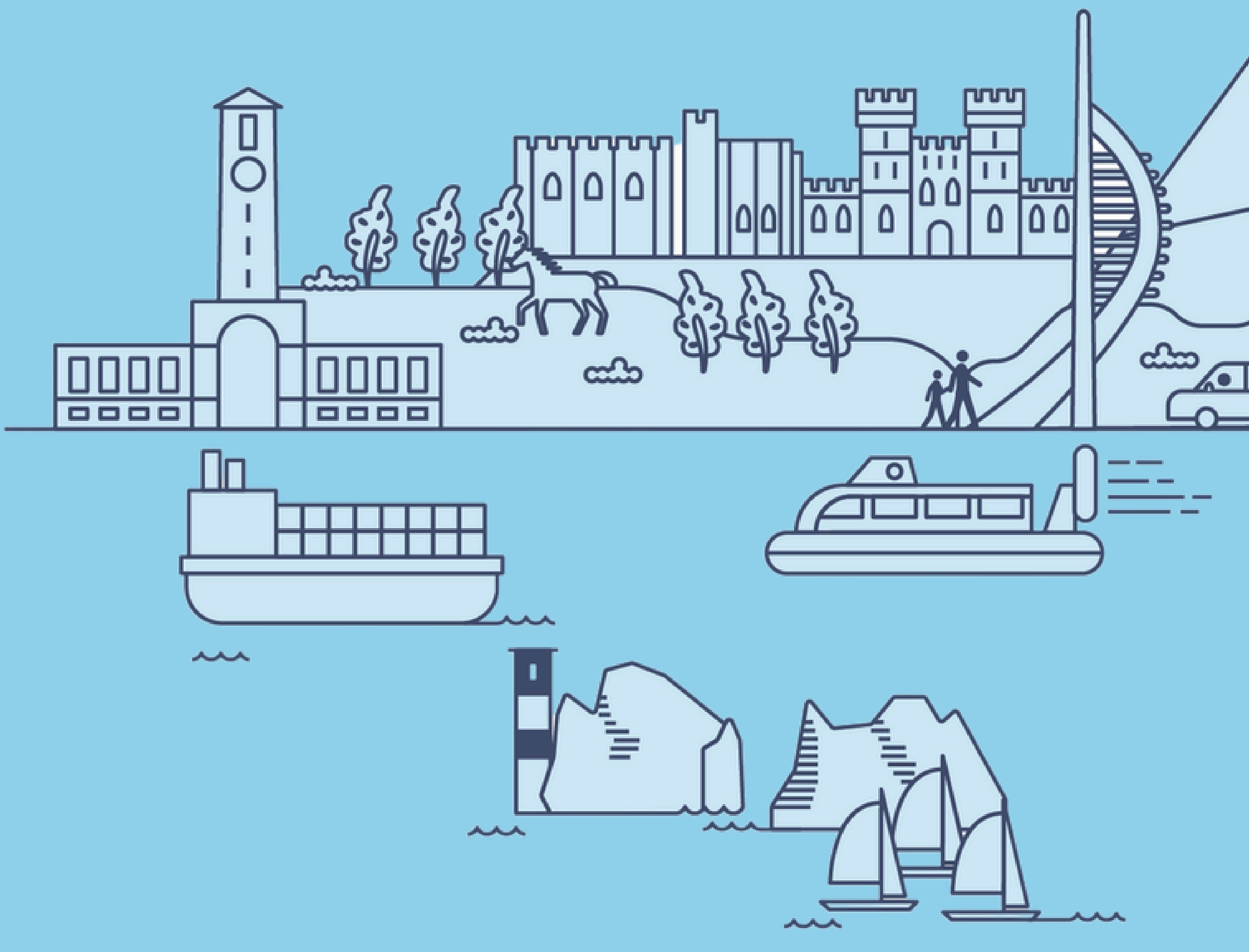
Solent Ferry Services

A principles-based economic assessment of current arrangements and discussion of future options

Dr Frank Eich
Economic**sense**



Transport for the South East Foreword

About TfSE

Transport for the South East (TfSE) is the sub-national transport body for the South East, giving the region a single, strategic voice on transport to support sustainable growth, better connectivity and improved quality of life.

TfSE's Transport Strategy sets out a vision to 2050 built around five missions: strategic connectivity; resilience; inclusion and integration; decarbonising transport; and sustainable growth. TfSE's Strategic Investment Plan (SIP) translates this into a pipeline of priorities to be invested in.

For the Isle of Wight, the SIP highlights the island's heavy reliance on privately-run ferry links. It proposes measures such as more frequent services, extended operating hours, new seasonal routes and better interchange with local rail and bus.

TfSE's Business Advisory Group identified the island's unique economic challenges, rooted in its dependence on the ferry network, and recommended an independent academic study. This led to the TfSE funding the Solent Ferry Services report, which examines the issues, compares the Isle of Wight with other island ferry models worldwide, and explores potential options for change.

The report applies key economic principles to explain how the current situation has developed before assessing alternative models and making recommendations. Although TfSE commissioned the report, the author had complete editorial control. TfSE has not expressed a view on the report's options. These are meant to build the evidence base to help partners come to a consensus on the way forward.

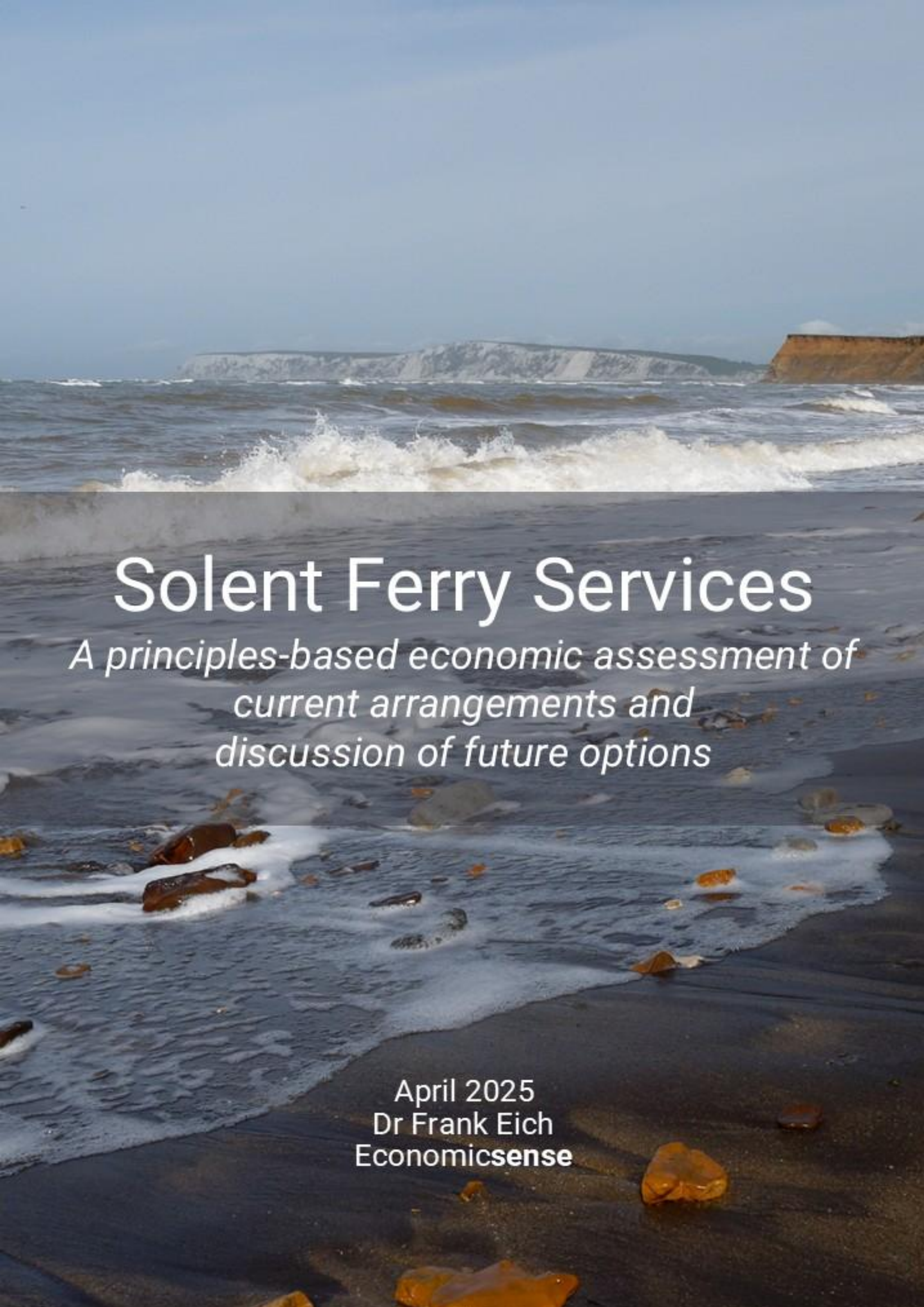
Key findings include:

- Ferry services should be recognised as a vital regional transport issue.
- Solent ferries are unusual compared with most UK and international services, which are usually regulated or publicly run.
- For residents, the ferry acts as a natural monopoly, meaning they have limited choices between providers.
- Government regulation is one option but given other priorities nationally, this is an area where local and regional leadership is required.

