impact on Pentland Ferries. However, the Council explained that it did not follow that prices should remain high to protect another operator.

Shetland Islands Council and ZetTrans

6.2.18 Shetland Islands Council noted that Transport Scotland should consider the characteristics or dynamics of the routes as well as distance, finding an appropriate solution from a user viewpoint. The Transport Scotland's Routes & Services Methodology (RSM) looks at route use characteristics to establish model service levels and the Council suggests that this principle could be extended to include the consideration of fares on different routes.

HITRANS

6.2.19 HITRANS welcome the principle of achieving a consistent, transparent and simple approach to fare setting for freight. It noted that the information collated by Transport Scotland for this study has clearly illustrated the lack of consistency or rationale underpinning the existing fare setting across both the CHFS and Northern Isles contracts.

6.2.20 HITRANS noted that, following the selection of a preferred option, further work will be required to develop the agreed formula for fares and the out-turn fares which would stem from this. It explained that there would also be a need to consider the impacts at the island level. This will need to include careful consideration of the economic impact that could result in implementing any change in fares at a local level. HITRANS noted that this focus should capture impacts across sectors as well as by haulier and route. It further explained that industries in island and peninsular communities are trading in difficult conditions and the impact of changes to ferry fares can be far reaching.

Highlands and Islands Enterprise

6.2.21 As an overall comment, HIE welcomes the aims of developing a fairer and more consistent approach to setting freight fares across Scotland. However, it noted that much greater attention needs to be paid to the economic outcomes sought from the Review, and the potential economic impacts of

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different options (including potential changes to discount schemes and the definition of CVs).

6.2.22 HIE noted that currently no detailed consideration has been given to economic outcomes beyond a desire to assess whether different options are broadly positive or negative. Given that there are fundamental questions not just about fare structures, but regarding how CVs are defined and charged, and discounts for specific commodities or economic activities, HIE noted that decisions made following this research have the potential to shape the future of island economies. It explained that it is not just a question of whether each option produces an overall positive or negative economic outcome, but how it will influence patterns of economic activity, resulting in different outcomes for different businesses, sectors and communities.

6.2.23 HIE pointed out that significantly more detailed economic appraisal is therefore required of the various options and questions posed in the research study. In its response, HIE has highlighted some of the key issues which require further analysis before sound, evidence-based decisions can be made.

6.2.24 HIE also suggested that Transport Scotland should proactively seek advice from the State Aid Unit within Scottish Government in relation to the legality of different fares systems and discounts such as the TRS and commodity related discounts.

6.2.25 In terms of the **fare options**, HIE noted the importance of appreciating that, with any of the options taken forward, some of the impacts will take time to bed in and Transport Scotland needs to both allow for this bedding in period and ensure effective monitoring and evaluation of the impacts. It explained that the approach being taken here is more scientific than at any time in the past and there is a need to avoid the adverse impacts of short-term changes.

6.2.26 HIE explained that, unlike passengers, economic activity and freight demand do not always respond quickly to price changes. In particular it will take longer (potentially 5-10 years) for primary / manufacturing sectors to fully respond to new opportunities created by a reduction in transport costs, although conversely the effects of any increase in transport costs may be visible very quickly if it threatens the viability of certain economic activities in some locations. The implication of this is that with any reform of freight fares which creates a mixture of 'winners' and 'losers' compared to the current position, the negative impacts could be much more immediate and visible than the positive impacts – even if overall the net long-term position is a positive one. HIE noted that this was arguably the experience with the introduction and subsequent withdrawal of RET for commercial vehicles in Coll, Tiree and the Western Isles.

6.2.27 HIE noted that it has a wider geographic remit than most consultees in the process and explained that islands with long crossings are already at a

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significant disadvantage in terms of freight costs. When added to relatively long overland routes to the Scottish Central Belt, the overall distance to market makes it difficult for existing businesses in these islands to compete with mainland businesses, and difficult to attract new businesses and economic activities. However, at the other end of the spectrum, businesses in relatively accessible islands such as Bute also struggle to compete with those on the mainland because of the additional freight transport costs, even if these are significantly less in absolute terms than for the more distant islands. HIE noted that, as this research study aims to produce a fairer and more equitable basis for ferry freight fares, it should take account of the general disadvantage faced by island businesses and communities due to the additional costs of transporting freight to and from the Scottish mainland.

6.2.28 The organisation explained that there is therefore a need to consider the wider question of whether the overall level of subsidy for commercial vehicles should increase with a view to reducing disadvantage and stimulating economic development in the islands. It explained that whilst the case for reducing freight fares is probably greatest on the longer routes, this should not be at the expense of communities with shorter routes where any increase in fares would add to the existing disadvantage relative to mainland communities.

6.2.29 In addition, HIE cautioned that the impact of fare changes will not be universally common across all islands, a point clearly evidenced by the differing impact of RET on individual islands. HIE again stressed the need to ensure that the implications of any preferred options are properly evaluated and consulted upon before the policy is announced and implemented.

National Farmers' Union Scotland

6.2.30 The National Farmers' Union Scotland (NFUS) believes that there is not a single option which fits all of the islands. It has provided feedback at different geographic levels.

6.2.31 NFUS noted that members on the Arran routes considered that as RET for non-CVs has only recently been introduced to the island, large changes in freight fares would be unwise at present. Members on the Shetland Islands were opposed to options which were based on distance and would negatively affect the Aberdeen – Lerwick route. They suggest that, if a distance based charge was to be applied, a cap should be placed on the scale of the potential fare increases.

6.2.32 The organisation has requested more generally that Transport Scotland consider the extension of RET to commercial vehicles.

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Seafood Shetland

- 6.2.33 Seafood Shetland noted that it is clear that the range of ferry services across Scotland is numerous and diverse with, perhaps, sound reasoning as to why the current fare structures exist in their present format. It is considered that the creation of one system to be implemented country-wide is likely to be impossible to achieve, unlikely to find favour in all areas or be seen to be fair.
- 6.2.34 Specifically, it noted that while any future fare structure is based on the length of the route alone, it will be challenging to devise a model which is seen to be considered 'fair' for Shetland, given the length of the mainland-Shetland route, relative to all the crossings which form part of the Scottish ferry network.
- 6.2.35 It further noted that Shetland is already disadvantaged by distance, both in terms of time and mileage and great consideration should be given to assisting island communities to overcome current and future barriers to market. Seafood Shetland noted that any proposal to charge greater fares should, therefore be resisted.
- 6.2.36 Seafood Shetland explained that serious consideration should be given to the potential for unintentional consequences and outcomes following the Review. It noted that a change in fare structure may advantage certain communities over others, leading to market distortions in certain sectors: aquaculture being an example. This could, potentially, have a bearing on future operational and investment decision-making.
- 6.2.37 Finally, Seafood Shetland noted that greater analysis should be made of the areas served by the ferry network, accounting for their unique circumstances to ensure that all current needs, future prospects and aspirations are fully understood and acknowledged.

Gleaner Oils

- 6.2.38 Gleaner Oils indicated that options not constrained by distance bands provided an unacceptable step change in fares and too large a departure from the current norm. It noted that such options (ie Options 5b, 5d and 6a) should be excluded from further consideration.

6.3 Comments on Option 1: Best Fit Function – Variable Rate per Lane Metre per Mile

CHFS & Northern Isles Operators

- 6.3.1 **Serco NorthLink** noted that this option creates a consistent approach to fares setting across Scotland, whilst there is no major departure from current fares.
- 6.3.2 However, it did note that the best-fit option has no clear underpinning rationale, which would perhaps make the option difficult to justify to users.

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Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 6.3.3 Whilst seeing a number of other options as potentially acceptable, **Argyll & Bute Council** noted that it regarded the best fit function as the most appropriate fare system going forward. It explained that this option offers consistency across the network and relatively small fare changes *vis a vis* the current situation. **SPT** also supports this option in principle.
- 6.3.4 By way of contrast, **Comhairle nan Eilean Siar** does not support this option, as it felt that it would only serve to uphold the current fares structure and its anomalies and inconsistencies.
- 6.3.5 **Orkney Islands Council** explained that this option is worthy of further consideration because it maintains a link between cost and distance and minimises the overall change in fares. The Council also noted that whilst there was a need for a relationship between cost and distance, there should only be a limited relationship to operating costs given the publicly funded nature of the service.
- 6.3.6 **Shetland Islands Council** and **ZetTrans** submitted a joint response and, in the interests of brevity, the findings are reported as the Council's position henceforth. The Council recommends further consideration of this fare option as it takes account of the principle of charging less per mile as route distance increases, a key issue for the Shetland Islands given the distance from the mainland.
- 6.3.7 **HITRANS** noted that this option could reasonably be used as a consistent basis for tidying up the current anomalies in the fares system. However, it expressed concern at the lack of a rationale underpinning the current shape and position of the best-fit line, noting that the absence of any evidence for this may undermine the public credibility of this option.
- 6.3.8 **HIE** can see the merit of bringing all fares onto a curve which broadly follows the current pattern. It noted that it is a simple approach which limits the extent of the change on any given island and indeed network wide. However, HIE echoed the point of others that there is a lack of a rationale for the shape of the best-fit curve in the first place – ie why is it the shape it is? Should the curve be moved down through more subsidy and should any overall fares reduction be concentrated on longer routes or more evenly distributed across all routes? It noted that there is no clear (economic or other) rationale for this at present and additional consideration would need to be given to this before any implementation, with particular regard to how the impacts would transfer through to the island economies.

Industry Bodies

- 6.3.9 The **Road Haulage Association (RHA)** welcomed the simplicity of this option and felt that the changes in fares are minimised. Its view is that it is the most

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appropriate of the seven options. This view was largely echoed by the **Freight Transport Association (FTA)**.

6.3.10 **Gleaner Oils** noted that this option would be the most pragmatic fares system going forward. It explained that this fares function closely represents the current and well understood position.

6.4 Comments on Option 2: Fixed Charge plus constant rate per lane metre per mile

CHFS & Northern Isles Operators

6.4.1 **Serco NorthLink** does not support this option as it has a disproportionately negative impact on the longer routes which it offers. From a demand management point of view, it also noted that it could destabilise the market and trigger radical movements in route choices to the Orkney Islands.

