



Commission des Îles ▶ Islands Commission ▶ Ö-kommissionen ▶ Επιτροπή των Νησιών

Comisión de las Islas ▶ Comissão das Ilhas ▶ Commissione delle Isole

Saarte Komisjon ▶ Kummissjoni ta'Gúejjer ▶ Ø Kommission

**Minutes**  
**Island Transport Workshop**  
**held in the Shetland on the 22nd /23rd of November 2007.**

**Were present:**

<b>Name</b>	<b>Region / organisation</b>	<b>email</b>
Sara Lindqvist	Rikstrafiken (Swedish Public Transport Agency)	<a href="mailto:sara.lindqvist@rikstrafiken.se">sara.lindqvist@rikstrafiken.se</a>
Len Scoullar	Argyll & Bute Council	<a href="mailto:len.scoullar@argyll-bute.gov.uk">len.scoullar@argyll-bute.gov.uk</a>
Nicola Debnam	Argyll & Bute Council	<a href="mailto:nicola.debnam@argyll-bute.gov.uk">nicola.debnam@argyll-bute.gov.uk</a>
Murdo Gray	Comhairle nan Eilean Siar	<a href="mailto:mgray@cne-siar.gov.uk">mgray@cne-siar.gov.uk</a>
Donald Manford	Comhairle nan Eilean Siar	<a href="mailto:dmanford@cne-siar.gov.uk">dmanford@cne-siar.gov.uk</a>
Phil. Preston	Caledonian MacBrayne	<a href="mailto:phil.preston@calmac.co.uk">phil.preston@calmac.co.uk</a>
Naomi Coleman	Orkney Islands Council	<a href="mailto:naomi.coleman@orkney.gov.uk">naomi.coleman@orkney.gov.uk</a>
Ken Duerden	ZetTrans	<a href="mailto:ken.duerden@shetland.gov.uk">ken.duerden@shetland.gov.uk</a>
Gussie Angus	Shetland Islands Council	<a href="mailto:g Angus@shetland.gov.uk">g Angus@shetland.gov.uk</a>
Sally Spence	Shetland Islands Council	<a href="mailto:sally.spence@shetland.gov.uk">sally.spence@shetland.gov.uk</a>
Aare-Villu Kattel	Hiiumaa County Government	<a href="mailto:aare.kattel@mv.hiiumaa.ee">aare.kattel@mv.hiiumaa.ee</a>
Jorn Juhl Rasmussen	Danish National Rail Authority (Trafikstyrelsen)	<a href="mailto:jjr@trafikstyrelsen.dk">jjr@trafikstyrelsen.dk</a>
Lena Johansson	Gotlands Kommun	<a href="mailto:lena.johansson@gotland.se">lena.johansson@gotland.se</a>
Bo Dhallof	Gotlands Kommun	<a href="mailto:bo.dhallof@gotland.se">bo.dhallof@gotland.se</a>
Henrik Eybye Nielsen	Bornholm Region	<a href="mailto:henrik.eybye.nielsen@brk.dk">henrik.eybye.nielsen@brk.dk</a>
Jean-Didier Hache	CPMR Islands Commission	<a href="mailto:jdj@crpm.org">jdj@crpm.org</a>



Commission des Îles c/o CRPM ▶ 6, rue Saint-Martin ▶ F-35700 RENNES  
Tel : +33 (0)2 99 35 40 65 ▶ Fax : +33 (0)2 99 35 09 19  
E-mail : [islands@crpm.org](mailto:islands@crpm.org) ▶ Web : <http://www.crpm.org>

## MARITIME TRANSPORT

There is a general feeling that the situation regarding the implementation of Public Service Obligations (PSO) or Public Services Contracts (PSC) has become more pragmatic and flexible in the recent years.

For a start, the tendering procedure is not compulsory in a number of cases:

- On island routes with <300,000 pax/year
- When a shipping operator is owned entirely by the public authority and acting under the orders of that authority as if it was one of its services ( for detailed conditions, see ANAV Ruling by the European Court of Justice Case C-410/04, 6 April 2006 ).<sup>1</sup>

Moreover, EU law, and the way it is being implemented by the European Commission has evolved. There are, for example, no objections to:

- putting to tender a “bundle” of routes, rather than requiring them to be separated individually (CalMac’s experience)
- other factors may be taken into consideration rather than just the “lowest bidder”
- “reverse tendering” (i.e.: the tendering being on the cost/quality of services provided for a set amount of public funding) is possible
- Possibility to increase sailing frequencies during a PSO period
- possibility to have PSOs on a route between two Member States (Bornholm’s experience)
- etc.

However, it remains that the tendering procedure is still required in most cases by EU law to allocate public funds to a shipping operator. This has pros and cons.

### On the positive side:

- Submitting a shipping operator to such a process compels it to reassess the value for money it is providing, and the efficiency of its services, thus leading to better services and improved capacity.
- This is especially true when there is the “threat” of some effective competition, though this not by all means always the case.

### On the negative side:

- The process is often found to be complex, long in duration and expensive to perform.
- The length of the tendering procedure, which can be a few years, makes the operator reluctant to innovate and unlikely to take risks while its own future remains unclear.
- The reshaping of a operator structure, leading to a separation between assets ownership, maritime services, or the running of staff etc. can be prohibitively costly. The example of 19m£ in the case of CalMac, nearly the annual subsidy for half-a-year is given ( though, the question must be raised if such proceeding is always required by the Commission to benefit EU tendering rules, or if it is not the result of some policy by national authorities).
- Quite often, the tendering procedure leads to nothing. There might be a number of expressions of interest, but very few effective tenders in the end. On a number of occasions, there is only one offer (the historical operator) or even none, leading to higher in stead of lower costs (Bornholm, Gotland...). On the basis of the experience of those presents, only on two routes (in the small islands of Denmark) has the tendering process led to lower costs for the public purse.
- It is also found that effective competition, when it exists, tends to be between national operators only, and not between operators from different EU countries.