Some improvements would require additional funding, and an appropriate funding and financing model would need to be found.

Next Steps for TfSE

The report calls for further analysis to measure the impact of current arrangements, followed by consensus on the options and development of a clear 'road map' with milestones. TfSE will continue to support the Isle of Wight, and other partners, helping them to make the case for improvements. TfSE will support efforts to bring partners together to discuss the ferry issue, including the Department for Transport, local authorities and operators. In addition, our evidence base, analytical framework and Centre of Excellence will be available to the Hampshire and the Solent Mayoral Combined Authority, to help them to achieve their objectives.



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April 2025

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Commission

This report has been commissioned by Transport for the South East

Disclosure

Economicsense Ltd has no conflict of interest to disclose on the matter of transport between mainland England and the Isle of Wight

Weblinks

All weblinks validated on 31 March 2025

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Title page "Isle of Wight" by Frank Eich

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Key Takeaways

Economic Assessment of Current Arrangements
The Solent ferry services are an **outlier**; similar services nationally and internationally are provided by the **public sector** or **regulated**. There are good economic reasons why this is the case. These reasons also apply to the Solent services.
The Solent ferry services are **natural (localised) monopolies** with respect to island residents. This can lead to market failures, benefitting operators at the cost of consumers. This is why governments often provide or regulate such services to correct market failures.
The expectations set out in the Islanders' Charter are **reasonable for ensuring 'lifeline' services**. They could also help to support the important tourism sector. However, the charter has **no leverage** to commit future ferry operators to meet them.
Private equity does what private equity does. This is not the problem. The problem is that in the case of 'lifeline' services for the IoW, objectives are misaligned. Firms can pursue internal objectives at the cost of public policy objectives such as those in the Charter.
There are **currently no mechanisms to redress the misalignment**. There are no concessions or licenses, which could be revoked. There is no government regulation, which could address market failures. There is little scope to establish new competition. This provides a compelling case for change.
Discussion of Future Options
Westminster could regulate the ferry services but this is probably low on the political agenda given other challenges. Local and regional policymakers should consider **taking the initiative**.
Beyond providing 'lifeline' services and supporting the economy, there are **environmental factors** to consider. The IoW Council declared a **climate emergency** in 2019.
Local authorities can **borrow** from the government for capital projects. **UK-based pension schemes and insurers** are increasingly encouraged to invest in local economies.
The Solent ferry services should be seen as a **regional transport** issue. **Devolution**, if it were to happen, with the formation of a **Combined County Authority** could make a regional policy response possible.

What is the Issue? What does this report do?

This study looks at the transport services provided between the Isle of Wight (IoW) and mainland England. Currently, transport is provided by two larger privately-owned, unregulated ferry operators (Red Funnel and Wightlink) serving three distinct local markets (Cowes-Southampton, Fishbourne-Portsmouth and Yarmouth-Lymington) and one smaller, privately-owned, unregulated passenger-only operator (Hovertravel). The ferry services are the only means to travel to and from the IoW, thereby providing a 'lifeline' service to the island community.

Current transport arrangements have been criticised over many years for not serving the needs of IoW residents, holding back local businesses and undermining the attractiveness of the island as a tourist destination. In this context, critics of the current arrangements have questioned the operators' ownership structures and business models. To address these issues, IoW policymakers have collaborated to develop a charter setting out the key priorities for cross-Solent ferry services.

The Islanders' Charter for cross-Solent ferry services (2024)

The Charter argues that the current state of services is not fit for purpose. It argues that this is because of a lack of competition, the fact that the operations are unregulated and because the operators have prioritised short-term profits over long-term investment.

To address this, the charter establishes the three essential objectives for ferry operators and policymakers:

1. Accountability, reliability and service standards
2. Fair and transparent pricing
3. Investment in the island's future

Source: Island Charter

In 2009, the then Office of Fair Trading judged that "...*while we have reasonable grounds for suspecting that there exist features of the market that prevent, restrict or distort competition, there is limited evidence of actual consumer detriment*…"[1] Since then the market structure has not changed. The issue has been debated numerous times in the House of Commons and House of Lords. In 2021, Andrew Turner, former Conservative MP for the Isle of Wight, argued that "...*it is the island and islanders who are suffering from over-inflated prices and service cuts*…".[2]

[1] Isle of Wight Ferry Services Market Study (Office of Fair Trading, 2009)
[2] Solent ferry services (House of Lords Library, 2021)

In January 2025 Conservative MP for Isle of Wight East, Joe Robertson, raised the issue at Prime Minister's Questions, arguing that the provision of IoW ferry services was of growing concern to IoW residents who were faced with increasingly high costs and unreliable services.[3] According to some estimates, ferry fares increased by at least 80% between 2013 and 2023, more than twice as much as general inflation.[4] According to community groups, reliability has also deteriorated sharply, making it difficult to plan ahead and meet medical appointments for example.[5]

This study takes a principles-first approach to addressing the issues at hand. To do so, it starts by setting out some key economic concepts, which are useful to make "sense" of the issue. What does basic economics tell us about market structures and the causes of market failures? What role could a government play addressing these failures? And what role could transport play in fostering economic growth (Section 1)?

It then presents a range of possible options on how to establish a transport connection/service between the IoW and the mainland. In practice not all options would be feasible, for example for financial, environmental or contractual reasons. It discusses the broad pros and cons of the respective solutions. Turning to the case of the IoW ferry services, the study places the current arrangements within the range of possible options. Do current arrangements represent an extreme case or something more "middle-of-the-road"? (Section 2).

The study then looks at how similar ferry services are provided elsewhere. It finds that these services are generally state owned or regulated and argues that there are good economic reasons why this is the case. This makes the IoW ferry services an outlier (Section 3).

The study concludes by suggesting that the current arrangements warrant government intervention and that the Islanders' Charter establishes reasonable principles and expectations on how a 'lifeline' Solent ferry service should be run. However, the charter also lacks the leverage to commit future ferry operators to comply. The study then discusses options going forward and possible next steps (Section 4 and Annex A).

As part of the study interviews were conducted with stakeholders to provide a diverse range of views and insights. The interviews were used to inform the independent research and analysis conducted in this study and proved helpful in understanding the complexity of the issue. Annex B provides a summary of the interviews.

[3] https://www.joerobertson.co.uk/news/joe-robertson-mp-calls-government-action-isle-wight-ferries-pmqs
[4] IoW ferry fares skyrocket. The consumer price index increased by 32.5% between 2013 and 2023 according to the Bank of England's inflation calculator.
[5] https://www.wug.org.uk/anger-at-abysmal-and-extortionate-isle-of-wight-ferries-in-uk/

Section 1 What does economics tell us about markets and the role of government?

Interviews suggested that the current ferry market structure is disadvantaging IoW residents and holding back the island's growth potential. To understand the issues, this section sets out what economics tells us about market structures, market failures and what governments could do to address them. The section also discusses the role of government in supporting (regional) economic growth.

Market structure

Any market outcome, which is not perfectly competitive or at least "monopolistically competitive" can be seen as a market failure. Market failure can arise for a number of reasons, including barriers to entry, economies of scale, (limited) market size and network effects.

Market structure determines who benefits the most: firms or consumers

Perfect competition	**Imperfect competition**		
Perfect competition	Monopolistic competition	Oligopoly, duopoly	Monopolies
Many firms and many consumers, product/service homogenous, e.g. mobile phone cases	Many firms and many consumers, product/service similar but differentiated, e.g. restaurants	Few (two) sellers and many consumers, e.g. soft drink industry, Boeing and Airbus	One firm and many consumers, e.g. railway networks
Low barriers to entry, limited economies of scale	Low barrier to entry, limited economies of scale	High cost of entry and significant economies of scale. Market size cannot support many firms	Contestable monopolies Natural monopolies Monopolies arising from network effects (see box below)
Firms can make market return on capital, i.e. "normal" profits	The market power is (very) limited in the case of monopolistic competition, higher in the case of a duopoly or oligopoly and highest in case of a monopoly. Restaurants, for example, operate in an environment of monopolistic competition. While entry costs are low and economies of scale limited, different cuisines create some 'captive' market, leading to limited market power. The higher the market power, the more a firm can extract "economic rent" from its activities in excess of market return. This is at the detriment of the consumer.		
Consumer benefits the most	Not generally seen as a market failure but can lead to inefficiencies	Risk of collusion (cartels)	Consumer loses out the most
Social welfare is maximised. Incentives to innovate			Social welfare is minimised. Incentives to innovate not clear
		Government intervention justified	

Source: Economicsense.

The role of government in addressing market failures

Market failure can provide a rationale for government intervention.

Government intervention could take the form of bringing the market activities into the public sector. This can be particularly justified in the case of a natural monopoly, where market conditions such as barriers to entry make the monopoly ‘uncontestable'. Public utilities often are natural monopolies.

Monopolies can arise for a number of reasons

A firm might launch a new product or service. It can then enjoy a monopoly until other firms enter the market with similar products or services. This is called a contestable monopoly.

Contestable monopolies can be welfare enhancing as they might lead to innovation. As such, government regulation could aim to temporarily support a monopolistic market outcome, for example by offering patents.

Natural reasons such as very high barriers to entry and economies of scale support only one firm. These monopolies are not contestable.