6.4.2 Serco NorthLink also explained that it cannot see a clear rationale for a fixed charge being included in the fares methodology particularly in a nationwide approach where the fixed costs of providing services will vary. It sees this option as more complicated than applying a simple route-per-mile formula.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

6.4.3 **Orkney Islands Council** explained that the principle of a fixed element is sound as it acknowledges that there is a fixed cost to ferry provision regardless of distance. However, the Council does not consider this option to be appropriate as it has a disproportionately negative impact on the longer routes.

6.4.4 **Shetland Islands Council** does not support further consideration of this option given the substantially disproportionate impact on the Aberdeen–Lerwick route. The Council stressed that, if this option were to be considered further, it would need to be supported by analysis of the potential impact on local producers and exporters, the economic impact on Shetland generally in terms of the increased cost of importing freight, and because of the sectors that are strategic to Scotland such as fishing and aquaculture, to the national impact.

6.4.5 **SPT** noted that this option would be a possibility for services in its area but, at the same time, acknowledges the significantly negative effect that it would have on long routes.

6.4.6 **HITRANS** would not necessarily support this option given the particularly negative impact on long routes, particularly those to the Orkney and Shetland Islands.

6.4.7 **HIE** noted that the principle underpinning this option is sound in that it is consistent across all routes. However, it explained that the magnitude of the

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impact on the Northern Isles would make it a publicly unacceptable option and a difficult one for HIE to support. This option further emphasises its point about the comparative disadvantage already faced by longer routes – the impact of changes of this magnitude would be hugely detrimental to the island economies.

Industry Bodies

6.4.8 The **RHA** and **FTA** believe that the application of a fixed element to the fare is a sound principle. However, both organisations do not feel this option is appropriate given the significant increase in fares for the longer routes.

6.5 Comments on Option 3: Fixed Charge plus rate per lane metre per mile based on distance threshold (50% reduction when miles >50)

CHFS & Northern Isles Operators

6.5.1 Overall, this is **CalMac's** favoured option which it felt that, with refinement, could work as it minimises the scale of fare changes but, at the same time, retains a clear relationship between fares and distance travelled. Its only concern is related to community sustainability on any islands negatively affected.

6.5.2 **Serco NorthLink** noted route dynamics and inter island traffic placement renders it more complicated than first assumption. This option could be preferable to a fixed charge plus constant £/mile as it takes account of distance (the key variable). However, it does not support further consideration of this option as the company does not see the rationale behind a fixed cost element in a nationwide fare structure.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

6.5.3 **Orkney Islands Council** noted that this option is a more appropriate version of Option 2 (i.e. fixed charge (£25) plus constant rate per lane metre per mile), as the distance bands effectively prevent the large step-changes for long-routes. The Council explained that this is a similar model to that used for pricing its Inner and Outer Isles services. The Council believes that this option should be considered in more detail.

6.5.4 **Shetland Islands Council** supports further consideration of this option as it moves towards the principle of equality, albeit the Council explained that it falls far short of absolute equality across the network. The banding would also have to be carefully considered, as the Aberdeen – Lerwick route in particular is a clear outlier in terms of distance and may require its own distance band.

6.5.5 **HITRANS** support this option in principle but noted that there would need to be a series of iterations to determine the precise formula under this option.

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6.5.6 Like HITRANS, **HIE** explained that this could be a viable option but noted that further work would be required to refine the mechanics of the formula, particularly for the longest routes (to ensure that fares do not increase overall for the longer routes). It also noted that care must be taken when imposing a boundary that it does not unfairly disadvantage one community over another.

Industry Bodies

6.5.7 Both the **RHA and FTA** support this option in principle. They feel that it retains some of the benefits of Option 2 (i.e. fixed charge (£25) plus constant rate per lane metre per mile) with the application of a distance band lessening the extent of the negative impact on longer routes. The FTA further noted that banded approaches of this nature are already prominent on passenger transport and are thus well understood. In addition, it explained that there are parallels with banded rates for parcel and network pallet carriers, which are familiar to the CV sector.

NFUS noted that members from Argyll and the Islands supported this option in principle as it was seen to be relatively fair across all members.

6.6 Comments on Option 4: Constant Rate per lane metre per mile

CHFS & Northern Isles Operators

6.6.1 **Serco NorthLink** explained this option is rational and easy to understand but noted the outcome is wrong, in that there would be substantial price increases for longer routes and a large price decrease for shorter routes

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6.6.2 **Orkney Islands Council** does not support this option given the disproportionately negative impact on the long routes, particularly given that it would make the short routes very cheap.

6.6.3 **Shetland Islands Council** does not support this option – the increase in fares on the Aberdeen – Lerwick route would be in the region of £800 / 400%, which is clearly unsustainable. Indeed, the Council pointed out that this example clearly sets out the impact of the differential in route distances across the network.

6.6.4 **SPT** noted that this option would be a possibility for services in its area but, at the same time, acknowledged the significantly negative effect that it could have on relatively longer routes.

6.6.5 **HITRANS** explained that this option is consistent and offers benefits for a number of routes. However, it also acknowledged the severe negative impacts on the longer routes and noted that a different solution would be required for these routes. However, it did acknowledge that there would be a significant revenue impact where there is a reduction on some routes and a

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different fares package adopted for routes where there would otherwise be a fares increase.

- 6.6.6 **HIE** explained that this option would offer benefits to some communities but the scale of the negative impacts on the longer-routes mean that HIE would not support it going forward.

Industry Bodies

- 6.6.7 Both the **RHA and FTA** noted that the scale of the negative impacts on longer routes means that this option should be rejected.

6.7 Comments on Option 5: Constant Rate per lane metre per mile within distance band

CHFS & Northern Isles Operators

- 6.7.1 **Serco NorthLink** noted that this option should be considered further. It explained that the charge being based on distance provides a clear rationale, whilst the application of distance bands addresses the substantial price hikes for long routes seen in non-banded options. It also noted that, whilst not as simple as some other options, the charging structure could be clearly communicated.
- 6.7.2 Serco NorthLink also noted that it is important to ensure that the bandings do not discriminate between islands or cause negative effects at the margin.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 6.7.3 Whilst not its preferred option, **Argyll & Bute Council** considered this option as being worthy of further consideration
- 6.7.4 **Orkney Islands Council** explained that this option is potentially viable in that it incorporated distance banding and would be acceptable from a local Orkney perspective. However, the Council did note that it supports the addition of a fixed element to the fare and see this as a weakness compared to Option 3 (i.e. fixed charge (£50) plus rate per lane metre per mile based on distance threshold).
- 6.7.5 **Shetland Islands Council** explained that this option should be explored in more detail, although it emphasised that the distance banding needs to consider the relative disadvantages that time and distance already present for the islands. The Council noted that for it to support this option, it would need to offer the Shetland Islands a lower £/mile than is currently modelled.
- 6.7.6 **HITRANS** would support this option in principle but it did caution over the potential controversy which would arise over grouping routes within distance bandings. However, HITRANS did explain that the option does appear

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intuitively sensible in that it reflects the different scale of operations on different routes.

- 6.7.7 In its response, **HIE** explained that this option does not offer any clear advantage over Option 5c (fixed charge plus distance banded £/mile). In addition, it noted that the more disaggregated distance bandings could have negative impacts at the margin on one community compared to another.

Industry Bodies

- 6.7.8 As with a number of public sector stakeholders, both the **RHA and FTA** support this option in principle, as it offers the transparency and simplicity of a constant rate per mile fare with the application of distance bands reducing the impact on longer routes.
- 6.7.9 **NFUS** noted that members from Argyll and the Islands supported this option in principle as it was seen to be relatively fair across all members.

6.8 Comments on Option 6: Flat Fare per lane metre

CHFS & Northern Isles Operators

- 6.8.1 **Serco NorthLink** acknowledged that this option is easy to understand and fair between all routes but it suggested that it should not be considered further as it does not reflect either distance or operating costs

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 6.8.2 **Comhairle nan Eilean Siar** does not support this option. Similarly **Orkney Islands Council** explained that the diversity of the network makes this option unviable. This view was also echoed by **HITRANS** and **HIE**.
- 6.8.3 **Shetland Islands Council** recognises that this option is unrealistic as presented but believes that it should be further developed in the forthcoming Review to maintain the focus on fairness.

Industry Bodies

- 6.8.4 The **RHA and FTA** do not support this option given its negative impact on the shorter routes. They believe that such a fares system would increase the peripherality of these communities.

6.9 Comments on Option 7: Flat Fare per lane metre within distance band

CHFS & Northern Isles Operators

- 6.9.1 **Serco NorthLink** noted that this option is more practical than a network-wide flat fare as it takes into account distance and therefore works where routes are of a similar distance.

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Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 6.9.2 Whilst not its preferred option, **Argyll & Bute Council** considered this option as being worthy of further consideration.
- 6.9.3 **Comhairle nan Eilean Siar** noted that the adoption of route length bands may facilitate an equitable and less complicated fare structure. In this respect, it regarded this option as the simplest approach, although it again explained the need for further research to understand the out-turn fares and the implications of these.
- 6.9.4 **Orkney Islands Council** noted that this option should be considered further as it addresses the network diversity issue which makes a straight flat fare unworkable. The Council explained that Aberdeen – Lerwick would need to sit in its own distance band given the length of the route, whilst also recognising that Orkney has two routes of very different lengths, which could affect route choice at the margin. Overall, the Council believes that this option could assist in allowing alignment between the Northern Isles and the wider CHFS network, although it also emphasised the need for care when defining the bandings.
- 6.9.5 **Shetland Islands Council** believed that this option is worthy of further consideration and addresses the affordability shortcoming of Option 6 (i.e. flat fare per lane metre). As with the Orkney response, Shetland Islands Council noted that the distance banding for the Aberdeen – Lerwick route should be given careful consideration given the length of the route compared to all others on the network.
- 6.9.6 **HITRANS** supports this option in principle but again raised the potential issues which would surround the definition of the distance bands. It noted that further work would be required on this to more fully understand the impacts.
- 6.9.7 **HIE** noted that this option is a simple concept which people will understand. It explained that given the distance of Lerwick (and Kirkwall) from Aberdeen, these routes should potentially have a distance band of their own, although it was acknowledged that this could introduce an element of inconsistency. HIE also noted that other refinements would probably be required to the bands and fares within these, and it noted that as with some of the other options, the setting of these could be contentious unless a clear logic can be established.

