



**TYNWALD COURT
OFFICIAL REPORT**

**RECORTYS OIKOIL
QUAIYL TINVAAL**

PROCEEDINGS

DAALTYN

(HANSARD)

**SELECT COMMITTEE ON THE
ISLE OF MAN STEAM PACKET COMPANY**

**BING ER-LHEH TINVAAL MYCHIONE
SHESHAGHT PHAGGAD BREE ELLAN VANNIN**

Douglas, Monday, 3rd March 2008

Members Present:

Chairman: The Speaker of the House of Keys (Hon. S C Rodan)
 Mr G D Cregeen, MHK
 Mr W M Malarkey, MHK
 Mr J R Turner, MLC
 Mr G H Waft, MLC

Clerk:

Mr L Crellin

In attendance:

Prof. A Baird
 Mr M Cornwell-Kelly, Clerk of Tynwald

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Procedural 53

Capt. Brew and Mr Christopher were called at 10.35 a.m.

**Evidence of Capt. M Brew, Director of Harbours and Mr R Christopher, Director of Properties,
 Department of Transport 53**

Mr Woodward, Mr Watt and Mr Grant were called at 11.33 a.m.

**Evidence of Mr M Woodward, Chief Executive, Mr J Watt, Commercial Director and Mr D Grant,
 Chief Financial Officer, Isle of Man Steam Packet Company Limited 62**

The Committee sat in private at 12.57 p.m.

Tynwald Select Committee on the Isle of Man Steam Packet Company

*The Committee sat in public at 10.33 a.m.
in the Millennium Room,
Legislative Buildings, Douglas*

[MR SPEAKER *in the Chair*]

Procedural

The Chairman (The Speaker of the House of Keys, Hon. S C Rodan): Good morning, everyone. Can I welcome you all to this meeting of the Select Committee of Tynwald on the Isle of Man Steam Packet Company.

We are meeting this morning in a further session to take oral evidence.

I would like to introduce my fellow members of the Committee: Mr George Waft, MLC; Mr Juan Turner; Mr Bill Malarkey, MHK; and Mr Cregeen, Member for Malew and Santon. Mr Cornwell-Kelly is the Committee's legal adviser; our Clerk is Les Crellin; and Prof. Alf Baird, who is the Head of the Maritime Transport Research Group at Napier University, in Edinburgh, is the technical adviser to the Committee.

Mr Clive Alford is our Hansard Editor, and he is recording this morning's proceedings. At this point if I could ask everyone to kindly ensure mobile phones are turned off, because they do interfere with the recording equipment.

Could I also ask those who are giving evidence to speak individually and not to talk across each other, because it can sometimes be difficult to pick up through the microphones.

Capt. Brew and Mr Christopher were called at 10.35 a.m.

EVIDENCE OF CAPT. M BREW AND MR R CHRISTOPHER

The Chairman: I would like to welcome, this morning, the officers representing the Department of Transport to the Committee, and if I could begin by asking you to please introduce yourselves and your own individual roles within the Department.

Capt. Brew.

Capt. Brew: Good morning. Thank you, Chairman. Michael Brew, Director of Harbours.

Mr Christopher: Rodney Christopher, Director of Properties.

Mr Harding: Thank you, Mr Chairman.

I am Stephen Harding, the Government Advocate, legal adviser for the Department.

The Chairman: Thank you very much.

If I could ask, Capt. Brew, if you could just explain your role within the Department, and that of Mr Christopher, and then invite you to explain the background to the User Agreement, who the parties are to it, and if you could summarise for us the main requirements of the User Agreement.

Capt. Brew: Yes, Chairman. Thank you.

As Director of Harbours, I head the Harbours Division and therefore am responsible for the operation, the maintenance and the development of all our harbours.

I also have a role with respect to management of the territorial sea, and it is through the ongoing operations of the Division that my contact with the Steam Packet occurs.

Usually, it is operational, and my colleague, Mr Christopher, deals with some of the more legalistic and contractual issues.

The Chairman: Thank you.

As far as the User Agreement is concerned then, can you tell us the main requirements?

Capt. Brew: Thank you, Chairman.

I have got a statement here, which I will read, if I may.

The background to the User Agreement goes back quite some years. The User Agreement came about as a direct result of the situation experienced by the Island during a series of strikes by the Company's seagoing staff in 1986, 1987 and 1988. In total, there was a period of about 10 weeks when the Island was without any sea passenger or freight service, with the longest single period being about six weeks. Also, because both linkspans in Douglas harbour were owned by the Steam Packet Company, no other ro-ro vessels could operate replacement services to the Island.

During the strikes, all passenger movement was by air, and freight was mainly transported by container in small cargo ships that did not have a roll-on/roll-off capability. This latter service provided a means to get essential food and materials to the Island, but even when this service was operating at its best, it could only transport less than 50 per cent of what capacity would normally have been required.

Once the dispute had been settled and the Company staff returned to work, a normal freight and sea passenger service resumed. However, Government recognised that the strikes had very nearly caused severe damage to the Island and there was a determination not to place the Island at similar risk in the future. A number of options were investigated and debated and, in the end, it was concluded that Government needed to own a linkspan in order to ensure that, in the event of a similar situation occurring in the future, an alternative sea service could be instigated using a Government-owned linkspan.

When the Government could not agree with the Steam Packet Company to purchase either of its linkspans, Government decided to build one for itself. This resulted in the Department of Transport completing the construction in 1995 of the Edward Pier linkspan; that is the one presently used by *Ben my Chree* today.

The proposals and construction of the new linkspan created the environment in which the Steam Packet Company

Procedural

Tynwald Select Committee on the Isle of Man Steam Packet Company –
Evidence of Capt. M Brew and Mr R Christopher

entered into meaningful discussions with the Department with respect to concluding the User Agreement.

Now I have got some comments regarding the main items of the User Agreement.

The Agreement confers preferential use of the Edward Pier linkspan to the Steam Packet Company, linked to, amongst other obligations, a guaranteed minimum passenger and freight service. The level of minimum service was initially determined as being the service provided by the Company in 1993: that is the last full year of service before the User Agreement negotiations began. This level of service was deemed the minimum that the Island would require in order to maintain an acceptable level of normal business and social activity.

The Agreement also benchmarked standard fares and charges at 1995 levels and created a mechanism by which these fares and charges could be increased by a percentage that could not exceed the Retail Price Index minus ½ per cent, on a weighted basis. The Agreement provides Government with a mechanism to limit and influence the level of fare increases and the schedule has to be approved on an annual basis. Such a mechanism to influence the Steam Packet had never existed before.

By concluding this Agreement, the Government was able to limit the likelihood of the Island being cut off again, as a failure to deliver the minimum guaranteed service would place the Company in default and would enable the Government to step in with, or arrange, a replacement service.

The Company has gained long-term certainty and stability from the Agreement, and also been left free to use its commercial knowledge and experience. The Company could, and has, used this freedom to provide an enhanced service for both freight and passengers to generate a commercial return for the Company.

The Company's obligations under the 1995 Agreement required it to invest £20 million in fleet replacement, and this resulted in the construction of the *Ben my Chree* in 1998.

It also requires the Company to pay the capital and revenue costs of the Edward Pier linkspan.

The Company is also required to operate to and from defined port ranges in the UK and Ireland in order to ensure that the customary ports continue to be served.

The original 1995 Agreement contained an option under which the Company could request a five-year extension. The Company exercised this option in 2002, and although the Department of Transport did not have the ability to refuse the five-year extension, it secured increases in the minimum guaranteed services required by the Agreement. The increase in the minimum service reflected the greater passenger and freight capacity that the Company had by then provided. Importantly, special-offer fares for passengers became a requirement, rather than optional.

In 2004, there was a further extension. This extension secured further increases in the minimum level of service and put in place a framework for future investment by the Company that requires it to invest £26 million by 2012. The extension is for a further 10 years from 2010, i.e. the end of the period agreed under the 2002 extension.

There is, finally, an option to extend for a further six years, taking it to 2026, if all the options are exercised.

With respect to the minimum service level, under the 2004 extension, the following minimum service levels are required: inbound freight capacity, 7,800 lane metres per

week; service to north-west UK ports, 936 return sailings per year; summer-period frequency to the Liverpool port range, a daily service from April to the third week in October; services to the east coast of Ireland, 63 return sailings per year. The Company's published schedule exceeds all of the above requirements.

There is also a mechanism in the Agreement that requires the Steam Packet Company to provide 12½ per cent additional freight on a fortnightly basis in excess of actual carryings. This means, for example, that the actual freight capacity provided in 2008 must be 12½ per cent greater than the actual total lane metreage carried in the same fortnight in 2007. On a similar basis, fastcraft passenger capacity must be 15 per cent more than the previous year's actual carrying.

Special-offer fares have been a requirement since the 2002 extension and, under the 2004 extension, the number provided must be a minimum of 50 per cent of the previous year's total passengers carried. The level at which offer fares are set is not prescribed, but they must be fares that generate extra traffic.

Thank you.

The Chairman: Thank you very much, Capt. Brew.

You referred to the Agreement requiring an annual settlement. How often does the Department meet with the Company during the course of a year?

Capt. Brew: There are monthly meetings at officer level. Principally, that is Mr Christopher and myself with the Steam Packet's Managing Director and other directors, as necessary.

Other than that, there are meetings at political and Chief Executive level, as determined by events.

The Chairman: Thank you.

The reviews of the User Agreement in 2002 and 2005: can you just confirm that these reviews are provided for in the Agreement, but could you explain to us why they were so close together, these two particular reviews?

Capt. Brew: The 2002 extension, I think, is what you are talking about. That was simply the Company exercising the option that existed in the 1995 Agreement.

The second extension came about following discussions between the Company and the Department.

The Chairman: Would you not have expected the second review to have, perhaps, taken place in 2002, when the extension was being discussed?

Capt. Brew: I think it was the operating circumstances at the time. There was, and still is, ongoing discussion with the Company with respect to investing in additional fastcraft, and it was primarily that issue which was part of the discussion between the Company and the Department in 2004, that led to the second extension. So it was a change in operating circumstances.

The Chairman: You made reference to the obligation, under the User Agreement, for the Company to invest in new vessels: £26 million by December 2015, provided that £18 million of that sum is invested by December 2012. That is provided for in the extended Agreement. What is your understanding of whether that investment in craft should

take the form of purchase or lease, or is there anything in the Agreement that determines how the investment is to take place?

Capt. Brew: Yes, the Agreement does not specify how that money is to be invested; simply that it must be invested. The Department does not take a view, one way or the other, about owning or leasing.

The Chairman: So you would not expect that to be the subject of discussion with the Company. It would be merely a matter of the Department being informed as to what form the investment would take.

Capt. Brew: There is no requirement for them to advise us, but, given the level of our monthly meetings with them, I would be surprised if we did not get that information.

The Chairman: The approval of fare increases and sailing schedules that takes place annually: how is that done? Who approves these? Is it the Department, or is it a recommendation from officers to the Department?

Mr Christopher: I will take that one, if I can, Mr Chairman.

The Steam Packet submit their schedule 6 proposals, which is the formula laid down within the User Agreement. The Department can deem that to be excessive if it is greater than the increase in the Manx Retail Price Index (MRPI) minus ½ per cent. If it is not greater than MRPI minus ½ per cent, then the Department cannot deem it to be excessive.

As part of the Department's internal process, there is a paper submitted to the Minister after the Steam Packet have submitted their information and we have checked all the calculations, which just signs that increase off and then the Steam Packet get confirmation back in writing.

With regard to the schedules, the Steam Packet submit their schedules. They are copied round the Department's operational staff, just to make sure that there are no operational issues from Douglas port end. In recent years, there has been very limited change in schedules, so there is very limited impact, but if there was any impact with port operations – two vessels being too close together, or issues – they will then be discussed with the Steam Packet and an appropriate arrangement agreed to deal with that.

The Chairman: So the monitoring of the proposed fare increases and the pricing structure, as far as you are concerned, relates to how that complies with the User Agreement in terms of the ½ per cent.

Mr Christopher: There is a detailed spreadsheet which is used. The Steam Packet submit their version, we add the information into our version independently, and that confirms their calculation.

The Chairman: And you can confirm that, in all respects, for passenger fare pricing, the Company has complied within the terms of the User Agreement at all times?

Mr Christopher: Yes. All the fares covered by the schedule 6, yes.

The Chairman: From that point of view, the Department

is entirely satisfied that the Company is doing what it is obligated to do under the User Agreement?

Mr Christopher: Yes, that is correct, Mr Chairman.

The Chairman: Thank you.
Do you have sight of the Company's accounts?

Mr Christopher: We do not specifically get access to the Company's accounts. It is not a requirement under the terms of the User Agreement.

The Chairman: Notwithstanding it is not a requirement, would you see it as part of the regulatory function of the Department to monitor the accounts in any way?

Mr Christopher: It is not specifically allowed, or covered by the User Agreement, so it is not something that we would have the power to do, under the terms of that Agreement.