Network effects allow one firm to dominate all others. While in theory contestable, in practice a network can enjoy monopolistic power as the value of the service increases with the number of users, creating a ‘winner-takes-all' situation. This is particularly prevalent in digital services, e.g. social media.

Source: Economicsense.

Government intervention could also take the form of regulation. Regulation could aim to protect consumers (in terms of prices and service provision) and the environment and ensure that the monopolist invests, for example in essential infrastructure.

In the case of duopolies or oligopolies, a government regulator could also ensure that there is no collusion between the firms, allowing for the maximum degree of competition possible. The government can also regulate monopolies, for example the delivery of electricity to households (but not the generation as this can take place in a competitive environment). The degree of government intervention ought to be higher the “more imperfect” the market.

The role of government in supporting growth

The Labour government, which entered office in mid-2024, has made growth its overarching objective for this parliamentary term. On a national level, economic growth has been held back by particularly weak productivity growth, so that average real incomes are hardly higher now than they were in 2004.[6]

[6] Average weekly earnings (ONS, 2025)

Moreover, economic growth has seen significant regional disparities over previous years and decades, with many regions falling further behind better performing regions.

The government can support economic growth in a number of ways, including by:

- investing in human capital through education;
- improving transport infrastructure to connect markets;
- encouraging private-sector investment;
- easing access to opportunities, for example in the labour market.

Doing so can reduce inequities and raise efficiency, thereby supporting growth. The previous government's Levelling Up agenda focused on these issues.[7]

The role of transport infrastructure in supporting national and regional growth is increasingly appreciated. In 2020, the National Infrastructure Commission, for example, argued that infrastructure (or the lack of it) can play a major role in the regional variations of economic outcomes.[8] In early-2025, POST, one of the UK parliament's research services, identified transport and infrastructure more generally, and their role in improving access to opportunities, as one of the key themes likely to be of importance to UK policy makers over coming years.[9]

Depending on which market they serve, the IoW ferry operators are either in competition or enjoying monopolistic positions

Turning to the case of the IoW ferry services, the degree of market imperfection depends on the market the ferry operators cater for. For tourists visiting the IoW from mainland England, the two car ferry operators are arguably in (duopolistic) competition as tourists will view the services as close substitutes.[10] Moreover, tourists have the option of not travelling to the IoW at all, further limiting the price setting powers of the ferry operators.

The two operators will also be in competition for frequent users such as the large retail stores on the island. Retailers such as supermarkets will be in a strong bargaining position vis-a-vis the ferry operators to extract attractive conditions.[11]

However, from the perspective of a representative island resident, the services will represent localised (natural) monopolies. Island residents will generally either want to go to Portsmouth,

[7] Levelling up the UK (UK Government, 2022)

[8] Growth across regions (National Infrastructure Commission, 2020).

[9] The role of transport in improving access to opportunities (UK Parliament, 2024)

[10] In practice this will depend on the quality of service delivery. The interviews highlighted that reliability issues are increasingly affecting one of the providers due to the age of the fleet.

[11] This will likely create its own problems as large retailers enjoy a cost advantage over smaller businesses, which cannot secure attractive conditions from the ferry operators. A discussion of these market distortions is outside the scope of this study.

Southampton or Lymington, so the services are distinct enough to significantly reduce the degree of competition that will take place.[12]

It is the latter that should be of most concern, as it is the island residents who rely on a 'lifeline' service and not the tourists. That said, the tourism sector is very important for the island's economy and any potential bottlenecks holding it back should be taken into account when considering the future provision of IoW ferry services.

[12] The markets are also distinct in terms of their respective price elasticities of demand, allowing the ferry operators to "cross subsidise" services. It is beyond the scope of this study to analyse this any further.

Section 2 What could a transport connection between the IoW and mainland look like?

This section presents a range of options, starting with those requiring significant government involvement before moving to those relying on the private sector only.

While in practice not all options will be viable - be it for financial, environmental or other reasons - the discussion will help to assess the current arrangement of the IoW ferry services in absolute terms and compared to other similar services provided elsewhere (Section 3). It will also allow us to assess the 'reasonableness' of the Islanders' Charter (Section 4).

Transport between the IoW and the mainland could be provided in many ways

From wholly-state owned and operated to free market provision

- Government funded and maintained fixed transport link
- State-owned and operated ferry services
- State-owned ferries and other fixed capital, with operator chosen through competitive tendering
- Ferries and other fixed capital are owned and operated by a private business. The operator needs to meet public-service obligations in return for receiving financial support from the government
- Ferries and other fixed capital are owned and operated by a private business. Government regulates the service as it is seen as essential and the private business considered to be a natural monopoly
- Privately owned ferries and other fixed capital, with the private sector operating the services without any constraints as provision is commercially viable.

Source: Economicsense.

Government funded and operated fixed transport link

The Isle of Wight is between 2-5 miles off the coast, with the shortest point only about a mile. Building a fixed transport link, either in the form of a tunnel or more likely a bridge, is therefore most likely a technical possibility.[13] Interviewees pointed out that there were proponents for such a fixed link.

Such a connection could be funded by the public sector (it would count as capital expenditure), enabling 24/7 access to the IoW. Access could be free of charge or require a toll payment, a common arrangement on English roads and bridges.[14] This option would have high fixed cost and very low operational cost, with the cost potentially spread across the whole of society, including over future generations if debt financed. In return there would be a long-term fixed link serving the island, which would just be a part of the UK's road network.

However, there would also be obvious issues, starting with the location of such a fixed link. For example, the shortest possible connection close to Yarmouth would probably not be particularly useful to the majority of IoW residents living in Newport or Ryde and would, in any case, connect to the New Forest on the mainland side, far from Southampton and Portsmouth. In the absence of major road infrastructure upgrading on both sides of the fixed link (likely impossible in the New Forest National Park), the welfare benefits to IoW residents would therefore be limited. Meanwhile, other locations might not be technically feasible at all.

In practice such a fixed link would probably not be viable given construction costs and likely other reasons such as environmental concerns. A feasibility study could be conducted but would probably be costly itself.

State-owned and operated ferry services

If a fixed link is too expensive or cannot be justified for other reasons, then state-owned and operated ferries are the closest other option.

In this case the state would own all required assets, including the vessels, the terminals, harbour infrastructure etc, and operate the services themselves. The ferry would be publicly-owned 'virtual infrastructure'. The state would have complete control over the service provided, including in terms of scheduling, pricing and delivery (e.g. electric vessels).

In economic terms this approach could be justified as it addresses the welfare losses arising from natural monopolies - a common theme in transport - and would also deal with equity issues, for example by making it easier for island residents to seek better employment opportunities or attend educational facilities on the mainland.

[13] There were plans to build a tunnel in the late 19th and early 20th century; [The Solent Tunnel (St Barbe Museum)]
[14] [Toll road charges (UK Government)]

This approach would also be costly to the government. That said, this type of provision is quite common, with many governments (be it on the local, regional or central level) considering it an essential public service to provide for their citizens (Section 3).

State-owned ferries and other capital, with operator chosen through competitive tendering

This is the first option where the private sector would play a role. The state would own the ferries and other capital but would choose a private operator to run the services for a number of years. The operator would be chosen through a competitive tendering process.

This option would acknowledge that the cost of the vessel and other capital represent significant barriers to entry, potentially leading to a natural monopoly. With this option the government could ensure that overall welfare is maximised.

This option exists if the operator can make enough money to provide the service without financial support from the government. The business with the most attractive offer, e.g. in terms of ticket prices and frequency of operations, would be awarded. At the end of the franchise period, a new competitive tendering process would be conducted to award a new contract. This would ensure that the operator can make a normal market return to capital but does not enjoy supernormal profits. In practice, this has proved difficult to achieve (see below).

A variant would be for the state to own the terminals and other harbour infrastructure and tendering the operations to a private business who would have to provide the vessel. In a sense this would be the same as the government owning the roads and tendering bus services or owning the rail network and tendering train services. In the case of buses and trains, service operators generally lease their buses and trains from rolling stock leasing companies rather than owning the equipment themselves. Given the limited duration of awarded franchises (generally less than ten years), it makes little business sense to own the assets, which can be used for several decades, as well.

It is worth noting that the Labour government has announced to return train operators into the public hand by 2028. By that stage, both the costly infrastructure (Network Rail) representing a natural monopoly and the operators would be back in the public sector. It is currently planned that the existing leasing structure would be maintained despite the additional costs involved. The government has argued that current arrangements have not delivered the expected benefits, justifying a return of operations to the public sector.[15]

From an economic point of view, the government's decision is not surprising as there was never perfect competition between train operators, with every franchise representing a time-limited local monopoly. Competition only occurred at the tendering stage, with failure to meet agreed standards during franchise periods requiring the government to step in numerous times.[16]

[15] Getting Britain Moving (Labour Party, 2024)
[16] The East Coast franchise debacle (Robert Jupe, LSE, 2018)

Once the operations have been nationalised, it would eventually make sense to bring the rolling stock back into the public sector as well but this is not yet official government policy.

Ferries and other fixed capital are owned and operated by a private business. The operator needs to meet public service obligations in return for receiving financial support from the government

Under this option the vessels and other fixed capital are owned and operated by a private business. However, without government financial support, operating the service would not be financially viable. This could be because the markets to be served are too small to cover the significant fixed costs of running a regular service.