Industry Bodies

- 6.9.8 The **RHA and FTA** both support this option in principle although, like other stakeholders, they identified the sensitivity in defining the distance bandings.

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6.9.9 **NFUS** noted that members from Argyll and the Islands supported this option in principle as it was seen to be relatively fair across all members.

6.10 Summary

6.10.1 Having undertaken the consultation exercise and reviewed the responses, the seven options have been further narrowed down.

Key Issues Emerging

6.10.2 There was a consensus view amongst all stakeholders that it is crucial to ensure the outcomes of the Review provide a freight fares policy which firmly supports the **economic development and sustainability of the islands**. HIE, amongst others, pointed out the general disadvantage that island companies (even those close to the mainland) face compared to mainland competitors. It was broadly agreed that the forthcoming Review should seek to lessen this disadvantage.

6.10.3 Building on the above point, the majority of consultees stressed the importance of further **detailed analysis to identify the economic impact of whatever new fares system is chosen** in terms of how the absolute and relative changes in fares will influence patterns of economic activity and outcomes for different businesses, sectors and communities.

6.10.4 Relevant local authorities also pointed out that State Aid advice will be required in handling the **situation on the Scrabster – Stromness route**. Whilst almost all options identify a fare reduction for this route, the practicalities of introducing such a reduction are challenging given the presence of a private sector operator on the Pentland Firth.

Options for Further Consideration

6.10.5 Several key themes emerged during the consultation which have assisted in identifying the options for further consideration:

- it was widely agreed that **fares should be linked to the distance of the crossing**, with the **application of one or more distance bandings** to ensure that there are no disproportionate fare changes for given route lengths;
- whilst one or more distance bandings are seen as desirable, there was a consensus view on the need for a **pragmatic and fair approach to allocating routes to each banding**, so as to ensure that there are no clear distortions at the margin;
- the majority of consultees felt that **there should be a fixed cost element to the fare** (although there was not unanimous consensus on this, with Serco NorthLink not supporting it); and

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- there was a widely held view amongst the majority of consultees that at **the Aberdeen – Lerwick route should be contained within its own distance band**, given that it is longer by some margin than any other route.

6.10.6 In light of the above, the following options are rejected from further consideration, principally as a result of their large negative impact on one or more routes (caused by the absence of distance banding).

- Option 2: Fixed Charge plus constant rate per lane metre per mile;
- Option 4: Constant rate per lane metre per mile;
- Option 6: Flat Fare per lane metre.

6.10.7 The following options were deemed as worthy of further consideration by consultees (although note again that there was not consensus on this):

- Option 1: Best-Fit Function – Variable rate per lane metre per mile. At the 4th Working Group Meeting on 26th February 2015 it was agreed that Option 1 (best fit) could be dropped, as it does not resolve existing inconsistencies and lack of rationale, it merely removes the extremes.⁸

6.10.8 The following three options will be taken forward for further consideration:

- Option 3: Fixed Charge plus rate per lane metre per mile based on distance threshold;
- Option 5: Constant rate per lane metre per mile within distance band; and
- Option 7: Flat Fare per lane metre within distance band.

6.10.9 Each of the above options was seen by stakeholders to be broadly acceptable for further consideration because they retain a clear link to the distance of the crossing, are consistent, transparent and inherently fair. In addition, each of the options are deemed to broadly deliver against the criteria set by Transport Scotland and would be appropriate going forward, subject to further development.

6.10.10 The following table summarises the key issues for each of the three options based on the quantification analysis exercise and shows the routes that would be more adversely affected by each of these options.

⁸ The pros of option 1 are: 1) Relatively small fare changes *vis a vis* the current situation and 2) Maintains a link between cost and distance and minimises the overall change in fares. The cons of Option 1 are 1) Upholds the current fares structure and its anomalies and inconsistencies. 2) Lacks rationale for the current shape and position of the best-fit line. The routes with Most Adverse Impact are 1) Uig-Tarbert-Lochmaddy and 2) Lerwick-Kirkwall.

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Table 6.1: Options to be Taken Forward for Further Consideration

Option	Pros	Cons	Routes with most adverse Impact
Option 3: Fixed Charge (assumed at £50) plus rate per lane metre per mile based on distance threshold	<ul style="list-style-type: none"> 1) Limits the impact of fares changes on long routes. 2) Includes a fixed cost element aimed at cost recovery. 3) Maintains link between cost and distance 	<ul style="list-style-type: none"> 1) Long routes suffer disproportionately large increases under the example formula. 2) Particularly large increases for the Northern Isles 	<ul style="list-style-type: none"> 1) Lerwick – Aberdeen 2) Kirkwall - Aberdeen
Option 5: Constant rate per lane metre per mile within distance band	<ul style="list-style-type: none"> 1) Relatively small fare changes <i>vis a vis</i> the current situation. 2) Maintains a link between cost and distance and minimises the overall change in fares. 	<ul style="list-style-type: none"> 1) Defining distance bands would be challenging and could disadvantage one community over another 2) Lacks a fixed cost element aimed at cost recovery. 	<ul style="list-style-type: none"> 1) Oban – Castlebay / Lochboisdale 2) Uig – Tarbert / Lochmaddy
Option 7: Flat Fare per lane metre within distance band	<ul style="list-style-type: none"> 1) Relatively small fare changes <i>vis a vis</i> the current situation. 2) Maintains a link between cost and distance and minimises the overall change in fares. 	<ul style="list-style-type: none"> 1) Defining distance bands would be challenging and could disadvantage one community over another 2) Lacks a fixed cost element aimed at cost recovery. 	<ul style="list-style-type: none"> 1) Lerwick – Kirkwall 2) Kirkwall - Aberdeen

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7 Surcharges, Discounts & Policy Questions and Consultation Responses

7.1 Overview

- 7.1.1 This section sets out the consultation responses to the questions surrounding discounts, surcharges and policy questions.
- 7.1.2 The views reported here are those of the consultees and not necessarily those of Transport Scotland.

7.2 Wide Loads

Consultation Question: Do you think that the current definition and treatment of wide loads should continue?

CHFS & Northern Isles Operators

- 7.2.1 **CalMac** support the continuation of the current treatment of wide loads. It did note that dangerous goods currently consume an extended footprint on the car deck (in line with regulations). The company explained that extra revenue could be raised through surcharging these goods. However, it explained that these costs would likely be passed on to island communities and thus recommend maintaining the status quo.
- 7.2.2 **Serco NorthLink** noted that a consistent approach is required whatever the vessel utilisation. Serco NorthLink explained that it does not have an upper limit on width and this is something that could be explored in the forthcoming Review.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 7.2.3 There was broad consensus amongst public sector stakeholders that the current definition and treatment of wide loads is appropriate and should continue.
- 7.2.4 **HITRANS, Orkney Islands Council and Shetland Islands Council** explained that the potential removal of width related surcharges on quieter sailings on frequent crossings could be a useful demand management measure to incentivise wide loads onto these low utilisation sailings.

Industry Bodies

- 7.2.5 The **FTA and RHA** noted that the current policy with regards to the charging of wide loads is acceptable. This point was echoed by the **NFUS** and **Gleaner Oils**.

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7.3 Weight-Related Surcharges

Consultation Question: Do you think there should or should not be weight related surcharges?

CHFS & Northern Isles Operators

7.3.1 **CalMac** explained that it does not see a benefit in weight related surcharges – from a safety perspective and in terms of operational simplicity, its view is that any vehicles carrying a load above its plated weight will simply be refused carriage. On occasions where a vehicle is less than 6 metres in length and plated to carry seven tonnes, a surcharge is levied for any weight over 3.5 tonnes. CalMac did not specifically comment on this surcharge.

7.3.2 **Serco NorthLink** does not inherently support weight-related surcharges, explaining that weight does not affect the capacity of its vessels and that to add such a surcharge would unnecessarily further complicate the fares system. In addition, the company also does not want to incentivise firms to misrepresent the weight of CVs as this could give rise to ship safety and stability concerns.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

7.3.3 There was a broadly held view amongst the majority of stakeholders that weight-related surcharges are generally inappropriate. Consultation responses suggested that where a vehicle is identified as being in excess of its plated weight, it should be refused carriage. **Shetland Islands Council** also highlighted the high level of investment that would be required in weighbridges to enforce such a policy.

7.3.4 **Orkney Islands Council** noted that, on the very rare occasions when vessels have deadweight issues, there could be a surcharge levied to account for the loss of other revenue earning traffic. On the other hand, it was acknowledged that such surcharges would likely be passed onto islanders and could have a negative impact on sustainability.

Industry Bodies

7.3.5 There was a consensus view amongst industry bodies that weight related surcharges are unnecessary.

7.4 Height-Related Surcharges

Consultation Question: Do you think that there should or should not be height related surcharges?

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CHFS & Northern Isles Operators

- 7.4.1 **CalMac** does not support height related surcharges but are considering a programme of restrictions for CVs on peak sailings, particularly with a view to managing the capacity issues which may be caused by RET. This measure will be implemented on the Ardrossan – Brodick route in summer 2015 and will ensure that on certain sailings, the mezzanine decks can always be deployed, ie maximising car-carrying capacity.
- 7.4.2 This point was echoed by **Serco NorthLink** which noted that a simple fare system requires simple parameters. The company explained that a significant volume of freight can be moved on its freighters (which have fewer height constraints).

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 7.4.3 There is unanimous consensus across public sector stakeholders that there should not be height-related surcharges. It was widely acknowledged that, on a route served by a vessel with mezzanine decks, encouraging high side vehicles onto quieter sailings where practical could be a valuable part of any demand management strategy, but surcharges *per se* were not favoured by consultees.

Industry Bodies

- 7.4.4 The **RHA and FTA** object to the principle of a height related surcharge as they see it as an issue of vessel design, a point echoed by **Gleaner Oils**. The **NFUS** explicitly state that excess height should only attract a surcharge in exceptional circumstances. It noted that it is imperative that standard lorries or floats do not attract surcharges, as it believes that it could negatively affect island agriculture.

