



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Press 2

Tim Flesher Esq
Private Secretary
10 Downing Street
LONDON SW1

Para Murto:

To note

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17 February 1984

*Toungu proposed to
make two statements
tomorrow*

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Dear Tim,

FINANCIAL SUPPORT FOR SHIPPING SERVICES IN 1984-85

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In his letter of 14 February to David Hayhoe, not copied to all the recipients of this letter, John Graham indicated that my Secretary of State intended making a statement on subsidies in the coming year for Scottish shipping services. He would now like to make his announcement by means of an oral statement to the House and it has been provisionally agreed that this should be done on Tuesday 21 February.

I attach a final draft of the statement and would be grateful for your clearance.

I am copying this letter to John Gieve (Treasury), Murdo Maclean (Chief Whip's Office) and David Hayhoe (Leader of the House's Office), Lindsay Wilkinson (Cabinet Office) and to the No 10 Press Office. I am also sending copy to David Beamish (Lords Chief Whip's Office) who will consider whether a parallel statement should be made in the Lords.

Yours sincerely

Eddie Gowans
EDDIE GOWANS
Private Secretary

SCOTTISH SHIPPING SUBSIDIES: DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on my proposals for financial assistance in 1984/85 for shipping services to the Scottish islands, and also to announce my conclusions on the future system of shipping subsidy.

I propose to give deficit grants of £7.2m to Caledonian MacBrayne and of £0.9m to the Orkney Islands Shipping Company. These grants will limit the need in both cases for the companies to increase their fares to approximately 5 per cent overall for the year. I propose also to increase support offered to P & O and to the various bulk shipping companies with whom I have Undertakings, to allow them to continue to rebate the fares and charges on their services. The rebates are estimated to cost £3.65m in the case of P & O and £1.6m in the case of the bulk shippers.

In total, Government revenue support in 1984/85 will amount to some £13.35m, an increase of .9 per cent over the current financial year, and more than a threefold increase since 1978-79. I hope this will be recognised as an excellent deal for the users of these services, and for the island communities they support.

I have however concluded that a change to an RET-based system of subsidy should not be pursued.

I have taken this decision after detailed consideration of the difficult practical issues that would arise if RET were implemented. In particular, full implementation would not distribute the greatly increased subsidy that would be required to where support is most needed. Moreover since the subsidy system would still have to be adapted to be acceptable to all communities affected by it, the system would not be objective or above dispute. The required adaptations would also increase the cost, and there would be considerable confusion during the necessarily lengthy transitional period.

I have also taken into account several other developments since 1979. First, it has become clear that a period of major new capital investment lies ahead, in new ships and in the associated terminals, for both Caledonian MacBrayne services and those serving Orkney and Shetland. There is therefore substantially more public expenditure to be committed on our shipping services than is indicated by the annual revenue grants alone, and it is vital for the maintenance and improvement of these services in the longer term that resources be made available for these capital works. Second, I attach much importance to the Monopolies and Mergers Commission's general recommendation that, in the interests of efficiency, Caledonian MacBrayne's fares should be related to costs incurred. This adds weight to the practical objections to RET. Besides offering no encouragement to efficient operation it would, by stimulating demand, itself increase the need for new investment in shipping capacity. Since the subsidy requirement would be calculated automatically by reference to a formula unrelated to shipping costs, that requirement could change considerably from one year to the next. Sudden increases in subsidy could only be achieved at the expense of other services for which I am responsible.

It is however important to have a fares system that is clearly understood. P & O and the bulk shippers are private sector operators who fix their fares and charges on a commercial basis, the charges being rebated with the benefit of subsidy. These arrangements will continue. In the case of Caledonian MacBrayne the Monopolies and Mergers Commission noted the company's policy that fares on one route should be comparable with those on another, and that a standard fare scale should be adopted consisting of three elements, pier dues, toll charges (reflecting the cost of loading) and distance charges. Such a system should produce a structure of fares tapering with distance. The Commission noted that no recent progress had been made with this system and that as a result significant anomalies now exist in the fare structure. They recommended that Caledonian MacBrayne should make renewed progress towards such a system, starting with an up to date

examination of the structure of costs. I have asked the Company to proceed on this basis. The new fares system will take some years to implement fully, but a start will be made in fixing the charges for 1984/85, which the Company will be announcing shortly. The result will be a standard fares system which should be more equitable than at present.