The Chairman: Can I ask you, given that the User Agreement gives the Company the ability to generate profits within an effective operating monopoly situation, and also sets out the mechanism for price increases, do you agree that the Agreement gives significant financial advantage to the Company? Should the Department, therefore, not be monitoring the financial consequences of the User Agreement through the accounts, as a matter of practice and priority?

Mr Christopher: I would say it is not something we have the power to do under the User Agreement. So, as far as administering the User Agreement, it is not something that we would be involved in.

The Chairman: So would the Department be aware of recent trends, in any way, in the Steam Packet Company's accounts in relation to the Company's fast-rising profitability, and would the Department have a view on that trend?

Mr Christopher: Again, my role is relating to the User Agreement, so it is not an issue whether the Company is profitable or not; it is the obligations on the Company within the User Agreement that we enforce on them.

The Chairman: In that case, the Department presumably does not have a view on what is an acceptable level of profit for the Company as a commercial entity providing essential ferry services.

Mr Christopher: It is not a requirement on the Department under the terms of the User Agreement.

The Chairman: So the bottom line would be that the Steam Packet Company can be as profitable as it likes, or as profitable as the User Agreement and price increase mechanism permits.

Mr Christopher: Providing the Steam Packet comply with the obligations within the User Agreement, that is the role of the Department. Whether the Steam Packet makes profits or losses, their obligation is to provide the services as laid out by the Agreement.

The Chairman: Would you accept that the level of profit

is a product of, obviously, freight and volumes and passenger volumes, and there is a direct correlation between the two that the Department ought to be interested in?

Mr Christopher: I do not think that is a question I can comment on specifically.

The Chairman: Capt. Brew, do you have a view on that?

Capt. Brew: No, sir.

The Chairman: Thank you.
Mr Turner, a question?

Mr Turner: Yes, it is linked to your liaison with the Steam Packet. When the subject of fuel surcharges comes up, who is the approach made to at the Department of Transport for approval of such extra charges? How is the approach made?

Capt. Brew: It is made through the monthly meeting between the senior officers of the Department, in accordance with the Agreement that the Company has with the Department specifically related to fuel surcharges.

Mr Turner: Who would make the decision as to whether the Department was going to agree to the fuel surcharge, or not?

Capt. Brew: First of all, the Agreement has steps within it which govern how the surcharge is applied, depending on the fuel price. It is subject to a six-monthly review, and any changes in the surcharge require a paper to the Department for approval.

Mr Turner: What justification criteria does the Company have to make to the Department to justify a fuel surcharge, certainly given the level of profits which have been released lately?

Capt. Brew: They have to demonstrate to us the actual cost of the fuel to them and its usage. So if, as has happened, a fastcraft is or is not used, then the fuel consumption will vary, and that is part of the weighted application that they make.

Mr Cregeen: On your presentation to us on 7th September, part of your presentation... Have you got it? On page 50, you state percentage-link agreement, annual review and open book on turnover, so wouldn't you have been aware of the turnover of the Company and the profitability?

Mr Christopher: The percentage-link agreement is a separate agreement which covers the payment of harbour dues, on which the Steam Packet pay a percentage of their passenger and passenger-related vehicle income as harbour dues. So we are aware of their passenger income as part of that, and that is audited and checked by their accountants; but that is their turnover, not their profitability.

Mr Cregeen: So you do not have any idea of their freight turnover.

Mr Christopher: As freight harbour dues are not

covered by a percentage-link agreement, no.

The Chairman: Mr Malarkey.

Mr Malarkey: Just coming back to the fuel surcharging, I would have thought the MRPI already takes fuel surcharges into account, so are we not giving them two bites of the cherry here? If the fuel surcharge is already incorporated in your annual inflation figures, why are they allowed to come back and have a separate fuel surcharge on top of the initial MRPI?

Capt. Brew: The fuel surcharge agreement deals specifically with marine fuels, as used by the Steam Packet, whereas RPI does not necessarily take that specific item into account.

Mr Malarkey: Are you saying that the marine fuel is going to be increasing at a different rate to say petrol etc, which the MRPI is –

Capt. Brew: I think fuels vary, depending on a number of factors, but certainly the marine fuels have been subject to a very large increase of late.

Mr Malarkey: Can I go back to the three stages of the User Agreement: 1995, when it was first set up, owned by Sea Containers; the next review was in 2002; then I believe Sea Containers sold the Company – is that right? – in 2003, straight after that renewal period for – ?

Capt. Brew: I do not recall the exact year, I am afraid.

Mr Malarkey: Well, the figures I have is that in June 2003, after the February 2002 amendment to the User Agreement, the Company was sold for £67 million.

There was then a review of the User Agreement in December 2004, which went through Tynwald, and within seven months of that Agreement, the Company was then sold for £225 million. In your view, does that not make the User Agreement a commodity on the stock exchange?

Capt. Brew: The Department does not have a view, and I personally do not have a view, on that particular issue.

Mr Malarkey: Can I go to the monitoring of quality of service on the vessel. Obviously, your Department... Can I carry on? The monitoring of the service on the vessels themselves, quality of service etc, which is before this Committee's remit...

We have figures from the Steam Packet saying that the vessel, the *Ben my Chree* is licensed to take 670 passengers. What has come to the Committee's eye is 191 of these seats are not available on the standard-price tickets. In fact, 108 of them are included within cabins, for which you have to pay extra; 59 of them are within the First Class lounge; and 24 are in the Blue Riband lounge. If you want to reserve a seat, you have to pay an additional price on top of your standard price. Does your Department consider this to be good practice?

Capt. Brew: Again, that is not an issue with respect to the User Agreement. The Department's sole role is to administer the User Agreement as it exists.

Mr Malarkey: But within the pricing bracket, if they are selling 500 seats on board at a standard price, and they have not got 500 seats at a standard price on board, surely that is a pricing issue?

Mr Christopher: Certainly, as far as I am aware, if the Steam Packet sell somebody a ticket, they have to provide that person with a seat. So, therefore, if they have a large number of passengers on, they have to ensure that people have seats on board the boat.

Mr Malarkey: Without charging them any extra for...

Mr Christopher: Without charging them any extra: they have to provide them with a seat. I think that is a maritime safety requirement, as well.

The Chairman: Thank you.
Mr Turner, a further question?

Mr Turner: Yes, it is to do with, I suppose, Mr Christopher, in your role with Properties. What is the deal with regard to the Victoria Pier linkspan and the relationship between the Steam Packet and the Department?

Mr Christopher: There is a siting licence for the Victoria Pier linkspan in which the Steam Packet pay us a siting licence fee.

Mr Turner: What is the period of that licence?

Mr Christopher: The licence runs concurrently with the User Agreement.

Mr Turner: So, if the Agreement is extended, the Victoria Pier would also be extended with it.

Mr Christopher: Yes, and if the Agreement were determined, then both would determine.

Mr Malarkey: Can I ask, on the same line there, through the Chair, the length of the Victoria Pier, how much of that is actually allocated? It is a very long pier, so do they have the full length of the pier to go with the...?

Mr Christopher: The licence covers solely the number 1 linkspan; it does not relate to any other berths on the pier. Those berths are common-user berths under the Harbours Act.

Mr Malarkey: So there is nothing stopping us putting another linkspan directly in front of it. Would that be contrary to the User Agreement?

Mr Christopher: If we obstructed access to the linkspan, that would be contrary to the licence; but if you wanted to erect – or the Department, or Government, wished to erect – a linkspan somewhere else, then that is outside of the User Agreement. The User Agreement relates to the berth 5 linkspan and the licence relates to the berth 1.

Mr Malarkey: I am trying to get down to whether there is a length thing here. If we were to give them six feet, they are not going to get much in there, are they?

Mr Christopher: It would have to allow sufficient space to berth the vessels they berth there, which is real use in a modern berth.

The Chairman: I want to move on.
Mr Waft.

Mr Waft: I am going back, Mr Christopher, with regard to the meetings that the officers have with the Isle of Man Steam Packet Company. You said they meet on a two-monthly basis, is it?

Mr Christopher: It is a monthly basis.

Mr Waft: A monthly basis. Are those minutes minuted by any particular person, and who has sight of the minutes?

Capt. Brew: The meetings have an agenda, but they are informal and they are not minuted.

The Chairman: Thank you.
Can I ask – turning to freight – are freight rates a matter that the Company agrees annually with the Department?

Mr Christopher: Freight rates are part of the schedule 6 calculation.

The Chairman: Fine, and is there any mechanism within the Agreement to reduce fares, or rates, for freight, to take account of industry standards?

Mr Christopher: The Steam Packet can apply to reduce any of their fares and charges. The Agreement does not require them to put their charges up each year. That is a choice they have to make, and as part of the weighted index they can increase fares by more than inflation, in the same way they can reduce fares. Providing the weighted average comes out at less than MRPI minus ½ per cent, they are in compliance.

The Chairman: Does the Department keep a watching brief on industry standards and competitors' freight rates across the Irish Sea?

Capt. Brew: Not directly. We are aware of them because that is our job, but there is not a specific sampling in order to compare with the Steam Packet.

The Chairman: And the comparison with other rates, that is not something the Department would routinely concern itself with?

Capt. Brew: No.

The Chairman: Okay. Is the Department aware... We certainly, as a Committee, noted that the freight traffic levels have increased by some 50 per cent over the past 10 years, at a time when there has not been an increase in vessel freight capacity over the same period. As the User Agreement allows for year-on-year price increases in the freight market, do you accept that it is inevitable that Steam Packet Company profits must rise inexorably as a result of these factors? Fast rising freight traffic, rising freight prices and static ship capacity, therefore no capital cost.

Capt. Brew: I think I would disagree there has been no extra capacity put on because when *Ben my Chree* arrived in 1998, it replaced *Pevevil*, which was a considerably smaller vessel. So in the period of the User Agreement, there has been an increase in freight capacity.

The Chairman: Yes, I am talking about the last 10 years, when the *Ben* has been operating.

Capt. Brew: The vessel size... was sized to take account of a growing market.

The Chairman: And within the last 10 years, freight volumes have gone up 50 per cent.

Capt. Brew: Yes.

The Chairman: If the trend in profits continue, then they may well exceed the 50 per cent of turnover. Is that something...?

Capt. Brew: Profitability or otherwise of the Company is not an issue for the Department within the User Agreement.

The Chairman: And yet the Committee has heard evidence that freight routes to the Isle of Man are perhaps three or four times higher than other Irish Sea routes – yet the economies of scale are not so different. Is the Department powerless to acknowledge what might be seen to be excessive profit levels being achieved by the Company?

Capt. Brew: I think the comparison with the routes to the Isle of Man in respect of freight with other freight sea routes do not bear comparison. That would be comparing the Holyhead-Dublin route, Stranraer to Larne, and they are significantly greater... There are significantly greater volumes and significantly larger ships on those routes, so I think to make a direct comparison between routes to the Isle of Man and other routes in the Irish Sea, I do not consider to be –

The Chairman: You do not believe that is a fair comparison.

Capt. Brew: No.

The Chairman: Thank you very much.
Can I ask my colleagues if they have any points.

Mr Cregeen: If you do not think it is worth comparison, would you not think the profit levels of these other routes would be higher, if it is an economy of scale? And if it is not part of the User Agreement, do you not think it should be, at any future negotiations?

Capt. Brew: I do not think, Mr Chairman, that is an issue I can deal with.

The Chairman: Right, thank you. Mr Waft.

Mr Waft: Just getting back to the meetings you have with the Steam Packet Company at officer level, monthly meetings that are not minuted, how often do you think a

politician would need to be involved in those meetings, or are they involved at all?

Capt. Brew: In our monthly meetings, no politicians are involved. It is simply a meeting at officer level to discuss matters of mutual interest.

Mr Waft: So there is no independent person there to put a view, other than yourselves?

Capt. Brew: That is correct.

Mr Waft: So you report back those meetings to the Department.

Capt. Brew: Not directly, but if there are issues that crop up during those meetings then, yes, we do use those to inform the Department, to ensure that the Department is up to date.

Mr Waft: You are solely limited to that 1½ per cent above and below RPI and that sort of thing... you just zeroed in on that area of responsibility?

Capt. Brew: I am sorry I do not understand your question.

Mr Waft: With regard to the increases in prices etc, you have to find out... as long as you are happy with the User Agreement and they have not varied in any shape or form outside that, it does not come within your radar.

Capt. Brew: We can only operate within the terms of the User Agreement, and if there is any doubt as to that, then the Department is briefed. But in any case, when it comes to price increases, they are actually confirmed by the Department, following a formal submission of a paper making a recommendation.

Mr Waft: Does the Department have any view on other things than the User Agreement, when they have meetings with the Isle of Man Steam Packet Company?

Capt. Brew: Yes, very much so. The officer level meetings that we have on a monthly basis are used to range over a large number of issues, and they are not strictly confined at all to the User Agreement.

Mr Waft: So do you then, perhaps, reflect the view of the population with regard to the system, when you have your meetings with the Steam Packet Company?

Capt. Brew: Yes, and our own personal experiences.

