



# **STANDING COMMITTEE ON ECONOMIC INITIATIVES**

**ANNUAL REPORT FOR THE SESSION  
2007-2008**

# REPORT OF THE STANDING COMMITTEE ON ECONOMIC INITIATIVES

At the sitting of Tynwald Court in July 1999 it was resolved that a Standing Committee of five Members be established. As amended in January 2004, the remit of the Committee is -

*To monitor and consider economic, fiscal and monetary initiatives of the European Union, international agencies and states, and economic factors generally, which may affect the Isle of Man; and to report with or without recommendations each July, and such other times as the Committee deem necessary.*

The Hon S C Rodan SHK (Garff)  
Chairman

Mr C G Corkish MHK (Douglas West)

Mr G D Cregeen MHK (Malew & Santon)

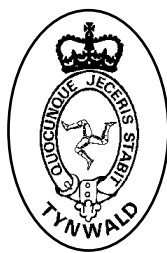
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Mr J P Watterson MHK (Rushen)

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## ANNUAL REPORT OF THE STANDING COMMITTEE ON ECONOMIC INITIATIVES JULY 2008

To The Hon Noel Q Cringle MLC, President of Tynwald, and the  
Hon Keys and Council in Tynwald assembled

### INTRODUCTION

1. The Standing Committee on Economic Initiatives was established by Resolution of Tynwald on 14<sup>th</sup> July 1999, and is required to report annually at the July sitting of the Court. The present remit of the Committee, as amended, and its membership are shown on the facing page of this Report.
2. Your Committee have met throughout the 2007-08 Session and have received both oral evidence and written submissions on the areas of possible development in the economy which we examined this year, and on which we sought information from both Government and the private sector. As previously, we have been glad to take account of suggestions and comments put to us by Members of Tynwald.
3. The Committee has met on five occasions this Session and the areas covered in our investigations were:-
  - (i) **tourism from visiting cruise ships**
  - (ii) **internet pharmacy**
  - (iii) **corporate health insurance, cosmetic medicine & medical tourism**
  - (iv) **commuter railways**
  - (v) **manufacture of medical devices**

4. During the course of this Session, your Committee have taken written or oral evidence from:-

- Department of Tourism & Leisure
- Department of Transport
- Department of Health & Social Security
- Department of Trade & Industry
- Treasury
- Insurance and Pensions Authority
- Manx Insurance Managers Association
- AON Insurance Managers (Isle of Man) Limited
- Marsh Management Services Isle of Man Limited
- Light Rail (UK) Limited
- Reid Rail Limited
- Prometic BioSciences Limited

#### **TOURISM FROM VISITING CRUISE SHIPS**

5. In your Committee's last Annual Report, it was noted that the possibility of a deep water berth for visiting cruise liners would be on our agenda and, during the course of this year, it was urged on us that considerable potential for developing tourism existed in relation to visits from cruise ships. The immediate advantage of cruise ships calling and landing their passengers for a visit to the Island is evidently the business opportunity it provides for businesses on the Island, particularly retailers or tour operators, while at the same time making no calls on scarce hotel accommodation.

6. The Chief Executive of the Department of Tourism & Leisure reminded us that the Tourism Strategy 2004-08 had recognised that "there has been an explosion of activity in relation to the growth of cruise tourism in recent years and the Island is well positioned to benefit from this growth." Against that background, the Department had, in August 2006, reviewed its cruise ship data and identified that cruise passengers did indeed represent a good opportunity to increase visitor numbers, given the lack of any need for bed spaces for the visitors, and their generally high spending levels per head.

