

Dr Robert Seely MBE MP
Isle of Wight



HOUSE OF COMMONS

LONDON SW1A 0AA

The Rt Hon Mark Harper MP
Secretary of State for Transport
Great Minster House
33 Horseferry Road
London
SW1P 4DR

8 May 2024

Dear Mark,

I am writing about the Isle of Wight ferry firms, following recent conversations with you.

The key points are these:

1. My study has highlighted the worsening situation with cross-Solent ferry services. I have put a considerable amount of material into the public domain.
2. I will be writing a series of letters to the two cross-Solent car ferry operators (Wightlink and Red Funnel) and the Competition and Markets Authority (CMA), to put more information in the public domain and to outline the possible routes to an inquiry by either your Department or the CMA.

I am not asking for that inquiry **yet**, because before I do, I would like to discuss various potential grounds for that inquiry, its potential scope and what powers you have, as opposed to the CMA or other bodies.

Government Policy

I would like to start by noting your comments in response to the Union Connectivity Review: “The UK government has a responsibility to people, businesses and communities throughout the whole of the United Kingdom. Our central mission is to deliver sustainable growth and spread opportunity right across the country. Ensuring that we have an accessible, well-connected transport system provides the foundation for achieving this goal and will support every part of the UK in reaching its potential.”¹

Issues with Cross-Solent Transport

Now that we have established the importance of ensuring access to all parts of the UK, I would like to outline why I believe that access to the Isle of Wight is being damaged by the practices and

¹ <https://www.gov.uk/government/speeches/government-response-to-union-connectivity-review>

corporate structures of the cross-Solent ferry firms (Wightlink and Red Funnel). In some cases, I have been able to establish the facts, in other instances I will do so in the next month. However, there is some information that only your Department, or an inquiry, will be able to gather.

1. Competition

There are a limited number of cross-Solent routes and ports. The Office of Fair Trading's (OFT) 2009 report into the cross-Solent market commented: "In most cases, passengers who wish to travel on a particular route have no choice of operator, so competition is limited to those willing to switch routes."²

The cross-Solent ferry market is for the most part a series of monopolies, especially in passenger services.

Passenger routes³

Operator	Route	Operator Control of Port Facilities
Wightlink	Ryde Pier Head	Freehold.
	Portsmouth Harbour	Lease from Portsmouth City Council.
Red Funnel	West Cowes	Freehold of terminal buildings. Lease of some of the foreshore.
	Southampton	Lease from Associated British Ports.
Hovertravel	Ryde	Lease from Isle of Wight Council.
	Southsea	Lease from Portsmouth City Council.

In the West Wight, Wightlink has an effective monopoly of passenger services to Lymington.

In Cowes, Red Funnel has an effective monopoly of passenger services to Southampton.

Only between Ryde and Portsmouth/Southsea is there meaningful competition, and that is between two providers, Wightlink and Hovertravel.

Car ferry routes⁴

Operator	Route	Operator Control of Port Facilities
Red Funnel	East Cowes	Freehold of terminal buildings. Lease of some of the foreshore.
	Southampton	Lease from Associated British Ports.
Wightlink	Fishbourne	Freehold of land and terminal buildings. Lease of some of the foreshore.
	Portsmouth	Lease of the Gunwharf Terminal from Portsmouth City Council. Lease of some of the foreshore. Freehold of terminal buildings and car park.
Wightlink	Yarmouth	Agreement of unlimited term with Yarmouth Island Harbour Commissioners.

² https://webarchive.nationalarchives.gov.uk/ukgwa/20140402181519/https://oft.gov.uk/shared_oft/consultations/oft1135.pdf, p.5

³ Ibid., Section 4

⁴ Ibid., Section 4

	Lymington	Freehold of terminal buildings. Lease of some of the foreshore.
--	-----------	---

On car ferry routes,

The West Wight Yarmouth-Lymington route is again, an effective monopoly.