Mr Malarkey: So I just want to get this clear in my own mind, that all you see yourself doing is enforcing what the User Agreement says. So in your Department's view, if turnover and profit went up to 75 per cent next year, that would be outside your scope and there is nothing you could do about it. You would not be looking at that, just making sure that they were not going up more than the retail sector. Would you be making any recommendations to them to bring their prices down, or...?

I am just trying to clear this in my own mind. You seem

to be thinking you administer the User Agreement, end of story.

Capt. Brew: That is correct, Mr Chairman. The User Agreement is what we administer.

Mr Malarkey: So you would not take any consideration for fuel increases into the profit that the Company was making. That, to me, is an argument in one... If you have got the Company making 36 per cent of its turnover, why is it asking for fuel increases and running costs, which you are allowing?

Could you not step in at that stage? Do you not have that power?

Capt. Brew: The User Agreement does not deal with fuel costs directly. There is a separate agreement that does exist between the Department and the Company.

Mr Malarkey: That is outside the User Agreement?

Capt. Brew: Yes.

Mr Malarkey: Is it mentioned in the User Agreement at any...?

Capt. Brew: Fuel prices?

Mr Malarkey: Fuel prices.

Capt. Brew: No.

Mr Malarkey: No, I could not find it in the User Agreement. So who signed this separate agreement on fuel surcharges?

Capt. Brew: The Department and the Company.

Mr Malarkey: And how long does this agreement run for?

Capt. Brew: How long is it going to run for?

Mr Malarkey: Yes, indefinitely, as long as there is a fuel increase, they can carry on putting it up?

Capt. Brew: No, I am not aware that the fuel surcharge agreement has an end date; but it has a mechanism by which the fuel surcharge would come down, if fuel prices come down.

Mr Malarkey: And was this introduced at the same period when the User Agreement was introduced?

Capt. Brew: We are not quite sure, but the fuel surcharge agreement probably dates from 2006.

Mr Malarkey: I find it very hard to believe that, if you have got no control over what the User Agreement says about pricing, and you are not going to be looking at the Company's profit, how can you justify their justification for putting fuel surcharges up, if the Company is already making exorbitant profits?

Capt. Brew: The mechanism for controlling prices...

There is a mechanism for controlling prices with increases within the User Agreement and, as we have said previously, the Department does not take a view, or is not required to take a view, on the Company's profitability.

Mr Malarkey: But you said you took the public's view into consideration at these meetings, and the public view is – certainly from the letters that we have had – that the fuel increases are quite astronomical, when you compare what prices we are having to pay on the actual initial User Agreement.

Capt. Brew: The amount of money collected by the Company from the fuel surcharge is only a small proportion of what its total fuel – its extra fuel – costs actually are.

Mr Malarkey: So you have just ratified the latest fuel increases with them, have you?

Capt. Brew: It is due for review this month.

The Chairman: Thank you.

Just following on from that, you have made it very clear that the Department does not concern itself with the Company's financial performance as a company or the levels of profit that it is making, and the User Agreement does not cover that area at all. Therefore I do not expect you to comment on that, but would it be possible to amend the User Agreement to include a degree of statutory monitoring by the Department in respect of the Company's financial results, and thereby the Department, in monitoring the Company's performance, could reach a view when it is approached annually, with any proposals for variation in freight or passenger fares?

Capt. Brew: The Agreement contains a provision for both parties to agree an amendment, but there is not a provision for one party to impose an additional requirement on the other.

The Chairman: Okay, so it would be possible to open discussion with the Company about such a matter but, clearly, it would require both parties to agree.

Capt. Brew: That is correct.

The Chairman: Yes, thank you very much.
Mr Cregeen.

Mr Cregeen: You say that the User Agreement is there to keep a fixed price on the fares as they go up, minus your RPI, is it half a per cent? Do you not consider that the reservation of a seat and the fuel surcharge is actually an addition to what the RPI is? Is there any restriction on the number of reserved seats? If they go and put the majority of the seats over to being reserved, you have now got an additional charge on top of the standard. Do you think that is acceptable?

Capt. Brew: It is not an issue that we have considered to date.

Mr Christopher: Because the User Agreement puts a limit on the fare, if they sold all the tickets available and they did not have enough seats because of reserved seats,

they would have to allocate reserved seats to people free of charge, and I understand that is what they do. The reserved seating aspect came in as part of the 2004 extension, and that was a provision just to help the parties to be able to sit together if they wished.

Mr Cregeen: But one of the concerns that comes over to us is that people are becoming aware that it is difficult to get seating, that the only way they are going to get seated together is to have a reserved seat. So in fact they are actually being charged extra, just to be able to sit together. It is virtually becoming a standard: if you want to sit together, to ensure that, you have to pay the additional fee. It should be something that you should be concerned with, because of the nature of it.

Mr Christopher: Certainly, as far as I am aware, the allocation of reserved seating on the boat is limited at present, and therefore, if people book on and there are more people booked on than there are unreserved seats, then the Company would allocate the reserved seats or upgrade people to the First Class lounge, as they have done in the past.

I am also aware that, certainly when I have travelled with the Company, if a part of a party... the crew are very good at trying to get people to sit together and make space, and encourage people to remove the extra bag that has been put on a seat or something.

Mr Cregeen: But the perception outside is people are thinking, 'I am going to have to pay', so surely it should be something that you are putting out that you are not happy with, because people –

The Chairman: I think what you are saying is this is a matter that you have discussion on a periodic basis in your regular meetings, but it is not contained within the User Agreement.

Mr Christopher: It would not be. If the Steam Packet allocated every seat on the boat and said anybody who wanted a seat... then that is an issue that we would take up with them. But they have not; they have only allocated a small number of seats, to give passengers the choice.

The Chairman: The time is pushing against us. Mr Turner.

[There was a technical fault with the recording equipment.]

The Hansard Editor: Mr Chairman, I have to interrupt: we seem to have lost the sound. I do not know why: it has just suddenly faded away.

The Chairman: Shall we take an adjournment?

The Hansard Editor: I do not know whether it is my fault... Can you just try once more – would you speak now?

The Chairman: Is that better? Can you hear us now?

The Hansard Editor: It has gone fainter. If everyone speaks up, we might be alright.

The Chairman: Right, we will shout, shall we?
(Laughter)

Mr Turner.

Mr Turner: Is there a requirement for the Steam Packet to publish their standard fare rate card?

Mr Christopher: Not specifically. There is a requirement, I think, that they have to publish a brochure which is similar to other companies of a similar standard.

Mr Turner: Does the Department have a view that maybe these standard fares should be made available to the public, as this is the whole structure that the User Agreement is based on, and therefore these fares should be published?

Mr Christopher: Certainly, as far as I am aware, their standard fares are available on their website. I know they are no longer displayed in their brochure, and I am aware of the arguments both for and against that.

One of the problems, if you do show the standard fares and charges and your competitors do not, then there is a risk of misleading comparisons. I think it is an issue for the Steam Packet: certainly, it is available on their website, so the information is available to the public.

The Chairman: Okay, can I just ask Clive, is the sound okay now?

The Hansard Editor: It has come back. It was a faulty bit of tape; I am sorry about that.

The Chairman: Thank you.

Mr Turner: Just to pick up on that, you stated about the Steam Packet's competitors: I assume you are referring to low cost airlines there, are you? In fact, if you want to travel on the boat, you only have the Steam Packet.

Mr Christopher: I think you compare both low cost airlines and ferry companies in the UK. Obviously, the Steam Packet is in a competitive market trying to attract business into the Island from the UK, so that somebody thinking of travelling on a ferry may well be looking at their prices in comparison with Stena Line, Irish Ferries or any of the other operators.

Mr Turner: So by not publishing them, you are almost saying that they are expensive.

Capt. Brew: I think it is industry practice, to some extent, but the standard fare is available on the Company's website.

The Chairman: Thank you. Mr Cornwell-Kelly.

The Clerk of Tynwald: Capt. Brew, are you aware that Tynwald resolved in 2003 that all meetings between the administration and external parties should be minuted?

Capt. Brew: No, sir, I am not.

The Clerk of Tynwald: Do the monthly meetings concern matters of any significance or importance?

Capt. Brew: I think that is a very difficult question to answer. Yes is the obvious answer, otherwise we would not be meeting.

The Clerk of Tynwald: Then how do you follow up whether appropriate action has been taken on the matters discussed?

Capt. Brew: We agree action points between ourselves, which we would follow up at future meetings.

The Hansard Editor: Sorry, Mr Chairman, the sound has gone again...

[There was a short pause in the proceedings, due to technical difficulties.]

The Chairman: Can I ask, Capt. Brew, just coming back again to the fuel surcharge agreement, the Committee does not seem to have a copy of that agreement. Could I ask if you would kindly let us have a copy of that (**Capt. Brew:** Certainly.) from its inception and a copy of the proposed amended agreement that I think you indicated was coming into effect this month?

Capt. Brew: March is the six-monthly period in which we review it, so it will be the subject of a paper to the Department some time towards the end of the month.

The Chairman: Yes, thank you very much. If we could get the agreement proper, please.
Mr Malarkey.

Mr Malarkey: Can I just clear that point up. You are saying you have not actually done the review for the next fuel increase, but I thought I saw a press release that there was going to be a fuel increase already. So are you telling me that this press release by Steam Packet has been done before it has consulted with your Department?

There has certainly been a press release saying there is a fuel surcharge going up this coming month, and I think it actually quoted 50p a metre or something for the freight.

Capt. Brew: I am aware that there has been a letter to freight customers, but the six-monthly review will be carried out now.

Mr Malarkey: So has the Steam Packet sent out a letter saying they are putting up the fuel surcharge before actually getting the okay from your Department? That is quite an important issue.

Capt. Brew: I would have to check on that, Mr Chairman. I am afraid I do not have the details.

The Chairman: As far as the Department is concerned, it is yet to give approval to any increase after the six-monthly review to fuel charges?

Capt. Brew: Certainly, we will be considering with the Company in March –

The Chairman: So as far as you are concerned, it is yet to be considered in March and approved by the Department?

Capt. Brew: Yes, that is correct.

The Chairman: Yes. Thank you.

Can I ask Prof. Baird: we are running out of time but, Prof. Baird, if you have any questions.

Prof. Baird: Just one, Chairman.

On the issue to do with economies of scale, which are a function partly of market size, but primarily of ship size, the size of the ship serving the Isle of Man is by no means the smallest freight ship on the Irish Sea, yet freight weights are, we found, from the evidence, three or four times greater. Economies of scale in ship size *should* reduce unit costs, providing of course the vessel is reasonably full. Our evidence suggests that the market has grown substantially in the freight market, over the last 10 years.

I am wondering if... You mentioned that the issue of economies of scale kind of explain the reason why freight rates are higher in this market, but to my mind economies of scale of the vessel serving this market should actually bring levels of freight rates down, as has been evidenced throughout the Irish Sea over the past 10 years; whereas the User Agreement mechanism actually provides for freight rate increases every year, year on year. Is that, in the Department's view, an acceptable situation?

Capt. Brew: I am aware that there are smaller freight only vessels that operate on the Irish Sea but they are part of a larger company, and the economies of scale would apply, I think, to the whole of a particular company's operation.

It is certainly the smallest ro-pax vessel –

Prof. Baird: Smaller than the Stranraer–Belfast, 800 lane metres?

Capt. Brew: But that is part of a bigger company's total provision.

Prof. Baird: But the unit costs of the ship are the same if it is full, if it is being filled up, irrespective of the market size.

Capt. Brew: I do not think that is an issue I am particularly an expert on and I would not wish to comment on it, except –

Prof. Baird: The only point I was making was that freight rates on the Irish Sea have reduced over the past 10 years, but the price mechanism within the User Agreement forces the price up, or allows the price to go up year on year, in the freight market. That goes against –

Capt. Brew: I think the word I would rather use is 'allow', rather than 'force'. The Company do not have to put their prices up.

Prof. Baird: I know, but you said that the Company never reduced the prices of the freight markets in the tariff, but –

Capt. Brew: That is not the Department's choice.

The Chairman: Thank you very much. I think the clock has beaten us, so I would like to thank you, gentlemen, very much for coming and giving your evidence this morning.

Is there any final point you would, perhaps, wish to make to us? Mr Harding.

Capt. Brew: Yes, Mr Chairman, if I could ask Mr Harding to say something.

Mr Harding: Yes, thank you, Mr Chairman.

There is only one point and that is really by way of background.

It is just to really ensure that the Committee has sight of all the relevant Tynwald debates which led up to the conclusion of the User Agreement. Essentially, the relevant references, first of all, are the *Hansard* debates on the Steam Packet Linkspan User Agreement between the... well, I have copies of all the debates on the Agreement between 19th January 1988 and 13th November 2007 – references – if the Committee wishes to look at those.

However, there are a series of crucial debates, which the Committee should read and consider in full, in my considered opinion. They are, firstly, the Tynwald debate of Tuesday, 11th July 1995, which commenced at T798 of the relevant *Hansard*, and which concerned a motion before the Tynwald Court which was moved by the then Chief Minister, Mr Walker.

