

# The Impact of the Gozo Ferry Price Increase on Gozo's Economy\*

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## Introduction

The Gozo Channel Co. was formed in 1979 to operate a sea transport service between Malta and Gozo at reasonable and competitive prices and comply with the social obligation commitment.

In June 2004, the Gozo Channel Co. increased the fares of the ferry service for standard trips as well as for Gozitan passengers and cars. The standard car ticket increased by 75c. The Gozitan car ticket increased by 70c. For visitors who have a Gozitan address in their identity card, the increase in the subsidized fare in June 2004 was of 25c for passengers and 70c for cars.

The increase in the Gozo ferry fares has direct as well as indirect effects on the economy of Gozo. These effects include:

- increases in the cost of materials and of goods which could lead to lower demand for the final products
- fewer tourists that visit Gozo, especially domestic tourists, leading to a decline in demand for goods and services supplied by Gozitan businesses
- reduction in purchasing power of income of Gozitan workers and students who travel frequently to Malta.

## The survey

The present author conducted a study to assess the impact of the increase in the fare on the economy of Gozo, based on a survey involving 200 ferry users.

## Maltese visitors

The study showed that most Maltese ferry service users (47 per cent) travel to Gozo for a weekend visit while a small proportion (3 per cent) travel to Gozo for business purposes. A substantial proportion (39 per cent) of Maltese

visitors travel to Gozo for a day-visit.



About 34 per cent of Maltese visitors travel frequently to Gozo (i.e. at least once every two weeks). Most of these declared that they have been negatively affected by the June 2004 increase in fares in a way that they reduced the frequency of visits and/or spent fewer days in Gozo. The other two-thirds of those surveyed visit Gozo less frequently, generally once or twice a year. Most of these stated that the increase in the fare did not affect them that much. However, all visitors stated that a further increase in the fare is likely to affect their frequency of visits to Gozo.

## Gozitan travellers

For visitors who have a Gozitan address on the identity card, the increase in the subsidized fare in June 2004 was of 25c for passengers and 70c for cars.

A number of those surveyed were Gozitan persons who work in Malta and are therefore frequent travellers. 70 per cent of these stated that the increase in the fare was an extra burden on their pockets, with no compensating improvement in the ferry service. A number of these workers stated that the fare increase affected the purchasing power of their income negatively. Although the increase in the fare of Gozitan passengers is low, it often adds up to an increase of well over Lm100 annually.

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\* This is a summary of a long essay on 'The Impact of the Gozo Ferry Price Increase on Gozo's Economy' presented by the same author in partial fulfilment of the B.Com (Hons) degree in Economics, June 2005.

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Another group of persons surveyed were Gozitan students who travel to Malta to attend an educational institution. The survey results indicate that the impact of the increase in the fare varied according to the frequency of travel. Sixty-six per cent of these students cross to Malta daily and travel by car. They have indicated that the June 2004 increase in ferry tariff negatively affected them while those who travel once a week (34 per cent) said that they were not much affected.

Some of those surveyed were Gozitan persons travelling to Malta for business purposes. The survey results show clearly that, in general, these businessmen decreased their frequency of crossing to Malta after the fare increase. Sixty per cent of these businessmen stated that, owing to the increase in the ferry fare, they had to increase moderately the price of the goods that they sell, but they did not pass the full burden of the ferry fare increase on to customers because they feared that this will affect demand for their products.

The remaining proportion stated that they did not change their prices even though the fare

increase affected the cost of their products. This is because the demand for their product is elastic and hence an increase in price would lead to a substantial decrease in the quantity demanded for their products. Considering the fact that none of the businessmen have shifted the total burden of the increase in ferry fares on the consumers, their profits were probably negatively affected in one way or another.

### Conclusion

On the basis of the survey results, it can be concluded that the June 2004 increase in the Gozo ferry fare had a negative impact on the Gozitan economy. As expected the increase in fares tended to reduce the frequency of travel, to increase the prices of goods and services in Gozo, and to reduce the purchasing power of income of Gozitans who had no option but to travel to Malta frequently.

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