7. That had led to the to a feasibility report being prepared by the Department of Transport in 2006 for the large pontoon in Douglas harbour, which has since been approved by Tynwald, and which will materially assist the landing of passengers from cruise ships. It will have capacity for two tenders at a time, containing up to 100 passengers each at all states of the tide. Your Committee were aware, however, that the pontoon would have important limitations, especially in poor weather, since passengers would still need to disembark from the ship into a tender on rough seas. We therefore pursued the subject of a deepwater berth for cruise liners.
8. The Committee was informed by the Chief Executive of the Department of Transport that they were already in the very early stages of developing a scheme to provide a deepwater cruise liner berth in the port of Douglas, and that it had been established that such a scheme was viable. The Department, we were told, intended to make a bid for design fee funding for the project for 2008-09, and a probable bid for construction funding for 2009-10.
9. Seeing the evident advantages of such a development, your Committee queried whether this timetable could be brought forward, perhaps by joint funding with the Department of Tourism & Leisure, for design fees in 2007-08. In response, we were told that there was no prospect of accelerating the timetable for the development of a cruise terminal at Douglas, since the preparation of the business case for it by the Department of Tourism & Leisure was only just beginning.
10. We are pleased to note that provision has, in the event, been included in the capital estimates for 2008-09 and beyond for the Department of Transport for the development of a cruise liner berth, and the subject will remain on our agenda to review progress.

## INTERNET PHARMACY

11. The selling of pharmaceutical products through the internet has become well established in many jurisdictions and we asked the Department of Health & Social Security what their approach to it was. In response, the Director of Health Strategy and Performance told us that he believed that this was an area of potential economic growth for the Isle of Man, to which we could expect to see added the provision of health supplements as they became licensed products like medicines in the very near future, in both the United Kingdom and the European Union.
12. At the present time, we were told, there was an operator interested in starting such a pharmacy in the Island, using the grey market by importing from Canada to the Isle of Man and selling on to the United States.<sup>1</sup> The Department saw a continued future for parallel importing, even if territorial distribution agreements, against the background of which much of it was based, declined.
13. In the European context, there appeared to be less opportunity on account of the closeness of mutual assistance cooperation between customs administrations, which made it easier for manufacturers to trace distributors selling outside their allotted territories. Already, certain businesses had begun operating on the Island in this sector, though not without problems.
14. The Department commented that we should not allow potential problems connected with this type of business to blind us to the opportunities which a well-regulated pharmaceutical sector could bring to the Island. It would, however, require a co-ordinated approach across Government and appropriate legislation to ensure that the trade was beyond reproach and offered real advantages to legitimate pharmaceutical companies.

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<sup>1</sup> The 'grey market' or 'parallel importing' describe the cross-territory wholesaling of branded products outside an authorised distribution chain, usually at discount to the desired retail price. For that reason, the practice is usually opposed by manufacturers seeking to maintain control over the volumes and prices of their products released into each sales territory.

15. In so far as the Department of Health & Social Security's own procurement needs were concerned, links to the United Kingdom National Health Service system meant that it would be uneconomic for the Isle of Man to go it alone and buy on the grey market.
16. This was an encouraging response and your Committee learned that active steps were indeed being taken within Government to examine the potential further. We have ascertained that the guidance given by the Royal Pharmaceutical Society of Great Britain sees the business as in principle consistent with professional ethics,<sup>2</sup> and we await further developments.

#### **CORPORATE HEALTH INSURANCE, COSMETIC MEDICINE & MEDICAL TOURISM**

17. Being aware of the facilities for privately-funded healthcare at Noble's Hospital, we turned our attention to whether there would be a potential for developing this aspect of healthcare, either through extending the insurance market supporting it or by encouraging medical tourism, perhaps involving cosmetic medicine. The background to this is that Noble's Hospital has a private wing which currently earns the Island's National Health Service some £1.7M yearly, most of which appears to be funded by direct personal payment rather than through, for example, a mutual insurance company.
18. In so far as medical tourism is concerned, we were informed by the Department of Health & Social Security that they had indeed already examined that possibility and had concluded that it was not viable. Their reasons were that medical tourism is largely focussed on individuals seeking faster treatment than they could obtain in the United Kingdom for surgical treatment such as joint replacements or hernias.

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<sup>2</sup> Primarily, the Code of Ethics for Pharmacists and Pharmacy Technicians, August 2007.