That was essentially in respect of Tynwald approval of the Department of Transport entering into the licence agreement with the Isle of Man Steam Packet Company Limited in respect of the use of the Department's link bridge in Douglas Harbour, such agreement to be in the material form of the draft licence agreement dated 25th May 1995. Obviously, that motion was debated and voted upon in full and the motion was carried.

Also, it is important to read the Tynwald *Hansard* report of 12th July 1995, which is the day after, at T839, in which the Douglas Harbour Facilities Order 1995 was approved.

The next most important *Hansard* to consider would be in respect of the Statement by the Minister for Transport, Mr Shimmin, to Tynwald on Tuesday, 19th February 2002, in respect of the exercise of the option contained in the 1995 Agreement, to extend the initial Agreement for a further period of five years and the increase in enhanced minimum service levels. This conclusion meant that the User Agreement ran up until 18th September 2010.

However, as the Committee is aware, there is another important debate in Tynwald Court on 14th December 2004, at T122, being a motion by the Minister for Transport which Tynwald approved of the Department of Transport entering into an agreement with the Isle of Man Steam Packet Company Limited to extend the term of the licence agreement in respect of the use of the Department's link bridge in Douglas Harbour. Again, that motion was carried.

So I think those debates are important for the Committee to consider in full, in understanding the background and the reasons for the conclusion of the agreements.

Thank you.

The Chairman: Thank you very much. We are of course fully aware that everything we have talked about, the User Agreement and the two extensions, were subject to full Tynwald approval, and we are not suggesting otherwise. But certainly, thank you very much, and we will refresh our memories on the background to those particular decisions by Tynwald.

So, gentlemen, thank you very much for your evidence, and I would invite you to stand down.

*Mr Woodward, Mr Watt and Mr Grant
were called at 11.33 a.m.*

EVIDENCE OF MR M WOODWARD, MR J WATT AND MR D GRANT

The Chairman: Could I now ask Mr Woodward, Mr Grant and Mr Watt from the Isle of Man Steam Packet Company to come forward, please.

Good morning, gentlemen. I would like to welcome you to this resumed hearing of the Tynwald Select Committee to take oral evidence from yourselves. Could I begin by asking Mr Woodward if you could introduce yourself and your colleagues to the Committee.

Mr Woodward: Yes, thank you, Mr Chairman.

On my left is Jonathan Wild, the Company's legal representative from Quinn Kneale. On my far right is John Watt, our Commercial Director. Next to me is Douglas Grant, our Chief Financial Officer.

The Chairman: Thank you very much indeed.

We have submitted to you a list of questions of a financial nature, which we did a couple of weeks ago, and we will move on to those just in a moment. I do want to give you the opportunity, if you wish to make any representations you care to, following the evidence that you gave last time round. I know you have been in touch with the Committee subsequently.

Mr Woodward.

Mr Woodward: Yes, thank you, Mr Chairman.

I propose to go through a few opening comments and we will then go to the questions themselves. I am not sure how you want to structure those questions, but we can, perhaps, have some guidance from you as we approach those.

The Chairman: Yes, I certainly will do so.

Mr Woodward: Chairman, Committee members, good morning.

Further to the hearing on 30th January 2008, we would like to provide the Committee with clarification and indeed corrections on a number of points raised and recorded in *Hansard*, as a result of the last hearing attended by Mr Watt and myself.

Firstly, a number of pricing questions were put to us and we wish to correct one point raised regarding the date the special offers became a User Agreement obligation.

The original 1995 User Agreement was introduced when all passengers paid standard fares and there were no special offers. Many people today forget that all fares used to be standard fares. In 1996, the Company began a strategy to lower fares, to dramatically increase service provision and to invest in modern tonnage. The intention was to arrest and then reverse the decline in sea traffic at that time.

A range of special offer fares was introduced to boost carryings for off-peak periods in particular. As a result we have, since 1996, seen a level of growth in traffic to the Isle of Man.

Over the same period, the UK ferry industry has seen significant decline in UK sea passenger traffic, with numbers falling by around 30 per cent, despite general UK economic growth, whereas Isle of Man traffic has increased by around 40 per cent.

The 2002 User Agreement extension introduced a new obligation to safeguard the availability of discounted fares. As a result, the Company had to guarantee a minimum of 250,000 special offer seats annually from that date. With effect from 2005, this obligation was further enhanced, and the Company has since been obliged to offer at least 50 per cent of the previous year's total sales at discounted offer prices.

As stated previously, the Company has already supplied evidence confirming full compliance with all User Agreement pricing obligations. It should be noted that special offer fares have effectively become the norm for the vast majority of passengers. This year over 900,000 special offer fares have been made available.

With regard to the *Hansard* entry on the number of changes required to TT provisional bookings, Mr Watt in fact stated that nine times out of ten we will *not* change provisional bookings. In fact, it is more like 99 times out of 100. The number of provisional bookings actually requiring change over the years has been extremely limited, and in most years, no changes at all have been made.

We would add that the TT advance booking system has been instrumental, in our view, in developing the number of TT visitors to the Island, with well over half a million customers using it since its introduction. Despite the Committee's apparent criticism of this policy, the simple fact is that if it were not in place the number of visitors to the event – and hence the benefit to the Isle of Man – would be much reduced.

On reading the *Hansard* record of the discussion of fuel surcharges, it would appear there has been some misunderstanding. The system monitored by the Department of Transport ensures that the Company has had to absorb the majority share of the extraordinary 800 per cent marine fuel price increase seen over recent years. The surcharge allowance automatically applies increases or decreases, by reference to the actual cost incurred over the previous six months: thus both increases and decreases are applied in a fair and equitable manner.

From time to time, the Company has not applied this increased entitlement. This means that there may be no reduction in the surcharge on a subsequent decrease in costs, but only because the Company had previously waived this entitlement to increase.

To summarise, all decreases are applied, but not all increases have been and the Department of Transport ensures the agreed mechanism is operated fairly.

We would also like the Committee to note that our passenger fuel surcharge is still only £2.50 per passenger. The website of Condor Ferries, probably the most comparable operator to the Steam Packet Company, confirms that they now apply a surcharge of £8.50 per passenger in the Channel Islands for a similar distance.

On the question of brochure pricing raised by Mr Malarkey, we have obtained brochures from many UK ferry operators to various destinations. In common with the Steam Packet Company and standard travel industry practice, every single one of them promotes their cheapest fares.

Where special offers are available, not one of them highlights their maximum fares, as Mr Malarkey suggested should be the case.

North Link, with a £31 million annual Government subsidy, is the only exception. They have no special offers available in their brochure and only offer a fixed price per sailing.

Regarding investment, *Hansard* states that Mr Cregeen asked a question about the breakdown of the £16 million investment. For the record, we have previously confirmed that, in fact, we have spent in excess of £60 million on our fleet and facilities, not £16 million. We will provide a breakdown of that amount to the Committee.

With regard to service, we outlined on 30th January how much service frequency and choice has increased over the past decade. The number of passenger sailings to Heysham has almost doubled and the number of services to Liverpool has more than trebled since 1996. This is an extraordinary increase in service provision.

The Committee also raised some specific service quality issues. We recognise that there are service issues that need to be addressed and are already being addressed. However, these should be put into context.

We have over 600,000 passenger journeys per annum and the Company has had very few complaints regarding, for example, seating availability. We note that the Committee has only attracted around 100 submissions which, as a proportion of 600,000 passenger journeys, cannot in any way be deemed a significant percentage of the travelling public.

We have already supplied the Committee with market research data from 5,360 passengers surveyed in depth last year. This indicates that the cleaning, seating or other service issues raised by the Committee would not appear to be common issues. Indeed, our own much larger survey of customers indicates that the vast majority are satisfied with the value for money of our fares, and our comfort and cleanliness ratings are good. This market research is also published on our website.

Nevertheless, we recognise the need to take note of these issues and we have reiterated to our staff the need to assist customers with seating and to maintain cleaning schedules.

Again, we would point out that all ferries inevitably have restricted seating availability from time to time, but we have supplied occupancy data, demonstrating that for the vast majority of sailings, this is not an issue.

The Committee will have noted recent announcements and initiatives by the Company, which make clear the priority we place on the service we provide to our passengers.

The Committee introduced into the previous hearing some photographs of waste bins in Liverpool. The Company would like the Committee to note its disappointment that these photographs were not made available to us in advance, together with confirmation of the date they were taken, so that we could investigate the particular circumstances, rather than simply being presented on the day of the hearing. We believe this action led to unnecessary, untrue and adverse criticism of the Company in the Isle of Man press.

For the record, therefore, we wish it to be noted that the Committee chose to travel on the day which saw both the official opening of the cruise liner terminal in Liverpool and the visit of the *QE2* cruise vessel to this new facility. After travelling, the Committee wrote to the Company, enquiring about the upkeep of land around the Liverpool terminal. Neither in this letter nor at any point prior to the hearing on 30th January did the Committee reveal that it was actually largely referring to concerns about waste, wrongly believed to belong to the Steam Packet Company.

I would now like to make clear the true situation. In order to cater for waste removal from the visiting *QE2*, additional waste bins were placed on land adjacent to that used by the

Steam Packet Company. This land is neither owned nor controlled by the Steam Packet Company. The photographs introduced at the previous hearing depicted these temporary additional waste bins. This was not Steam Packet Company waste and while, obviously, we would prefer cruise liners not to dispose of their waste in this manner, in practical terms they have little choice, as there are no other facilities currently available.

The Committee have also raised questions about the level of freight charges. For the sake of clarity, we wish to make clear a number of points. Freight charges are included in the basket of fares, and have been reduced in real terms every year for 13 years. The Committee states it has had commendations about service quality, but criticism on freight fares. It is, of course, in the commercial interest of these companies to try to obtain lower fares, so to some extent that is to be expected.

However, we understand that the Committee has received response from less than 10 of our freight customers, a very small proportion of our 231 direct freight customers and many more indirect freight customers.

Freight charges today are linked to historical rates, when ro-ro competition existed in the Island. Since 1985, our regular trailer charges, which account for 90 per cent of our traffic, have in fact reduced in price by 60 per cent in real terms. There is *no* factual basis to suggest that freight prices are high because of a lack of competition. In fact they are, in real terms, very significantly lower today than when there was ro-ro competition.

The Committee also seemed to imply that the Company does not face freight competition. In fact, we compete with both Mezeron and Ramsey Steamship Company for freight shipments. In 1995, the Steam Packet Company had around 70 per cent of market share by weight, and our competitors had 30 per cent of the market. If we were not competitive on price, our market share would be decreasing: in reality, our market share has increased to 80 per cent and our competitors have also chosen to ship some of their business, using our services.

All small island routes suffer from poor economies of scale. The Channel Islands' population and GDP are very considerably larger than those of the Isle of Man. However, Channel Islands' freight fares are much higher. For instance, livestock rates are as high as £75 per metre. This is substantially more than our own livestock rate.

Other small volume island services are subsidised by the taxpayer. An annual subsidy of £31 million is, we understand, necessary for North Link to provide Shetland and Orkney services. There is a similar taxpayer subsidy in the Western Isles.

In the Isle of Man, there are no taxpayers' subsidies and, indeed, the Steam Packet Company contributes to the economy by payments of multi-million-pound Government port dues. In practice, of course, Steam Packet freight rates are largely absorbed by UK wholesalers or retailers, and not by Island consumers.

At the last hearing, the Committee also asked about the level of discounts applied, compared to RPI, since 1995. We have already supplied evidence demonstrating the substantial decreases in passenger fares, with many around half price in real terms. There have also been significant reductions in freight rates and, if requested, we can provide definitive proof of this.

For instance, self-propelled standard freight rates have

decreased in real terms by 21 per cent since 1995. Self-propelled livestock rates have decreased by 31 per cent and standard trailer-rates have decreased by 17 per cent.

Flat-deck rates for 12.4-metre vehicles have decreased by 22 per cent in real terms. Commodity rates have decreased by 22 per cent and hazardous cargo rates have decreased by almost 90 per cent.

The Department of Transport also has a record of these prices and can no doubt independently substantiate these historical price reductions since 1995, if the Committee requires further analysis.

Our regular freight trailer rates have declined by a substantial 60 per cent in real terms since 1995, when we had ro-ro competition. As stated, we still face competition today and our rates are cheaper than those of the Channel Islands.

That concludes those matters from the last hearing. I would like to continue now with the further questions asked by the Committee subsequent to the last hearing and relating to the Steam Packet Company.

The Chairman: Before you do, Mr Woodward, can I just ask colleagues if they have any follow-up questions, relating to what you have just told us.

Mr Cregeen?

Mr Cregeen: You were saying about the yard at Liverpool and, on our visit, it was a coincidence that the cruise berth was opening the same day as we were turning up. We have a letter here from Prince's Dock saying:

'The majority of Plot 7 at Prince's Dock is currently utilised by the Isle of Man Steam Packet Company for traffic marshalling and baggage handling facility. The responsibility of the upkeep and maintenance of this facility falls clearly on the Isle of Man Steam Packet Company and not that of Peel Holdings' Mersey Docks and Harbour Company.'