7.5 Drop Trailers

Consultation Question: Is there any case for a lower lane metre rate for a drop trailers and should the introduction of a transparent handling charge be considered?

CHFS & Northern Isles Operators

- 7.5.1 **CalMac** support drop trailer movements where operationally practical but do not support a handling charge.
- 7.5.2 **Serco NorthLink** currently operates a drop trailer service. The company explained that the current tariff is contract specified and it is likely that it does not cover the full cost of handling drop trailers. Serco NorthLink believes that drop trailer costs should be captured within the lane metre charge.

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Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 7.5.3 **Argyll & Bute Council** believes that the option of a drop trailer service should be available on appropriate routes across the network. It sees this as fair, supporting demand management and ensuring the ferry is competitive with bulk operations, particularly on islands like Islay (grain) and Mull (timber).
- 7.5.4 The Council supports the introduction of a transparent handling charge as a means to recoup the cost of marshalling the trailer. However, it noted that this charge should not remove or significantly weaken the incentive to use drop trailers.
- 7.5.5 **Comhairle nan Eilean Siar** is supportive of a drop trailer service on the assumption that it would facilitate operational efficiencies relating to the utilisation of deck space and during the turnaround of vessels in port. The Comhairle also explained that, subject to them being fair, transparent and consistent, in keeping with the principles of the proposed overarching fares structure, the introduction of transparent handling charges by the ferry operator would not be deemed unreasonable.
- 7.5.6 **North Ayrshire Council** noted that it supports the introduction of a transparent handling charge for drop trailers, as it seems both fair and would also assist in freeing up revenue earning space on the car deck. The Council explained that the charge should be less than the saving offered by using a drop trailer service. The Council did explain that careful consideration should be given to the ability of ports to accommodate drop trailer handling before the introduction of any such service.
- 7.5.7 **Orkney Islands Council** currently operates a drop trailer service and recognises the value that hauliers get from utilising drop trailers, particularly on longer and infrequent routes. At the same time, the Council noted that drop trailers do import cost into the ferry operation through having to keep and maintain handling assets shoreside as well as trestles and chains on the vessel to secure trailers. With this in mind, the Council supports a surcharge for handling drop trailers, although it believes that this should be subsumed within the overall tariff and should still ensure an incentive to use drops.
- 7.5.8 **Shetland Islands Council** supports a drop trailer operation but does not have a particularly strong view on the issue of a handling charge. It noted that there is not an obvious benefit in moving away from the current situation, although it explained that the haulage industry will be better placed to offer comment on this issue.
- 7.5.9 Drop trailers are not currently an issue in the **SPT** area, but overall the organisation does support the concept of drop trailers where operationally practical as well as the implementation of a transparent handling charge.

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7.5.10 **HITRANS** would support the introduction of a drop trailer service on appropriate routes. It noted that it could be an effective capacity tool and could manage the deadweight issues faced on a number of the older and smaller ferries. The organisation would also support the introduction of a transparent drop trailer handling charge providing this does not significantly lessen the incentive to use drop trailers.

7.5.11 **HIE** noted that it would support a drop trailer service on routes where there is a clear case and demand for it (in particular the longer routes ex Oban, where this could provide significant benefits to hauliers and island businesses/communities). It also agreed that the introduction of a handling charge appears to be a reasonable means of recovering the cost of a drop trailer operation. In addition, HIE explained that a handling charge would in part address the issue of inequality whereby one island may benefit from a drop trailer service whilst another may not.

Industry Bodies

7.5.12 The **RHA and FTA** both support drop trailer operations but not the application of a handling charge. Conversely, **Gleaner Oils** does not make direct use of any drop trailer operations because they are typically conveying dangerous goods. However, it noted that where there is a cost to the ferry operator of handling drop trailers, there should be a transparent handling charge implemented.

7.6 Demand Management

Consultation Question: Should Transport Scotland consider extending the scope of off-peak and peak pricing to enable greater demand management?

CHFS & Northern Isles Operators

7.6.1 **CalMac** strongly supports demand management, particularly with the emergence of RET. It is keen to encourage tourism traffic, which it sees as essential to supporting and growing the island economies.

7.6.2 CalMac is willing to consider the full range of demand management measures, from peak and trough pricing, through to drop trailers and the restriction of certain traffic types on busy crossings. CalMac explained that improved management of block bookings for hauliers will be an important element of demand management considerations.

7.6.3 **Serco NorthLink** supports options to improve demand and capacity management overall.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

7.6.4 **Argyll & Bute Council** supports the adoption of demand management measures to address the likely capacity issues which emerge with the

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introduction of RET. This will be particularly key for Mull and Islay. The Council noted that it would support a combination of peak and trough pricing, drop trailers, improved management of block bookings and restrictions of CVs on certain peak sailings.

- 7.6.5 **Comhairle nan Eilean Siar** strongly supports the general principle of effective demand management in addressing significant capacity constraints during peak times. However, the levying of higher fares on peak sailings is not considered to be a suitable element of effective demand management.
- 7.6.6 **North Ayrshire Council** supports the concept of demand management, using a combination of trough pricing for off-peak services (either by time of day or day of week) and peak pricing for the busiest services. It believes that this would create the greatest incentive to switch to quieter sailings. The Council also explained that some consideration should be given to working with the supply side of island economies to help alleviate demand issues on the ferries. For example, consideration should be given to working with cottage providers to offer more midweek to midweek lets.
- 7.6.7 **Orkney Islands Council** supports the concept of demand management in principle but also explained that it does not believe it applies in the Northern Isles routes.
- 7.6.8 The Shetland Islands face an even more pronounced issue than the Orkney Islands, where there are only a handful of connections to the Scottish mainland each week. However, **Shetland Islands Council** noted that, in principle, enhanced demand management is worthy of further consideration as it is an efficient means of maximising asset utilisation (although the Council stressed that it should not be seen as a means of generating more revenue from choice constrained travellers). The Council explained that if such a demand management policy were to be developed, it needs to be considered over different time periods as peaks and troughs for freight can be over extended periods.
- 7.6.9 **SPT** took the view expressed by a number of other stakeholders that demand management should be focussed on trough pricing and other non-price measures designed to incentivise hauliers onto lightly used sailings, either by time of day or day of week.
- 7.6.10 **HITRANS** supports demand management measures. However, it does not support peak pricing measures, instead preferring a combination of trough pricing, drop trailers, yield management and restrictions on certain sailings. Crucially, HITRANS noted that each route should be treated on its own merits – they believe that what works on one will not necessarily work on another. For example, on routes with infrequent sailings, trough pricing incentivising hauliers onto quiet sailings is not an option.

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7.6.11 **HIE** noted that the demand management questions on each route will be very different and thus it is reasonable to apply a bespoke approach combining trough pricing, drop trailers, penalties for 'no shows', restricted sailings and yield management style pricing. HIE would not support an additional levy on fares on busy sailings, preferring instead the menu of options set out above.

Industry Bodies

7.6.12 The **RHA and FTA** support demand management measures and noted that it is a standard practice in the transport industry. However, they do point out that, in their view, peak pricing should not be adopted, rather the focus should be on trough pricing and non-price measures.

7.6.13 **Gleaner Oils** does not support the principle of demand management as it views the costs of running the service as being the same to the operator regardless of how busy the ferry is. Whilst it acknowledges that there may be some disbenefit in terms of unmet demand, it noted that it would not be easy for the business to amend its operation to work around cheaper or restricted sailings. It explained that this would be the same for many island haulage firms.

7.6.14 **NFUS** does not support peak pricing but would welcome trough pricing, which it sees as a potentially useful measure for encouraging local businesses to utilise the ferry at less busy points in the day. The organisation also noted that any demand management policy should not unfairly disadvantage island businesses compared to tourists.

7.7 Bunker Adjustment Factor

Consultation Question: Do you think that a Bunker Adjustment Factor should or should not be considered further?

CHFS & Northern Isles Operators

7.7.1 **CalMac** do not support a Bunker Adjustment Factor as they believe the service is of a lifeline nature and that increased fuel prices would simply be passed on to island businesses, undermining sustainability. **Serco NorthLink** also explained that fairly high fluctuations in the oil price could have tangible impacts on sensitive island businesses.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

7.7.2 **Argyll & Bute Council** does not support the introduction of a Bunker Adjustment Factor as this would be unpopular and could impact on the sustainability of the islands if, as is likely, increased costs were passed on to island customers.

7.7.3 **Comhairle nan Eilean Siar** does not support the inclusion of a BAF in CV fares. It noted that the use of such a surcharge would introduce a more

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complicated fare structure which would likely be subject to constant change with fuel price increases being passed on to already fragile island and peninsular economies.

- 7.7.4 **North Ayrshire Council** explained it can see both sides of the argument on this front and therefore does not have a strong view either way. It did indicate that, if a BAF were to be introduced, there would need to be a clear commitment to this being transparent, fair and offering full pass through.
- 7.7.5 **Shetland Islands Council** supports the introduction of a BAF in principle, so long as it fully reflects downward as well as upward movement in the fuel price (it noted any solution that generates a higher profit for an operator would be unacceptable). Shetland Islands Council noted that CPI / RPI is too remote a measure on which to increase fares given the importance of fuel for transport services.
- 7.7.6 The Council does however note that any BAF would need to be carefully designed and offer an element of short-term certainty as predictability is important for freight customers.
- 7.7.7 **SPT** acknowledged that a BAF would protect the operator against fuel price risk but, overall, it felt that such a surcharge would have a negative impact on the islands and would damage economic sustainability.
- 7.7.8 **HITRANS** explained that it recognised the potential concern that could arise from the implementation of a BAF which could see fuel price increases passed on to island communities with potentially negative impacts on key industries in the islands. However, it also recognised that road freight costs would increase from the same commodity price fluctuation and in a road equivalent scenario there could be a case for a BAF. The impact of a BAF is one that would justify further research to understand impacts.
- 7.7.9 **HIE** explained that large hauliers are well accustomed to BAFs and would, in all likelihood, pass the cost (and potentially the benefits) on to their customers. It noted that this could introduce uncertainty and negative impacts on island businesses using the haulage service, many of which are concentrated in fragile or low value sectors. Overall, HIE does not support this approach for the reasons outlined above. It also explained that the current fares structure has very little relationship to operational costs and thus question the sense in making a direct linkage with regards to fuel prices.

