



**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, Wednesday, 30th January 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
with Mr M Cornwell-Kelly, Clerk of Tynwald

Clerk:

Mr L Crellin

In attendance:

Prof. A Baird

Business transacted

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The Committee sat in private at 1.08 p.m.

Tynwald Select Committee on the Isle of Man Steam Packet Company

*The Committee sat in public at 10.35 a.m.
in the Millennium Conference Room,
Legislative Buildings, Douglas*

[MR SPEAKER *in the Chair*]

Procedural

The Chairman (The Speaker of the House of Keys, the Hon. S C Rodan): Good morning, everyone. Can I welcome everyone to this public meeting of the Select Committee of Tynwald on the Isle of Man Steam Packet Company. We are here this morning to take evidence in open session.

The Committee was established by Tynwald in June last year, with the following remit:

- ‘(1) to examine the Isle of Man Steam Packet Company’s fare structures over the past 12 months, any increases to fares in that period, and the reasons why;
- (2) to make a comparison of prices when booking on and off the Island;
- (3) to consider whether the prices charged throughout this period are fair and equitable and represent best value for money for Isle of Man customers and off-Island customers;
- (4) to examine whether any excessive charging has taken place; and
- (5) to consider the standard of service offered to both passengers and freight users by the Company, and the extent to which it is in accordance with the Company’s agreements with the Government.’

At this point, I would introduce my colleagues on the Committee: on my right, Mr Waft MLC; Mr Turner MLC; Mr Malarkey MHK; Mr Cregeen MHK.

The Clerk of Tynwald, Mr Malachy Cornwell-Kelly is joining us this morning. Mr Les Crellin is the Clerk to the Committee. Prof. Alf Baird is technical adviser to the Committee: he is the Head of the Maritime Transport Research Group at Napier University in Edinburgh.

The proceedings this morning are being recorded and will be published in *Hansard*, and the recording staff – Mrs Ellen Callister and Mrs Deborah Pilkington – will be recording the proceedings. At this point, could I make sure that everyone has mobile phones turned off, as they are likely to interfere with the recording. Thank you very much.

At the last meeting of this Select Committee, on 23rd November, we had called, to present evidence, representatives of the Isle of Man Steam Packet Company, Mr Juan Kelly, Mr Robert Quayle, Mr Mark Woodward and Mr John Watt. We had a statement given to us by Mr Callin, of Quinn Kneale, the legal adviser to the Steam Packet Company, seeking an adjournment of the oral evidence of the Company to 30th January – that is today’s date – on the basis that High Court proceedings had been instituted, and it was considered necessary to take time to consider the extent to which those proceedings might overlap with this Committee’s inquiry.

So I shall be inviting the Steam Packet representatives this morning to make comment and give us the position on that particular situation.

So we are pleased to have with us today Mr Mark Woodward and Mr John Watt from the Isle of Man Steam Packet Company. The gentleman accompanying is – ?

Mr Woodward: This is Jonathan Wild, of Quinn Kneale.

The Chairman: Jonathan Wild, of Quinn Kneale. Thank you very much.

We do not have with us this morning either Mr Kelly or Mr Quayle, and I will invite you to outline the reasons for that to us, because it was certainly our expectation that Mr Kelly and Mr Quayle would be joining us this morning.

I would further invite you gentlemen to make an opening statement to us, and the basis is we would wish to ask questions thereafter, relating to the passenger policies – in terms of fares and timetables – of the Company, the levels of services in ports and on board.

We would wish also to be looking at – which is within our remit – the standards of service to freight customers, and also to be looking at the policies of the Company for the acquisition of new vessels, in accordance with the requirements of the Steam Packet Agreement.

I think it would be very helpful also if, Mr Woodward, you were to explain your particular role in the Company, and indeed the structure of the board and the Company. It is very important that we appreciate exactly where the decision-making of the Company lies.

We are aware, as I indicated earlier, that proceedings are currently under way concerning a challenge to the validity of the User Agreement to which the Company is a party. I would say that this Committee is concerned only with the remit of Tynwald, which requires us to consider the standard of service offered to both passengers and freight users by the Company and the extent to which it is in accordance with the Company’s agreements with the Government.

I would stress that this Committee is not concerned with the validity of any such Agreement, but is concerned with the process by which agreement with Government is reached on certain key issues contained within the Agreement. No doubt your legal adviser will advise as to matters that may be straying into areas that currently sit before the High Court.

EVIDENCE OF MR M WOODWARD AND MR J WATT

The Chairman: With that introduction, if I could start by asking if you would kindly introduce yourselves, your position with the Company and your respective areas of responsibility, and then to make your opening statement along the lines I have indicated.

Mr Woodward.

Mr Woodward: Chairman, Committee members, good morning.

I have prepared a statement, which I will get into shortly, but in light of the comments that Mr Rodan has just made, I will explain the structure of the Steam Packet Company and its current board.

Procedural

**Tynwald Select Committee on the Isle of Man Steam Packet Company –
Evidence of Mr M Woodward and Mr J Watt**

My colleague, John Watt, myself, a finance director, a human resources director, and a director of marketing are all locally based and are all part of what we call the executive committee, which is the locally-based decision-making engine of the Steam Packet Company.

Additionally, at those meetings, we usually have two directors present from Macquarie Bank, who are part and parcel of that process. So it is very clearly a decision-making body, which is constituted here on the Island and the majority of those members are Island based.

