

Flynn P (Paul)

From: [REDACTED]
Sent: 06 October 2016 19:18
To: [REDACTED]
Subject: Re: Meeting on 27 June

Follow Up Flag: Follow up
Flag Status: Completed

Dear [REDACTED]

Thank you for your email.

We appreciate that it will take time to work out a suitable mechanism for reducing ferry fares to Orkney as promised by the First Minister. All that we are seeking from the Scottish Government is a straight answer that we will be included equally in any fare reduction scheme that is offered to our competitors. To date any correspondence that we have received has not been clear on this point. We are simply seeking written clarification on this matter.

We have everything in place ready to sign the contract for a new 85m catamaran which we have been working on for the past twelve months and are now under pressure from the Shipyard to commence the build. However since the First Minister's promise to reduce the ferry fares to Orkney and Shetland was announced, we are concerned that this may only be given to the existing lifeline operator which I am sure you will understand could have a fairly significant impact on our business.

I look forward to your reply.

Regards

[REDACTED]
Managing Director
Pentland Ferries

From: [REDACTED]
To: [REDACTED]
Cc: [REDACTED]
Sent: Thursday, 6 October 2016, 16:18
Subject: RE: Meeting on 27 June

Dear [REDACTED]

I write further to our meeting of 27 June and my below email, and in response to Kathryn Scollie's email of 28 September to [REDACTED]

Since our meeting we have been working to identify options for reducing fares to the Northern Isles. As you are aware, the Minister visited Orkney and Shetland at the beginning of August and announced a consultation on reducing fares, as well as a fares freeze for 2017 while work is ongoing. The Minister had a very packed itinerary and unfortunately did not have time to visit St

Margaret's Hope and meet with you on this occasion. However I understand that you wrote to the Minister on 25 August to request a meeting and the Minister will be replying to you shortly.

Consultants Peter Brett Associates have been commissioned to undertake the consultation, with public events taking place this week and I am aware that they will be speaking to you to seek your views.

As discussed at our meeting of 27 June, we are pleased that you indicated you are keen to be part of a fares reduction scheme, and we are working to explore options to establish for a mechanism which would allow us to subsidise reduced fares on your service. I am sure you will appreciate this is a complex area which is taking some time to work through. We will arrange a meeting with you once work has progressed enough to allow meaningful further discussions. I estimate this will be in December/January.

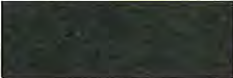
I hope this is helpful and please don't hesitate to contact me should you have any queries.

Regards



Ferries Unit – Aviation, Maritime, Freight & Canals

Transport Scotland | Area 2F-North | Victoria Quay | Edinburgh EH6 6QQ



www.transport.gov.scot

From: [Redacted]
Sent: 29 June 2016 16:16
To: [Redacted]
Cc: [Redacted]
Subject: Meeting on 27 June

Hi [Redacted]

Thank you for our useful meeting on 27 June and for hosting [Redacted] & I in St Margaret's Hope.

You helpfully confirmed you wish to be a part of any fares reduction on ferry services to Orkney. Graham set out our initial thoughts on how this could be done and we will now take forward work to explore this in more detail.

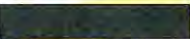
Alongside this, Transport Scotland's Analytical Services team are taking forward work to generate options for a lower fares regime on services to the Northern Isles. This will involve an analysis of current fares and comparison against RET and other options. You indicated you are willing to share information with us to assist this process. My colleagues [Redacted] [Redacted] copied into this email, may be in touch with you in due course.

We also discussed the ongoing study being conducted by PBA on behalf of Transport Scotland to inform the specification for the next NIFS contract. As we agreed, I have sent [Redacted] at PBA a copy of the carryings data you passed to us and let him know he can contact you to request further information. We will ensure that data you provide is treated as confidential and

that you are consulted before anything is released more widely. If you have any concerns around this please don't hesitate to let us know.

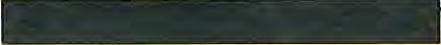
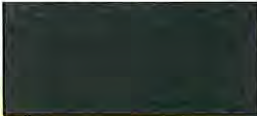
We will contact you to arrange a further meeting in the next couple of months once work has been taken forward. Thank you again for meeting with us and for your continued cooperation.