In the centre of the Island there is a duopoly between Red Funnel and Wightlink. In the East of the Island, the distance to East Cowes means that Wightlink has a near monopoly.

The OFT concluded: “Barriers to entry and the fact that routes can only support one operator are features which prevent, restrict or distort competition.”

Unfortunately, the OFT report then continued:

“However, there appears to be limited evidence of consumer detriment [...] Nonetheless, the OFT does not believe that competition is strong in this market. It has seen some indications that suggest that Wightlink's prices have to date been constrained by the threat of competition investigation, rather than purely by market forces.”⁵

The report ultimately recommended that “Isle of Wight residents [...] would most benefit from better information about price rises and quality of service.”⁶

It is my opinion that with local monopolies and duopolies in place, and with both the main firms heavily financialised, with slower and less frequent services, there is very considerable consumer detriment.

In addition, on the narrow point raised by the OFT report, neither Wightlink nor Red Funnel publish transparent information on pricing. Red Funnel does not publish reliability or quality of service information and Wightlink publishes some reliability information without detailing its methodology.

All in all, there is now significant evidence of consumer detriment.

2. Barriers to market entry

The OFT’s 2009 report noted: “There do not appear to be any suitable port facilities on the Isle of Wight which could accommodate another vehicle ferry, which are not currently being used in that capacity [...] there are logistical issues which make shared access difficult or impossible.”⁷

This means that it is difficult to introduce competition to the market. A new competitor would need to obtain planning permission to build a new port, preventing any competition in the short term.

⁵ Ibid., p.112

⁶ Ibid., p.113

⁷ Ibid., pp.37-38

3. Service speed

Wightlink

From 2000 to 2024, Fastcat crossing times from Ryde Pier Head to Portsmouth Harbour slowed from 15 minutes to 22 minutes.⁸

Vehicle ferry crossing times from Fishbourne to Portsmouth slowed from 35 minutes to 45 minutes.⁹

Vehicle ferry crossing times from Yarmouth to Lymington slowed from 30 minutes to 40 minutes.¹⁰

Red Funnel

From 1998 to 2024, Red Jet crossing times from West Cowes to Southampton slowed from 22 minutes to 28 minutes.¹¹

Vehicle ferry crossing times from East Cowes to Southampton slowed from 55 minutes to 60 minutes.¹²

4. Service frequency

Wightlink

As set out in my letter to Wightlink, from 2001 to 2024, for the Ryde Pier Head to Portsmouth Harbour route, Wightlink reduced its fleet from four vessels to two vessels; and reduced Monday-Friday timetables from a year-round half-hourly service throughout most of the day to a mostly hourly service.

For the Fishbourne-Portsmouth route, Wightlink reduced the number of car ferries operating on the route from four to three; reduced winter timetables from a half-hourly service at peak times to an hourly service; and reduced summer timetables from a half-hourly service throughout most of the day to a mostly forty-minute service.

Ryde Pier Head to Portsmouth Harbour sailings per day (from Ryde Pier Head)	2001	2024	
Monday-Friday ¹³	33	18	-45%

⁸ 2001 R-P timetable: https://web.archive.org/web/20010803055049/http://www.wightlink.co.uk/ferryinfo/timetables/t_tables_r_p.htm
2024 R-P timetable: <https://cms.wightlink.co.uk/wp-content/uploads/2023/06/Portsmouth-Ryde-Pier-Head-Timetable-January-December-2024.pdf>

⁹ 2001 F-P winter timetable: https://web.archive.org/web/20010803065824/http://www.wightlink.co.uk/ferryinfo/timetables/t_tables_f_p_jan_apr.htm
2024 F-P winter timetable: <https://cms.wightlink.co.uk/wp-content/uploads/2023/06/Portsmouth-Fishbourne-Timetable-January-March-2024.pdf>

