

EXECUTIVE COUNCIL

RESTRICTED

Title of Report: West Falkland – Transport Subsidy and Interim Arrangements for 2009-10
Paper No: 259/09
Date: 17th December 2009
Report of: General Manager – FIDC

1 Purpose

- 1.1. The purpose of this paper is to advise Members as to the actions proposed to alleviate transport costs and difficulties for those on West Falkland during the current season. This paper responds to the comments raised by the West Falkland and Livestock Transport Working Groups.

2. Recommendations:

That Executive Council is advised:

2.1 Recommendation 1

To approve FIDC's plans to pay a subsidy as described to eligible farms on West Falkland for the 2009-2010 season as either;

Option A As a flat subsidy of £3.80 per bale or £1.07 per sheep as approved and announced by the previous Exco.

Or

Option B On a sliding scale per bale or per sheep as per the Annex, formulated since the last Exco.

(This option is favoured by FIDC and the West Falkland Working Group.)

2.2 Recommendation 2

That reducing the container rate to Fox Bay is discussed further in conjunction with WSL to encourage interested parties to develop their own consolidation service to Fox Bay.

2.3 Recommendation 3

Workboat Services Ltd. is permitted to undertake two voyages to Albemarle to collect sheep for processing at FIMCo from that area and deliver them to New Haven to assist in overcoming any potential weather and road transport problems this season.

3. Summary of Financial Implications

Item	2009/10	2010/11	Future years
1) a or b	Nil (but £20,000 cost to FIDC)	Nil	Nil
2)	Nil	Nil	Nil
3)	Marginal	Nil	Nil

4. Background

- 4.1. This is described in detail in previous Exco papers as follow:
- Previous Executive Council decision: 18 September 2007 Paper 206/07
 - Previous Executive Council paper: 26 March 2008 Paper 56/08
 - Previous Executive Council paper: 27 May 2008 Paper 90/08
 - Previous Executive Council paper: 25 June 2009 Paper 148/09
 - Previous Executive Council paper 20 August 2009 Paper 151/09
 - Previous Executive Council paper: 17 September 2009 Paper 196/09
 - Previous Executive Council paper: 24 September 2009 Paper 224/09
- 4.2 In September 2009, Exco approved a subsidy for farmers on the West to assist with the costs of wool and livestock transport. This was a reaction to two separate events;
- FIMCo announced that they would no longer pay for the transport of animals to Sand Bay abattoir.
 - SAAS's new vessel, the Anja, would not be able to berth at Fox Bay.
- 4.3 Both these measures would impact on freight costs so Exco originally sought to reduce the cost of hauling a bale of wool on a truck from West to East Falkland on the ferry to roughly £1.50 per bale.
- 4.4 This was for wool for export from West to East on vehicles over 6 metres and 3500kg that would pay the standard commercial vehicle rate on the ferry. Small vehicles and trailers were excluded from this subsidy as they are charged at a far lower rate anyway. (£50 per vehicle or trailer and not £40 per metre)
- 4.5 Exco was aware that there were no prescribed unit freight rates on the Concordia Bay ferry service, the actual cost per bale would be up to the haulier and depend on the size of truck, his costs and profit margin and that revenue from a return load would also have a bearing on these costs.
- 4.6 The formula was based on a round trip in a 40ft trailer carrying 90 bales and the benefit to the transport costs of a West bound load was excluded (i.e. The wool haulage figure would pay for the entire evolution and not half of it.)
- Existing cost – 12m x £40 = £480 return fare. 90 bales Cost per bale = £5.33
 - Target cost – 12m x £11.50 = £138 return fare. 90 bales Cost per bale = £1.53
Difference = £3.80 per bale

4.7 Exco also instructed that livestock for FIMCo be treated in exactly the same way. Using the same formula, the subsidy works out at £1.07 per sheep. FIMCo advised that most cattle are transported in smaller trailers that take advantage of the £50 tariff so would not be eligible for this subsidy.

4.8 Due to the contract between FIG and Workboat Services Ltd, Exco was unable to change the actual ferry rate unless revenue losses were underwritten by FIG, therefore Exco instructed FIDC to make a direct subsidy to farms based on the above formula. The £11.50 ferry rate therefore is a notional yardstick that was used by Exco to establish a subsidy value and not an actual figure.