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- <sup>1</sup> In that respect, one may doubt that the call for tendering for Caledonian MacBrayne on the West Coast of Scotland routes was necessary.

- There are cases where the regional authority has only very limited means to influence the way the PSO is framed and the tendering process implemented by the national authorities (case of Hiiumaa, which can only influence timetables).

The question must then be raised: why is the tendering process largely ineffective on most island routes?<sup>2</sup> A number of explanations have been mentioned:

- A new operator who wants to compete against a well-established local operator tends to be at a disadvantage anyhow.
- The ownership of vessels and depreciation rules seem to play a crucial role in the effectiveness of competition. An operator who owns his vessels, and has paid them off, can see off the competition of a rival operator who will have to purchase new vessels. The limited duration of PSOs (6 years normally) does not allow a newcomer to fully depreciate new vessels during that time.
- There is a lack of standardisation of pier and harbour infrastructures (unlike air transport where, but for their size, infrastructure are fairly standardized at international level). This lack of standardization is often due to natural conditions, many routes being characterized by specific conditions. Yet, there are also cases when an operator the landing facilities only meet the requirement of the vessels of the shipping operator which has built them, which stifles competition.
- Though this is under review (see Blue Book of the future of Maritime Europe) EU legislation does not presently compel national legislation to protect employees' rights in the case of transfer of undertakings, although certain Member States have such provisions. There have been cases where the reshaping of maritime services has led to serious loss of employment for the community (300 jobs in Bornholm), so the fear expressed by seamen's unions and local communities where maritime transport play an important role is not unfounded.

**The workshop's conclusion is that CPMR Islands Commission should ask the European Commission to undertake a detailed and comprehensive study of the experience of the various EU islands in the field of tendering for maritime services. The purpose of such a study would be**

- to indicate when tendering has proved beneficial to island communities,
- to indicate when it has not, and why,
- to compare the costs associated with this procedure,
- to outline the best practices leading to the best provision of value/services for island communities and island economies.

### **Other observations regarding shipping services**

- Imposing penalties for operators in PSOs (such as penalties for delays) can be counterproductive, for the provision of good quality services fitting the needs of the community may require a pragmatic approach (Argyll & Bute).
- Certain safety standards for shipping when applied to small island routes, may be excessive and lead to difficulties and serious overcosts (Orkney).
- The reduction of CO<sup>2</sup> emission from shipping must be considered as an important goal in the provision of shipping services and infrastructures.

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<sup>2</sup> Bearing in mind that the islands participating in this workshop have relatively small populations (<60,000h), and a comparatively lower tourist traffic than those in other parts of the EU such as the Mediterranean.

- There are cases when shipping services are uncoordinated with the running of corresponding land transport services (buses, rail) leading to extra difficulties and lengthened travel times for passengers.

- Where island routes to the national mainland transit through another EU Member State (case of Bornholm with Sweden) passengers in transit have to face difficulties arising from the legislation of that Member State (e.g. carrying of hunting weapons, animals, etc.).

### Other aids regimes

Subsidising transport services via a mechanism of social aids alleviates the cost of transport for island residents (and other social categories) but does not lower the costs for other passengers. It can be said that social aids allow residents to move out of the island, but do not help people to come in, which in turn is harmful for the local economy.

A similar contradiction exists about the way local communities are being serviced. Is it better to provide frequent, fast and cheap maritime transport to enable islanders to access the mainland (or the main island) to find jobs and services, or should not the priority be to provide these jobs and services in the island itself and reduce the need to travel? (debate between Orkney and Shetland).

Providing direct aids to local industries to lower their costs, whenever this is allowed by legislation (for example Western Isles's case with *deminimis* rule) is long and complex to enforce, but appears to be a right instrument to foster economic activities.

## AIR TRANSPORT

Unlike sea transport, it appears that island air services tend to attract a certain level of competition.

This seems to be especially true for islands whose population reaches a certain threshold (roughly > 40,000) and which have direct links with major population centres such as their national capital (e.g.: Bornholm, Gotland). These islands seem to have adapted well to the liberalisation of air services, enjoy satisfactory air transport in terms of costs and quality. It will be noted that no PSO applies to the routes to Gotland and Bornholm.

The benefits of competition are also enhanced when the local public services (regional government, health services...) manage to negotiate special rates with the operators because of the sizeable volume of their traffic.

However, the level of competition, albeit not necessarily nil, is considerably more limited in the smaller islands and in the archipelagos, where PSOs or social aids to residents have to be applied (e.g.: the Scottish islands).

The workshop's participants attention is brought over the potential financial impact of the proposed inclusion air transport into the Emission Trading Scheme Mechanism. It is underlined that the Commission considers that such overcosts could be compensated by the implementation of PSOs or by social aids, which are not always available.

However, the modification of the scope of PSO is being presently under discussion with the proposed "3<sup>rd</sup> package" of air transport legislation. Since the explicit reference to islands has, at the present stage, been removed by the Parliament to be replaced by a much broader and vaguer definition, this is a cause for concern. The situation is to be closely monitored by CPMR Islands Commission.

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*The participants wish to thank Shetland Islands Council for hosting this meeting.  
A number of islands have indicated their desire to host such workshops in the future.*