19. These types of intervention, however, require a full range of surgical facilities, including access to post-operative care, and the potential for expansion at Noble's is not sufficient to make it feasible to market the Island as an alternative to continental Europe – or farther afield - as a venue for medical tourism.
20. A subset of medical tourism is provided by cosmetic surgery, that is to say surgery for which there is no pressing medical need but which is desired for emotional or psychological reasons, such as facelifts or breast implants; or there they may be cases which are near to straddle the borderline with standard surgery, such as bariatric surgery or breast reduction. The difficulty, we understand, of developing an economically useful specialism in these areas is similar.
21. In the first place, there is the same need for theatre and back-up facilities which, on an economically useful scale, would be unlikely to be available. Secondly, because the National Health Service here does not employ cosmetic plastic surgeons, all such work would have to be done completely privately, and would need special provision to regulate it to ensure that the Isle of Man does not earn adverse publicity and a bad reputation for hosting poor quality or dangerous private medical care.
22. Legislation is, we are told, coming forward in this area, however, and there may be a case for looking further at its potential in the coming year. We were given cautious encouragement by the Customs & Excise division to believe that some instances at least of 'cosmetic' surgery could be VAT exempt, where they can properly be seen as an element of a healthcare treatment programme. Where that may not be the case, the extent to which the VAT system is harmonised across the European Union at least means that the Isle of Man would not be at a competitive disadvantage in this regard.

23. Looking therefore to local demand for private healthcare, especially from the corporate sector, we noted earlier that the private sector at Noble's Hospital is valued at approximately £1.7M annually; of this, it had been estimated that some 75% is derived from private patients who are self-funded, with 25% being insured. On these statistics, there appeared to be scope for growth in the insurance sector, since the insured part of the turnover would be of the order of £425,000, which could serve as the nucleus of a developing business for Island-based health insurers.
24. We accordingly sought views from the insurance industry. The initial comment we received was that breakdown between privately funded and insured treatment that we had received might not be a reliable guide. This was because consultants and other providers frequently it seems ask their patients to settle their fees direct in the first place, and to seek reimbursement from insurers subsequently.
25. More importantly, the evidence from the insurance industry is that the bulk of this type of cover is placed with United Kingdom based underwriters or mutuals by the major businesses on the Island as members of larger groups of companies – usually themselves United Kingdom based. This leaves the relatively small purely local based business market. There seems, accordingly, little immediate opportunity for this area of business to be developed, but the Department of Trade & Industry should keep it under review.

## **COMMUTER RAILWAYS**

### **(I) CAR USE**

26. A number of factors have again come together to cause renewed interest in the possibility of using our historic rail networks to lessen the increasing burden of commuter traffic in the Island.

27. Your Committee were conscious that the issue had been raised and researched in the past and we have been reluctant to incur expenditure in repeating any of that investigation. Within that constraint, we have however given the matter some attention and believe that it now merits further action by Government. It may be useful briefly to recall the major reasons why this potential should be looked at again, although individually they are well known.
28. Firstly, there is the rising population of the Island, which is now believed to be somewhat over 80,000, and there is no reason to believe it will do other than continue to rise, albeit slowly. Secondly, the rising price of oil seems set to continue to be a driver towards a more efficient use of energy than is represented by single-occupation cars conveying their owners to and from work. Thirdly, there are the evident environmental benefits to be obtained from a reduction in the volume of motor traffic.
29. The increasing pressure on the road system of the Island may come at a cost in terms of expenditure on parking provision and in terms of the economic cost of working time lost in travelling. To this must now be added the consideration that the new basis of revenue sharing between the Isle of Man and the United Kingdom for indirect taxes no longer offers the Island an immediate advantage in maximising the income from excise duty and VAT on petrol; there is accordingly no compelling fiscal reason to hold back from reducing petrol consumption.
30. In a very helpful background briefing on this subject, the Department of Tourism & Leisure drew our attention to previous research. The Car User Survey undertaken as recently as November 2006 indicated that there is no single factor underpinning an individual's decision to switch to public transport (in that case buses), but that a range of considerations would be taken into account: travel time, cost, frequency & timing of the service, comfort, safety, reliability and, lastly, environmental awareness.