5 Scheme Implementation

5.1 FIDC have determined that based on last year's figures for wool and sheep production, the subsidy will cost around £20,000 to implement, which does not include FIDC administration cost and staff time.

5.2 Exco originally advised that farms could claim at the end of the season when the farming statistics would be available but given that farmers may have a cashflow problem and that hauliers have to be paid, FIDC sees no reason not to make the payments early and check on the figures later.

5.3 In order to make the system flexible and reduce paperwork, the intention is to allow farms to submit up to three claims over the season. A claim form is being drafted requesting basic information to justify the claim. This data could also assist with future transport planning.

6 Flat rate subsidy

6.1 The basic scheme as envisaged by Exco will pay a flat subsidy of £3.80 per bale and £1.07 per sheep subject to the following terms and conditions;

1. It is to assist with the cost of wool for export and livestock for FIMCo only. (No other movements will qualify.)
2. The wool or livestock must be transported on the Concordia Bay ferry service only.
3. The vehicle used on the ferry must pay the commercial vehicle rate. (Currently £40 per metre.) Small vehicles and trailers pay a lower rate. (Ref. paragraph 4.4.)
4. The claim form must be completed, signed and returned to FIDC. The claim will be crosschecked with agricultural returns.

7 Alternative Sliding Scale subsidy formula

7.1 One avenue that Exco previously sought to pursue was a subsidy formula for the equalisation of freight. Exco was not aware of FIDC's plan on the subject that could offer an alternative subsidy mechanism.

7.2 As opposed to addressing the ferry rate, the alternative subsidy is based on a sliding scale to reflect commercial road transport costs on West Falkland of

getting wool and sheep to Port Howard, which was the original issue. With this system, a farm in the Port Howard area would get little or nothing, but those on the southwest of West Falkland would get the largest share. The same scale could be applied to sheep and the Annex illustrates the subsidy per bale or per sheep that could be achieved on the same budget of £20,000. The PWD Design Office supplied a standard scale of distances of farms to Port Howard.

8 Benefits of the sliding scale system

- 8.1 The operation of the sliding scale formula could operate in exactly the same way as the flat subsidy with the same terms and conditions. The previous Exco were not aware of this system as it hadn't been developed, however FIDC and the West Falkland Working Group favour the adoption of the sliding scale subsidy for this year as it goes some way to address the disparity in freight costs for farmers on the West.

9 Recommendation 1

- 9.1 To approve FIDC's plans to pay a subsidy described to eligible farms on West Falkland for the 2009-2010 season as either

Option A

As a flat subsidy of £3.80 per bale or £1.07 per sheep as approved by the previous Exco.

Or

Option B

On a sliding scale per bale or per sheep as per the Annex as formulated since the last Exco.

10 Freight service to Fox Bay

- 10.1 The WSL contract does not provide for a Consolidation Service to any location; this element was removed from contract by FIG. FIDC sought tenders to operate such a service for the Outer Islands. An option to arrange such a service to Fox Bay was rejected by Exco at an early stage, as was a subsequent initiative in December 2008. Goodwin Offshore operates the Islands consolidation service with logistics supplied by Neil Mc Kay & Co.

- 10.2 However, apart from fuels and gas, WSL will transport a 20ft container to Fox Bay provided it is delivered pre loaded to FIPASS ready and suitable for shipping. WSL will also transport the empty container back to FIPASS and the total charge for this is £350. As there has been a minimal take up, WSL would not in principle object to a small reduction in this rate but have made it clear that they are not prepared to take on the cost of operating a consolidation service for Fox Bay in isolation from the rest of the islands consolidation service.

- 10.3 A container can carry up to 33cu m but more likely to carry 10cu m. The current rate of £350 equates roughly to £35 per cu m but this doesn't include loading and delivery to FIPASS. In comparison, the Islands pay £34.10 per cubic metre for cargo.

10.4 However, while not obliged to, WSL do allow a per cu m. rate on frozen food from Stanley to Fox Bay as the quantity is more manageable. The rate is the old Tamar rate of £85 per cu. m but with a £40 minimum charge. The goods must be delivered to the Concordia Bay at FIPASS.