Kind regards



Ferries Unit – Aviation, Maritime, Freight & Canals

Transport Scotland | Area 2F-North | Victoria Quay | Edinburgh EH6 6QQ



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Dh'fhaodadh gum bi teachdaireachd sam bith bho Riaghaltas na h-Alba air a chlàradh neo air a sgrùdadh airson dearbhadh gu bheil an siostam ag obair gu h-èifeachdach neo airson adhbhar laghail eile. Dh'fhaodadh nach eil beachdan anns a' phost-d seo co-ionann ri beachdan Riaghaltas na h-Alba.

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MINISTERIAL ENGAGEMENT BRIEFING: HUMZA YOUSAF

Copied to: As per copy list

Engagement title	Meeting with ██████████ OBE, Managing Director, Pentland Ferries	
Engagement timing	Time: 15:00 – 15:45 Date: Wednesday 15 March 2017	
Organisation	Pentland Ferries, who run unsubsidised ferry services across the Pentland Firth	
Venue and full address	Scottish Parliament Q1.04 Parliament	Post code: EH99 1SP
MACCS reference if applicable	Not applicable	
Background/Purpose include invitation history	<p>This meeting was originally planned for 18 January 2017, however it was postponed as ██████████ flight from Orkney was cancelled.</p> <p>Following a manifesto commitment to take action to reduce fares on ferry services to the Northern Isles, work is currently underway to explore options to achieve this commitment.</p> <p>Previous Ministerial submissions have highlighted challenges associated with the presence of commercial operators, Pentland Ferries and John O’Groats Ferries, across the Pentland Firth. In order to reduce fares on the SG-subsidised service operated by Serco Northlink Ferries, it is likely that a mechanism will have to be put in place to allow other commercial operators on the Pentland Firth to offer reduced fares. This needs to be done in a way that is fair, legal and avoids any suggestion of unfair competition. Transport Scotland officials have been engaging with Scottish Government Legal Department (SGLD) and State Aid colleagues to consider what mechanisms might be available. SGLD’s latest advice is attached at Annex G.</p> <p>Transport Scotland officials met with ██████████ on 27 June 2016. ██████████ indicated his willingness to be part of any fares reduction scheme.</p> <p>██████████</p> <p>On 23 August 2016, following the Minister’s approval, Transport Scotland officials confirmed to ██████████ in writing that it is our intention to include Pentland</p>	

	<p>Ferries in any fares reduction scheme.</p> <p>██████████ wrote to you on 11 January ahead of the postponed 18 January meeting, setting out his priorities for discussion. This letter is provided at Annex I.</p> <p>This is an opportunity for you to meet with ██████████ to hear his views and any concerns he may have in relation to the NIFS fares work.</p> <p>The Minister is separately meeting with the Ferries Unit on 21 March to discuss ██████████ NIFS Fares submission of 16 February 2017.</p>
Relevance to core script	Safer and Stronger
Key Issues	<p>Annex A – Agenda, Key Messages/Lines to Take</p> <p>Annex B – Pentland Ferries Profile</p> <p>Annex C – Northern Isles Ferry Services Background</p> <p>Annex D – Procurement Policy Review</p> <p>Annex E – Commitment to reduce fares</p> <p>Annex F – ██████████</p> <p>Annex G – ██████████</p> <p>██████████</p> <p>Annex H – Email from TS to ██████████ of 27 October 2016</p> <p>Annex I – Letter from ██████████ to the Minister of 11 January 2017</p>
Guest list or meeting attendees	<ul style="list-style-type: none"> • ██████████ OBE, Managing Director, Pentland Ferries • ██████████ Financial Director, Pentland Ferries • John Reid, of MacRoberts LLP, Edinburgh
Media Handling include mobile number(s)	<p>██████████</p> <p>No media calls or news releases are expected</p>
Official Support	<p>██████████</p> <p>██████████</p>

██████████
 AMFC
 6 MARCH 2017

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constitution Interest	General Awareness
Cabinet Secretary for the Rural Economy & Connectivity			x		