Mr Speaker, the question I have had to address is how, in the light of some significant developments since 1979, we can offer the best long term guarantee of services to the Scottish Islands. My subsidy proposals for 1984/85 together with my substantial capital support to ships and terminals confirm the Government's continuing commitment to the maintenance and improvement of these services.

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21 February 1984

This is just to confirm that the Prime Minister is content that your Secretary of State should make a Statement about Scottish shipping subsidies today and has approved the draft Statement enclosed with your letter of 17 February.

Timothy Flesher

E. Gowans, Esq.,
Scottish Office.

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cc ^{IT.} Press
Questions

STATEMENT

TUESDAY 21 FEBRUARY 1984

HOUSE OF COMMONS

SCOTTISH SHIPPING SUBSIDIES

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ON MY PROPOSALS FOR FINANCIAL ASSISTANCE IN 1984/85 FOR SHIPPING SERVICES TO THE SCOTTISH ISLANDS, AND ALSO TO ANNOUNCE MY CONCLUSIONS ON THE FUTURE SYSTEM OF SHIPPING SUBSIDY.

I PROPOSE TO GIVE DEFICIT GRANTS OF £7.2M TO CALEDONIAN MACBRAYNE AND OF 0.9M TO THE ORKNEY ISLANDS SHIPPING COMPANY. THESE GRANTS WILL LIMIT THE NEED IN BOTH CASES FOR THE COMPANIES TO INCREASE THEIR FARES TO APPROXIMATELY 5 PER CENT OVERALL FOR THE YEAR. I PROPOSE ALSO TO INCREASE SUPPORT OFFERED TO P & O AND TO THE VARIOUS BULK SHIPPING COMPANIES WITH WHOM I HAVE UNDERTAKINGS, TO ALLOW THEM TO CONTINUE TO REBATE THE FARES AND CHARGES ON THEIR SERVICES. THE REBATES ARE ESTIMATED TO COST £3.65M IN THE CASE OF P & O AND £1.6M IN THE CASE OF THE BULK SHIPPERS.

IN TOTAL, GOVERNMENT REVENUE SUPPORT IN 1984/85 WILL AMOUNT TO SOME £13.35M, AN INCREASE OF 9.9 PER CENT OVER THE CURRENT FINANCIAL YEAR, AND MORE THAN A THREEFOLD INCREASE SINCE 1978-79. I HOPE THIS WILL BE RECOGNISED AS AN EXCELLENT DEAL FOR THE USERS OF THESE SERVICES, AND FOR THE ISLAND COMMUNITIES THEY SUPPORT.

I AM ALSO ABLE TO ANNOUNCE TODAY THAT I HAVE COMPLETED MY REVIEW OF THE FUTURE SYSTEM OF SHIPPING SUBSIDIES AND HAVE CONCLUDED THAT A CHANGE TO AN RET-BASED SYSTEM OF SUBSIDY SHOULD NOT BE PURSUED.

I HAVE TAKEN THIS DECISION AFTER DETAILED CONSIDERATION OF THE DIFFICULT PRACTICAL ISSUES THAT WOULD ARISE IF RET WERE IMPLEMENTED. IN PARTICULAR, FULL IMPLEMENTATION WOULD NOT

DISTRIBUTE THE GREATLY INCREASED SUBSIDY THAT WOULD BE REQUIRED TO WHERE SUPPORT IS MOST NEEDED. MOREOVER SINCE THE SUBSIDY SYSTEM WOULD STILL HAVE TO BE ADAPTED TO BE ACCEPTABLE TO ALL COMMUNITIES AFFECTED BY IT, THE SYSTEM WOULD NOT BE OBJECTIVE OR ABOVE DISPUTE. THE REQUIRED ADAPTATIONS WOULD ALSO INCREASE THE COST, AND THERE WOULD BE CONSIDERABLE CONFUSION DURING THE NECESSARILY LENGTHY TRANSITIONAL PERIOD.

