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**Road Equivalent Tariff (RET) Briefing Note for MAKI Area Committee**

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**1. Summary**

This report advises of the background to the Scottish Government's RET pilot, the impact to date on those communities involved and the costs of extending the pilot in the future. The Scottish Government have recently published a draft report into the impacts of the RET pilot and the findings of this form the basis of this briefing note.

**2. Recommendations**

2.1 This report is for noting.

**3. Background**

3.1 The remote islands of Scotland are some of the most peripheral and fragile communities in Europe as a result of their distance from mainland markets, public services and social and cultural facilities. Ferry services are a vital lifeline to many of these fragile communities however, the Scottish Government recognised that the expense of ferry travel was a further disadvantage to many islanders.

3.2 As a result the RET pilot scheme was introduced in October 2008 in the Western Isles, Coll and Tiree as a means of setting ferry fares based on the cost of travelling an equivalent distance by road. The RET pilot is aimed at reducing the disparities in the cost of travel between island and mainland communities thereby reducing the economic disadvantage suffered by remote island communities.

3.3 The location for the RET Pilot was determined by the Scottish Government based on consideration of economic problems within different island communities, and on the requirement for a self-contained area in which the concept could be monitored.

3.4 The Pilot was initially due to end in spring 2011 however, the Scottish Government have extended this by one year until spring 2012.

3.5 The following ferry services have been effected by the RET Pilot:-

- Ullapool – Stornoway;
- Uig – Tarbert/Lochmaddy;
- Oban – Castlebay/Lochboisdale;
- Oban – Coll/Tiree.

3.6 Passenger fares fell by on average 40% with discounts of over 50% available for commercial vehicles on some services.

#### **4. Impact of RET**

- 4.1 Research undertaken as part of the pilot indicates that there was approximately 17% more passenger traffic on RET routes in the first two years of the pilot. In addition, car traffic increased proportionately by almost 50% more than passenger numbers, resulting in difficulties accommodating peak period demand.
- 4.2 An increase in commercial vehicle traffic of 8% over two years on RET routes was recorded however, this has been attributed to changes in business activity on the islands rather than as a direct response to lower fares.
- 4.3 The increased demand for ferry services (in particular motor vehicle traffic) on RET routes, has resulted in difficulties for Island residents and businesses getting on the sailings they require. In certain instances this has resulted in journeys being cancelled, additional costs being incurred and fuel supplies on Coll and Tiree were reported to be unavailable for several days because the fuel tanker could not be accommodated on the ferry.
- 4.4 Approximately 30,000 additional visits a year were made by ferry to the Pilot area predominantly by tourists who say they would have otherwise visited another destination in Scotland had it not been for the reduced fares. This resulted in increased demand for accommodation on islands (confirmed by VisitScotland data) putting additional strain on availability particularly during the traditional peak months of July and August. There was also a 4% increase in turnover of tourist related businesses within the pilot area.
- 4.5 RET has made a positive impact on haulage businesses by lowering ferry costs by an estimated 50% however, this has been offset by other costs such as rising fuel prices. Hauliers have also seen an increase in businesses transporting their own goods instead of contracting haulage, which can be attributed to the ending of multiple-trip discounts which had given a cost advantage to local hauliers making frequent use of the ferries.
- 4.6 There is information available from business surveys suggesting some island firms have expanded into mainland markets and conversely some mainland business have expanded in the RET area. There has also been a marginal improvement in employment levels in the Western Isles over the RET pilot period.
- 4.7 No evidence to suggest RET has had any impact on fuel or house prices.

#### **5. Coll and Tiree**

- 5.1 Residents of Coll and Tiree are more dependent on ferry services for access to basic services, including shopping, health and education. Their ferry services are lifeline, with many more trips for what may be considered 'essential' purposes and as a result RET has not resulted in the same increases in ferry travel observed in the Western Isles.
- 5.2 The ferry between Oban and Coll/Tiree has experienced the lowest

level of traffic growth, and the residents report the least increase in the frequency of their trips to the mainland.

- 5.3 There are also different attitudes towards the RET pilot on Coll and Tiree than the other islands in the pilot area. Whilst the majority of residents surveyed thought the lower cost of accessing goods and services on the mainland was a real benefit to the community, 42% of those on Coll and Tiree identified that increased tourism as a result of the pilot could have negative social and environmental impacts on the islands.
- 5.4 In general the residents of Coll and Tiree benefitted from RET through cheaper access to essential goods and services however, this did not result in a substantial increase in trips. Islanders benefitted less from increased economic activity, and reported some negative impacts of increased tourism such as low fuel supplies when the fuel tanker could not be accommodated on fully booked sailings.

## **6. Cost of Extending RET Pilot**

- 6.1 Figures published in a Scottish Government draft report suggest that extending RET across the entire ferry network would result in a loss of fares revenue in the region of £14 million pa assuming that there is sufficient capacity available to carry the additional trips generated. If RET was extended but no additional demand could be accommodated, then the loss of revenue is estimated at £21 million pa.
- 6.2 The Scottish Government Ferries Division have advised that a paper regarding the future of RET is currently with the Minister for Transport for consideration.

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