P/S Transport Scotland
 Roy Brannan, Transport Scotland
 DG Enterprise, Environment & Digital
 Transport Scotland Directors
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 Kate Higgins, Special Advisor
 [Redacted]
 Communications, Constitution & Economy
 John McFarlane, Special Advisor

AGENDA

Start - 15:00

- | | |
|----------------------------------|---|
| 1. Welcome | Minister for Transport and the Islands |
| 2. Summary of NIFS Fares Work | [REDACTED] |
| 3. Challenges to Fares Reduction | [REDACTED] |
| 4. Discussion of Key Issues | [REDACTED] |
| 5. Any other business | |

End – 15:45

KEY MESSAGES/LINES TO TAKE

- Welcome opportunity to meet with you. Understand you run a successful commercial service and your concerns about our plans to reduce ferry fares.
- It is our intention to include all relevant commercial operators in any fares reduction scheme on services across the Pentland Firth.
- Ministers have made a commitment to reduce fares on ferry services to Orkney and Shetland and work is underway to identify a mechanism to achieve this. This mechanism needs to be open, fair and transparent, avoid issues around unfair competition and State Aid, and provide a measure of balance in the local ferry market across the Pentland Firth.

Policy Review

- I made a statement to Parliament on Thursday 2 February 2017 to announce a policy review to consider the implications of the Commission's response on the Teckal exemption and State aid rules to protect and ensure future provision of our ferry services.
- The Teckal exemption would allow for an in-house operator to provide the services under strict tests relating to the parent authority's control of the operator and the functions performed by the operator on the parent authority's behalf.
- [REDACTED] to be met.
- You will be aware that the tendering of the Gourock Dunoon ferry service contract is being paused and the current contract is to be extended by 9 months, until March 2018.
- The implications for the Northern Isles ferry services contract (due to expire April 2018) will be considered as part of the review.

- The review will engage key stakeholders - such as the unions and communities - on the future approach to the provision of ferry services.
- Whilst not pre-judging the outcome, should the policy review conclude that it would be possible to apply the Teckal exemption and meet State aid rules then we would be minded to provide ferry services through an in-house operator, **taking account of the views of the communities the ferry services serve.**
- The review will publish a report on future ferry procurement.

PROFILE - PENTLAND FERRIES

1. Pentland Ferries is a privately owned, family company which has operated a ferry service between Gills Bay in Caithness, Scotland and St Margaret's Hope on South Ronaldsay in Orkney since May 2001. The company is one of only two major vehicle ferry operators plying within Scotland which are not subsidised by the Scottish Government or local authorities.
2. Pentland Ferries was founded by its present managing director, ██████████ in 1997. In October that year he purchased the Caledonian MacBrayne passenger and vehicle ferry MV Iona, renamed the MV Pentalina-B. ██████████ obtained a 99-year lease on the Gills Bay terminal, about 3 miles west of John o' Groats. After two years work improving the site, and further work at St Margaret's Hope, he started operating the short sea crossing in May 2001. The service is now operated year round with the custom built passenger and vehicle catamaran, MV Pentalina.
3. There have been talks about installing a linkspan at Wick. ██████████ owns the old linkspan from Stromness and has offered it to the harbour for a nominal sum. Wick is sheltered when Gills Bay is closed by westerly winds and a reduced service could be maintained in all but the worst weather.
4. In October 2016, ██████████ sought confirmation in writing that Pentland Ferries "will be included equally in any fare reduction scheme that is offered from Scottish Ministers to our competitor". He was particularly keen to receive this confirmation as he is close to purchasing a new vessel which will increase capacity on his service. This led to the issue of the email at Annex H which carefully stated the Scottish Government position. It is understood that Mr ██████████ recently purchased the MV Saturn, an old CalMac vessel, but has been unable to use this vessel, and is re-selling.
5. An online news article published on 3 March 2017 reported that a £14 million ferry has been ordered by Pentland Ferries Ltd and will operate between Caithness and Orkney next year.
6. The new catamaran will replace the existing ferry, the MV Pentalina on the short-sea crossing of the Pentland Firth between Gills and St Margaret's Hope. An order has been placed with a yard in Vietnam and construction is due to start in May on the vessel which is expected to be in operation by the spring/summer of 2018.
7. It is reported that the catamaran will be bigger than the current vessel, the Pentalina and have more capacity. She will be 85 feet long and have four main engines, four propellers and four thrusters. The vessel will be able to take 450 passengers, 98 cars or a combination of 54 cars and 12 articulated lorries. The Pentalina can accommodate 350 passengers and 70 cars or a combination of 34 cars and eight lorries. Mr Banks is reported as saying : "We looked at yards in China, the Philippines and Vietnam and decided to place the order for the ferry with Strategic Marine in Vietnam. The journey time on the crossing is likely to continue to be about 45 minutes."
8. ██████████ is reported to have said it is possible extra staff will be taken on when the new ferry is in operation. The firm employs 55 staff between its bases in Caithness and Orkney as well as recruiting casual workers in the summer. The article quotes: "We intend to replace the Pentalina with the new ferry but she will carry on in the meantime". "Trade has been building up each year and we have been running at full capacity so we needed a bigger vessel."