In return for providing financial support (which can be seen as the monetary equivalent to providing the vessels and perhaps even the harbour infrastructure themselves), the government would expect the operator to meet agreed public service obligations.[17]

Ferries and other fixed capital are owned and operated by a private business. The government regulates the service as it is seen as essential and the private business considered to be a natural monopoly

The ferry service is commercially viable, with the served market large enough to finance the capital and operational costs. However, given significant fixed costs and possibly economies of scale, only one operator is viable. The government regulates this natural monopoly, ensuring that the economic rent is shared with the consumer.

Many public utilities in the UK operate in this regulatory environment as they represent regional monopolies (e.g. water, gas, electricity). The outcomes will crucially depend on the quality of the public regulator overseeing the service. There are well-publicised cases where regulation has not achieved what it was set out to do, with private businesses minimising essential long-term investment to extract the maximum short-term benefit. With the service considered to be essential, the risk of failure ultimately sits with the government and hence the taxpayer.

Privately owned ferries and other fixed capital, with the private sector operating the services without any constraints as provision is commercially viable

As above, but this time there is no government regulation, so the private business can extract the maximum possible economic rent from the activity at the cost of the customer and other stakeholders. The government would again be exposed to the risk of failure.

The current IoW ferry services sit at one end of the range of options

This section discussed a range of options on how to establish and operate a transport connection between the IoW and the mainland. The options vary in terms of government and private-sector involvement.

[17] For the government the main difference is that purchasing the vessel would be capital expenditure, while ongoing financial support would be current expenditure. Whether that makes any difference in reality will depend on the government's fiscal rules.

The provision of Isle of Wight ferry services sits at one end of this range of options, with private businesses owning the vessels and other fixed capital and operating the services themselves without any constraints or support from the government.

Section 3 The Isle of Wight ferry services provision is an outlier

How are ferry services provided elsewhere?

How do the IoW ferry services compare with those provided elsewhere? Looking at these other services is instructive as they all ultimately try to do the same (i.e. connect locations which cannot be reached by road or rail transport) and need to strike a balance between, among other things, equity, cost and efficiency.

Island ferry services

Scotland

Domestically, the provision of ferry services in Scotland provides useful insights.

Transport Scotland, the national transport agency for Scotland, provides numerous ferry services, including in the Clyde and Hebrides and to Orkney and Shetland.

Since 2006 and as a result of EU competition legislation, the ownership of the ferries, ports and harbours and infrastructure necessary for the provision of ferry services and the operation of ferry services has been split. Caledonian Maritime Assets Ltd,[18] wholly owned by the Scottish government, owns the assets, while CalMac Ferries Ltd,[19] which is ultimately also wholly owned by the Scottish government, operates the services.

CalMac Ferries Ltd was awarded the contract to provide services under Clyde and Hebrides Ferry Service following an open tendering process in 2007 and has managed to keep the contract until now.[20] In 2023 the Scottish government announced that it would prefer to award CalMac Ferries directly rather than go through an open tendering process; an option available again since the UK's departure from the EU. In July 2024 CalMac published its Enhancement and Change Plan, in which it sets out how it intends to improve service delivery and address customer and stakeholder concerns.[21]

In September 2024 the existing contract was extended for a further 12 months while the government was exploring the direct award option further.[22]

It is clear that the Scottish government has taken a completely different approach to delivering island ferry services than that provided on the IoW. The Scottish government owns the assets and operates the services, giving it, in principle, complete control and accountability over all aspects of the services provided.

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18 Caledonian Maritime Assets
19 Our history (Caledonian Maritime Assets)
20 Contest narrows for CalMac routes (BBC, 2005)
21 Enhancement and Change Plan (Calmac)
22 Meeting of the Parliament (The Scottish Parliament, September 2024)

As discussed in Section 2, natural monopolies arise when high fixed costs and economies of scale make it difficult for a challenger to enter the market. In principle, state ownership of the assets, including the vessels themselves, helps to address this issue but might still not be enough to create a truly competitive market. This is because the ferry routes serve distinct regional markets, which are too small to support more than one operator. Hence the Scottish government's decision to award the services operation to one provider only.

Internationally, there are insightful examples from British Columbia, Denmark and Northern Germany. Other examples will exist.

British Columbia/Canada

Ferry services are provided by BCFerries along the coast of British Columbia in Canada. BCFerries is organised as a private company with the Government of British Columbia the sole shareholder. BCFerries is required to provide agreed service levels on essential routes linking the mainland, coastal islands and parts of the mainland that cannot be reached by road. The service is subsidised by a federal government grant,[23] with the provincial government providing further funding to modernise the fleet and keep ticket prices low.[24][25]

In 2023 the Government of British Columbia signed a contribution agreement with BCFerries, stating:

"A. Safe and affordable public transportation supporting businesses and communities and the orderly movement of people and goods that rely on BC Ferries are shared priorities of BC Ferries and the Province…

C. The purpose of the funding in this Agreement is to help safeguard affordability of BC Ferries fares for all ferry users during performance term six beginning on April 1, 2024 and ending on March 31, 2028.

D. The Province has set a goal of limiting the average annual fare increase to 3% for BC Ferries during performance term six. E. The Province will provide BC Ferries with a Total Contribution of $500 million over the term of this Agreement to support achieving the Fare Affordability Initiative and GreenHouse Gas Emission Reduction Initiative (together, the "Initiatives" and singly an "Initiative")..."[26]

Danish islands

Denmark has a highly-developed network of ferry services connecting its islands domestically and internationally to Germany and Sweden. Relevant to the discussion here are the domestic ferry services connecting the islands.

[23] Update Evaluation (Transport Canada, 2023)
[24] B.C. invests in affordability of safe, reliable coastal ferry service (Government of British Columbia, 2023)
[25] Coastal Ferry Services Contract (Government of British Columbia, 2024)
[26] Contribution agreement (Government of British Columbia, 2023)

Most domestic ferry operations are decentralised, allowing individual municipalities to adapt services to local needs. As a result, the majority of municipally operated domestic ferry services are run by ferry companies owned by the respective municipalities.

Complementing these are three publicly-run ferry services on so-called socially necessary ferry routes. These are currently operated under 10-year contracts between the Ministry of Transport and the Molslinjen, a private business. During the tendering process, the Ministry of Transport establishes the general requirements that potential bidders for a given route must meet. These requirements cover a broad range of aspects, including ticket pricing, service frequency, ferry specifications, including capacity and fuel type. The state provides an annual subsidy to run these services.[27]

Other parts of the domestic ferry network, where operations are economically viable, are run on a fully commercial basis. These routes are not subject to specific service obligations regarding pricing, frequency, capacity, or other operational factors. One such example is Denmark's busiest domestic ferry route in terms of passenger numbers, Aarhus–Sjællands Odde, which is also operated by the Molslinjen. Importantly though, the ferry service is not the only way to get from Aarhus–Sjællands Odde as there is a road connection as well. However, using this particular service helps to save time.

The Frisian islands along the Dutch and German North Sea coast

The Frisian islands form an archipelago in the Dutch/German Wadden Sea. For more than a century the German islands have been serviced by one private operator: Frisia.[28] The service is unregulated, making it similar to the IoW ferry services.

However, there is a key difference: the terminals and harbour infrastructure are owned by another private business: Niedersachsen Ports.[29]

[27] Ferry contract (Danish Ministry of Transport, 2024)
[28] Reederei Frisia
[29] Niedersachsen Ports

<u>The terminals and harbour infrastructure are not owned by the ferry operators themselves</u>

Source: Niedersachsen Ports

This allows for competition as it significantly reduces the barrier to entry. Since mid-2024 a new company called Meine Fähre (My Ferry), owned and operated by a consortium of hotels and an island-based foundation, has been offering services between the mainland and the island of Norderney using the existing harbour infrastructure.[30]

The new entrant does not want to compete on price (it charges ~5% less than the incumbent) but instead wants to offer a better service. A key motivation is to offer more crossings in the morning and evening, not least so that staff working in the island's tourism sector can return home on the mainland in the evening. According to the new entrant, in the past the last ferry service was often at 6pm; too early for workers returning home. As such the new entrant aims to complement rather than compete directly with the incumbent.

Integrated urban transport solutions

Ferry services are often also integrated into urban or regional transport networks. In Oslo, for example, Ruter, the public transport company, serves an extensive network of commuter ferries from the centre of town across the Inner Oslo Fjord. Commuter ferries are treated the same way as buses and trams, with one ticket covering all modes of transport. Many of the routes are significantly longer (in distance and time) than the Solent ferry services. The ferries are owned and operated by Ruter.