¹⁰ 2001 Y-L summer timetable: https://web.archive.org/web/20010801181515/http://www.wightlink.co.uk/ferryinfo/timetables/t_tables_y_l.htm
2024 Y-L summer timetable: <https://cms.wightlink.co.uk/wp-content/uploads/2023/06/Lymington-Yarmouth-Timetable-March-November-2024.pdf>

¹¹ 1998 WC-S timetable: <https://web.archive.org/web/19981205062911/http://www.redfunnel.co.uk/>
2024 WC-S timetable: https://www.redfunnel.co.uk/sites/default/files/documents/red-jet-from-23mar24_0.pdf

¹² 1998 Red Funnel route information: <https://web.archive.org/web/19981205062911/http://www.redfunnel.co.uk/>
2024 Red Funnel route information: <https://www.redfunnel.co.uk/isle-of-wight-ferry/routes>

¹³ 2001 R-P timetable: https://web.archive.org/web/20010803055049/http://www.wightlink.co.uk/ferryinfo/timetables/t_tables_r_p.htm
2024 R-P timetable: <https://cms.wightlink.co.uk/wp-content/uploads/2023/06/Portsmouth-Ryde-Pier-Head-Timetable-January-December-2024.pdf>

Fishbourne to Portsmouth sailings per day (from Fishbourne)	2001	2024	
Summer (June)¹⁴			
Monday	35	25	-29%
Winter (February)¹⁵			
Monday	29	18	-38%

Yarmouth to Lymington sailings per day (from Yarmouth)	2001	2024	
Summer (June)¹⁶			
Monday	36	16	-56%

Red Funnel

From 1998 to 2024, for the West Cowes to Southampton route, Red Funnel reduced its passenger fleet to two vessels; and reduced services from a half-hourly service throughout most of the day to a mix of 35 minute and 70 minute sailings. Disruption to the planned timetable occurs if one vessel is out of service.

For the East Cowes to Southampton vehicle ferry route, Red Funnel has maintained around the same number of sailings since 1998, using the same ships.

Passenger sailings per day (both directions)	1998	2024	
Summer¹⁷			
Monday	60	42	-30%
Saturday	58	48	-17%
Sunday	56	28	-50%
Winter¹⁸			
Monday	60	44	-27%
Saturday	58	50	-14%
Sunday	48	30	-38%

¹⁴ 2001 F-P summer timetable:

https://web.archive.org/web/20010803064629/http://www.wightlink.co.uk/ferryinfo/timetables/t_tables_f_p_apr_sep.htm

2024 F-P summer timetable: <https://cms.wightlink.co.uk/wp-content/uploads/2023/06/Portsmouth-Fishbourne-Timetable-March-November-2024.pdf>

¹⁵ 2001 F-P winter timetable:

https://web.archive.org/web/20010803065824/http://www.wightlink.co.uk/ferryinfo/timetables/t_tables_f_p_jan_apr.htm

2024 F-P winter timetable: <https://cms.wightlink.co.uk/wp-content/uploads/2023/06/Portsmouth-Fishbourne-Timetable-January-March-2024.pdf>

¹⁶ 2001 Y-L summer timetable:

https://web.archive.org/web/20010801181515/http://www.wightlink.co.uk/ferryinfo/timetables/t_tables_y_l.htm

2024 Y-L summer timetable: <https://cms.wightlink.co.uk/wp-content/uploads/2023/06/Lymington-Yarmouth-Timetable-March-November-2024.pdf>

¹⁷ 1998 WC-S summer timetable: 24 May 1998 – 27 September 1998.