9. In the article [REDACTED] pointed out the funding for the ferry has been generated privately through the Bank of Scotland. "We get no government support for the ferry or the route. If we got the same level of subsidy as the Hamnavoe – the Northlink ferry which operates from Scrabster to Stromness – we could offer free services to Orkney." "I think the funding should be equally distributed between the operators. In the longer term I hope we will get a subsidy."

NORTHERN ISLES FERRY SERVICES – BACKGROUND*Current contract*

1. The Scottish Government directly subsidise ferry services from the mainland to Orkney and Shetland through the Northern Isles Ferry Services (NIFS) contract. These consist of passenger orientated, and freight orientated, services from Aberdeen to Lerwick (Shetland) and Kirkwall (Orkney) and passenger and freight services across the Pentland Firth from Scrabster (Caithness) to Stromness (Orkney).
2. All of these services are currently operated by Serco Northlink Ferries (SNF) on behalf of Scottish Ministers through the NIFS contract. The contract is worth £223 million over 6 years and runs from 5 July 2012 to 25 April 2018. SNF won the tender against competition from the previous public sector operator, Northlink Ferries Ltd, a subsidiary of David MacBrayne Ltd.
3. The services carried around 300,000 passengers and 60,000 cars in 2015.

Next contract

4. Through the Our Islands Our Future work and following publication of the Empowering Scotland's Island Communities (ESIC) prospectus in June 2014, Transport Scotland has been working closely with Orkney and Shetland Islands Councils and other key stakeholders regarding the next NIFS contract, due to commence in April 2018.
5. In December 2015, Transport Scotland commissioned transportation consultants Peter Brett Associates (PBA) to conduct a comprehensive STAG (Scottish Transport Appraisal Guidance) based study to appraise the options for the specification of the next NIFS contract. This work is ongoing.
6. The study is being overseen by a Working Group of key stakeholders, including Orkney and Shetland Islands Councils, Highlands and Islands Enterprise, HITRANS and ZetTrans. A key element of this study has been widespread consultation with the public and other key stakeholders, including SNF.

PROCUREMENT POLICY REVIEW

1. On 2 February 2017 the Minister announced a ferry services procurement policy review. The Policy Review will examine the future approach to the procurement of the Scottish Government's lifeline ferry services, in accordance with European and domestic legislation.
2. The Policy Review's primary purpose is to ensure the continued provision of safe, efficient and effective ferry services that meet the needs of island and remote rural communities and which provide value for money to the taxpayer.
3. The requirement to consider complex and detailed legal, policy and financial information means that the outcome of the review cannot be prejudged. Emerging findings could influence both the direction and timeline of the review.
4. A provisional timeline is presented for information purposes only at this early stage in the review process and may be subject to amendment as the review progresses.

Key Milestones	Provisional Timeline
Key Stakeholder engagement	February – June 2017
Consideration of legal, policy and financial implications	February – August 2017
Publication of Report	Autumn 2017

5. The implications for the Northern Isles ferry services contract (due to expire April 2018) are being considered as part of the review. Whilst not pre-judging the outcome, should the policy review conclude that it would be possible to apply the Teckal exemption and meet State aid rules then we would be minded to provide ferry services through an in-house operator, taking account of the views of the communities the ferry services serve.
6. Transport Scotland officials have had initial discussions with the current operator of the Northern Isles Ferry Services, Serco Northlink, and these will continue throughout the procurement policy review process. This will ensure that all options are worked through, including the potential option to extend the current contract, past the current April 2018 expiry date, to allow for the policy review to conclude and/or allow the next NIFS tender process to be delayed.