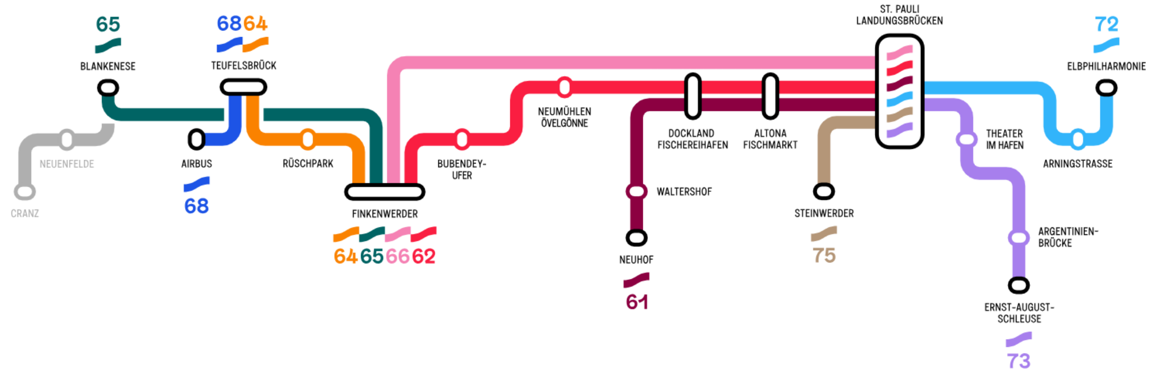
[30] Meine Faehre

Oslo urban ferry services

Source: [Ruter Oslo Urban Transport]()

Similarly, ferry transport is integrated into the public transport network in Hamburg, with ten ferry lines provided by HADAG (Harbour and Shipping Company) serving commuters along the Elbe River. Tickets are the same as for buses and urban railway services, ensuring that commuters can easily change between different modes of transport. The ferries are owned and operated by HVV, the public Hamburg urban transport agency. HADAG was integrated into the Hamburg urban transport system in 1918.

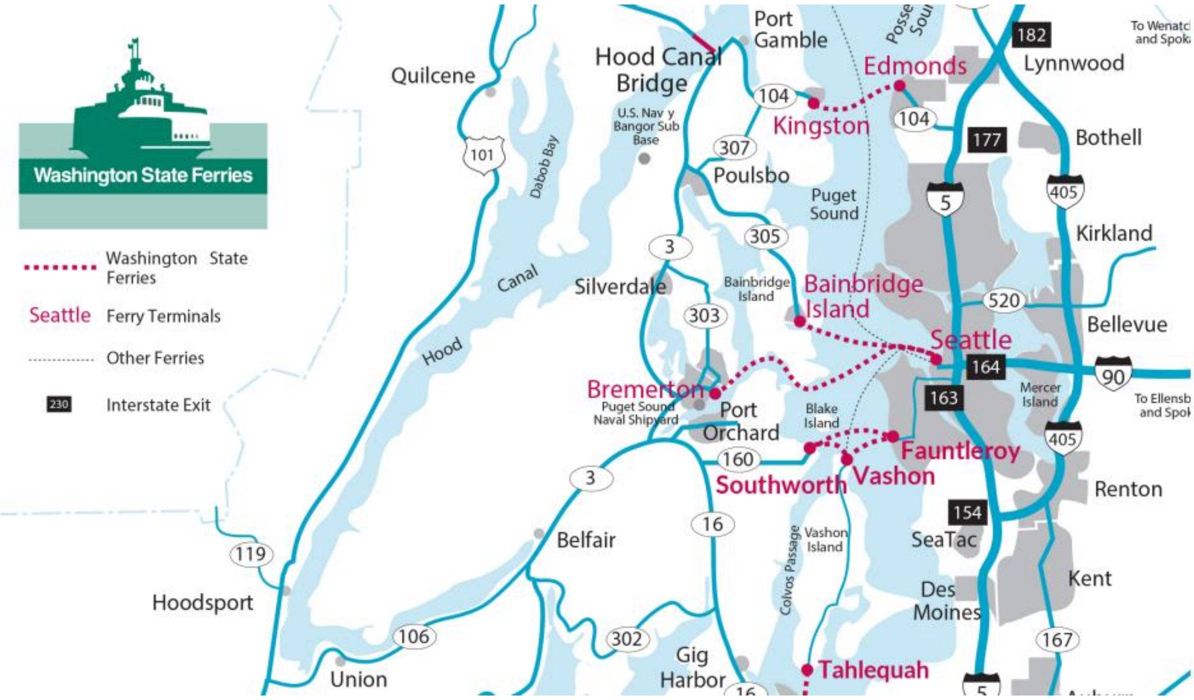
Hamburg urban ferry services



Source: HADAG Hamburg

A similar commuter service is provided by Washington State Ferries (WSF), the Washington State Department of Transportation's public operator, on the Seattle - Bainbridge Island route. The ferry takes about 35 mins, is free for those aged 18 and under and costs $10.25 (~£8) for a return ticket for people of working age. Prices are half that for those 65 years and over. WSF is currently planning to rebuild existing ferries to hybrid-electric power by 2040.

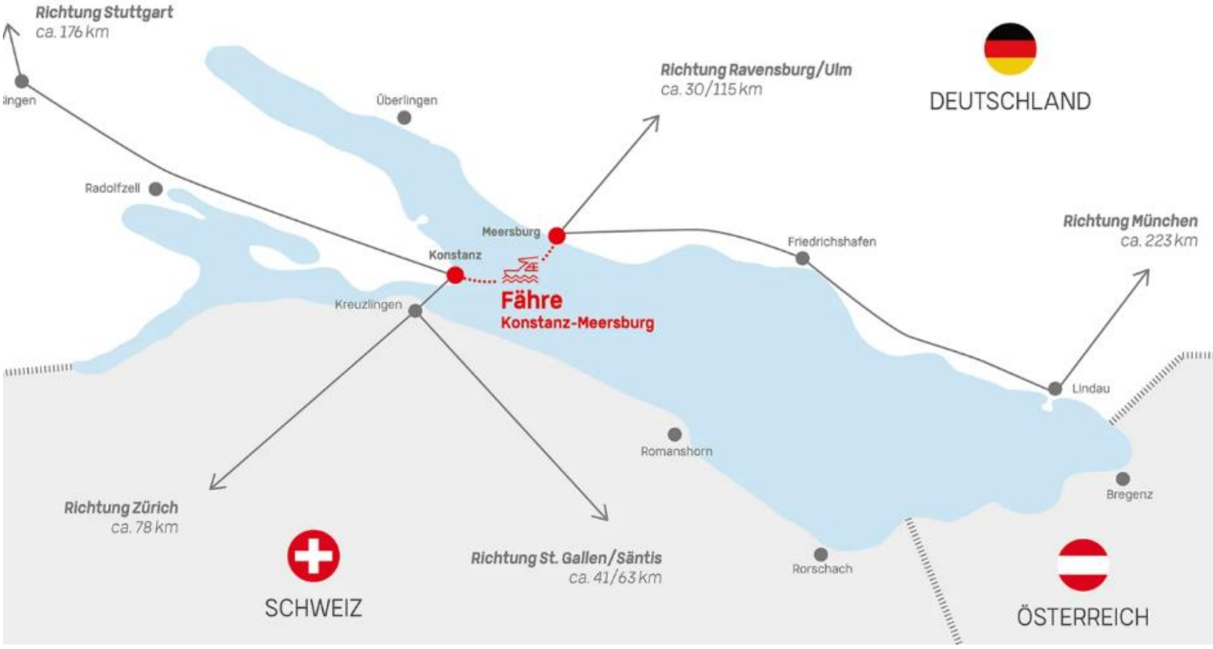
Seattle commuter ferry services



Source: Washington State Ferries Route Map

Another example is the Konstanz-Meersburg shuttle ferry on Lake Constance in Southern Germany on the Swiss border. The ferry service is owned by Stadtwerke Konstanz, the region's public utilities provider offering electricity, water, bus and ferry services. The ferry operates 24/7/365, leaving four times an hour. An adult return ticket is €7.30 (~£6.50), combined bus-ferry tickets can be bought, including on a monthly and annual basis. Using the ferry avoids a 60km detour by road. By connecting the northern and southern shores of Lake Constance, the ferry service helps support a regional economy spanning southern Germany, northern Switzerland and western Austria. In 2023 the first electric ferry was launched.

Lake Constance ferry plays crucial role in cross-border economic activity



Source: Konstanz Meersburg Ferry

The Woolwich ferry is another example of a ferry service integrated into a wider urban transport system; this time Transport for London (TfL).[31] Unusually, the ferry is free.

The Thames Clippers service, operated by Uber Boat, is also integrated into the TfL network, with TfL Travelcard users receiving a 33% discount on normal prices.[32] Unlike in some other urban transport systems, the service is not included in the normal travelcard. TfL owns and manages the piers and awards licenses for river passenger services. In principle, this would allow for competition on these routes.

[31] Woolwich Ferry (Transport for London)
[32] Thames Clipper

<u>Transport for London Travelcard holders benefit from discounts on Thames Clippers services</u>

Source: [Thames Clipper]

Section 3 showed that the provision of IoW ferry services is an outlier: similar ferry services nationally and internationally are generally either state owned or regulated. As discussed in Section 2, there are good economic reasons why services elsewhere are provided differently. These economic reasons also apply to the Solent services and provide a rationale for change.

Section 4 A discussion of future options: taking ownership

This section brings together the evidence from Sections 1 to 3 and then presents some ideas for consideration on how to take the issue forward.

For island residents, the ferry services are localised natural monopolies, allowing the operators to extract the maximum economic rent from their activities

This study shows that from the point of view of a representative island resident, the current IoW ferry services have all the hallmarks of localised natural monopolies. Economic theory tells us what that means for the operators and for the consumer.