Industry Bodies

- 7.7.10 Both **FTA and RHA** reject the principle of a BAF. They explained that the key issue for the freight sector is price stability and predictable costs. They do not rule out the possibility of an annual uplift / reduction to the RPI / CPI fares increase which reflects fuel price movements over the year.

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7.7.11 **Gleaner Oils** explained that this is a widely used approach in the haulage industry and would support a BAF providing this was done transparently – ie the surcharge is reduced when oil prices go down and increased when they increase.

7.7.12 **NFUS** noted that a BAF should not be considered, as it believes that this would be an unfair levy on users.

7.8 Discounts

Consultation Question: In principle, do you think there is a case for continuing with TRS as currently applied?

CHFS & Northern Isles Operators

7.8.1 **CalMac** acknowledged that TRS clearly favours the large incumbent hauliers and also gives island-based hauliers an advantage. It recognised that TRS can have competition impacts but noted that volume-based discounts are a common commercial practice and, by supporting island hauliers, they are creating and maintaining high value haulage employment on the islands. In summary, CalMac supports TRS in its current form.

7.8.2 TRS does not apply on routes to the Northern Isles.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

7.8.3 **Argyll & Bute Council** supports the TRS principle as it supports island hauliers and jobs and can be consistently applied across the network. TRS is particularly crucial to Islay and its removal could result in a further dissipation of freight onto coasters.

7.8.4 **Comhairle nan Eilean Siar** believes that the continuation of any rebate scheme should be considered in the context of an effective and efficient demand management process and applied in a fair, transparent and consistent manner across the network.

7.8.5 **North Ayrshire Council** does not have a strong view on this issue but did explain that close consultation with the hauliers would be required to ensure the implications for different sizes and types of haulage firms are clearly understood.

7.8.6 **Orkney Islands Council** does not believe that there is a case for offering TRS on a publicly subsidised service, with their principal concern one of smaller players in the haulage sector being disadvantaged. The Council recognise that, in a commercial / competitive situation, volume based discounts are a strategic business tool but it believes it to be inappropriate for a subsidised network.

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- 7.8.7 **Shetland Islands Council** is neutral on this issue. On the one hand, it noted that volumes are stable and TRS would be unlikely to grow the market, whilst there also appears to be healthy haulier competition in the Shetland Islands. However, on the other hand, the Council believes that a TRS discount would be of value if it could be proven that it supported the growth of the island economy.
- 7.8.8 **SPT** noted that there is a commercial argument for volume based discounts but explained that it should be tied to a penalty regime for 'no shows'. SPT does not see TRS as having overly negative competition effects. Whilst it benefits the larger hauliers, it believes that it also allows these firms to offer a full service operation which may not otherwise be possible.
- 7.8.9 **HITRANS** sees TRS as causing a degree of inequality between islands and would support a more equitable across the board fares reduction, again providing this does not have specific negative effects on given islands.
- 7.8.10 Like HITRANS, **HIE** noted that, as all ferry services are loss making and TRS is not contributing towards a commercial outcome for the operators, it would be fairer if the 'TRS pot' was evenly distributed through reductions to the core fares. HIE also stressed the need to be clear on the potential State Aid implications of TRS.

Industry Bodies

- 7.8.11 The **FTA and RHA** noted that individual members will have their own views on this question depending on the extent to which TRS supports their business. Overall, the RHA would support the retention of TRS, whilst FTA would not have any in-principle objection.
- 7.8.12 **Gleaner Oils** does not currently receive TRS, although it did previously benefit from the discount on routes to the Western Isles. Overall, it does support the principle of volume based discounts, as it rewards hauliers making greatest use of the ferry.

Consultation Question: In principle, do you think there is a case for continuing with the 10% overnight discount as currently applied on the Stornoway – Ullapool route?

CHFS & Northern Isles Operators

- 7.8.13 **CalMac** supports the continuation of this discount. Without it, there be no incentive to use the overnight ferry and clear capacity issues would emerge on the daytime sailings.
- 7.8.14 This issue is not applicable on Northern Isles routes.

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- 7.8.15 There was widespread support amongst the majority of stakeholders for the continuation of this measure as part of a demand management policy. Indeed, there was a view that initiatives of this nature should be developed as a demand management measure on other islands, Islay for example.
- 7.8.16 The only concern about this measure was expressed by **HIE**, who explained that that it could be seen as unfair to those islands which do not have the option of an overnight or off-peak freight service with equivalent reduction. One potential measure to address this could be to set daytime and overnight freight fares so that the average CV fare on the route is as defined by the general formula / approach for setting published fares, whilst maintaining a 10% differential between the two. (This approach could also be adopted on other routes where differential pricing is proposed for demand management purposes).

Industry Bodies

- 7.8.17 There was a unanimous view from across consultees that the 10% reduction on the overnight Stornoway – Ullapool freight sailing is a useful demand management tool and should be retained.

Consultation Question: In principle, do you think there is a case for continuing with commodity related discounts as currently applied? If so, which commodities should receive a discount?

CHFS & Northern Isles Operators

- 7.8.18 **CalMac** explained that commodity related discounts are inequitable from the point of view that some industries benefit whilst others do not. It noted that State Aid questions may also apply here.
- 7.8.19 **Serco NorthLink** noted that, in principle, no one sector should receive preferential treatment over another. However, it noted that there may be a social need for discounts for sensitive sectors where sustainability is marginal. The operator sees this as a question for Transport Scotland, following further and specific consultation as and when required.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 7.8.20 **Argyll & Bute Council** explained that commodity related discounts are inconsistent and unfairly disadvantage one island and industry over another. It noted that there are volume imbalances across all commodities and an empty return discount or across the board discounting would be more appropriate.
- 7.8.21 **Comhairle nan Eilean Siar** responded that there is a need for further research in this field. It noted that the contribution that different commodities make to the economic wellbeing of island and peninsular communities across the country vary significantly. The Comhairle explained that that the

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availability of commodity-related discounts may introduce a level of inconsistency at a network level, which is contrary to the aims of the Review. The Comhairle suggests that cognisance be given to the national strategic priorities and policies associated with these commodities in determining availability and levels of support.

7.8.22 **North Ayrshire Council** explained that this is a difficult question to answer as it depends on the commodities being considered. Overall, it believes that current discounts should be retained if they support island sustainability. It also noted that a discount for timber should be provided – this is a key issue for Arran in particular, where the cost of transporting timber is in some cases larger than the profit to be made from it.

7.8.23 **Orkney Islands Council** recognises that discounts are in place to support the viability of sensitive sectors. As a result, the Council views it as inappropriate for the Transport Scotland / transport budget to arbitrarily apply sectoral discounts. It noted that any sector specific discounts should be funded through the budgets of that sector or a relevant development agency and that there should be a mechanism for this funding to provide additional support with transport costs. In the context of Orkney, it is argued that the Council, rather than Transport Scotland or Serco NorthLink, should be making choices over whom to provide additional transport support to (based on its local economic priorities).

7.8.24 The view of **Shetland Islands Council** broadly reflects that of Orkney, in that it believes that it is important that the basis of fares is consistent and understood. The Council explained that there is a need for a fresh look at all discounts to establish their ongoing relevance, the role that they play and whether transport and transport funded discounts are the optimal means of achieving a given social or economic policy purpose.

7.8.25 **SPT** did not express a firm view on this issue but noted that some of the islands in question are very much single industry economies and suggested that great care is taken when considering the future of these discounts.

7.8.26 **HITRANS** echoed the view of Shetland Islands Council that there is insufficient evidence as to the need for commodity related discounts. It explained that robust and defensible evidence on the need for these discounts needs to be provided if they are to be retained and / or extended.

7.8.27 **HIE** noted that commodity-related discounts support various primary sector activities which are economically important in a number of communities, and which may cease to be viable without them. Simply removing the existing discounts is likely to have a negative impact in a number of communities.

7.8.28 However, it also noted that it is fair to ask (within the context of overall economic objectives) whether the focus of the current discounts is correct, as there may be other activities / commodities which could have a good claim

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(e.g. bulk tankers transporting milk, fuel, specialist waste vehicles etc). HIE noted that there is a need for more detailed research to inform policy in this area, to ensure that such discounts are applied with a clear and consistent rationale, with the aim of sustaining / encouraging economic activity in the islands – perhaps not just in farming / fishing, but also food processing and manufacturing more generally. HIE also explained that decisions in this area should take account of other Scottish Government policies / strategies regarding the food and drink growth sector (which includes agriculture and fisheries).

7.8.29 HIE stressed the importance of considering State Aid issues in the context of commodity discounts. In addition, it posed the question as to whether ferry fare discounts were the optimal manner of supporting island business, citing the Western Isles Inter-Island Business Development Scheme, which is a *De Minimis* scheme which allows the island business rather than the haulier to directly claim the benefit of any commodity subsidy / discount. A network-wide *De Minimis* scheme (or a notified State Aid scheme) could be used to provide assistance with ferry transport costs for particular commodities or where specialist vehicles are required. This could also be extended to all SMEs more generally as a means of supporting economic activity in the islands / peninsulas.

Industry Bodies

7.8.30 Both the **FTA and RHA** noted that there is a case for maintaining commodity related discounts on socio-economic grounds. They noted that to remove them from sensitive sectors could have a devastating impact on that sector and in turn island economies (particularly in single industry islands). Both organisations did echo the point made by a number of Councils that, whilst Transport Scotland is the correct body to be implementing discounts, they are not necessarily the right body to be funding the discounts and determining who gets them.

7.8.31 **Gleaner Oils** would support a discount for their sector as it has no realistic potential of obtaining a backload.

7.8.32 **NFUS** acknowledges that commodity related discounts represent a substantial cost. However, it wishes to make clear that for island businesses, these subsidies represent a lifeline without which they would be unable to function. It explained that removal of such discounts should not be considered, as this would devastate the rural economies in these fragile areas.

7.8.33 It also noted that volume discounts are invaluable to agriculture on the islands, particularly for hay and straw delivery. The discounts enable hauliers to secure local drivers, so it is seen to be of great benefit to the local economy.