31. In order to succeed in changing travel habits, any alternative to the car needs to be as fast, if not faster. The 2006 Car User Survey found that 40% of car commuters would be encouraged to migrate to buses if travel times were similar or better. On frequency and timing, the car has obvious advantages over any but the most extensive public service and, here, evidence from elsewhere is said to suggest that without frequent and convenient timings a migration initiative will fail.
32. In terms of cost, the car owner tends to think in terms of the actual out of pocket cost of the journey, rather than the total cost of owning and operating a car; no doubt this is in part because many car owners would wish to continue to be car owners even if they did not use their cars for commuting. With regard to the perceived comfort of travel, there would evidently have to be significant improvements in the environment of public transport to compete with that offered by modern cars.
33. The latest available counts for traffic flows between Douglas and Ramsey showed approximately 2,300 vehicles a day travelling in each direction on the mountain road, 1,250 vehicles a day in each direction between Ramsey and Laxey, and 2,700 a day in each direction between Laxey and Douglas.
34. The cost of maintenance of these roads since 2004 is put at £1.4M for the mountain road and £1.1M for the A2 coast road. We were told, however, that this cost would be unlikely to be affected by diverting car traffic to rail, since repair and resurfacing costs are largely due to use by heavy vehicles and very little damage is caused by cars and motorcycles.

## (II) EXISTING RAIL CAPACITY

35. Evidence from the Department of Tourism & Leisure confirmed that the most obvious course in exploring the commuter potential of the rail network would be to start with the southern line, which we will refer to as 'the IoMSR'. Substantial portions of this line were replaced as part of the IRIS scheme and much of it is able to accommodate travel speeds of up to 50 mph.
36. In 2003, the Department commissioned an investigation into the feasibility of peak-hour trains running on the newly re-laid track of the IoMSR. The investigation concluded that approximately 75 to 100 passengers per day would be attracted to use the railway, that the biggest switch would be from bus use and not from car use, that the capital cost per passenger of the development would be 22 times that for bus travel, and that the number of daily car journeys into Douglas would diminish by a mere 25 cars.
37. These very discouraging results led, not surprisingly, to no further action being taken. Nonetheless, the Department agreed to look again at matters at our request and made the following costings.
38. Assuming three 100 passenger capacity services from Port Erin between 7 am and 8.15 am into Douglas, and three returning between 5 pm and 6 pm, with a travel time of 40 minutes, four trains would be needed to ensure reliability whose cost was estimated at £2M each, added to which would be a modern control system costing another £2M, with a total cost estimate of between £8M and £12M. Even so, it was considered that there would need to be further incentives to transfer from car to rail in the shape of increased parking costs or a congestion charge in Douglas.

39. The picture for the northern line, which we will refer to as 'the MER', is in the Department's view still less encouraging. The track contains many tight curves, whose elimination would require substantial engineering work; all the 30 or more crossings would need to be upgraded; a terminus further along the promenade in Douglas would be needed; and, even with 50 mph speeds, the travelling time would still exceed that for a car over the mountain road. The estimated total cost of bringing the MER into commuter service would be some £40M. Very broad estimates of restoring the rail link from the west totalled some £30M.
40. The Department accordingly had a decidedly negative view of the cost-effectiveness of rail as opposed to bus transport. That said, cost comparisons were difficult because so many factors had to be taken into account, such as wear and tear on the roads and environmental pollution; but the capital cost of a double-deck bus was £155,000, with a 15 year lifespan, so that that was seen as the most flexible and low cost way of providing commuter transport. In terms of salaries, rail drivers and bus drivers were said to be more or less comparable.
41. To provide a contrast with these views, we sought evidence from specialist advisers concerned with light railway and tramway systems, Light Rail (UK) Limited and Reid Rail Limited, after representatives of those firms had conducted an inspection of the present installations on the Island. Their evidence can be summarised as follows.
42. In the first place, these witnesses urged upon us that the provision of a light rail system would create a positive initial impact for visitors to the Isle of Man, a more user friendly transport option, and make a statement about transport infrastructure which would be positive to individuals considering inward investment to the Isle of Man.