11 **Recommendation 2**

That reducing the container rate to Fox Bay is discussed further in conjunction with WSL to encourage interested parties to develop their own consolidation service to Fox Bay.

12 **Livestock transport from Albemarle**

12.1 FIMCo through the Livestock Transport Working Group (LTWG) has requested that this season, the Concordia Bay be allowed to undertake two voyages to Albemarle to collect sheep and deliver them to New Haven. If four of the transport crates were used, each voyage would have the capacity to handle around 600 – 640 sheep. To make the best use of the vessel and the time, WSL strongly advice that 4 crates per voyage should be used.

12.2 Under the normal operational rules such a movement to West Falkland is only permitted in emergency or if the road is unusable so special permission is necessary. The principal reason is that these animals will have an excessively long road journey from the far West to FIMCo anyway and that any delay due to wet roads or bad weather could extend that time beyond normal limits. This would be less of an issue if the condition of the road could be guaranteed well in advance of the movement.

12.3 WSL believe that with the revised schedule they will be able to fit these extra two movements in, loading at Albemarle using the ramp constructed by Trant. However, extending this option to other ports on West Falkland during the busiest time of the year would very likely result in ferry cancellations.

12.4 In this situation, the normal rate is £2 per animal, which is the standard islands Coastal Shipping rate same as the islands rate. Animals transported on this route would not qualify the farm for a subsidy, as this service is directly to New Haven, which bypasses both haulage on the West roads and the ferry.

13 **Recommendation 3**

Workboat Services Ltd. is permitted to undertake two voyages to Albemarle to collect sheep from that area and deliver them to New Haven to overcome any potential weather and road transport problems this season.

14 **Financial Implications**

14.1 Recommendation 1 (option A or B) will cost around £20,000 but Exco have directed that this is funded by FIDC.

14.2 Recommendation 2 as presented will probably have no impact on FIG expenditure unless FIG requires WSL to perform additional tasks outside of the contract.

14.3 Recommendation 3 has an extra marginal cost to FIG for the extra fuel consumed for the voyages, but as the revised 2009-10 schedule results in less steaming, overall fuel consumption overall should be less than for 2008-9

15 Human Resources Implications

15.1 Nil

Annex Sliding Scale Subsidy

Distance from PHD FARM	KMS	Per bale	Per sheep
Port Howard	0	£ -	£ -
Bold Cove	5	£ 0.26	£ 0.07
Manybranch	5	£ 0.26	£ 0.07
Harps	25	£ 1.32	£ 0.37
Saddle	38	£ 2.00	£ 0.57
Teal River	54	£ 2.84	£ 0.81
Goring Station	58	£ 3.05	£ 0.87
Little Chartres	60	£ 3.16	£ 0.90
Sheffield	64	£ 3.37	£ 0.96
Boundary	72	£ 3.79	£ 1.07
Peaks	73	£ 3.84	£ 1.09
Lake Sullivan	80	£ 4.21	£ 1.19
Rincon Ridge	80	£ 4.21	£ 1.19
Westley	80	£ 4.23	£ 1.20
Coast Ridge	82	£ 4.32	£ 1.22
Lakelands	82	£ 4.32	£ 1.22
Port North	84	£ 4.42	£ 1.25
Crooked Inlet	86	£ 4.53	£ 1.28
Pickthorne	86	£ 4.53	£ 1.28
Philomel	89	£ 4.69	£ 1.33
Shallow Bay	91	£ 4.79	£ 1.36
West Lagoons	91	£ 4.79	£ 1.36
Dunbar	95	£ 5.00	£ 1.42
Main Point	96	£ 5.05	£ 1.43
Leicester Creek	97	£ 5.11	£ 1.45
Dunnose Head	101	£ 5.32	£ 1.51
Fern Ridge	101	£ 5.32	£ 1.51
Doyle	106	£ 5.58	£ 1.58
Shallow Harbour	108	£ 5.68	£ 1.61
Spring Point	112	£ 5.89	£ 1.67
Stoney Ridge	119	£ 6.26	£ 1.78
Port Edgar	130	£ 6.84	£ 1.94
South Harbour	142	£ 7.47	£ 2.12
Port Stephens	150	£ 7.89	£ 2.24
Albermarle	157	£ 8.26	£ 2.34