<https://web.archive.org/web/19981205062911/http://www.redfunnel.co.uk/>

2024 WC-S summer timetable: from 23 March 2024. https://www.redfunnel.co.uk/sites/default/files/documents/red-jet-from-23mar24_0.pdf

¹⁸ 1998 WC-S winter timetable: year-round. <https://web.archive.org/web/19981205062911/http://www.redfunnel.co.uk/>

2024 WC-S winter timetable: 1 November 2023 to 27 March 2024. <https://www.redfunnel.co.uk/sites/default/files/documents/red-jet-01nov23-27mar24.pdf>

Car ferry sailings per day	1998	2024	
Summer¹⁹			
Monday	38	38	0%
Saturday	38	38	0%
Sunday	34	36	6%
Winter²⁰			
Monday	26	28	8%
Saturday	26	28	8%
Sunday	24	26	8%

Whilst Winter sailings have increased by 2 sailings per day, four Winter Monday-Friday sailings per day now have restricted capacity (03:00 and 04:30 from Southampton plus 01:30 and 04:30 from East Cowes). Previously, two sailings had restricted capacity (00:30 from Southampton and 01:45 from East Cowes).

Summer Monday-Friday sailings have mostly stayed the same, however, four Summer Monday-Friday sailings now have restricted capacity (03:00 and 05:00 from Southampton plus 01:30 and 04:30 from East Cowes). Previously, two sailings had restricted capacity (04:00 from Southampton and 05:30 from East Cowes).

5. Disruption to planned services

Disruption to planned cross-Solent services is regular and damaging quality of service.

Wightlink

A record of disruption to Wightlink services is available from Wightlink's travel updates on Twitter. As noted in my letter to Wightlink, Wightlink services were disrupted by technical, mechanical, maintenance or staff issues on 59 days in the two years to 14 April 2024; 17 days were disrupted due to mechanical issues; 15 days due to technical issues; 15 days due to staff shortages; and 12 days due to maintenance. This does not include disruption due to weather, operational issues or emergencies. This is likely to be an underestimate of the number of days disrupted, because Wightlink's daily travel updates on Twitter do not always record when revised timetables are in place.

Red Funnel

A similar record of disruption to services is available through Red Funnel's travel updates. I am currently collating this information.

¹⁹ 1998 EC-S summer timetable: 14 March 1998 – 31 December 1998.

<https://web.archive.org/web/19981205062911/http://www.redfunnel.co.uk/>

2024 EC-S summer timetable: 28 March 2024 – 4 November 2024. <https://www.redfunnel.co.uk/sites/default/files/documents/roro-28mar-04nov24-web-v2.pdf>

²⁰ 1998 EC-S winter timetable: 3 January 1998 to 13 March 1998.

<https://web.archive.org/web/19981205062911/http://www.redfunnel.co.uk/>

2024 EC-S winter timetable: 1 November 2023 – 27 March 2024. <https://www.redfunnel.co.uk/sites/default/files/documents/roro-01nov23-27mar24.pdf>

6. Debt and corporate structures

The offshore corporate structures of Wightlink and Red Funnel are complex and opaque.

Both Red Funnel and Wightlink both have operating margins of over 20 percent. The firms have stable market positions and reliable cashflows. Private investors and lenders have financialised these cashflows by purchasing the firms using debt and subsequently using operating profits to service this debt through offshore accounting structures.

The firms pay little to no corporation tax.

The financialisation of the market has led to outsized market valuations and debt levels compared to the firms' operating profits, the firms' tangible assets and capital investment in infrastructure. Debt levels in the cross-Solent market have increased.

This is neither in the interests of the Island nor the United Kingdom.

Wightlink

Wightlink has undergone six leveraged buyouts or restructurings since its privatisation in 1984.

In the year ending 2023, Wightlink had operating profits of £15,567,000 with fixed tangible assets of £85,740,000. Profits are stated after accounting for the costs of providing services, including depreciation of vessels.

Since 1999, Wightlink has declared operating profits in cash terms of over £267,000,000 after accounting for depreciation costs of new vessels, over three times the value of its fixed tangible assets (ie. infrastructure) in 2023.

Therefore, Wightlink is a profitable company with sufficient earnings to fund significant new capital investment in infrastructure. However, shareholders and lenders have instead withdrawn operating profits from the market and invested relatively little in infrastructure.