In a natural monopoly the producer (here the ferry operators) can potentially extract the maximum economic rent from the activity at the cost of the consumer. While the consumer is still better off than not having the service at all, overall welfare is generally not maximised. The fact that the natural monopoly is not regulated and not time limited means that the ferry operators could in principle extract the maximum benefit from parts of the market for as long as it pleases.

These theoretical conclusions seem to be borne out by the IoW ferry services. For example, Red Funnel was sold for £71m in 2001, £200m in 2007 and £370m in 2017, suggesting that successive owners expected strong returns from a captive market.[33] Moreover, it has been suggested that the ferry operators managed to sustain operating margins well in excess of normal market returns over extended periods of time.[34]

Economic theory and arrangements elsewhere point to government intervention

There are strong and well-established economic reasons why natural monopolies are often government owned or at least heavily regulated (Section 1). While the study is not exhaustive, it unsurprisingly shows that similar services elsewhere are generally either provided by the public sector (e.g. local municipalities) or are regulated. It is probably safe to say that the current IoW ferry arrangement is uncommon and represents an “extreme” on the spectrum of potential options (Sections 2 and 3).

The Islanders’ Charter is to be welcomed but has little leverage over future ferry operators to behave any differently to the current owners

What the Islanders’ Charter wants to see from future ferry operators is therefore reasonable for a ‘lifeline’ service. To put it differently: it is asking for something others would generally take for granted.

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[33] Bob Seely Delivering better ferry services
[34] ibid.

As discussed, theory would suggest that current arrangements benefit the operators at the detriment of the islanders. Interviewees have suggested that this can, for example, explain the deterioration in service quality over recent years. However, criticising operators for taking advantage of this situation criticises a symptom, not the underlying problem. Other businesses in the same position would have probably done the same. The problems lie elsewhere.

A key issue is that given current arrangements, there appears to be no mechanism to redress this issue. There are no concessions or licenses, which could be revoked. There is no government regulation, which could address market failures. There is little scope to establish new competition.

Local authorities and local interest groups can appeal to the "social conscience" of the operators but shareholder pressure will offer limited scope for the operator to meet expectations. While a new investor in one of the two larger operators might acknowledge the charter, it is by no means certain that they would feel obliged to adhere to it in the future at the cost of future investor returns.

Central government could help address the market failures

What is needed is some leverage to create a more level playing field between operators and consumers. IoW policymakers might want to wait for the UK government to do so but might also want to consider taking the initiative themselves.

Government could help in a number of ways.

First, it could regulate the ferry services. This would require a parliamentary amendment, which one interviewee thought could happen under this government. While possible, it is not clear that this is a priority for the government given all the other challenges it currently deals with. Moreover, previous governments have not seen the need for such regulation. This study shows that such a need might exist: while the IoW is big enough to support commercially viable private services, it is too small to support a truly competitive environment.

Second, it could create leverage by imposing stringent environmental standards on ferry operators. This could be a requirement to switch from fossil fuel to hybrid or fully electric powered vessels over coming years. Meeting the government's carbon budgets will require the electrification of all types of transport. The government plans to include maritime emissions in the UK Emissions Trading Scheme from 2026 onwards. However, higher operating costs would most likely be passed on to the consumer.[35] A ban on fossil fuel-powered vessels would be an even stronger signal and would be in line with the government's plan to ban the sale of new vehicles with internal combustion engines next decade.

As discussed in Section 2, publicly-owned ferry operators elsewhere are moving in that direction. The government could offer to contribute financially to the acquisition of new

[35] UK Emissions Trading Scheme Scope Expansion Maritime (UK Government, 2025)

electric vessels in return for the operators to agree to certain service conditions, e.g. on ticket pricing and schedules. Operators might agree to that but would still be able to benefit from the unchanged market structure.[36,37]

Contracting "socially necessary" ferry services in Denmark

The Danish Ministry of Transport is responsible for "socially necessary" ferry routes. One of these services operates between Bøjden and Fynshav. In 2023 the Danish government signed a ten-year contract with private-sector Molslinjen A/S to operate the service until 2034. In return for meeting certain conditions, the operator receives an annual subsidy from the government.

Among other things, the contract specifies the use of a newly built electrically powered ferry offering good access for disabled and walking-impaired passengers. Moreover, the contract requires fare prices not to exceed a certain level set by the government and that the operator offers discounts for children, pensioners and other groups. The government also continuously monitors the operation's punctuality and traffic volume.

Source: Danish Ministry of Transport

IoW policymakers might want to take the initiative themselves

How important is the issue?

IoW policymakers might want to consider taking the initiative themselves to meet the needs of the island community.

If there is a consensus that the existing ferry services are holding back the island and that this could get even worse in the future, then perhaps the IoW Council should make it a policy priority to intervene. Some interviewees suggested that there are diverse views on this.[38]

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[36] Moreover, if the conditions attached are too stringent, e.g. in terms of foregone earnings, external market-based funding would become relatively more attractive. The scope to impose stringent conditions would therefore be ultimately limited by the outside funding options available to the operators.

[37] Neither regulation nor state ownership are without their challenges. As mentioned in Section 2, the Labour government has announced plans to move the regulated train operators into the public sector by 2028. In October 2024 the government asked Sir Jon Cunliffe, former Deputy Governor of the Bank of England, to lead the new Independent Water Commission. The commission was set up to restore confidence in the crisis-hit water sector by establishing a modernised and streamlined regulatory framework. Meanwhile, public-sector operators are often considered to be less efficient than their private-sector counterparts. The case studies presented in Section 3 suggest that regulation or state ownership are nonetheless considered to be superior to unregulated private-sector monopolistic provision.

[38] It would require a survey to establish *how* diverse these views are. It is reasonable to assume though that there are many views as the IoW population is not homogenous. For example, there will be residents who rely on reliable and affordable ferry services to go to work, while there will be others who move to the island after retirement specifically because of its particular geography.

Local governments can take advantage of financial instruments to fund capital projects

For example, the IoW council could consider the possibility of raising funds from the Debt Management Office's Public Work Loan Board facility to take over the Red Funnel operations and finance the purchase of new, environmentally friendly vessels.[39] This borrowing is mainly for capital projects. Doing so could meet the needs of residents, realise the island's growth potential and contribute to meeting climate change targets. The IoW Council declared a climate emergency in 2019.

Whether this is realistic or indeed desirable would have to be established in another study.[40] An alternative could be for the council to acquire the port infrastructure/terminals. This would put it in a much stronger position in the future, e.g. it could encourage competition. This would then be an arrangement similar to that in the North Friesian islands (Section 3). An investment appraisal could shed light on the value proposition.

Nationalisation of ferry services would not be unprecedented. For example, in 2018 the Isle of Man government purchased the island's main ferry operator, Isle of Man Steam Packet Company, from a foreign bank for £124.3m.[41]

Local government pension funds or bulk annuity providers to the rescue?

The Council could also consider collaborating with long-term institutional investors, including local government pension schemes (LGPS).[42]

Local authorities and LGPS (directly or pooled) routinely invest in their local economies and are indeed increasingly encouraged to do so by the government.[43]

To quote the government: "*...The LGPS already invests approximately 30% of its assets in the UK, as part of its duty to invest to pay pensions. The government believes that as an institutional investor the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in local communities. Many [administering authorities] have already deeply embedded these wider considerations into their investments. It is in the interest of the 6.7 million hard-working LGPS members that LGPS investments support the prosperity and wellbeing of their local communities… LGPS investments can both pay pensions and unlock growth in local communities…There are other aims which [administrative authorities] may wish to pursue, including boosting UK economic growth and taking into account other environmental, social and governance (ESG) issues. These may contribute to the government's key missions*

[39] Local Authority Lending (DMO)

[40] It is outside the scope of this study to assess whether the IoW council would have the capacity to run the ferry services.

[41] Steam Packet Company

[42] https://www.accesspool.org/

[43] Invest 2035: The UK's Modern Industrial Strategy (Local Government Association, 2024)

including making Britain a clean energy superpower and accelerating to net zero is one of the key missions of the government…"[44]

Specialised insurers operating in the bulk annuity ("pension buy-out") market are similarly engaged in investing in the UK economy.[45]

Annex A discusses these issues in more detail.

Devolution might make it possible to put the Solent ferry services into a regional context

In-between a national solution involving Westminster and a local solution involving the IoW Council could be a regional solution. This could be the appropriate level of intervention as the Solent ferry services are arguably neither local nor national transport infrastructure.

From local to regional to national transport infrastructure

The appropriate level of state intervention depends on the type of transport infrastructure in question.

Local roads or the Cowes floating bridge are examples of local transport infrastructure, generally maintained and operated by local authorities.

The major strategic road network in England, comprising motorways and some A roads, and the East Coast Mainline are examples of national transport infrastructure. National Highways, a government-owned company, looks after the strategic road network.

The Solent ferry services arguably fall somewhere in the middle.

The National Infrastructure and Service Transformation Authority (NISTA) combines the former functions of the National Infrastructure Commission and Infrastructure and Projects Authority. NISTA will bring oversight of strategy and delivery into one organisation, driving more effective delivery of infrastructure across the country. NISTA was announced by the Labour government in October 2024.

Sources: https://nationalhighways.co.uk/; https://nic.org.uk/ New body to "get a grip" on infrastructure delays (HM Government, 2024)

Source: Economicsense.