From the photos that we had, you had the bins outside, you had the wheelbarrow but also there was the state of your facility there, the Portakabins. Surely that was not a spin off from the cruise liner opening: the dilapidated state had been there for some time, surely? So some of that had been there. It is your responsibility and did not any of your officers relay to you the condition of the site?

Mr Woodward: We are well aware of the site and I am not taking issue with that. I am taking issue of the waste bins, which is what you chose to produce photographs to the press and to the public about. (*Interjection by Mr Malarkey*)

Mr Cregeen: No, there was the chair, there was the inside, the security desk.

Mr Woodward: I think we have made quite clear that we are investing, shortly, a sum of several million pounds in new facilities in Liverpool, and that is what we are focusing our intention on.

We accept fully the facilities were less than ideal in that interim period, until we moved to those new facilities.

The Chairman: Whose responsibility is the marshalling-yard area? Is it yours or the Mersey Harbour Board?

Mr Woodward: Mr Cregeen just read out a letter from the Mersey Docks and Harbour Company which we would

disagree with, because we have no rights, as we have said previously, to be on that area.

The Chairman: So there is disagreement between you and the Mersey Dock Harbour Board over the maintenance and upkeep of the area that is used every day?

Mr Woodward: I think 'disagreement' is perhaps the wrong word, in the sense that we have asked them to maintain that area, and they have said they are not prepared to maintain that area, because it is only now a very short-term tenure that we have.

The Chairman: It is inevitable then, Mr Woodward, that difficulties such as this will arise due to that lack of clarity, as to who is responsible for clearing up?

Who is responsible for giving permission for skips to be put there in the first place?

Mr Woodward: I think the skips were not placed on an area of land that we control and that is the point I made in my submission earlier.

The Chairman: The high weeds that are growing within the perimeter fence: is that something that would concern you?

Mr Woodward: I believe they are also adjacent to that same area which we do not control.

The Chairman: Thank you.

Mr Malarkey: Can I just get clarification on what part you do control? That was that inside the reception... the compound area is actually gated off.

Mr Woodward: 'Control' is probably the wrong word. We occupy part of it and are allowed to use part of it.

Mr Cregeen: Do you pay any money for the use of it?

Mr Woodward: None.

Mr Cregeen: And the Portakabins or your booking area?

Mr Malarkey: Do you own them?

Mr Cregeen: Do you own them?

Mr Woodward: Do we own the Portakabins?

Mr Cregeen: Yes.

Mr Woodward: We own one of them.

Mr Cregeen: So you are responsible for the condition inside the...?

Mr Woodward: Yes, I do not think we denied that.

Mr Cregeen: Just for clarity, because you were saying it was –

Mr Woodward: No, no, we own one of the Portakabins.

One of them is... I think Mersey Docks and Harbour Company provides that for us.

Mr Malarkey: Not wanting to harp on that, but would you not consider that it is the gateway to the Isle of Man, probably the first thing – ?

Mr Woodward: I would fully agree and I think we are labouring a point. We understand that fully, and we have been making strenuous efforts for many years to improve facilities in Liverpool.

Mr Malarkey: Surely a Company of your size could have been doing something just to brighten the place up a little bit in the past?

Mr Woodward: We have improved that area considerably over what was there previously: for example, there was no tarmac surface at all there, previously. These are very substantial costs which are involved in a building which we have been moving from since 2004. I think we were originally due to leave that area.

Because of delays in various projects relating to the Pier Head, we have not been able to proceed as quickly as we would like – through no fault of our own.

The Chairman: So the situation is as frustrating for you as a Company, is the message I get?

Mr Woodward: Well, I hope the tone of my voice conveys that clearly, Chairman, because, absolutely, it is frustrating!

The Chairman: And therefore the image that is presented to your passengers coming to the Isle of Man is not one you would endorse at all?

Mr Woodward: It is not one we endorse, nor are happy with, and we hope that very soon we will have much better facilities and be able to present a much better shop window for the Isle of Man.

The Chairman: We would certainly share your hope in that regard.

Before I allow you to move on, a final point, Mr Cregeen.

Mr Cregeen: Can you confirm who carried out your research on the vessels?

Mr Woodward: Mr Watt, I think, can give details of that.

Mr Watt: We employed a company who has come up with a system that passengers are given a hand-held device, and they can fill in their own responses to all the various questions. This is extremely beneficial, in that we can interview customers on a daily basis, and it means that we are now able to interview perhaps 20,000 passengers per annum, whereas before we used to have a smaller snapshot. So it allows huge numbers of responses, which is very useful.

The Chairman: Now I must move on.
Mr Woodward, we submitted to the Company some

15 questions, which break down into three categories: ownership and investment being one; accounts and traffic volumes being the second; and freight being the third group of questions.

I am very happy for you to go through these systematically, and equally happy to pose for the record those questions to you and invite your response. Would you like me to do the latter?

Mr Woodward: I think, Chairman, it would be perhaps more beneficial if we were on the record with what the questions were. And if I could further add that we would probably deal with the first three questions as one answer, as we see those linked.

But could I first make a very general statement about our answers, in general?

The Chairman: Yes, by all means, you can.

Mr Woodward: As we have stated previously, the Steam Packet Company is committed to co-operating with the Select Committee and therefore wishes to respond as fully as possible to the questions asked during this sitting.

However, as previously advised, management must take care when providing answers which may be *sub judice* in relation to the legal challenge by Seaside Shipping Limited. It is hoped that the Committee will therefore understand that the Company may necessarily respond to some questions only in broad terms.

The Chairman: Thank you.

If I put the first three questions to you and then, as you suggest, you can give us a composite answer.

From the evidence submitted, the Committee notes that the Company was purchased in 2003 for what is claimed to be a high price, given that its main asset at the time, *Ben my Chree*, had a book value of less than £20 million. We would ask: what is your response?

It was stated in the *Maritime Press*, at the time of the 2003 acquisition, that Sea Containers achieved a profit of US\$100 million, £67 million, on the sale of the Company. Would you agree that the real value of the Company rests in the User Agreement, which gives the Company an exclusive position within the ferry market and therefore more or less guaranteed income, the latter enhanced even further through provision for price increases?

And, lastly, the Company was subsequently sold in 2005 for a reported £225 million. It has been suggested to the Committee that purchasers were apparently paying a very substantial premium to acquire the Company on the back of the User Agreement, which guarantees an essential service. Would that be correct?

Mr Grant: The Steam Packet Company is not in a position to comment on prices paid or valuation methods used by previous owners. How an individual purchaser chooses to value a company is a matter which is dependent upon individual companies' financial internal appraisal methods and is therefore unique to each prospective purchaser.

In those cases mentioned in the question, the management team were not party to the decision-making process. However, to put the sales into context, the relationship between price paid and net asset value for those transactions involving the Steam Packet Company were consistent with

both the Red Funnel and Condor transactions.

Red Funnel operates to the Isle of Wight from the UK mainland in competition with WIGHTlink. It was purchased in June 2007 for approximately £220 million, and their 2006 accounts show the main assets – vessels – to be around £30 million.

Condor primarily operates between the UK mainland and the Channel Islands. It was purchased in 2004 for approximately £240 million, with tangible assets understood to have been £60 million. Both purchase and net asset values are very much in line with those of Steam Packet Company.

It should be noted that Red Funnel does not have a user agreement or similar arrangement in place. Condor does not have any long-term exclusive arrangements, but has a simple service level agreement with the Channel Islands Government, which does not include any RPI-linked price controls.

The Steam Packet Company is a business that has a lengthy investment cycle. Assets are purchased, depreciated, revalued and sold over a long period of time. Therefore the reported value of assets is constantly changing and is not likely to be a key consideration when valuing the Company.

The User Agreement was negotiated with the Government in 1995 to provide a guaranteed year-round service, as the Island could not sustain two competing ferry operators. Competition between the Company and ManxLine proved unsustainable and led to a forced merger of the two Companies.

Although the User Agreement grants near-exclusive access to the Government's linkspan, it also creates obligations to provide a number of loss-making services and restricts the ability to increase prices, as well as requiring future investment.

Freight demand alone could be satisfied with six return sailings per week. The Company operates at a level of frequency well in excess of this, typically with between 14 and 35 return sailings each week, depending on the time of year.

In relation to passenger services, many of these services under the User Agreement are uneconomic on a stand-alone basis.

The Chairman: Thank you. Prof. Baird, is there any follow-up you would wish the Committee to make?

Prof. Baird: I think we would probably have to take some review...

The Chairman: Yes.

Thank you very much, I appreciate that. Can I now ask you – this is in respect of acquiring new vessels – neither recent purchaser has made any investments in acquiring new vessels. Does the User Agreement require the Company to invest in replacement vessels and what is the timescale?

What steps have been taken by the owners to comply with the requirements of the User Agreement to acquire a new fastcraft which can operate reliably in winter? This is in respect of: from 1999 till the sale of the Company in 2003; from 2003 until the sale of the Company in 2005; and since 2005. What steps are to be taken by the current owners to acquire such a fastcraft?

Mr Watt: Gentlemen, before answering, we wish to

clarify certain statements within the question itself, which are fundamentally incorrect.

Firstly, the User Agreement does not require the Company to invest in a new fastcraft that specifically can operate reliably in the winter. All fastcraft that can currently operate into Douglas have a significant weight-height restriction of up to a maximum of 3.5 metres. Operating such a fastcraft in the winter will result in a number of cancelled sailings.

This winter we have operated the *Ben my Chree*, which is not restricted in terms of weight-height operating capability. As a result, not only did we operate with greater reliability, we also increased passenger numbers.

Secondly, in relation to the question of neither purchaser having made any investments in acquiring new vessels, Montagu did in fact enter into a long-term lease-purchase arrangement in relation to *SuperSeaCat 2* in 2003.

The User Agreement required the Company to invest £20 million by 2005. The 2004 extension of the User Agreement requires the Company to invest a further £26 million by 31st December 2015: £18 million of that amount is to be invested by the end of 2012.

The User Agreement has provided the Company with a stable base for investment in its vessel fleet and has enabled the Company to invest in the development of additional services. Since 1995, the Company has been fully compliant with its obligations for investment under the User Agreement and has invested more than £60 million in maintaining and upgrading its fleet and facilities.

In 2007, we invested in a second fastcraft to provide an expanded summer service to Ireland and Liverpool. The Company is also actively investigating replacement fastcraft investment options around the world.

At the Select Committee hearing on 13th January, we confirmed we have invested more than £60 million in the business and, as offered, we can provide the following detail: *SeaCat Isle of Man*, renamed *Snaefell*, valued £13 million in 1997; *Ben my Chree*, £24 million, 1998; *SuperSeaCat 2*, renamed *Viking*, lease-purchased 2003, worth ca. £18 million; *Ben my Chree*, £2 million extension, 2004; new maritime reservation system, £1 million investment, 2005; new Liverpool terminal project, ca. £2.8 million, 2007 and 2008.

We have also invested heavily in non-capital items, such as the dramatic increase in the number of scheduled passenger sailings.

The Company has funds allocated, with board approval, for the purchase of a suitable fastcraft replacement, and will continue to invest any necessary time and resources to investigate suitable options worldwide.

Thank you.

The Chairman: Thank you very much.
Prof. Baird.

Prof. Baird: If I may, I would like to go back to the first three questions, just very briefly, and the comparatives with Red Funnel and their conduct.

My understanding is that Condor have five ships in the fleet, Red Funnel has three conventional ferries, plus four high-speed craft, and both companies have extensive intermodal and logistics investment. They are not necessarily that comparable with the Steam Packet Company.

I think the question the Committee was trying to address was how do you see the Company valued at £225 million

when it essentially has one ship, at the time, within the Manx fleet, with a book value of maybe around about £15 million? That is the question, and I am not so sure these two companies – Red Funnel and Condor – are comparable.

Mr Grant: The Steam Packet Company, the operating Company, actually owns three ships, not one ship: it owns the *Ben my Chree*; it uses the *Viking*, which is on a lease purchase; and it uses *Snaefell*. What you have got to remember is the style of the Company has changed since 2000. *Snaefell* is now held within another wholly-owned subsidiary within the group. So, it owns three ships; that is my first point.

The second point, as well... You start talking about the net asset base. What we clearly demonstrate in this answer is that the relationship between sales value and net asset base is not there. It is not a great link. It is not the way companies these days are valued. If you take your example, you said Red Funnel was purchased in June 2007. It has got an asset base of £30 million. How many ships did you say, Prof. Baird, Red Funnel had?

Prof. Baird: It was three conventional and four high-speed craft.

Mr Grant: Seven ships at £30 million.

Then we look at the Channel Islands: five ships, asset base roughly £60 million.

You have also got to remember that we are talking about financial accounts here. It can be how aggressive, or not aggressive, the depreciation policy is that can actually determine the net asset base. It could be how realistic, or not, their asset valuation is, that can determine it.

There are a lot of things in play here, and I would stress I do not think there is a true connection between the asset base and the sales value. What we have demonstrated is that the net asset base that we have got is in line with these other companies, and the value paid for them is in line with these other companies, as well. I am trying to put some context into it all.

Mr Woodward: You are obviously an adviser to the Committee. In your view, are the Red Funnel ships comparable to the type of ships the Steam Packet Company operates, in terms of their ability to carry passengers, vehicles or freight?