To fund leveraged buyouts, Wightlink has raised loan facilities of £175,000,000 and has amounts owed to related parties of £86,687,000, totalling £261,687,000. This is over sixteen times the value of Wightlink's 2023 operating profits. Since 2016 alone, parent company Arca Topco has declared interest payable totalling £117,550,000 (£55,395,000 to banks and £62,155,000 to group undertakings). Much of the latter was owed to Wightlink's ultimate beneficial shareholders.

However, as a measure of the owners' capital investment in Wightlink, the overall value of the company's infrastructure remains similar to 23 years ago. Between 2000 and 2023, Wightlink's fixed tangible assets (ie. infrastructure) increased by £29,929,000 in cash terms; in 2024 prices (CPI), the value of Wightlink's fixed tangible assets decreased by around £16,406,000. The vehicle capacity of Wightlink's fleet decreased; the number of passenger vessels decreased; and the speed of Wightlink's passenger fleet decreased.

In summation, whilst Wightlink makes sufficient profits to invest in growth, and the company has raised loan facilities of over £175,000,000, there has been little capital investment in the firm on top of the costs of depreciation. Depreciation is already included in Wightlink's operating costs. Loans have contributed little to capital investment in the business. Operating profits could have been used to invest in new infrastructure, service resilience and better quality services; but have instead largely

been used to pay lenders and shareholders who have made little capital investment in the business, but significant capital gains on short term sales to new investors.

Red Funnel

I am currently analysing Red Funnel's company accounts in order to provide a similar analysis of operating profits compared to capital investment in the business.

Red Funnel has undergone four leveraged buyouts since 1989. In the year ending 2022, it had operating profits of £7,009,000 and fixed tangible assets of £44,034,000. Profits are stated after accounting for the cost of providing services, including depreciation of vessels.

In the year ending 2020, Red Funnel's parent company, Red Funnel Holdings Limited, recorded £130,955,000 of secured bank loans and £288,319,000 of loans and borrowings in total (41 times its operating profits in 2022).

Red Funnel's finance expenses in 2023 included bank interest payable of £6,110,000; interest on finance leases of £1,165,000; interest expense on lease liabilities of £208,000 and finance expense on loans from shareholders of £12,624,000, totalling £20,107,000. This was significantly more than Red Funnel's operating profit of £7,009,000.

There has been minimal capital investment in the firm. The firm's car ferries have now been in operation for almost 30 years. Since 1999, the number of fast passenger vessels the company operates has decreased.

7. Fare inflation

In the 2000s, Wightlink and Red Funnel moved from a range of fixed fares to yield management pricing. Yield management pricing uses highly variable fares based on levels of demand.

For a car and one passenger, Wightlink's Fishbourne to Portsmouth summer economy period return fares for the week starting 20 May 2024 ranged from £75.00 for the two least expensive crossings, to £274.50 for the two most expensive crossings. This is equivalent to between £100 and £366 per hour of travel; or between £7.50 and £27.45 per kilometre.

The Isle of Wight is not self-sustaining and access to many essential public services requires travel to the mainland. A yield management pricing model should not be used for lifeline access to public services. A Road Equivalent Tariff is used for lifeline ferry services in Scotland.

Yield management pricing makes fare comparisons based on open source data difficult, as each fare differs. Measuring the average fare suggests that yield management may have not only increased the variability of fares but also hidden significant fare inflation since 1983 and since 2001.

Wightlink

Fishbourne to Portsmouth (One car plus one passenger)

Fare	Season	Real terms increase/decrease since 1983 (CPI)	Real terms increase/decrease since 2001 (CPI)
Day return ²¹	Week starting 20 May 2024	44%	5%
	Week starting 18 November 2024	16%	- 15%
Period return ²²	Week starting 20 May 2024	107%	32%
	Week starting 18 November 2024	64%	22%

Red Funnel

I am in the process of collating fare information for Red Funnel.