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7.8.34 NFUS considers that commodity related discounts for hay, straw, and livestock should continue. An extension of the discount to cover milk would also be of great assistance for dairy farmers on the islands.

Consultation Question: In principle, do you think there is a case for a universal empty return discount, or should this only apply to certain sectors? If so, which ones?

CHFS & Northern Isles Operators

7.8.35 **CalMac** would support this approach over commodity specific discounts, as it is both more logical and more equitable. It did however explain that it would present a challenge for ticketing and harbour staff in determining when an 'empty is an empty'. Some thought would have to be given to this.

7.8.36 **Serco NorthLink** currently operates an empty return service with outward and return rate applicable for both legs but the return empty leg charged at the empty trailer rate. It noted that this service supports the sustainability of the islands and should be fairly applied to all sectors.

7.8.37 However, Serco NorthLink does note that empties should only be shipped when there is capacity available and not to the detriment of full fare paying commercial and passenger vehicle traffic. It also explained that an 'empty' trailer should be exactly that.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

7.8.38 **Argyll & Bute Council** would support the universal empty return discount in principle, particularly in comparison to commodity related discounts. **SPT and North Ayrshire Council** also support a universal empty return policy in principle

7.8.39 **Comhairle nan Eilean Siar** does not support the case for a universal empty return discount. However, it noted that cognisance has and should continue to be given to the availability of discounts for specialist vehicles, such as vivier lorries used for the transportation of live shellfish.

7.8.40 **Orkney Islands Council** noted that, if car deck lane meterage is the basis of the fare, any vehicle taking up space on the car deck, empty or otherwise, should be charged. The Council felt that a more appropriate strategy would be to reduce the return fare rather than offer a one way empty discount.

7.8.41 The Shetland Islands are a net exporter of goods and have a need to get empty trailers back to the islands. **Shetland Islands Council** noted that the principle of an empty return has an element of sense but, like Orkney, feel that a lower fare overall would be of value. Overall, the Council is neutral on this issue and feels it is for the haulage industry to comment on.

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7.8.42 **HITRANS** noted that there would be significant revenue implications with this policy and arguably additional subsidy made available to fund it could be better spent on lowering the level of fares more generally. It also noted that this policy could be confusing in terms of how an 'empty' is defined. In addition, it creates an incentive at the margin not to take small loads which would jeopardise the empty return discount. HITRANS sees this as counter-intuitive.

7.8.43 **HIE** explained that it can see how a universal empty return discount may benefit a wide range of economic activities, and islands where it can be difficult to secure return loads, but accept that to widen this out to all commercial vehicles across the network would be costly (or require a significant increase in published fares to pay for it), and could be difficult to police.

7.8.44 **HIE** noted that there may be an economic case for empty return discounts for non-standard goods vehicles serving various primary sector and manufacturing/processing industries, which because of their specialist nature are unable to take return loads. This could also be extended to road tankers delivering fuel and other bulk commodities which have to return empty. There is a need for more detailed research to inform policy in this area, to ensure that any such discounts (or other forms of support) are applied with a clear and consistent rationale.

Industry Bodies

7.8.45 The **RHA and FTA** broadly support a universal empty returns policy. They noted that, if the policy is not universal, there has to be a clear rationale linked to wider social and economic benefits for those in receipt of an empty return discount.

7.8.46 Both organisations also noted that there is a need to clearly define what is classified as an 'empty' vehicle, as this currently causes issues. In addition, both organisations explain that, where such a policy is in place, there needs to be a clear match with a full load on the outbound leg.

7.8.47 **Gleaner Oils** would support an empty return policy for its sector as it has no realistic potential of obtaining a backload.

7.8.48 **NFUS** considers that it is vital that the universal empty return discount is retained for agricultural purposes. It explained that there are a limited number of island hauliers, and the empty return discount serves as an important incentive for them to provide services to the islands. They see it as vital that it is economically viable to transport animals to and from the islands.

7.9 Defining a Commercial Vehicle

Consultation Question: In your view, what is the most appropriate way to define a commercial vehicle?

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CHFS & Northern Isles Operators

- 7.9.1 **CalMac** noted that any vehicle over 3.5 tonnes plated weight should be considered a commercial vehicle, with a length based charging system being applied thereafter. This is consistent with the Driver and Vehicle Standards Agency (DVSA) classification of commercial vehicles.
- 7.9.2 **Serco NorthLink** suggested any vehicle over 3.5 tonnes should be classed as a commercial vehicle. It also noted that the application of a >3.5t formula would support SMEs.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

- 7.9.3 **Argyll & Bute Council** support the view that a commercial vehicle should be defined as anything over 3.5 tonnes plated weight, with a length based charging system adopted thereafter.
- 7.9.4 **Comhairle nan Eilean Siar** suggest that further research and consultation is required in this field. In any event, it noted that the implementation of any definition should be consistent and enforceable across the network and be undertaken in a transitional approach.
- 7.9.5 The Comhairle noted the incidence of “smaller” commercial vehicles, often not much longer than a normal car, being more prevalent on routes serving smaller, less-populated communities; conversely, the larger communities are generally serviced by “larger” commercial vehicles. It noted that this difference in dependencies is very important and must be recognised in any definition of a commercial vehicle and associated pricing structure.
- 7.9.6 The Comhairle also supports the suggestion that the availability of RET fares for vehicles less than 6m is enabling businesses to expand and that non-RET CV fares are acting as a constraint on certain economic activities. The Comhairle would support HIE’s suggestion that reductions in CV fares will, over time, result in more productive, competitive and successful island/peninsular communities.
- 7.9.7 **Orkney Islands Council** acknowledges the significant challenge in determining a precise definition for a commercial vehicle, particularly in the smallest communities where a vehicle can have multi-purpose uses. The Council explained that they feel that the Serco NorthLink approach is as close to a reasonable definition as can be reached. It noted that this approach adds some ‘intelligence’ to the process and ensures that vehicles which are very clearly employed on a commercial purpose are treated as such. This point was echoed by **North Ayrshire Council**.
- 7.9.8 **Shetland Islands Council** also acknowledges the challenge with effectively defining a commercial vehicle. It explained that on islands, many people use a pickup or other light commercial vehicle as a second car. The Council suggests that this definition requires further consideration.

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- 7.9.9 **SPT** acknowledged that this is a challenging question in every respect. It explained that any threshold based system creates an incentive at the margin to fall under the threshold. SPT noted that a CV could be defined through a combination of the vehicle's length, volume, weight and whether it is predominantly used for a commercial purpose. However, it acknowledges that such a system would be difficult to implement and enforce and it feels that the current definition on CHFS routes is appropriate, if not perfect.
- 7.9.10 **HITRANS and HIE** also acknowledge that this is particularly challenging question. Both noted that is another area where more detailed research / appraisal is required to inform policy, particularly with respect to the economic outcomes of different options. HIE explained that appraisal should consider the potential role of discounts for smaller vans as a means of enabling new/additional economic activity (a point also raised by Comhairle nan Eilean Siar), compared to charging all CVs on the same basis, and the potential use of *De Minimis* or notified State Aid schemes as an alternative to fare discounts.
- 7.9.11 HIE noted that, in theory, the strategy would be to take the Serco NorthLink approach of charging any vehicle that looks like a CV as a commercial, van traffic for example.
- 7.9.12 With regards to the CHFS network, HIE noted that, in principle, there should be a level playing field for all sizes of CVs which is both implementable and can be policed. Although the introduction of RET for CVs up to 6m has clearly benefitted a number of businesses, without the parallel roll-out of RET for larger CVs (which was the original intention), it has created a significant market distortion due to the very large differential in rates paid by CVs either side of the 6m threshold. Whilst the RET discount for small vans has been welcomed by many, HIE noted that it risks undermining island based haulage firms, which in turn could impact on other businesses that rely on regular HGV loads.
- 7.9.13 However, HIE explained that introducing the NorthLink approach across the CHFS network (and so removing RET for sub-6m CVs) would clearly be a significant change, particularly since the introduction of RET is very recent, and indeed will only reach some routes / communities in October 2015. It noted that Transport Scotland should be aware that a number of businesses, including some account managed by HIE, have invested in new vans to take account of the lower RET rates, which has enabled them to expand their businesses.⁹ Withdrawing RET for sub-6m CVs (and charging a full CV rate for these vehicles) may result in some of these business activities ceasing to be viable.

⁹ For example, Barratlantic and Kallin Shellfish have both invested in small refrigerated vehicles that are less than the 6m threshold. Macleans Bakery has also invested in sub-6m vans to enable them to expand their business throughout the Outer Hebrides.

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- 7.9.14 HIE explained that any such change to the charging of sub-6m CVs on the CHFS network would therefore need to be handled carefully, ideally through setting out a clear plan for transition over a number of years, which will provide time for businesses to plan and adjust. In this scenario, HIE believes that it will be important to demonstrate that rather than removing discounts for sub-6m CVs, that subsidy is being shared across all CVs so that there is a net reduction in all published fares.
- 7.9.15 Further, HIE noted that whilst recognising the principles of a 'level playing field', lower RET fares for sub-6m CVs appear to be helping to stimulate economic activity, and that there may be valid economic reasons for providing some level of discount for smaller CVs that would in particular benefit SMEs seeking to establish or grow their businesses (but without creating significant market distortions). Apart from retaining some element of general discount for smaller CVs in the fare structure, another option could be a *De Minimis* scheme (or notified State Aid scheme) to assist SMEs with their ferry freight costs (whether incurred directly or via a haulier).
- 7.9.16 Finally on this question, HIE noted that the fact that the introduction of RET fares for vans is enabling some businesses to expand demonstrates that current (non-RET) CV fares are acting as a constraint on some economic activities. HIE is confident that as a general rule, reductions in CV fares (or schemes to assist businesses with ferry transport costs) will over time result in more productive and successful island/peninsular economies.