Prof. Baird: I do not think you are right they are not necessarily comparable, different types of vessels.

Mr Woodward: I think it is a key comparison that somebody has chosen to leave out, and I think the point needs to be made very clearly that the fleets are not comparable.

Prof. Baird: Yes, but the Condor fleet is.

Mr Woodward: The Condor fleet is a much larger fleet, and that is reflected in the higher net asset value.

Prof. Baird: Yes, but not in the sale price.

Mr Woodward: The sale price was more than the Steam Packet Company, and it is up for sale again and, no doubt, will be higher still –

Prof. Baird: Yes.

Mr Woodward: – but the point we are trying to make very clearly is that there is a link there which is not based directly to the net asset value of the Company, nor the type of fleet it operates.

Prof. Baird: I think the Committee would agree with you there is no link between the assets and the sale value, because the assets, in all cases, are relatively modest, but the sale value is inflated over time. The question the Committee is trying to understand is why is that sale value so high, and of such interest to financial institutions like pension funds.

Mr Woodward: I think that is a question we are not qualified to answer, and would have difficulty answering, because it depends on individual companies and how they value companies, using their own models. Each of them has a very different set of criteria, I am sure, which makes particular companies attractive at particular prices.

Prof. Baird: I think the other issue is how often are these shipping companies going to be sold on, because Condor is now, I think, through the third owner in six years.

Mr Woodward: I think that is right, and I think that is something we have not touched on, in terms of the Steam Packet, because we have owners now who perhaps pioneered the infrastructure asset concept and have made it very clear that they intend to be long-term owners of the Steam Packet Company. That can only be a good thing, as far as we are concerned.

The Chairman: Can you tell us who are the current owners of the Steam Packet Company?

Mr Grant: The current owners of the Steam Packet Company are three pension funds and a subsidiary of Macquarie themselves.

The Chairman: Then, based in Australia?

Mr Grant: The shareholders are Australian based. I would need to check as to the location of the Macquarie shareholding.

The Chairman: Thank you.

The Company group structure has changed recently, specifically in terms of the New Manx Vehicle, the new Companies Act 2006. Can you confirm that the Steam Packet has changed its structure to have its statutory basis under the New Manx Vehicle, under the new companies legislation?

Mr Grant: That was not the reason for it. We were actually in the process of tidying up the structure. We have had some dormant subsidiaries which, as you will note, we took out of the organisation structure. We have now got three legacy holding companies from previous purchases which form the... They have no real holding going forward; they have outlived their usefulness. The New Manx Vehicle was just an option that we could go down.

The Chairman: So it is nothing to do with the change of ownership?

Mr Grant: It is not an ownership... It is probably a personal bee I had in my bonnet about having to produce accounts for no function.

The Chairman: Yes, I see. So the accounts, under the new system, you have to confirm that they have been produced.

Mr Grant: We are in the middle of a process of restructuring the Company. I think the New Manx Vehicles for the ones you are talking about were dated 31st December, so we are still in that, we are still going through.

The Chairman: Thank you.
Mr Turner.

Mr Turner: The question I had was why did you decide to convert to a New Manx Vehicle, and I think you have already answered that, so I have nothing.

The Chairman: Mr Malarkey.

Mr Malarkey: Yes, when quoting what you have spent through the Company already, the December 2004 – the last – User Agreement clearly states that you must invest £18 million in a vessel. You were quoting spending £1.8 million on landing stages, or something, at Liverpool.

Since 2004, I have picked up on £3.8 million, which is nothing to do with the vessels, really. What are your Company's future investments likely to be? We are now in 2008. By 2012, you have to have invested £18 million – and it clearly does say in a vessel or vessels – no later than 31st December 2012.

Mr Watt: We do have funds allocated specifically to comply with User Agreement obligation and will, of course, comply with the obligation.

Mr Malarkey: You have got funds set aside?

Mr Watt: We have funds allocated and board approval.

The Chairman: The financing, is that then to be undertaken out of reserves that have been built up?

Mr Woodward: Chairman, we do touch on this in an answer to a question later on, if you could defer it until that point.

The Chairman: Alright, we will leave that point until that. We will just press on then with our questions.

According to the data that we have obtained from Company accounts for the period 1998 to 2006, the Company's profit before tax has quadrupled over the period 2000-06, rising from £4.1 million to £17.5 million, whereas turnover over the same period increased by only 22 per cent. Very substantial profits were also achieved, in 2004, of £12.5 million and, in 2005, £15.3 million. The profit margin has therefore effectively more than trebled between 2000 and 2006, rising from 10.4 per cent to 36 per cent.

Can you explain the main reasons behind this significant increase in the Company's profitability, Mr Grant?

Mr Grant: Thank you.

We cannot answer this question in specific terms without

raising issues of *sub judice*, as questions relating to the profitability are relevant to the Seaside Shipping Ltd petition before the High Court. We do believe, however, that a more general answer provides sufficient information to explain the Select Committee observations regarding *apparent* increases in profitability.

Steam Packet Company profitability is in line with equivalent ferry operators and reflects both the capital-intensive nature of the business, operator risk and where, in particular, at any given time, the business may be within its natural investment cycle.

The two periods in question are not comparable as they contain certain non-cash financial accounting adjustments. Once normalised, the increase in profits is driven by revenue.

The same financial accounting entries generate misleading swings in margin. Underlying margin for the period under review did not materially increase. As the Steam Packet Company is a relatively fixed-cost business, increases in volumes, and hence revenue, contribute to an increase in margin. Over recent years, traffic volumes have increased, due to the Steam Packet's improvements in reliability, frequency of service, price reduction in real terms, and market share gain from competitors. Similarly, in times of increased competition, such as when Emerald Airlines operated Government-subsidised services, profitability may be substantially reduced.

Thank you.

The Chairman: Thank you.
Mr Cregeen.

Mr Cregeen: You have said across the business your profit margins are in line with other businesses. Which businesses have you compared that with?

Mr Grant: We are taking that from a Condor, in particular, perspective.

Mr Cregeen: What was their level of profit?

Mr Wild: Just a second, John.

Mr Grant: Their accounts are published, so I am sure you would be able to get them from them, Mr Cregeen.

Mr Cregeen: But you have just quoted Condor, and you said that it is comparable with other industries, so surely you must have the figures there to say that you are comparable with.

Mr Wild: I think we have to answer this question in general terms. As we have said, we are attempting to co-operate within the bounds of the –

The Chairman: We appreciate that. It is just that when you have given a specific reference like this, I think we are entitled to ask what that specific information is.

Mr Wild: We think it is broadly comparable to Condor, and that is the answer that... I think it is as far as we can drill it down at the moment.

The Chairman: We will make our own enquiries. That

is fine; no difficulty there.

Mr Cornwell-Kelly.

The Clerk of Tynwald: Chairman, I just wonder if the matter could be put into the context of the representations that have been made on behalf of the Steam Packet Company before by their legal advisers, that there was, in fact, on further consideration, no conflict between the matters which the Committee was investigating and the matters which are the subject of the legal proceedings, and for that reason there was no necessity for any further exploration of the degree of overlap or conflict to take place. That representation was clearly made to me and to the Committee some two months ago. It would seem that we are now being told that there is.

Mr Wild: No. Two months ago, when we made that representation, it was in the context of the questions that were being posed then. The Committee was set up in June 2007, and it was only two weeks ago that we received the questions in relation to profitability, and two weeks before that, on 30th January 2008, when the question of profitability was raised, largely in the last question at the end of the hearing.

We dealt with it as we could at the end of last year and on 30th January 2008, and we are trying to address these questions in general terms within the context of High Court proceedings. We consider that the answers that we can give you and provide you with enable you, in the context of this Select Committee, to consider our response and move on from there. If you consider you are not in a position to do that, then I am sorry, that is the position that the Steam Packet faces.

The Chairman: It is just that, until the hearing this morning, having sent you the questions in advance, and not having heard to the contrary that there was any indication of *sub judice* matters within those questions, we thought they would be fully accounted for this morning.

Mr Wild: I apologise if you thought along those lines, but you will appreciate that we only received those questions 11 working days ago. It is not a straightforward answer to prepare a detailed response to all these questions and consider them in the context of a separate set of proceedings, and it has taken us time to consider a response.

As I have indicated, I would hope that you would accept that the responses we have given – or my client has given – in general terms answer the question. Your question actually ends with 'Can you explain the main reasons?' and that is what we have given. If you want to go down into actual detail of economics, we consider that is *sub judice*.

The Clerk of Tynwald: Mr Chairman, if I could, just simply for the record, record that when the question of the possible conflict between the proceedings and these investigations was first raised, it was clearly indicated to the Steam Packet Company that we would need to be satisfied as to the reasons why there would be a conflict. At that point, it was indicated that we would have a sight of the pleadings in the law suit, which would enable us to reach a clear conclusion on that matter. That was put in abeyance because, as I said before, we were told that, on further reflection, there appeared to be no conflict.

The Committee is now being denied information which

is sought without our having revisited the basic premise on which we proceeded.

Mr Wild: Mr Chairman, I am sure we can revisit that basic premise off line, but you will appreciate, from our perspective, it was only 11 working days ago that we had these questions to decide our point.

The Chairman: Was the problem a lack of notice, then?

Mr Wild: If it is an ongoing problem, I am not sure that not being able to answer one question on the specifics is...

The Chairman: I think what we will do, in that case, is we will carry on and we will reflect on the answers that have been given and, if we require, as a Committee, more detail, we will certainly expect you to provide that detail.

Mr Wild: Perhaps if I could just reiterate, Mr Chairman... Sorry to interrupt, but it has been the Steam Packet's position to try and co-operate, as Mr Woodward has indicated, and, in responding to these questions, we have attempted to respond in general terms. We would hope that is enough, and suitable for the Committee, without needing to go any further in relation to the *sub judice* point. If not, then, yes, we can consider that afterwards.

The Chairman: We will take this under further advice, once we have concluded.

If I could move now to the next question, the significant rise in profits over the period contrasted with a large reduction in tangible fixed assets, which one would expect to mostly relate to vessels. Tangible fixed assets fell from £43 million in 1998 to £20.5 million in 2006. Can you explain the reason for the fall in tangible fixed assets?

Mr Grant: Thank you, Mr Chairman.

The Steam Packet Company operates a combination of owned and leased vessels. There is a natural cycle in investment such that, at various times, assets are purchased, revalued, sold and depreciated. Also, the value of chartered vessels is not included on the balance sheet. The tangible fixed asset base can therefore vary considerably from year to year. Also, the Steam Packet's vessel configuration has changed over the years to accommodate the changing levels of passenger, vehicle and freight demand.

The Chairman: Thank you.

A substantial dividend of £15.1 million was paid to shareholders in 2002, and further dividends of £6 million and £19.6 million were paid in 2005 and 2006 respectively. Do such substantial dividend payments limit the Company's ability to make investments?

Mr Woodward: Mr Chairman, if I could just confirm that the Steam Packet Company has both a vessel acquisition facility and a major maintenance reserve. As a result, dividend decisions are made independent to investment considerations, and are made without prejudice to our ability to meet our investment obligations under the User Agreement.

In short, the dividend payments do not in any way limit the Company's ability to make investment as required under

the User Agreement.

The Chairman: Thank you.

The Company's total reserves increased from £10.3 million in 1998 to £68.1 million in 2006. Can you tell us how these reserves are made up, why have the reserves increased to this level, and what benefit has this increase for shareholders and for customers?

Mr Grant: Thank you, Mr Chairman.

The significant movement in Steam Packet Company reserves relates to the accounting treatment for the repayment of the securitisation debt created by Sea Containers in 2003, and is therefore neither cash or profit related. This transaction created a share premium reserve of £44.2 million. The rest of the movement related to the profit and loss and revaluation reserves. As the majority of this increase relates to the creation of a share premium reserve, whose use is very restricted, it has no real benefit, or indeed disbenefit, for either shareholders or customers.

The Chairman: Thank you.

Would you say that the current financial strength of the Company should allow the Company to make investments in new vessels, i.e. to purchase without too much difficulty?

Mr Woodward: Chairman, as previously mentioned, the current debt facilities of the Steam Packet Company do include a vessel acquisition facility. The Company, therefore, already has funds allocated and approved for investment. As soon as a suitable investment opportunity is identified, the Company is also able to react with any necessary speed to secure that opportunity.

The Chairman: Thank you.

Any follow up at this stage, Mr Turner?

Mr Turner: Yes.

Would you agree that chartering vessels does not qualify as an investment, in terms of the User Agreement?

Mr Woodward: Absolutely not.

Mr Turner: You do not agree? Because the indication from the Department of Transport earlier – you heard their evidence – was that you had to purchase a new vessel, but how you paid for it was not their concern.

Mr Woodward: I think, in terms of the Steam Packet investment, whether we lease-purchase, or whether we buy outright, really does not matter, and it makes no difference to the substance of the asset that we are acquiring. There are arguments for and against both types of methods. I would suggest that, obviously, ownership may be preferable in some cases. Equally, in some cases, it may be preferable to lease-purchase something and then have the ability, if necessary... If market conditions change or vessel improvements come along, you could actually then, perhaps, move to another opportunity at shorter notice than might otherwise be the case.