COMMITMENT TO REDUCE FARES

Lines to take

- We made a commitment in our manifesto to take action to reduce fares on ferry services to Orkney and Shetland.
- The current fares system is complex and historical. We need to carefully consider how we can reduce fares in a way that doesn't upset the balance of services and cause unforeseen problems. For example I know that vehicle and cabin capacity is already constrained during the busy summer period, and we need to consider and work with commercial operators on the Pentland Firth.
- We are looking at the whole picture for the new contract due to begin in April 2018.
- I have tasked Transport Scotland officials with generating options to reduce fares and a fares consultation was carried out towards the end of 2016 which will help inform the process.
- In the meantime, ferry fares to Orkney and Shetland have been frozen for 2017. This follows a freeze in 2016.

Background

1. Stakeholders in the Northern Isles have consistently called for reduced ferry fares. The 2016 SNP manifesto commitment in relation to ferry fares for the Northern Isles is:

"We will protect the Road Equivalent Tariff to all routes in the Clyde and Hebrides Ferry Services network and take action to reduce fares on ferry services to Orkney and Shetland."

2. Scottish Ministers have always been clear that introducing Road Equivalent Tariff (RET) during the previous Parliamentary term would significantly increase the large majority of fares on the NIFS network. Therefore, the commitment made in the Ferries Plan, published in December 2012, was to introduce RET to the Northern Isles over a longer timeframe.

3. Following previous advice, you asked Transport Scotland officials to take forward work to generate options for reducing fares and that the scope of the STAG study be widened to include consultation with communities on fares options. This was completed and advice was sent to the Minister on 8 December 2016 on the high level outcomes of the fares consultation.

4. Further more detailed advice was sent to the Minister on 16 February, seeking confirmation on the following:

- That you are content 'in-principle' with **RET** on the Pentland Firth service and an **RET variant** on the Aberdeen routes as the basis that PBA use to test the effect on demand and capacity in the NIFS study;
- That the full costs of the proposals need to be established through the STAG appraisal and options for funding what are unfunded cost pressures identified and agreed by the Cabinet Secretary for Finance and the Constitution;

- Provide your views on handling the publication of the fares consultation report.


5. Following receipt of this advice you have scheduled a meeting for 21 March 2017 between yourself, Transport Scotland officials and Special Advisors to further discuss this work.

Pentland Firth

6. In addition to the NIFS services, there are commercially-operated ferry services across the Pentland Firth. The main one is from Gills Bay (Caithness) to St Margaret's Hope (Orkney) operated by Pentland Ferries. There is also a summer-only passenger ferry from John O'Groats to Burwick (Orkney) operated by John O'Groats Ferries.

7. 

8. A meeting was held on 15 February 2017 between Transport Scotland officials, State Aid officials and SGLD to further discuss issues previously discussed at a meeting between the attendees that was held on 8 December 2016. Namely, to establish a way forward with respect to private ferry operators who operate across the Pentland Firth when looking to reduce fares to the Northern Isles and the offering of any potential subsidy to these private operators.



[Redacted]