I HAVE ALSO TAKEN INTO ACCOUNT SEVERAL OTHER DEVELOPMENTS SINCE 1979. FIRST, IT HAS BECOME CLEAR THAT A PERIOD OF MAJOR NEW CAPITAL INVESTMENT LIES AHEAD, IN NEW SHIPS AND IN THE ASSOCIATED TERMINALS, FOR BOTH CALEDONIAN MACBRAYNE SERVICES AND THOSE SERVING ORKNEY AND SHETLAND. THERE IS THEREFORE SUBSTANTIALLY MORE PUBLIC EXPENDITURE TO BE COMMITTED ON OUR SHIPPING SERVICES THAN IS INDICATED BY THE ANNUAL REVENUE GRANTS ALONE, AND IT IS VITAL FOR THE MAINTENANCE AND IMPROVEMENT OF THESE SERVICES IN THE LONGER TERM THAT RESOURCES BE MADE AVAILABLE FOR THESE CAPITAL WORKS. SECOND, I ATTACH MUCH IMPORTANCE TO THE MONOPOLIES AND MERGERS COMMISSION'S GENERAL RECOMMENDATION THAT, IN THE INTERESTS OF EFFICIENCY, CALEDONIAN MACBRAYNE'S FARES SHOULD BE RELATED TO COSTS INCURRED. THIS ADDS WEIGHT TO THE PRACTICAL OBJECTIONS TO RET. BESIDES OFFERING NO ENCOURAGEMENT TO EFFICIENT OPERATION IT WOULD, BY STIMULATING DEMAND, ITSELF INCREASE THE NEED FOR NEW INVESTMENT IN SHIPPING CAPACITY. SINCE THE SUBSIDY REQUIREMENT WOULD BE CALCULATED AUTOMATICALLY BY REFERENCE TO A FORMULA UNRELATED TO SHIPPING COSTS, THAT REQUIREMENT COULD CHANGE CONSIDERABLY FROM ONE YEAR TO THE NEXT. SUDDEN INCREASES IN SUBSIDY COULD ONLY BE ACHIEVED AT THE EXPENSE OF OTHER SERVICES FOR WHICH I AM RESPONSIBLE.

IT IS HOWEVER IMPORTANT TO HAVE A FARES SYSTEM THAT IS CLEARLY UNDERSTOOD. P & O AND THE BULK SHIPPERS ARE PRIVATE SECTOR OPERATORS WHO FIX THEIR FARES AND CHARGES ON A COMMERCIAL BASIS, THE CHARGES BEING REBATED WITH THE BENEFIT OF SUBSIDY. THESE ARRANGMENTS WILL CONTINUE. IN THE CASE OF CALEDONIAN MACBRAYNE THE MONOPOLIES AND MERGERS COMMISSION NOTED THE COMPANY'S POLICY THAT FARES ON ONE ROUTE SHOULD BE COMPARABLE WITH THOSE ON ANOTHER, AND THAT A STANDARD FARE SCALE SHOULD

BL ADOPTED CONSISTING OF THREE ELEMENTS, PIER DUES, TOLL CHARGES (REFLECTING THE COST OF LOADING) AND DISTANCE CHARGES. SUCH A SYSTEM SHOULD PRODUCE A STRUCTURE OF FARES TAPERING WITH DISTANCE. THE COMMISSION NOTED THAT NO RECENT PROGRESS HAD BEEN MADE WITH THIS SYSTEM AND THAT AS A RESULT SIGNIFICANT ANOMALIES NOW EXIST IN THE FARE STRUCTURE. THEY RECOMMENDED THAT CALEDONIAN MACBRAYNE SHOULD MAKE RENEWED PROGRESS TOWARDS SUCH A SYSTEM, STARTING WITH AN UP TO DATE EXAMINATION OF THE STRUCTURE OF COSTS. I HAVE ASKED THE COMPANY TO PROCEED ON THIS BASIS. THE NEW FARES SYSTEM WILL TAKE SOME YEARS TO IMPLEMENT FULLY, BUT A START WILL BE MADE IN FIXING THE CHARGES FOR 1984/85, WHICH THE COMPANY WILL BE ANNOUNCING SHORTLY. THE RESULT WILL BE A STANDARD FARES SYSTEM WHICH SHOULD BE MORE EQUITABLE THAN AT PRESENT.

MR SPEAKER, THE QUESTION I HAVE HAD TO ADDRESS IS HOW, IN THE LIGHT OF SOME SIGNIFICANT DEVELOPMENTS SINCE 1979, WE CAN OFFER THE BEST LONG TERM GUARANTEE OF SERVICES TO THE SCOTTISH ISLANDS. MY SUBSIDY PROPOSALS FOR 1984/85 TOGETHER WITH MY SUBSTANTIAL CAPITAL SUPPORT TO SHIPS AND TERMINALS CONFIRM THE GOVERNMENT'S CONTINUING COMMITMENT TO THE MAINTENANCE AND IMPROVEMENT OF THESE SERVICES.

SCOTTISH OFFICE