Mr Turner: But in lease-purchase, am I right in thinking the vessel would effectively be owned by the Steam Packet at the end of that term?

Mr Woodward: That is a possibility, but it is not always the case.

Mr Turner: But a long-term charter, it belongs to somebody else.

Mr Woodward: That is usually the case –

Mr Turner: Therefore –

Mr Woodward: But the reality is, in terms of investment, that does not matter. The investment is about the Steam Packet Company spending money, laying out cash, to actually acquire assets so that you can use those assets in the business. Whether we do that in terms of a purchase or a lease charter, I do not think is either (a) within the terms of the User Agreement, or (b) makes any real difference in the real world, because at the end of the day, we are entitled to use an asset for which we are paying.

Mr Malarkey: The User Agreement clearly says you must *invest* in a vessel or vessels £18 million.

Mr Woodward: What is your definition of ‘invest’?

Mr Malarkey: Purchase; certainly not leasing one!

Mr Woodward: What is the User Agreement definition of ‘invest’?

Mr Malarkey: This is why I am asking you.

Mr Watt: It is covered in the 1995 –

Mr Woodward: I thought we had made that point clear already.

The Chairman: Mr Wild.

Mr Wild: Mr Chairman, I am not sure legal arguments over what constitutes investment or not is really going to take matters further. We are indicating that there are funds made available, in our view, in accordance with the User Agreement. If this is a separate issue, then no doubt we can address that off line. I do not think we are going to get challenged further.

The Chairman: So we understand, your definition of ‘investment’ includes outright purchase and lease?

Mr Woodward: Yes.

The Chairman: That is fine; that is clear enough. That is clear evidence.

Mr Turner: Yes. I was trying to get the difference between chartering a vessel from another owner, as opposed to owning the vessel yourselves.

Mr Woodward: But there may be no difference. A long-term charter might also include an option to purchase at the end, so in that sense, they may be no different at all. There are many different ways of structuring it. I think the broad definition in the User Agreement allows us the flexibility to

make sure that we get the best asset that we can.

The Chairman: Can I ask, what recent attempts have been made to acquire new vessels, new assets, over the last two or three years?

Mr Woodward: Chairman, I am happy to confirm we have been close, on several occasions, to new vessels, and I am afraid, for a variety of reasons, on each occasion we have not been able to conclude those potential purchases.

Most recently, you may have read of a vessel called the *Spirit of Ontario*, which was available in North America: unfortunately, that proved to be unattainable for a variety of reasons. Equally, we negotiated for a large Incat vessel at one point, but again, because of a variety of reasons – some, I have to say, of matters here on the Isle of Man – made that decision, at the time, impossible to continue with.

Obviously, from our perspective, one of the key benefits of the User Agreement is stability, to allow us to invest, and I have to say that processes such as this one do cast very grave doubts on the stability that we all take as part of that User Agreement process, and may, in some way, also affect our investment speed going forward, because there are obviously very important matters which need to be considered here.

Mr Turner: But you are still bound by the User Agreement, regardless of what is going on here.

Mr Woodward: Absolutely, but we may choose to defer that investment decision until there is more certainty over some of the issues raised. For example, early this morning, when Mr Malarkey said that you might choose to place a Government linkspan 10 metres, I think it was, from our own, which would clearly make the fact that we have a licence to site our own... User Agreement there worthless in practical terms.

Mr Turner: But you would still have to invest, regardless of where we put a linkspan.

Mr Woodward: We would certainly have to invest, but we might choose to defer that until we had resolved the issue that there was a linkspan about to sited 10 metres from our own.

Mr Malarkey: This is really leading to where we are coming from: the fact that this 2004 Agreement tells us that you have to invest £18 million by 2012. We are now one-third of the way through this particular Agreement for that investment and we are now down to... After the SeaCat crashed at the end of last summer, you have been running all winter with one vessel.

Mr Woodward: We have been running a reliable service, growing passenger numbers. Do you see that as a negative step?

Mr Malarkey: You have also told us that chartering another vessel is not something you could do overnight. Luckily, the *Ben* has not broken down and you have not been without the vessel.

I am not seeing where your investment is coming here, when you are a third of the way through this Agreement and you are down, from what we had then, to one vessel now.

Mr Woodward: I think we made reference earlier that investment cycles on the Isle of Man, and in this particular shipping service, are a long-term horizon. We are looking very carefully at what we do invest in, but what we do not want to do is to jump into something which is not suitable and proves to be nothing in terms of improvement for our services and for our customers.

We need to be very clear that, when we do find a vessel, it will represent a proper step forward and provide better services for our customers, and we need to be very clear that we do not simply invest because there is an intention or an expectation that we should invest sooner rather than later.

As I said previously, we have been close, on several occasions, to investing. For a variety of reasons, such as Emerald Airlines and so on, we have chosen to defer that investment.

Mr Malarkey: But you found yourself in a situation this winter when you must have had to keep your fingers crossed that the *Ben* did not break down; otherwise there would have been no vessels on route.

Mr Woodward: We would have brought one of the fast ferries out, if that were the case.

The Chairman: I think what we are talking about must be clear: it is about investment in new vessels, replacement vessels for –

Mr Woodward: Could I just make one ancillary point to that, which is that we are, of course, looking all the time to make sure that we have any back-up arrangements in place, and indeed we hope to forge additional ones with other operators.

The big problem we have here on the Isle of Man is that the harbour size, in Douglas particularly, is of a size which means that there are very many vessels these days that simply will not fit, so increasingly we are forced to look further afield to secure suitable vessels, and that is something, obviously, that we intend to devote some attention to internally.

The Chairman: You will understand the Committee is going down this route. We have had the recent announcement from your website that the biennial overhaul for the *Ben my Chree* has been deferred because of difficulty in finding a replacement vessel. It does beg the question, if the existing vessel broke down, what similar difficulty would you have with a replacement?

Mr Woodward: I think the difficulty, in this particular instance, is because we are looking for a short-term replacement. If there were an incident with the *Ben my Chree* which was more serious than that, the reality is we would be out in the market looking for a much longer-term replacement and that is, frankly, easier to secure. The difficult is in getting very short-term charters.

The Chairman: Thank you.
Mr Waft.

Mr Waft: Given the constraints that you have with the search for a new vessel, Mr Woodward, would you say that financial position is not one of those constraints that you have?

Mr Woodward: I would like to make it clear, Mr Waft, that the financial position is not a constraint on us.

Mr Cregeen: You mentioned earlier the *Spirit of Ontario*. Were you thinking of purchasing or leasing that vessel?

Mr Woodward: We had funds available to purchase it, if we had chosen to do that. We had not got to that stage of deciding how it would be internally financed, but we could have done either.

Mr Cregeen: It is just that it was stated that one of the three companies who were bidding for this vehicle wanted to charter. Could you confirm or deny whether it was yourselves?

Mr Woodward: I am aware that one of the companies did, or could, only charter. That was not us, I do not think, no.

The Chairman: As we move on to the next question, then, in conclusion, the additional £26 million by 2015, and £18 million by 2012, as required in the User Agreement, as a Company, you are still committed to this. The precise time you meet that obligation will be dictated by commercial circumstance. I think that is what I got from you.

Mr Woodward: Yes. I would just like to make clear, from the Steam Packet Company's perspective, the User Agreement is a contract, and it is a contract which has terms in it which we, as one party to the contract, are obliged to commit to and to uphold. That is, and remains, our intention, and has always been our intention. So I think any question that we would choose not to invest is, frankly, nonsense.

Mr Malarkey made reference to the fact that we have not invested yet. Well, until we are in breach of the contract, which is the eleventh hour of 2012, then that remains the case but we would rather – and we said it publicly – replace the fastcraft sooner rather than later, but we must find the right one.

The Chairman: I am only asking in relation to your earlier evidence, where you raise some doubt about the timing in relation to this enquiry.

Mr Woodward: I was making the point that enquiries such as this and, indeed, other matters, which do affect the timing of investment decisions, are part and parcel of normal business life. However, notwithstanding that, I want to make it absolutely clear that we have a contract with Government to invest at a certain date and it is our intention to meet that in full.

The Chairman: Okay. The Committee thanks you for that assurance and for reiterating that point.

I must move on. The next question was in relation to turnover, which has fallen from £51 million in 2004 to £48.7 million in 2006. Over the same period, passenger and car traffic has also declined.

In your submission to this Committee on 31st August last, you presented UK-IOM traffic statistics indicating that passenger traffic peaked in 2003 but has since been in decline: 2006 passenger traffic fell to 556,000, which is the same volume carried in 2000. Car traffic peaked in 2004 at

184,000 vehicles but in 2006 had fallen to 166,000 vehicles, almost the same as in 2002.

(a) Can you suggest reasons for the fall in traffic and (b) how has the Company's profit increased so markedly over the 2004-2006 period, whilst passenger and car volumes were falling?

Mr Grant: Thank you, Mr Chairman.

As in the case of question 5, we cannot answer this question in specific terms without raising issues of *sub judice*. We do believe, however, that a more general answer provides sufficient information to explain apparent significant discrepancies. Before answering, we wish to clarify certain statements within the question. Unfortunately, both the Steam Packet Company and the Select Committee have relied upon an incorrect vehicle-volume figure for 2004. The correct number is 172,000 vehicles.

Volumes declined in 2004 and 2005 primarily due to Emerald Airlines entering the Liverpool to Isle of Man route with the aid of a Capacity Contribution Grant from the Manx Government – whilst the segment of the market 2005 gained considerable market share from the Steam Packet Company, but without any overall market growth. It will be some time before we may be able to win back those lost passengers.

However, in 2007 the Steam Packet Company grew passenger volumes every single month, which is in stark contrast to the airline passenger volumes.

To accurately compare revenue in this period, turnover in 2004 needs to be adjusted to exclude revenue from the loss-making Liverpool-Dublin route, which closed on 31st December 2004. After adjustment, comparable underlying revenues increased for the period under review. Profits for the two periods in question are not comparable, as there has been a structural change in the business, including the closure of the loss-making Liverpool-Dublin route and they both contain certain non-cash financial accounting entries. Once these adjustments are made, we believe the increase in profit simply reflects the increase in revenue over the period.

The Chairman: Thank you very much.

Just for the record, then, 184,000 figure for 2004, which was from your own figures to us, you say that actually is 172,000 –?

Mr Grant: That is correct, Mr Chairman.

The Chairman: – which contrasts with 170,000 the previous year and 171,000 subsequent years, so it is less of a dramatic fall, then? (**Mr Grant:** Yes.) Thank you for clarifying.

Moving now to freight questions, can I put it to you that, despite replacing two ships, i.e. the passenger ferry, *King Orry*, and the freighter *Peveiril*, the *Ben* also represented a net freight capacity increase, yet freight rates have continued to increase. Can you explain why these ship-efficiency scale economy gains, which resulted in lower operating costs, have not brought about freight rate reductions for the Isle of Man?

Mr Woodward: The requirements under the User Agreement, which restricts the increase in the basket of fares to RPI minus a half percent, necessarily includes the Company's freight charges. In contrast, rises of fuel and other costs associated with the operation of the vessels are

not restricted to RPI minus a half per cent. This has been the case since 1995.

The Company has been fully in compliance with the User Agreement pricing restriction on freight charges since its introduction in 1995. Isle of Man freight charges are lower today, in real terms, than when there was no User Agreement and an unregulated market for competing freight services.

The Steam Packet is not the only provider of freight services to the Isle of Man. Previously, competitors carried 30 per cent of goods by weight. Due to Steam Packet improvements in reliability, quality and frequency of services, this figure has been reduced to 20 per cent. This is a direct result of the Company's competitive pricing and service policies. The Company's freight charges are as much as 20 per cent cheaper than the Channel Islands' ferry routes, despite the Channel Islands' population being almost twice that of the Isle of Man. It must also be noted that the Channel Islands' freight rates are high, despite there being no long-term agreement, such as the User Agreement.

The competitiveness of the Steam Packet's freight charges is adversely affected by the relatively expensive cost of Douglas harbour dues, which are as much as three to six times higher than UK port commercial norms. The Government charges an additional freight levy on all freight movements, which could be reduced selectively if there was concern over freight rates for specific goods. Further, it should be noted that, under the terms of the User Agreement, the Company pays for the full cost of both the construction and maintenance of the Government's linkspan, in addition to those costs incurred on its own linkspan.

While the introduction of the *Ben my Chree* did lead to certain economies, the fact that it sails on a 364-day, 24-hour basis means that variable costs are very similar to operating two vessels less intensively, as was the case prior to the introduction of the *Ben my Chree*. However, we have chosen to invest any savings from those economies by increasing the number of passenger sailings by more than 1,000 per annum than in 1996. We have also recently introduced a second fastcraft in order to provide an even more frequent summer passenger service to Ireland and Liverpool.

The Chairman: Thank you.

If I just sweep up the last four questions to do with freight, you might be able to give a composite answer: indeed, you have partly answered.