Industry Bodies

- 7.9.17 The **FTA and RHA** explained that defined rules are not appropriate as they are easy to work around, raising issues of inappropriate vehicles that are potentially overloaded / dangerous / insufficient or which have no proper insurance liability provision etc trying to compete with much more professional hauliers. Both organisations endorsed the Serco NorthLink approach of treating all commercial traffic as CVs, with staff using their judgement to determine this.
- 7.9.18 The FTA and RHA noted that the growth of home and internet shopping is driving an increase in parcel traffic, much of which is carried in vans. On RET routes, such vans are classified as cars and thus not charged a commercial rate, making it harder for large hauliers to compete. The trade bodies explained that this is creating distorted incentives at the margin. However, at the same time, they also acknowledge that businesses and operators who have engineered their solutions to meet this CV definition could be badly impacted by a change in that definition. Both organisations stressed the need for a long notice and lead in period should the research find in favour of a change.
- 7.9.19 **Gleaner Oils** indicated that anything other than a standard car should be classed as a commercial vehicle and charged accordingly. Whilst they do

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acknowledge that businesspeople, for example, could travel at a car rate, they see this as a fairer approach overall.

7.9.20 **NFUS** noted that a CV should be defined as being plated to carry 3.5 tonnes, or less than 3.5 tonnes but more than 6m in length.

7.9.21 It also noted that tractors should be considered separately because, if they are charged by weight and viewed as a CV, then it makes it overly expensive to take a tractor on a ferry. NFUS does not agree that anything other than a car should attract a commercial vehicle rate, as it is possible that tractors and trailers would be included in this.

7.10 Should Fares Rise to Reflect Network Improvements?

Consultation Question: Should fares rise to reflect specific improvements to the network when they are introduced?

CHFS & Northern Isles Operators

7.10.1 **CalMac** would not support this approach as it could undermine the sustainability of these communities.

7.10.2 **Serco NorthLink** noted that the operator was not the price setter, adding that infrastructure, piers and vessels are part of the core service and should be invested in over time.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

7.10.3 There is little appetite amongst public sector stakeholders for increased fares designed to recover some of the cost of specific network improvements. There was a near consensus view that this was similar to a bridge toll and could lead to a perverse situation whereby communities do not want to see an improvement in their level of service.

7.10.4 The only area where this could be seen to be acceptable would be for non-core services similar to those quoted in the Serco NorthLink response.

Industry Bodies

7.10.5 As with the public sector, the consensus view amongst industry bodies is that it is inappropriate to increase fares to reflect service improvements.

7.11 Loose Parcel Service

Consultation Question: Is there a case for the continuing provision of a loose parcel service on some routes but not others?

CHFS & Northern Isles Operators

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7.11.1 **CalMac** would like to see this service removed (unless no alternative option exists) as it presents operational, safety and security issues.

7.11.2 **Serco NorthLink** does not carry loose parcel freight.

Local Authority, Regional Transport Partnership (RTP) and Other Public Bodies

7.11.3 **Argyll & Bute Council** explained that this is a historical anomaly which needs to be addressed going forward. Its view is that, if it is to be continued, it should be available to all islands.

7.11.4 **Comhairle nan Eilean Siar** noted that, although a loose parcel service is not available on routes to and within the Western Isles, the Comhairle recognise the importance of such a service to communities and routes such as Eigg, Rum, Canna and Muck. It is suggested that, if the demand exists on these and other such routes, the service could and should be continued.

7.11.5 **North Ayrshire Council** explained that they would support the continuation of this service if it is well used and does not cause specific problems for the operator. Indeed, they explained that this could be marketed as more of a commercial venture from which additional revenue could be made.

7.11.6 **Orkney Islands Council** explained that loose parcels are still carried on a number of their services. Its view is that such a service should continue where it is appropriate or where there is not a suitable and affordable alternative.

7.11.7 Like in Orkney, loose parcels are a key element of the internal Shetland services. **Shetland Islands Council** noted that the loose parcel service is essential on their ferries as there are currently no services available that could consolidate this type of traffic.

7.11.8 **SPT** noted that the loose parcel on the Firth of Clyde is a historical issue and that its continuation on a small subset of routes seems counter-intuitive. SPT did note that if this service was continued, it should be formalised and included within the advertising for the routes in question.

7.11.9 **HITRANS** noted that this practice is likely more widespread than is officially recorded. It again explained that a clear evidence based case would be required if this policy is to continue and the costs involved would need to be considered to avoid a significant cost being built into future contracts. By the same token, HITRANS noted that a loose parcel service could be of particular value to islands with a smaller population whose freight needs might not fill a LGV / HGV to capacity.

7.11.10 **HIE** stressed the need to consider State Aid issues, particularly in terms of competition with parcel couriers. In addition, it again noted the lack of evidence underpinning the need for such a service and feel a robust evidence base as to the benefits should be developed if the practice is to be retained.

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Industry Bodies

- 7.11.11 The **FTA and RHA** explained that loose freight and parcels are a practical solution in isolated cases and should be retained where there is no realistic or economical alternative.
- 7.11.12 **NFUS** had a particularly strong view on this, noting that a loose parcel service should be provided on all routes, with charging on the current basis of weight. In addition, it noted that it is important for their members to retain the current pricing structure for carrying small numbers of livestock on a lorry / trailer and that these are charged at an appropriate headage rate.

7.12 Summary

- 7.12.1 The above consultation on surcharges, discounts and policy questions provides a combination of consensus and debate. The following sections summarise the key findings.

Key Issues for the Review

Evidence Based Decision Making

- 7.12.2 One emerging issue that became clear from across the consultation process was the **perceived lack of an evidence base** used to underpin informed decisions. Whilst the analysis undertaken in this research can identify, for example, the level and distribution of discounting across the network, it does not cover the social and economic impact of these discounts at an island and / or sectoral level.
- 7.12.3 It is clear from the consultation that some of the wider questions surrounding discounts and policy in particular could lead to significant changes to fares for specific islands or sectors, the consequences of which are not understood at this point. As a minimum, a number of consultees, including HIE and HITRANS, explained that it is important that the Review of Ferry Freight Fares seeks further information on:
- the role of different discounts at the island and sectoral level and the impact of changing / removing these discounts;
 - the market response to the redefinition of the length at which a vehicle becomes a CV from 5 metres to 6 metres; and
 - the role that loose freight plays in different island communities.
- 7.12.4 The development of an evidence base to inform such decisions is critical in ensuring that future freight fares policy delivers the established objectives.

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The Need for Certainty

7.12.5 The majority of stakeholders raised concerns about the frequently changing nature of the level of freight fares, the means by which they are set and the discounts applied. The freight industry and the businesses which depend on it have a requirement for certainty, which in turn allows for forward planning. Consultees across the board stressed the need for Transport Scotland to:

- develop an overarching fares policy which will be consistently applied over time; and
- put in place a timed programme for the introduction of such a policy, taking account of the need for transition where a significant change will occur and market responses to recent fares announcements (eg businesses purchasing vans under 6 metres to take advantage of RET).

7.12.6 There was a commonly held view amongst the majority of stakeholders that the island freight industry has been in a state of flux in recent years, and that there is a need for Transport Scotland to firmly commit to an agreed policy and roll it out accordingly.

State Aid

7.12.7 The issue of State Aid was discussed at the outset of this report and was raised on a number of occasions throughout the consultation. There is a need for Transport Scotland to consult with the State Aid Unit to explore:

- any State Aid implications with the current discounts and fares policies; and
- if any of the existing measures could be subject to a State Aid complaint, identification of potential alternative approaches to supporting island communities.

7.12.8 This consultation should ideally be conducted in advance of the Review.

Vehicle Size Surcharges

7.12.9 There was consensus amongst all stakeholders that the current surcharging regime is appropriate, in that a surcharge is levied for wide loads only. Stakeholders generally feel that this system is effective and can see no case for changing it.

Drop Trailers and Handling Fees

7.12.10 There was majority support amongst consultees for the retention of existing drop trailer services and the extension of such operations where there is a demand and it is operationally practical to do so.

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- 7.12.11 CalMac is considering the introduction of drop trailers as part of a wider demand management strategy. Routes identified by stakeholders as being key in this regard were Oban – Castlebay / Lochboisdale and Kennacraig – Port Askaig / Port Ellen. From an operational perspective, stakeholders were of the view that any drop trailer service should be operator controlled unless there is a clear rationale for allowing hauliers to load their own trailers.
- 7.12.12 There were particularly mixed views on whether it is appropriate or otherwise for the operator to include a transparent handling charge for drop trailer units. The operators could see the logic of this approach but did not see any obvious benefit from adding a further variable into the fares structure. The freight trade associations were also opposed to it. In contrast, a number of public sector stakeholders felt it reasonable to recover the additional costs of a drop trailer operation from users, although ensuring that the overall incentive to use drop trailers remains in place. One stakeholder also noted that this would be a means of ensuring a degree of fairness between islands which do and do not benefit from a drop trailer service.
- 7.12.13 The issue of applying a handling charge for drop trailers is one which will require further detailed consideration in forthcoming Review.

Demand Management

- 7.12.14 There was widespread majority support amongst consultees for the implementation of demand management measures, with the key caveat that very few stakeholders support the concept of peak pricing. The consultation suggested that stakeholders are willing to consider a range of other demand management measures including trough pricing by time of day or day of the week; drop trailers; restriction of high sided vehicles on peak sailings; and improved management of block bookings.
- 7.12.15 A significant number of stakeholders, including HIE and HITRANS, noted that demand management measures must be evidence-based and applied on a route-by-route basis, taking account of route type; frequency; number of sailing days; key commodities being moved etc. In addition there was a generally held view that demand management measures were less appropriate on routes where there are fewer than three return crossings per day.

Bunker Adjustment Factor

- 7.12.16 There was very little support across the piece for an industry standard BAF, whereby fares are amended frequently in line with the prevailing fuel price. A small number of stakeholders, did point out that the feasibility of an annual 'RPI or CPI plus' increase to the fuel element of the fare could be considered, but it was thought that:

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- further research and consultation would be required to identify the effect of such a measure on island sustainability; and
- there would need to be a clear and firm commitment from operators to transparently increase or decrease the price in line with movements in the benchmark fuel price.

7.12.17 Over the piece, it was clear that there was not an appetite for a BAF, both amongst operators, trade bodies and the majority of local authorities. A BAF was thought inappropriate for a publicly funded service and there were strong views that such a measure, or any equivalent derived from it, could undermine sustainability.