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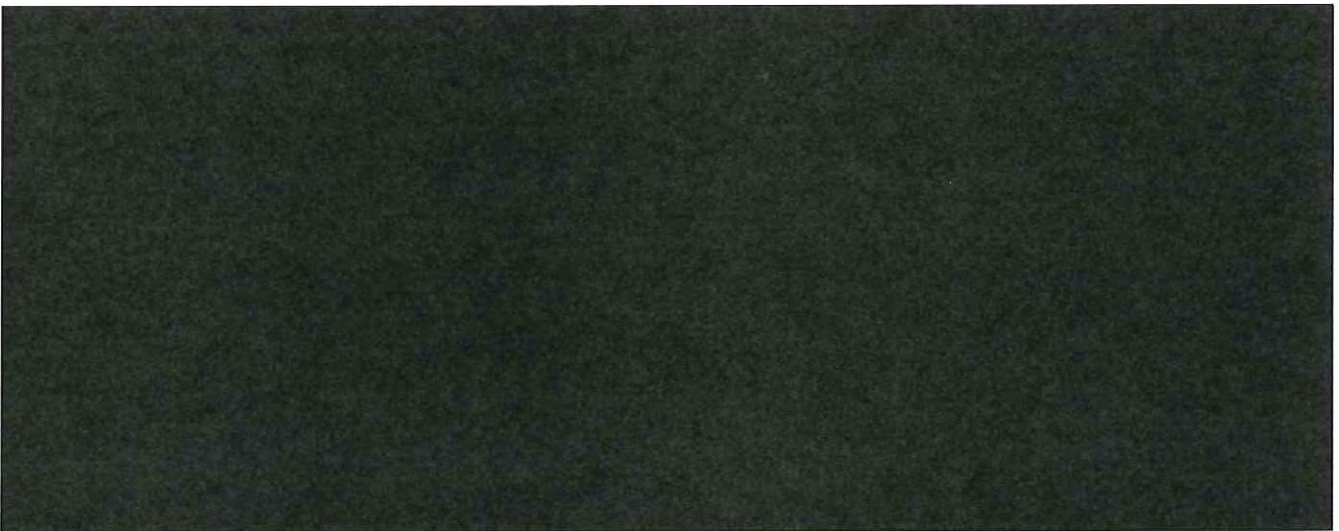
[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]



Please do not hesitate to contact me if you have any further queries.



TS EMAIL TO [REDACTED] OF 27 OCTOBER 2016

Transport Scotland officials' email to [REDACTED] regarding including Pentland Ferries in a fares reduction scheme is copied below for ease of reference.

"Dear [REDACTED]

Thanks for your below email.

I can confirm that it is our intention to include all relevant operators in any fares reduction scheme(s) on services across the Pentland Firth. As mentioned in my previous email, we are working to identify a mechanism to allow us to do this that is legal and State Aid compliant. While this is our intention, I am sure you will appreciate that while we are working to identify a mechanism, we cannot say with absolute certainty that the Scottish Government will provide a subsidy for reduced fares on Pentland Ferries' services. The decision to commission the new vessel is of course a commercial decision for you to take according to your own assessment of the relevant factors.

In going forward we will be looking to reduce fares on ferry services to the Northern Isles in a way that is open, fair and transparent, avoids issues around unfair competition or unfair State Aid, and provides a measure of balance in the local ferry market across the Pentland Firth.

I understand you are meeting with the Minister for Transport and the Islands on 18 January, where this issue will be discussed further. In addition, and as indicated in my earlier email, we will arrange a separate meeting with you once work has progressed enough to allow meaningful further discussions. Again, as previously indicated, I estimate this will be in December/January. In the meantime please feel free to contact myself or Graham Laidlaw should you wish a discussion. We would happy to meet with you in Edinburgh or Glasgow, or visit Orkney if diaries allow."

LETTER FROM [REDACTED] TO THE MINISTER OF 11 JANUARY 2017



Pentland Ferries
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St Margaret's Hope
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KW17 2SW

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sales@pentlandferries.co.uk

Hunza Yousaf MSP
Minister for Transport and the Islands
T3.24
The Scottish Parliament
Edinburgh
EH99 1SP

Wednesday 11th January 2017

Dear Mr Yousaf

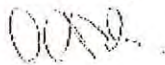
Meeting on 18 January

We are grateful for the opportunity to meet you on 18th January and should like to set out some background. We should be happy to follow-up on any aspect at any time

- Pentland Ferries' vision for ferry services to Orkney going forward is that those services should
 - provide both local, haulage and tourist customers with as fast a link as possible
 - provide both local, haulage and tourist customers with the most reliable and customer-focused experience as possible
 - evolve to exploit new opportunities and technologies to meet the above objectives; and
 - compete fairly with one another with no public monies providing any unfair advantage to, or distortion favouring, any particular provider.
- Pentland Ferries welcomes the opportunity for discussion with Scottish Ministers around their interests in connecting communities and promoting sustainable economic growth, as well as our vision and how this fits with Scottish Ministers ongoing preparation for the anticipated re-procurement of services that currently are provided by Serco NorthLink.
- In particular, Pentland Ferries:
 - understands that Scottish Ministers are considering options for re-tender of ferry services between Orkney and the mainland and given current contractual arrangements, may look to commence a new contract in 2018 –potentially on a subsidised basis (the 2018 Arrangements);
 - is long established in providing sustainable, low emissions, efficient and affordable life-line services between Orkney and the Mainland.