Firstly, what is the percentage proportion of revenues and profit derived from freight, relative to revenues and profit from passengers and cars? How do you see the proportion derived from freight developing over the next five to ten years? Are the Company's profits in the main derived from freight? And the last one, I think you have indicated in the previous answer, how do you explain the fact that the Company's freight rates are so high? You may wish to just to reiterate that one, please.

Mr Woodward: Could I just say, in starting off, that freight rates are 60 per cent cheaper in real terms than in 1985.

At the Select Committee here on 30th January we confirmed that approximately 40 per cent of the Company's revenues came from freight. It is difficult to categorise profit by source as operating costs, both fixed and variable, are calculated either by category or by vessel: for example, the *Ben my Chree* carries freight, vehicles and foot passengers

on each sailing and so all her costs would need to be subjectively apportioned amongst these different revenue streams. Therefore, different methods adopted for calculating these shared costs and overheads could lead to materially different and, therefore, misleading results. However, what is clear is that, as stated at the last hearing, an integrated freight and passenger service reduces total costs and allows the Company to offer lowest possible prices.

Recent experience would suggest that freight volumes are likely to decrease in 2008 and thereafter stabilise, unless Government capital expenditure is increased to levels seen in the earlier part of this decade. In relation to passengers, the Company spends £500,000 per annum in marketing outside the Isle of Man. Clearly, with six million people living within two hours of the Liverpool Pier Head, the greatest growth potential is in developing visitor numbers. The growth potential for Island resident travel is more finite. Having said that, the Liverpool to Isle of Man market will have additional airline competition from April 2008 and, as a result, we forecast a significant reduction in our passenger and vehicle volumes from then on.

In summary, with these markets forecast to shrink, we expect the proportions to remain fairly constant but the overall base to be reduced in the short to medium term. Over the longer term, we would expect volumes to slowly grow from this lower base, with the proportion remaining broadly constant.

It is a fundamental misconception that freight rates are high. Prior to the User Agreement freight charges were driven by a non-regulated market which reflected the small market size, its associated lack of economies of scale and the competitive environment between the Steam Packet Company and ManxLine. The base rates for freight traffic included within the 1995 User Agreement were, therefore, a direct product of these factors and reflected commercially normal rates that the market could sustain at the time.

Since 1995, freight rates have been reduced in real terms by more than 20 per cent as a direct result of regulation under the User Agreement. Since 1985, freight rates, as I said earlier, have reduced by 60 per cent. Freight rates on Isle of Man routes cannot simply be compared to the vastly different economies of scale on other Irish Sea routes. Other similar island routes have either higher freight routes or are subsidised.

In conclusion, we believe that freight rates are fair and competitive within the market in which we operate, have reduced in real terms in the last 13 years and are attractive to customers, as evidenced by the increase in our market share of freight traffic. At least that addresses the main points of those questions.

The Chairman: Thank you.

Just to reiterate, you believe freight rates which govern, to a large extent, passenger fares, you believe freight rates on the Irish Sea – the routes you operate – are competitive in real terms, cheaper than in the past and competitive compared with the Channel Islands and other Irish Sea competitors?

Mr Woodward: Not necessarily Irish Sea competitors because of the different economies and market size but certainly within any comparable similar-volume operators that do not have subsidies, certainly.

The Chairman: Could I ask my colleagues if they have

any questions? Starting with Mr Cregeen.

Mr Cregeen: You state that the number of cars will be reduced because of the new air-link: can you suggest why you think the number of cars will be reduced?

Mr Woodward: Because that is what historical numbers show will be the case. When we had Emerald competing, the fact is that airline fares were reduced to norms which were typically within sea ticket territory: the result was that people chose to fly and hire cars, rather than take their own cars, so we saw both a drop in numbers – a substantial drop in numbers – and also a drop in number of vehicles shipped, as well.

Mr Malarkey: Would you not then see that as either your fares are too high, competing with the hire companies' cars, if they can see that type of choice?

Mr Woodward: There is always a dynamic between deciding to lower your fares to a certain point or simply lowering your overall revenue. We were damaged very seriously by the airline fares offered by Emerald which simply abstracted people from our services to air services and which were then subsidised by the Government. It did not grow the market overall, as was intended to be the case, and indeed we warned in advance that we did not expect they would grow the overall market.

Mr Grant: Can I just add...

The Chairman: Would you, therefore, say that Government had treated airlines more advantageously than sea passenger vessels such as your own?

Mr Woodward: I am not sure –

The Chairman: Unfairness of treatment here somewhere?

Mr Woodward: I am not sure we would say that, Chairman.

I do not think that we would have a view on whether there was a fairness or unfairness. It was simply a statement of fact that the action taken did, nevertheless, precipitate a substantial drop in the numbers of passengers we carried.

The Chairman: And that had a detrimental effect on the Company, from which it has not fully recovered?

Mr Woodward: Given the way that we state the relationship, in general terms, between turnover and profit, most turnover simply goes to the bottom line. I think we have made that clear, so that took us some time to recover from. Indeed, as I said earlier, I think we may face a very similar scenario from April of this year when there is increased airline competition once again, albeit without Government intervention.

Mr Grant: Sorry, my point was... whether it is sustainable at low fares. If you take Emerald, for example, they went into administration twelve months after coming in the market.

It is all one market – the air and sea market is one – there

is not an air market *and* a sea market. With FlyBe coming in, then you may want to consider is the pricing done in such a way for competitive reasons vis-à-vis other airlines, or is it a level of price that they believe will be sustainable over the long term?

The Chairman: Okay.

Mr Cregeen: Just earlier on you stated that you compared port charges. Was it from comparable size ports throughout the UK, or was it large ports? What size of ports did you compare your... ?

Mr Woodward: Mr Watt, I think, can answer you in specific detail on that point.

Mr Watt: We do not have the data from many UK ports: we have the data from ports that *we* use in the Irish Sea, so in comparison with the ports that we use elsewhere. All of those ports are much larger volume ports, so there is, of course, economies of scale for the benefit of those ports that Douglas does not have.

Mr Cregeen: And have you brought this up in discussions with the Department, about their charges?

Mr Watt: Yes and they, of course, have responded that they suffer from the economies of scale.

The Chairman: Okay.

Mr Malarkey: Keeping on the turnover from profits side of the discussion, when do you envisage your 2006-2007 accounts being voiced?

Mr Grant: Sorry, is that the Select Committee's request for the 2007 accounts? (*Interjections*)

Mr Woodward: The 2006-07 year end accounts will be complete in... April...

Mr Grant: The 2007 accounts will be audited in three weeks' time, I think, actually – so we get them signed off, May.

Mr Cregeen: A few points. We quite often hear people can... while on the subject of competition on sea routes is brought up comparing to the era of ManxLine. Of course, the economy was at rock bottom in the 1980s in the Isle of Man and there was very little investment going on in those days. The airlines – of course, there is an open skies policy at the Airport – but, given the profits which the Packet have made over the last few years that you are talking about, surely you are in a position to compete aggressively with the airlines and play them at their own game?

Mr Woodward: It is a view you may take. I think we prefer the view that there should be some stability in the market.

I think that the public will thank neither the Steam Packet nor the airlines if we were simply in a period of spiralling prices, where we all slash prices and then, when somebody went to the wall, we all hike prices up. That is not what we are about. We give a level of certainty and consistency and

we have, as I said earlier, lowered the average price of travel substantially and consistently in the period since the User Agreement has been in. I think that is what we are about.

Mr Cregeen: You also talk about your competitors and their volume of freight has decreased because of the high level of service that you can offer. But would you not agree that your competitors cannot use similar ships to what the Steam Packet have available to them and, therefore, they are restricted as to what cargo they can carry because of the types of ships that can come into the ports i.e. they do not have the availability of ro-ro?

Mr Woodward: I do not think we can, or should, comment on our competitor's abilities.

Mr Cregeen: But is it fair to say there is no other facility for them to unload a ro-ro vessel, therefore they are restricted as to what vessels they could use in Manx ports?

Mr Woodward: There are two harbours and two ro-ro facilities in Douglas Harbour

Mr Cregeen: Which are unavailable to other users.

Mr Woodward: There is limited use of them.

Mr Malarkey: You will be aware that the Ronaldsway Airport charges are also probably three times higher than other areas, so the airlines are under the same problems as what the Steam Packet are, for the same reasons of quantity of travel, so they have to compete in an open market even like the Steam Packet does with higher port charges.

Mr Woodward: It is an entirely different business in terms of capital-intensive nature. You charter an aircraft at short notice: if it does not work, you charter it out somewhere else. Ships do not work like that. We have to look to the long term.

The Chairman: Mr Waft, a final question.

Mr Waft: You said that the present Company owners were in for the long haul – and judging by their profit margin they probably are! – but have you any other indications to indicate that this Company is going to be here for a length of time?

Mr Woodward: I think Macquarie have a history of asset-retention, certainly to date. I think there is only one company I am aware of that has been disposed of and that was in fairly unusual circumstances. The type of business they operate is a business which only stacks up and makes sense if they are committed in the longer term because that is the type of business that their investors require. So I think, from a personal notion, we certainly have those assurances locally that they are here for the long term and want to make sure that this becomes, and remains, an important company in the Isle of Man.

The Chairman: Prof. Baird.

Prof. Baird: I am not entirely sure you have answered the question explaining why profits have risen so high at

the same time as passenger volumes have declined and the competition that existed in the passenger market... These increased profits must have come from somewhere and if it is not the passenger market, where could it have come from?

Mr Grant: Is this the 2000 to 2006 period?

Mr Baird: Well, actually, profits have risen from 2000 to 2006, yes.

Mr Grant: I would refer you back to the previous answer which I am sure I will get from Hansard.

If you wish me to summarise it, it is to do with a structural change in the business by the termination of a loss-making route. It is to do with non-cash financial accounting entries. When you actually strip those out, the underlying profits have increased by revenues. There has been a revenue increase over that period.

Mr Woodward: Just for the sake of making it clear that the Liverpool-Dublin service, which was a loss-making service, had the double effect of both depressing profit – so, by taking that out, you automatically increase profit – but also of inflating revenues, because there was a revenue turnover element attached to the profit – or loss in this case – that it generated. So you have both taken off turnover by reducing the service, but also increased profit because you have reduced the loss element from those accounts – so that is part of the phenomenon you see.

Mr Grant: Sorry, there was a third benefit: it actually allowed us to focus more on the Isle of Man routes and gave us greater frequency off-Island.

The Chairman: Do you attribute that as the principle reason for the rise in profit, then?

Mr Grant: No, I am saying there is that *plus* revenue increases *plus* the non-cash financial accounting entries.

Mr Woodward: Can I just add, Chairman, there is also the cyclical nature of investment, which is not being considered here.

We are towards the end of an investment cycle where, as Mr Malarkey made reference earlier, we are obliged to commit to invest before 2012. Once we get towards that period and that investment is made or, indeed, if that investment was made tomorrow, our returns would then take a big dive and that would be quite normal within the industry in which we operate and would then slowly build up over a period of time, all other things being equal, until we next had to invest.

The Chairman: Thank you. Mr Cregeen.

Mr Cregeen: You said earlier about Macquarie have a long-term strategy for keeping with companies. Can you confirm how much of the Company Macquarie purchased and how much they have now of the Company?

Mr Woodward: Sorry, I am not sure I understand the question.

Mr Cregeen: How much of the Company does Macquarie own, because you have said it belongs partly to pension funds?

Mr Woodward: I think we would need to actually give you detailed information in terms of corporate structure because it is quite complex. I think what you are trying to get at is what Macquarie, on its own, in terms of its share of the Steam Packet Company... because there are different companies involved there. Is that something we can provide to the Committee?

Mr Malarkey: We need to know whether it is more than 51 per cent or less than 51 per cent.

Mr Woodward: Yes, I understand the question now. We would need to actually provide that for you and we can do that via our advocates after the meeting.

The Clerk of Tynwald: Could you confirm that having transferred the Steam Packet Company into a New Manx Vehicle, the accounts will still be available at the UK Companies Registry?

Mr Grant: I would need to take some legal advice on that as to whether or not there is still a filing requirement from a UK perspective.

The Clerk of Tynwald: That is in doubt?

Mr Woodward: I do not think we know the answer to that.

Mr Grant: It is just that I need to take legal advice.

Mr Woodward: What I can confirm is that we have not done it for reasons –

Mr Grant: So what you are saying is that wasn't the purpose...

The Clerk of Tynwald: Regardless of the effect?

Mr Woodward: I do not know. That is speculation.

Mr Malarkey: Would the Company be willing to let this Committee have a copy of last year's accounts?

Mr Woodward: We have said that we would provide audited accounts per the request from the Committee and that we will provide those via our advocates.

The Chairman: Thank you very much, gentlemen. We appreciate your time with us and the way you have answered the questions. It has been of great assistance to the Committee and we would like to thank you all very much for your attendance this morning. (*Interjection by Mr Malarkey*) I'm sorry, I have brought this session to a close now. Further questions will be in writing.

Thank you very much.

The Committee sat in private at 12.57 p.m.