This might be feasible should a Combined County Authority comprising Hampshire County Council, Isle of Wight Council, Portsmouth City Council and Southampton City Council be established, as is currently being proposed by the government.[46]

Rather than viewing the IoW ferry services as a local issue only affecting the IoW, a regional approach could consider the services as an integral part of a wider regional transport network

[44] Local Government Pension Scheme: Fit for the future (UK Government, 2024)
[45] Purposeful Finance Commission
[46] Hampshire and the Solent devolution consultation

just like Inner Oslo Fjord, for example, is part of the Oslo commuter belt (Section 3). In essence, this could make Ryde and Newport, the two largest towns on the island, suburbs of Portsmouth.

A Combined County Authority would also most probably have the financial means to address the issues, including the ability to secure significant DMO loans to fund capital projects. If the ferry services are seen to be crucial to the island's future, then the case for a Combined County Authority must be strong from the IoW's perspective.

This goes beyond the recommendations set out in a recent strategic investment plan prepared for Transport for the South East.[47]

Local impacts: Winners and losers

Proponents of improved ferry services (e.g. in terms of cost, reliability and frequency) should also be aware of potential unintended consequences. The regional economics literature suggests that improving transport links between an economic centre (e.g. in this case Portsmouth) and an economic periphery (e.g. in this case Ryde) does not necessarily offer only advantages to the latter. This is because the residents of the periphery are much more likely to travel to the centre for shopping, entertainment etc and take their purchasing power there. Improved transport links to an economic centre reduces the market power of local businesses as they lose their "captive" market. So while consumers are likely to benefit, businesses, and in particular those that sell nonessentials, are likely to lose out in light of new competition.

Moreover, better transport connections providing better employment opportunities would make the IoW a more desirable place to live, which would probably be reflected in higher house prices. Some would benefit, others not.

Concluding comments and next steps

This study took a principles-first approach. It used fundamental economic concepts to analyse how ferry services between the IoW and the mainland are delivered.

It found that the services have characteristics of natural monopolies with respect to residents, which are attractive for the operators but not the consumer. The study provided theoretical and empirical arguments for government intervention and set out the characteristics of a suitable long-term investor.

[47] A recent study conducted by Steer Group for Transport for the South East developed a number of "packages of interventions" for the South East. With respect to Isle of Wight connections, it recommends "...*The first area focuses on improving the quality, connectivity and frequency of ferry crossings through extending hours of operation, opening new routes and subsidising ferry fares…*" The strategic plan does not set out how this could be achieved under current arrangements. See [A Strategic Investment Plan for the South East (TSE, 2023)]

This should provide a solid foundation on which to progress. As a next step, further analysis could examine the level of consumer harm experienced by island residents as a result of current transport arrangements. It would then be important to seek consensus on the options presented in this study. Once a consensus has been established, a roadmap with milestones could be developed. This roadmap would have to take into account the potential winners and losers from any of the actions taken and the wider impact on the Isle of Wight's economic prospects.

The Isle of Wight is not alone facing transport challenges. The role of transport is of national importance. In January 2025, experts advising the government "...*identified the role the transport system plays in regional economic growth and productivity, access to employment and skills, and the disparities in access for different groups, as relevant to parliament over the next five years…*"[48]

Against this, it seems an opportune time to consider all the options available, not least with the possible formation of a Combined County Authority including the IoW.

[48] The role of transport in improving access to opportunities (UK Parliament, 2025)

Annex A Who owns public utilities and who might want to invest in the IoW ferry services?

Public utilities have traditionally been owned and operated by the state. Public utilities include water, electricity, sewage, communications and many parts of the transport system. The reason why they have been owned and operated by the state is that they are often natural monopolies characterised by very high fixed costs (making it difficult for a new competitor to enter the market) and generally substantial economies of scale, giving a larger business a competitive advantage over a smaller business.

Beginning in the 1980s many public utilities were privatised, with the government's role changing from owning and operating to regulating the activities. In some sectors this was made possible by technological progress, which changed the market characteristics (i.e. lower fixed costs in the telecommunications sector), in others such as water and transport such as the railways it mainly reflected changing political preferences.

The political pendulum is now swinging back, with the government planning to take train operations back into the public sector by 2028. With Network Rail already in public hands, this will mean that train services will be delivered by state-owned enterprises again in the future. For the time being, only the leasing companies will remain in the private sector but this is likely to change in the future too.

Liability-driven investment strategies favour regulated utilities

Utilities, including regulated utilities, share common characteristics, which make them particularly attractive to certain types of investors.

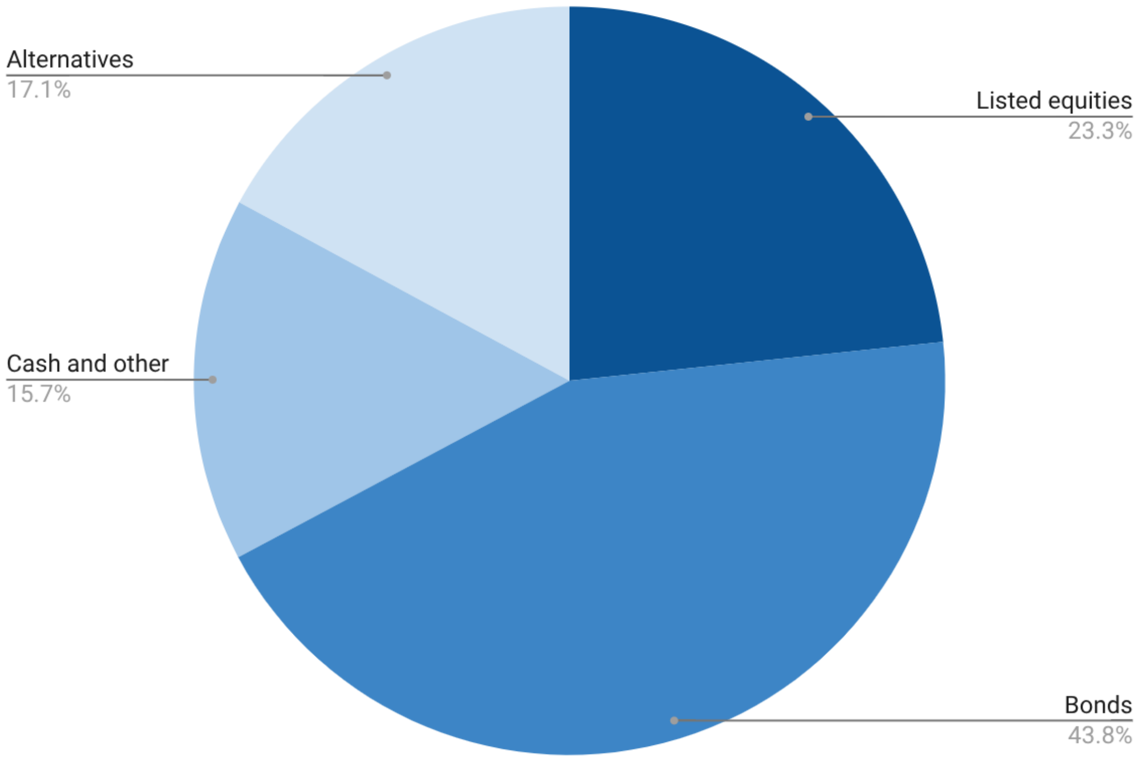
In particular, it is the certainty of a reliable cashflow over a given period of time that attracts financial institutions with quantifiable future liabilities. As such, in addition to holding fixed-income instruments such as gilts, defined-benefit pension funds and insurers like to hold positions in public utilities as part of their liability-driven investment strategies. These investors normally have a long-term investment horizon and are prepared to accept a lower financial return in return for predictability.[49]

In September 2023 UK DB pension schemes held nearly 70% of their assets in bonds and alternatives, which includes private equity, property, Secure Income Alternatives, infrastructure, private debt and venture capital.[50]

[49] Affordable and social housing has emerged as a new asset class to these investors over recent years. See How private capital unlocks social and affordable housing development (PIC, 2024)

[50] Pension scheme assets - how they are invested and how and why they change over time (Pensions Policy Institute, 2024)

Asset allocation of defined-benefit pension schemes in the UK (of ~£1.8 trillion, Sep 2023)



Note: Cash and other includes buy-in annuities. Alternatives include private equity, property, Secure Income Alternatives, infrastructure, private debt and venture capital

Sources: Pension Policy Institute, Economicsense.

Utilities can also help diversify investment portfolios and manage risks, for example by index-linking prices to inflation. In the particular case of 'lifeline' utilities, the fact that the state ultimately, explicitly or implicitly, underwrites the services makes the investment even more attractive. For example, in 2020 the UK government financially supported the IoW ferry services during the Covid pandemic as it had to maintain a transport link to the island when the operations became commercially unviable.

Alternative investments offer the prospect of strong investment returns

Pension funds also hold alternatives to generate strong investment returns, for example to close funding shortfalls in their DB schemes when liabilities exceed assets. In that case the investment horizon will be much shorter, with the focus on investment returns. The UK

Pensions Regulator refers to these as growth assets or 'return seeking investments'.[51] Pension funds will then compete with private equity firms over these assets.