- As Pentland Ferries sees matters in relation to bundling of any routes with provision of services between Orkney - Mainland (non-Aberdeen) and routes between Orkney and Shetland/Aberdeen
 - bundling of routes under the 2012 Arrangements appeared to arise from a very late stage change of approach influenced by factors understood to have related to certain proprietary interests held (not by Scottish Ministers) in harbours/onshore facilities. No consideration lawfully should have any bearing on or relevance for the 2018 contract given Pentland Ferries' wholly commercial, unsubsidised life line service;
 - bundling of routes has led to distortive practices (see overall) the possibility of which must be appropriately dealt with in connection with the 2018 Arrangements so that any such distortion is extinguished or is not present in whatever arrangements are put in place for Scottish Ministers going forward.
- A single life-line maritime cabotage route cannot be subsidised lawfully where competing commercial routes are being operated (aside from where there is a very clearly defined and justified Public Service Obligation in compliance with the 1992 Regulations). That said Pentland Ferries would like to make a small number of overarching points that relate back to our vision
 - we should all be aiming for the best ferry services to and from Orkney connecting communities in a sustainable, efficient and affordable way;
 - it is not in the interests of users of ferry services and/or the continuing development of the best possible ferry services to subsidise only one set and inflexible route where others are being operated;
 - the lack of flexibility and protections against unlawful subsidy that must be in place if only one out of a number of competitive routes is subsidised (for compliance with state aid, competition and fairness), inhibits development of the best possible ferry services on that route (and overall) by placing an operational straight-jacket on the operator of that route.
 - straight-jacketing, distortion and ill-effects are avoided and providers focus on improving and developing their services instead, if subsidy is provided to fairly and as necessary, to all who operate life-line services
 - there are, of course alternatives to a subsidy regime for ferry operations which may be worthy of Scottish Ministers' exploration. As well as being more obviously lawful and significantly less distortive, also they may be more in line with what we would hope might be a shared positive vision of providing those on Orkney and those visiting Orkney with the best form of sustainable, efficient and affordable ferry services.

Yours sincerely



████████████████████
 Managing Director
 Pentland Ferries

Overleaf – examples of practices causing concern

As noted, the following is to set out some examples giving rise to areas that it would be appropriate for Scottish Ministers to reflect on when considering whether to and how to arrange lawfully for subsidy of ferry services under the 2018 Arrangements.

In terms of practical matters arising under the 2012 Arrangements we should like to mention some matters that should be considered for potential arrangements from 2018:

- we understand that certain changes have been permitted to the Serco NorthLink service under the procured 2012 Arrangements (for example the removal of a lunchtime sailing) but we are not aware of whether the appropriate level of subsidy attaching to such service was also reduced;
- we have heard rumours that some haulage customers of Serco NorthLink may have been able to book onto discounted rates for the Orkney – Aberdeen route but then have travelled via the Stromness – Scrabster route (this potentially raising concerns (if true) of being distortive and lacking in transparency);
- we are concerned at the way in which Serco NorthLink has permitted its Friends and Family discount to be applied on a very widespread basis with great enthusiasm. This is only introduced at quiet times of the year and not at peak times.
- we are aware of numerous examples of *ad hoc*, informal and unpermitted discounts being applied (outside the prescribed 2012 Arrangements) by Serco NorthLink.

In relation to each of the above and as Scottish Ministers will be aware, notably on a route that is subsidised (to the exclusion of other commercial routes), it is simply impossible to exclude the possibility of actual, competitive distortion (harmful to Pentland Ferries interests, amongst others) as a result of over-compensation or misuse of subsidy, in the context of the above concerns.

END

**TRANSPORT SCOTLAND
FERRIES UNIT**

6 MARCH 2017