43. Issues of energy security, the prospect of reaching global peak oil levels, and increasing car ownership costs would reinforce the 'future-proof' aspects of a light rail solution. The costs of treating illness associated with vehicle tail-pipe emissions should be considered in the cost-benefit analysis of a light rail project.
44. In general, they agreed that any light rail journey would have to surpass that provided by a private car if a modal switch in transport use were to be achieved. It was claimed that light rail passengers experience movement in only two directions, as opposed to three in a car, and that therefore rail journeys could be more comfortable. Moreover, a good quality light rail journey could encourage greater productivity, and it was claimed that enhanced social inclusion through increased property values and economic development could be associated with areas traversed by light rail routes.
45. Agreeing with the Department of Tourism & Leisure, our witnesses saw the IoMSR as the initial focus for any pilot light rail study, based on the comparative ease of implementation. Given that partly reconditioned Donegal diesel railcars are in the Government's possession, the potential exists to link the IoMSR to inner Douglas – perhaps even to the Sea Terminal.
46. It is common ground that the existing IoMSR track is in very good condition. A current journey time of approximately 57 minutes from Douglas to Port Erin could, we were told, be reduced to 40 minutes if station stops were reduced to 30 seconds and greater use made of corridor carriages. It was noted that additional rolling stock could be sourced from existing heritage rolling stock, 'cascaded' or pre-owned rolling stock, or newly built rolling stock with or without heritage style coachwork. The existing token block signalling system could be retained minimising any signalling upgrade costs.

47. Implementing a light rail service using the MER would require greater resources in order to refurbish overhead electric lines, upgrade the track, alleviate the tight track curves to permit better braking and acceleration with associated journey time savings, and to address the numerous road-rail interfaces to improve safety. It was for consideration whether priority to light rail traffic over road traffic should be given, thereby encouraging commuters to switch modes of transport at the expense of motor traffic.
48. A further consideration drawn to our attention is that the possibility exists of linking the IoMSR, the horse tramway, and the MER lines in a unified light rail network. Any such plan, however, would appear to require a dedicated light railway line on each side of the existing Douglas Promenade, limiting vehicular traffic to between these lines, and relocating the horse tramway to the current pedestrianised seafront.
49. It would also require adjusting the gauge of the horse tramway line and that of the trams to the gauge of the other two lines (which are the same), and still running the horse trams on the horse tramway, line but at different times from the commuter vehicles. A feasibility study would be needed to judge the required balance between the needs of public transport, car users, and car parking and to take into account the need to reconcile the tourist and commuter timetables.
50. In overall terms, the initial capital cost of adapting the IoMSR for commuter transport could, according to our witnesses, be little more than that of completing the refurbishment of the two existing Donegal railcars: viz. £200,000 - £250,000, and they urged upon us that that would be a good starting point for the Island.

51. In the light of these claims, we took further evidence from the Department of Tourism & Leisure with regard to the rail vehicles suitable for use on the IoMSR, since reference had been made to two Donegal diesel railcars presently owned by the Department which could be used for commuter purposes.
52. We were told that these vehicles were kept in the Steam Railway sheds in Douglas and that the engines were being stored at Homefield. The railcars had been partly restored in a project some years ago, which had run out of funds, and further funding was being considered in connection with railway enthusiast groups in order to complete it, but matters were still at a comparatively early stage.
53. Overall, the Department's programme was to upgrade all the railway systems within the next 10 to 15 years. In that context, the Donegal diesels would be useful for commuter railways but they would also be useful in the Heritage system as standbys to save keeping a third engine in steam, since the existing steam engines are 150 years old and said to be very unreliable.
54. Between £200,000 and £250,000 would be needed to complete the restoration of the Donegal diesels, which were post Second World War vintage. We understand that they were originally acquired from Donegal because they were then cheaper to operate than steam engines, and the steam railway was facing financial difficulties.
55. The Department's view was that if these railcars were to be used for commuter services, they would need at least a six month trial to establish whether people's travelling habits could be changed; an economic impact assessment in relation to commuter services would be desirable *after* that six month trial had taken place and on the basis of the experience gained.