For much of the 2010s the funding ratio of private-sector UK DB pension schemes was less than 100% (i.e. liabilities exceed assets), mainly reflecting the very low discount rate used back then to discount the flow of future liabilities.[52] The funding ratio improved significantly from early-2021 as the discount rate used to calculate liabilities increased (more or less) in line with interest rates, reaching 137% in early-2023. The picture is similar for funded public-sector pensions, which mainly exist for local governments.

Assets and liabilities of defined-benefit pension schemes (UK, s179 basis)

Source: House of Commons Library.

This backdrop helps to understand why Red Funnel was sold to a consortium of UK and Canadian pension funds in 2017.[53] Investment in alternatives, including in the Isle of Wight ferry services, offered the prospect of strong returns required to close the funding gap in a

51 Growth assets (Pensions Regulator)

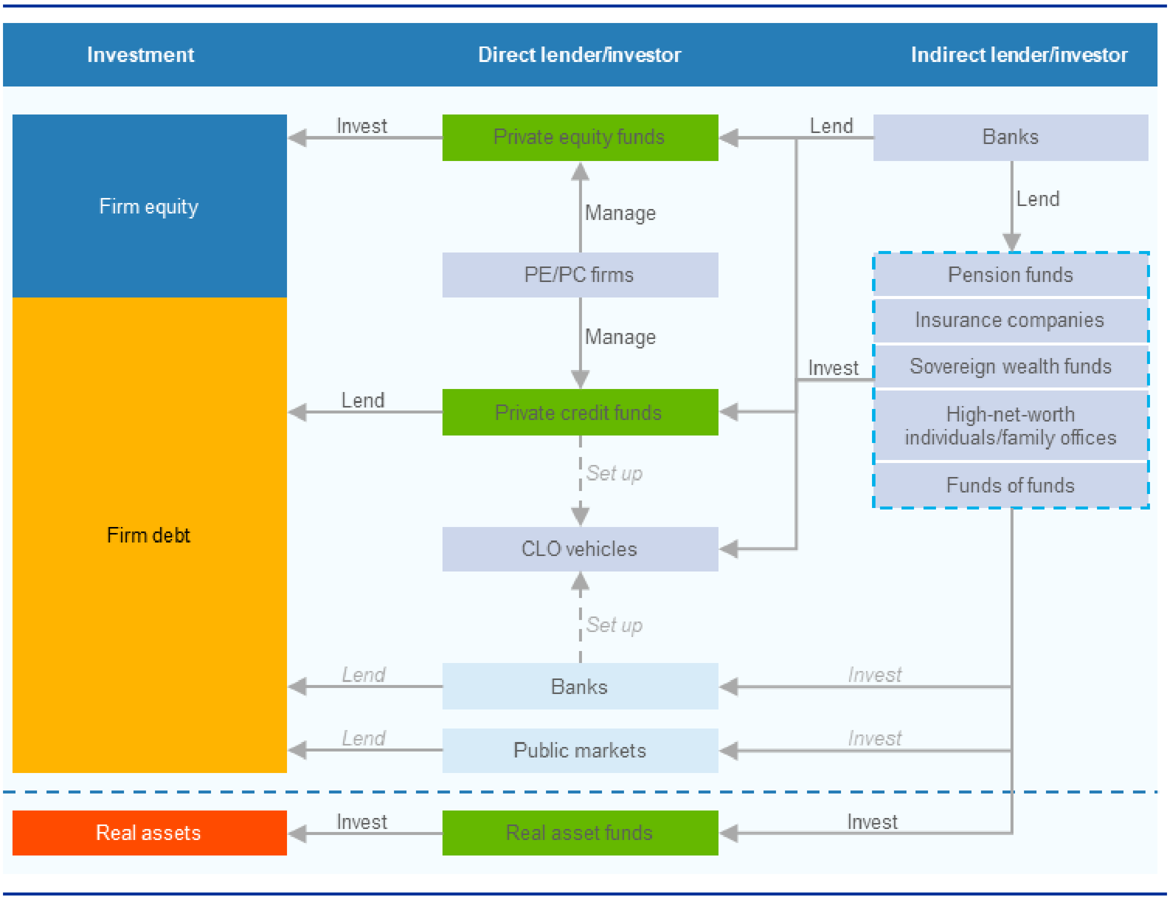
52 https://www.ppf.co.uk/PPF-7800-index. The funding ratios are for eligible private-sector DB pension schemes in the Pension Protection Fund. See also Stability in defined benefit pension scheme funding (PPF, 2024) On a 'full buy-out' basis, the funding ratio stood at 95%.

53 Canadian DB arrangements are similar to those in the UK, see DB pension schemes (Government of Canada, 2025)

world of otherwise low returns. Debt financing this acquisition in a low-interest rate environment made the investment even more attractive.

As stated above, investors should not necessarily be criticised for doing so. The issue is that the 'lifeline' IoW ferry services are provided by private equity.

<u>Private equity funds channel institutional money into equity and debt</u>



Source: ECB.
Notes: PE stands for private equity; PC stands for private credit; CLO stands for collateralised loan obligation. Banks also lend to private credit and real asset funds through NAV lending, which is not shown in the chart.

Source: European Central Bank

Who might be interested in investing in the IoW ferry services in the future?

Private-sector DB pension schemes are no longer underfunded on a PPF 7800 basis, so the need to grow assets is not as acute as it was in the 2010s. This might change as interest rates come down again.

A long-term investment that needs to contribute to meeting net zero targets

With the ferry services requiring significant up-front investment over coming years not only to replace an ageing fleet but also to meet new environmental standards, any credible new investor will have to take a long-term view.

This could include DB pension schemes, including local government pension schemes, pursuing liability-matching strategies. They are increasingly encouraged by the government to invest more heavily in the UK economy.[54] They *might* also take a more holistic approach to investing, focusing on environmental, social and governance (ESG) criteria more than perhaps other investors.[55]

It could also include bulk annuity providers, which are increasingly investing in infrastructure projects.[56]

That said, even long-term investors might find the huge investment needs and related project and procurement risks too demanding on their own.

The need to upgrade the ferries to at least hybrid operation if not fully electric to meet decarbonisation targets makes the public sector a suitable co-investor.[57]

The Isle of Wight Council declared a Climate Emergency in 2019 and presented its climate and environment strategy up to 2040.[58] To reach net zero, the strategy recommends gradually moving the ferries to fully electric or green hydrogen between 2020 and 2030. As of 2025, no step has been taken in this direction and no new ferries have been ordered yet, making it increasingly unlikely that the 2030 target can be met.

[54] Pension megafunds to drive growth (UK Government, 2024)
[55] Pensions and Growth (PLSA, 2024)
[56] Scale of annuity providers' investment in UK revealed
[57] The Association of British Insurers has argued that the government ought to encourage initiatives, which 'crowd-in' private investment, including blended finance solutions, ibid.
[58] Climate Change and the IWC (Isle of Wight Council)

Annex B Summary of interviews

History of the Ferry Services

- In the late 1980s, the Isle of Wight ferry services were privatized.
- One of the services, Wightlink, was previously owned by British Rail and was sold to Sea Containers.
- The other service, Red Funnel, has always been privately owned.
- The idea behind privatization was that competition between the two operators would regulate the market and eliminate the need for government intervention.
- However, the two operators serve different markets and operate local monopolies.

Current State of the Ferry Services

- The ferry services are currently unregulated, allowing the operators to maximize profits.
- This has led to concerns about high prices, lack of investment in new vessels, and a decline in the quality of service.
- The issue has gained more attention in recent years due to rising interest rates, which have put financial pressure on the ferry companies.
- There is a growing sentiment that the current financial model is broken.
- Some argue that the real problem is the unregulated market structure, which allows the operators to prioritize profit over the needs of the community.
- The lack of regulation means there is no leverage to force the operators to improve their services or pricing.
- The Isle of Wight Council has attempted to address the issue in the past, but with limited success.
- A 2008-2009 inquiry by the Office of Fair Trading (OFT) concluded that there was insufficient evidence of consumer detriment to warrant further action.
- However, some argue that the OFT's analysis was flawed because it assumed the market was competitive.
- Since the OFT inquiry, there have been further sales of the ferry companies for increasingly high figures and debt levels.
- The condition of the ferry fleets has also deteriorated, with some vessels nearing the end of their life.
- The high debt levels make it difficult for the operators to invest in necessary upgrades and replacements.
- The operators hold significant bargaining power due to their monopoly position and the essential nature of the ferry service.

Challenges and Considerations

- There is a diversity of opinions among residents regarding the desired level of connection to the mainland.

- Some residents may be content with the current situation or even oppose increased connectivity.
- Improved ferry services could have both positive and negative impacts on the island's economy, potentially benefiting consumers but harming local businesses.
- Any solution will need to address the issue of the operators' debt and ensure that there is sufficient investment in the ferry services.

About the author

Dr Frank Eich holds a PhD in Economics from the London School of Economics, where he specialised in regional economics and international trade. Since leaving university, Frank has worked as a professional economist in the public and private sectors, including on fiscal policy and pensions at HM Treasury, public spending at the IMF in Washington DC, international economics and financial stability at the Bank of England, pensions and risk transfers at Pension Insurance Corporation and most recently sustainability and the energy transition at CRU. Over many years he has advised governments on policy design and delivery and has helped businesses navigate rapidly changing economic and political landscapes.

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