Discounts

7.12.18 There was a broad spectrum of opinion amongst stakeholders with regards to the appropriateness of different types of discounts, with no clear majority view on any discounts. The divergence in views was generally driven by the commercial, social and economic benefits that different stakeholders attached to different discounts.

7.12.19 However, what was clear from the consultation feedback (and a point referenced by the majority of stakeholders) was that there is a lack of evidence on how each discount influences patterns of economic activity in the islands and the outcomes at the business, sectoral and community levels.

7.12.20 Consultees explained that further analysis is required on the need for each discount, the benefits they offer at the business, sectoral & community level and the potential alternatives to these discounts (ie could there be other fairer and more efficient discounts which could be developed, or are there other more appropriate policy measures which could be developed in assisting the island communities?).

7.12.21 There was also a view from HIE that Transport Scotland must ensure that each individual discount currently offered is compliant with State Aid legislation before any further research is carried out.

Definition of a Commercial Vehicle

7.12.22 Consultees across the board acknowledged that developing an effective definition of a CV is and always will be challenging. Various suggestions and points of view were put forward, although there was a general view that fixed rules based on length or other metrics enable users to work around these definitions at the margin.

7.12.23 Overall, there appeared a to be a strong body of support for Serco NorthLink's current approach of defining any vehicle engaged in a commercial activity as a CV and charging them accordingly (although Serco NorthLink suggested a move to classifying a CV as over 3.5 tonnes). It was acknowledged that this

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introduces a degree of subjectivity in that ticket staffs need to make a professional judgement on whether a van, for example, is being used for commercial purposes. The weakness of this approach was seen to be in smaller island communities where many people use a van or pickup truck as their personal as well as commercial vehicle. However, whilst an imperfect measure overall, this approach was seen as having potential and is in need of further research.

- 7.12.24 However, the majority of stakeholders noted that any immediate move away from the recently introduced 6m CV definition would be problematic and could only be undertaken over the longer term.

Fare Increases to Reflect Network Improvements

- 7.12.25 There was a broad consensus amongst all stakeholders that increasing fares to reflect network improvements is an unacceptable option and should not be considered further.

Loose Freight

- 7.12.26 The consultation question on loose freight was largely centred on the parcel traffic on the Ardrossan – Brodick and Wemyss Bay – Rothesay routes, although valuable submissions were received for other island groups and have been reported in this study.
- 7.12.27 There was a majority consensus amongst stakeholders that where a loose freight operation meets a need that cannot be economically satisfied in any other way, it should be retained. Examples included loose freight services in the Orkney and Shetland Islands and to the Small Isles.
- 7.12.28 Stakeholders explained that, on islands where a loose freight service runs alongside commercial parcel operations, further research is required to identify the need for such a service and the benefits it brings to the island in question. In addition, it was noted that care must be taken to ensure that loose parcel operations offered by operators are not in contravention of State Aid legislation.

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8 Conclusions

8.1 Conclusions

- 8.1.1 This research study has provided a comprehensive analysis of the current approach to ferry freight fare setting in Scotland, both for standard commercial vehicles and for all other classes of freight.
- 8.1.2 It is clear from the research that the current freight charging regimes, both on Transport Scotland funded services and local authority services, are based largely on historical precedent which has been evolved over time to reflect a series of policy decisions. Whilst there are broad similarities within and between networks, there are also a wide range of inconsistencies in the means by which freight is charged and the surcharges, discounts and policy measures applied to each network.
- 8.1.3 The issue of inconsistency between islands and networks was recognised in the Transport Scotland's Ferries Plan 2013-2022. The Ferries Plan committed to the review and development of an overarching policy for freight fares which will:
- deliver a new fare structure that is simple, transparent and does not advantage one part of the network over any other part; and
 - balance the wellbeing of communities against the public sector cost.
- 8.1.4 This research was focussed specifically on the Transport Scotland tendered ferry networks. It developed and consulted on a range of network wide fares systems which could be considered for implementation going forward. There was a general consensus amongst stakeholders that:
- the lane metre or lane metre equivalent should be used as the basis of the charge for all freight carried; and
 - fares should bear at least some relationship to distance, with a view that the £/mile fare should decline with distance travelled.
- 8.1.5 This above also ties in with the assessment criteria in that it would offer consistency, transparency etc.
- 8.1.6 The research has analysed potential fares options and has consulted on them. Therefore, three options will be taken forward for further consideration and these are options 3, 5 and 7.
- 8.1.7 The following table summarises the key issues for each of the three options based on the quantification analysis exercise and shows the routes that would be more adversely affected by each of these options.

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Table 8.1: Summary of Fare Options to be Taken Forward for Further Consideration

Option	Pros	Cons	Routes with most Adverse Impact
Option 3: Fixed Charge (assumed at £50) plus rate per lane metre per mile based on distance threshold	1) Limits the impact of fares changes on long routes. 2) Includes a fixed cost element aimed at cost recovery. 3) Maintains link between cost and distance	1) Long routes suffer disproportionately large increases under the example formula. 2) Particularly large increases for the Northern Isles	1) Lerwick – Aberdeen 2) Kirkwall - Aberdeen
Option 5: Constant rate per lane metre per mile within distance band	1) Relatively small fare changes <i>vis a vis</i> the current situation. 2) Maintains a link between cost and distance and minimises the overall change in fares	1) Defining distance bands would be challenging and could disadvantage one community over another 2) Lacks a fixed cost element aimed at cost recovery.	1) Oban – Castlebay / Lochboisdale 2) Uig – Tarbert / Lochmaddy
Option 7: Flat Fare per lane metre within distance band	1) Relatively small fare changes <i>vis a vis</i> the current situation. 2) Maintains a link between cost and distance and minimises the overall change in fares.	1) Defining distance bands would be challenging and could disadvantage one community over another 2) Lacks a fixed cost element aimed at cost recovery.	1) Lerwick – Kirkwall 2) Kirkwall - Aberdeen

8.1.8 The research also considered a range of issues pertaining to surcharges, discounts and wider policy questions. It found that there was no appetite amongst stakeholders for any major changes to the current surcharging regimes; commercial fuel surcharges; or increased fares to reflect network improvements.

8.1.9 The debate around issues such as drop trailer handling charges, the definition of a CV, fuel related surcharges and discounts was more nuanced and there was an acknowledgement amongst stakeholders that further research is required on how each of these areas links impacts on individual islands, economic sectors and businesses.

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Glossary

Break Bulk: Shipping term for freight that is loaded as individual pieces and not rolled on in unitised trailers or in containers. Break bulk is usually either loaded by forklift truck or other handling equipment. It is also common that this freight is loaded onto a rolling unit like a mafi trailer at the portside, and is shipped on these units on RoRo type vessels, efficiently loaded to and from the vessel as a trailer.

Bundling: the practice of including more than one route in a tender for a Public Service Contract.

Bunkering: Bunkering is the process of supplying fuels to ships for their own use

Bunkering Adjustment Factor (BAF): This is designed to reflect the variable nature of fuel costs. Customers are charged based on a fixed assumption on marine fuel costs. The BAF is a supplemental % premium calculated on a periodic basis and usually published by the shipping line that reflects the actual cost of fuel as published daily on international fuel trading markets (i.e, Rotterdam spot market for IFO marine fuel). This protects the Shipping line from fuel price risk.

Cabotage Regulations: the directive which regulates the carriage of passengers at sea between two points within member states of the European Union.

Clyde and Hebridean Ferry Services (CHFS): The contract for the operation of ferry services in Firth of Clyde and the Hebrides.

Commencing Metre: Commencing metre is the process of rounding down a vehicle length to metre from which it 'commences'. So for example, the commencing metre for a 10.2 metre vehicle would be 10 metres.

Commercial Vehicles: For the purpose of this study, we have defined a commercial vehicle as any self-propelled freight vehicle.

Drop-Trailer: Drop trailers are commercial vehicle trailers carried on a ferry which are not accompanied by a cab / tractor unit.

Footprint: Footprint refers to the area a single piece of freight takes up on the ferry deck.

Groupage: Groupage is the process of consolidating small individual shipments into larger units, such as pallets or commercial vehicles

Liner Services: Shipping companies talk in terms of lines of route. A liner services is a scheduled and regular service operated between two or more ports carrying cargoes for multiple customers. Vessels on liner services do not routinely operate to different ports than their scheduled network or get chartered for bespoke work.

Mafi Trailer: Special trailer for terminal haulage and stowage on board of Roll-on Roll-off vessels.

Research and Analysis of Options for Ferry Freight Fares

Out-of-Gauge: Freight which exceeds standard dimensions of a “footprint” (see above) on a ferry deck – eg wide or high loads.

Public Service Contract (PSC): PSCs are the instrument typically used to impose PSOs where a subsidy is required for providing the PSO requirements.

Public Service Obligation (PSO): Where the public sector does not wish to operate ferry services directly but, at the same time, has a desire to influence certain service characteristics, they can impose a Public Service Obligation (PSO) on a route. A PSO will help to ensure an adequate regular ferry service to and from given location(s) where community ship owners, in considering their own commercial interests, would not provide an adequate level of service.

Ro-Ro: Roll-on, Roll-Off vessels. When using the phrase Ro-Ro in this note, we are referring to vessels that carry freight only.

Ro-Pax: Ro-Ro vessels which also carry passengers

State Aid: State Aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities.

Tractor Unit: The cab of a lorry which is attached to a drop trailer or other unit.

Vivier Trailer: Specialist trailers for the conveyance of live fish.

Weatherdeck: the open sections of a freight deck.

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اس دستاویز کی مزید کاپیاں آڈیو کیسیٹ پر اور بڑے حروف کی چھپائی میں اور کیوئی کی زبانوں میں طلب کیے جانے پر دستیاب ہیں، برائے مہربانی اس پتہ پر رابطہ کریں:

এই ডকুমেন্ট-এর (দলিল) অনিহিতা কপি, অডিও এবং বড়ো ছাপার অনুর আকারে এবং সম্প্রদায়ের ভাষায় অনুরোধের মাধ্যমে পাওয়া যাবে, অনুরোধ করে যোগাযোগ করুন:

Gheibhear lethbhreacan a bharrachd ann an cruth ris an èistear, ann an clò mòr agus ann an cànan coimhearsnachd. Cuir fios gu:

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