56. If the trial and the assessment were successful, more modern railcars would be needed for a permanent service, with the Donegal railcars being kept in reserve in case of breakdowns. Given current advances in railway technology, the Department emphasised that it was an open question whether any new vehicles would be diesel powered or otherwise.

### **(III) CONCLUSIONS**

57. The evidence we have received on this subject provides food for thought, though there is clearly much in the way of research and verification that would need to be undertaken before even a pilot commuter rail project would be justified.
58. There is no doubt that the suitability of the southern or northern lines for commuters would be enhanced by an extension being available along the promenade in Douglas, and we understand that plans to refurbish the horse tramway exist, though they are at an early stage. In the planning, we believe that it would be desirable to keep the longer term options open in relation to both the southern and northern lines by aligning the gauge of the tramway to theirs.
59. We note that the gauge on the IoMSR is the same as that on the MER, and that the Donegal railcars could therefore be used there as well, possibly obviating the need to replace the poles carrying the overhead power, which at present are understood to be in poor condition. Given the apparent unreliability of the steam engines used on the IoMSR, there is at least a case for completing the refurbishment of the Donegal railcars in any event as standbys for these steam engines. At the same time, that would allow for a pilot commuter service trial to take place at what would appear to be a marginal extra cost.

60. It is plain that any move at all to promote the use by commuters of rail travel would involve an important change from the prevailing car culture of the Island, the difficulty of which should not be underestimated. This makes it particularly desirable that such development of the idea as there may be should be carried out cautiously and preferably by limited stages at a time.
61. Although there is good technical evidence that the IoMSR line is viable for commuter services, there is no real evidence about the economic impact which commuter railways would have in terms, for example, of a reduced cost of car parking facilities or road maintenance, or of any benefits to business - or of the effect on places outside Douglas.
62. Having regard to the preliminary evidence which your Committee has been able to glean, we conclude that research should be undertaken to establish whether there would be any significant economic benefit to the Island to be derived from the transfer of commuter traffic from car (or bus) travel to rail travel. In the meantime, the refurbishment of the two Donegal railcars presently in the possession of the Department of Tourism & Leisure should proceed, and it would be desirable for a Report on the issues which the possibility of commuter rail travel raises should be made by the Department of Tourism & Leisure to the sitting of Tynwald in July 2009.

## **MEDICAL DEVICES**

63. A final note should be added to this Report to indicate that the subject of manufacturing medical devices on the Island is under study by your Committee and that we have begun to take evidence about this both from the Department of Trade & Industry and from the private sector. In addition, Members of your Committee visited the MEDTEC UK 2008 exhibition to gauge something of the commercial the opportunities for development in this field.

## RECOMMENDATIONS

64. Your Committee accordingly recommend that:
- (i) the Department of Trade & Industry should keep under review the possibilities for growth in the market for health insurance (paragraph 25);
  - (ii) research should be undertaken to establish whether there would be any significant economic benefit to the Island to be derived from the transfer of commuter traffic from car (or bus) travel to rail travel (paragraph 62);
  - (iii) in the meantime, the refurbishment of the two Donegal railcars presently in the possession of the Department of Tourism & Leisure should proceed (paragraph 62); and
  - (iv) a Report on the issues which the possibility of commuter rail travel raises should be made by the Department of Tourism & Leisure to the sitting of Tynwald in July 2009 (paragraph 62).

June 2008

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