8. Acquisition prices

The OFT's 2009 report mostly ignored the issue of high acquisition prices and debt levels, commenting: "it would not be appropriate for us to seek further detailed information of this nature from the ferry operators in a first stage investigation", and "it is not for us to take a view as to whether debt and interest charges are unnecessarily high."²³ The report concluded: "it is too early to tell what repercussions there will be, if any, for service levels and fares in relation to current levels of debt."²⁴

This letter demonstrates that the interest burden from successive leveraged buyouts of the firms, as well as pressure to increase the valuations of the firms, has limited capital investment in infrastructure and degraded service standards.

Intervention in the Cross-Solent Market

I think these issues should be investigated either by your Department or the Competition and Markets Authority. I hope that we will be meeting in the next month. I look forward to discussing:

1. On what grounds would you support an inquiry?
2. What kind of inquiry could encompass the issues I have raised (including debt, fare inflation, and slower, less frequent services)?

²¹ [2024 Fare.] Booked 19 April 2024. Ticket prices measured on day of travel. Ticket prices measured for Fishbourne-Portsmouth and Portsmouth-Fishbourne. Average of 324 tickets (May) and 269 tickets (November). Economy fare. 1 Car/Van up to 5m (L) and 2.24m (H). 1 passenger. [2001 Fare.] Day return. Up to 01:30 hours next day. [1983 Fare.] Day return. One motorist. Up to 5.50m (L).

²² [2024 Fare.] Booked 19 April 2024. Returning 30 November 2024. Ticket prices measured between 18 November 2024 and 25 November 2024. Average of 261 tickets. Ticket prices measured for Fishbourne-Portsmouth and Portsmouth-Fishbourne. Economy fare. 1 Car/Van up to 5m (L) and 2.24m (H). 1 passenger. [2001 Fare.] Standard return. 90 days. 5 November until 31 December rate. Cars and motorised caravans. Including driver. Up to 6.0m (L). [1983 Fare.] Period return. One motorist. Up to 5.50m (L).

²³ https://webarchive.nationalarchives.gov.uk/ukgwa/20140402181519/https://oft.gov.uk/shared_oft/consultations/oft1135.pdf, p.100

²⁴ https://webarchive.nationalarchives.gov.uk/ukgwa/20140402181519/https://oft.gov.uk/shared_oft/consultations/oft1135.pdf, p.103

3. Would a DfT inquiry be wider in scope than a CMA enquiry?
4. What scope would the CMA enquiry have?

I believe the issues affecting the cross-Solent market should be addressed either by introducing greater competition to the market, or by regulating the market. The status quo, as I have shown, has allowed the owners of these firms to, in my opinion, abuse their power to the detriment of the Island and the Exchequer.

In regard to introducing competition, there are significant barriers to entry of a new vehicle ferry operator. These include the lack of available port facilities on the Isle of Wight. The Government could consider measures to reduce these barriers, such as fast-tracking a new ferry port.

In regard to regulating the market, my report into ferry services outlines several options for regulation. These include an independent Solent Ferries Regulator; regulation by your Department; price caps on healthcare-related travel; and voluntary codes of practice agreed upon by the Island and the ferry operators.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Bob Seely', with a horizontal line underneath it.

Dr Robert Seely MBE MP

- cc. Wendy Perera, Chief Executive, Isle of Wight Council
- cc. Christopher Garnett, Chair, Isle of Wight Transport Infrastructure Board
- cc. The Rt Hon Rishi Sunak, Prime Minister, First Lord of the Treasury, Minister for the Civil Service and Minister for the Union
- cc. Lord Davies of Gower, Parliamentary Under Secretary of State, Department for Transport
- cc. Corrie Driscoll, Special Adviser to the Secretary of State, Department for Transport
- cc. Megan Trethewey, Special Adviser to the Prime Minister, 10 Downing Street