The Chairman: Who is the chairman of the board of the Company? The Steam Packet is an Isle of Man registered Company?

Mr Woodward: It is.

The Chairman: Who chairs the board meetings?

Mr Woodward: The chairman of board meetings is usually now myself, as Chief Executive.

The Chairman: And the role of Mr Kelly, who was the Chairman of the Steam Packet Company – and it was on that basis that he had originally been invited – could you just explain what his role is?

Mr Woodward: Yes. If I could explain: at the time Macquarie purchased the Steam Packet Company from Montague, in October 2005, the existing non-executive directors at that time – of which Mr Kelly and Mr Quayle were two – stepped down and became members of what we called a supervisory board. The supervisory board is a board which has an overview function of decisions and processes within the Company, but is not actively involved in day-to-day management decisions.

The Chairman: Thank you very much.

The areas of competence that we are interested in – particularly relating to future investment decisions of craft under the User Agreement – then, it would be in order to ask you this morning about those decisions?

Mr Woodward: That would be correct.

The Chairman: That is fine.

Can I just ask, Mr Cornwell-Kelly, if you have any points at this stage?

The Clerk of Tynwald: I wonder, Mr Speaker, if I may seek a degree of clarification on that.

Mr Woodward has said that there is what he has described as an executive committee in the Isle of Man. Is that, in fact, the board of the Isle of Man Steam Packet Company?

Mr Woodward: It comprises some members of the board of the Isle of Man Steam Packet, but not all.

The Clerk of Tynwald: And the supervisory board to which you have referred: is that part of the Isle of Man Steam Packet Company's institutions, or is that some sort of body that is imposed by the parents of the Company?

Mr Woodward: It is part of the Isle of Man Steam

Packet Company institutions. It is a board which has a specific purpose of overseeing what happens to the Steam Packet and its environment, i.e. local relations with the Isle of Man, and services and so on that we provide here on the Isle of Man. So it is entirely limited to Steam Packet specific matters.

The Clerk of Tynwald: What, in terms of Isle of Man company law, is the status of the supervisory board?

Mr Woodward: They are not legally directors of the Company, as such. Whether or not there is any alternate director type arrangement there, in terms of law, I am not sure. I would need to take advice on that.

Mr Wild: I do not think I am in a position to answer that directly now in relation to the legal position. Obviously, that is the records of the Company in terms of the directorships of the Steam Packet Company.

Mr Woodward: I think the important point to note is that the Company is obviously properly constituted within Isle of Man law and has a majority of Isle of Man directors on the board.

The Clerk of Tynwald: Surely. I have no doubt that is the case.

I think the Committee may be just a little bit uncertain by the use of the term 'supervisory board', which is clearly within the continental context, but it is a fairly novel concept, I think, in terms of Isle of Man law. We are trying to establish precisely who is who, and who is actually the controlling body, and the information you have given this morning I think helps, but it does not finally give us the certainty that we need as to who the controlling body of the Isle of Man Steam Packet Company is in the Isle of Man.

Mr Woodward: I would view the controlling body as being the Steam Packet executive committee, which is, as I said, five local-based senior executives and two Macquarie Bank directors.

The Clerk of Tynwald: And that is the board of directors?

Mr Woodward: That is the board of directors.

The Clerk of Tynwald: Yes. Thank you very much.

The Chairman: Just for the record, could you indicate to us then who the five executive directors are?

Mr Woodward: The five executives are: myself, as Chief Executive; John Watt, as Commercial Director; the Director of Marketing is Rupert Trevelyan; the Finance Director is Douglas Grant; and Stuart Garrett is Human Resources Director. They are all locally based here on the Island, and have been for some time.

The Chairman: Thank you very much.

Mr Wild: Perhaps, Mr Chairman, if I could just say if there is any requirement for any further detail, we can obviously supply that off line. We have not been specifically

asked this question before. We can do that, if required.

The Chairman: Fine. We may revert to you if we require that clarified further. Thank you.

Continue, Mr Woodward.

Mr Woodward: On behalf of the Steam Packet Company, can I say that we are pleased to appear before this Committee. The Company has previously made a detailed written submission to this Committee and, in support of that submission, we now each – that is John Watt and I – propose to make a short opening statement.

My name is Mark Woodward, and I am the Chief Executive of the Steam Packet Company. I have been employed by the Company for 18 years in a variety of roles covering finance, customer services, general and marine operations. I was appointed to the role of Chief Executive in July 2007.

The Steam Packet Company welcomes the opportunity to supply evidence to the Select Committee. The Company sees the Committee as helpful in highlighting how much has been achieved for the Isle of Man under the User Agreement, and believes the Committee's findings will assist in dispelling some erroneous perceptions about the Company.

The Department of Transport has acknowledged that the Steam Packet Company is fully compliant with all the pricing and service obligations of the User Agreement, and in most areas substantially exceeds these requirements.

Since the commencement of the User Agreement in 1995, the Company has dramatically improved the level of service offered to both passengers and freight customers, with frequency of sailings and service capacity substantially increasing during this period. The User Agreement has, importantly, provided the Company with a stable base for investment in its vessel fleet and has also enabled the development of additional services.

For example, we now have more than 1,000 extra passenger sailings annually, compared with 1996. In stark contrast to this, many UK ferry services have suffered a decline during the same period.

By way of background, the 1980s were a difficult period in shipping terms, with falling traffic levels, strike disruptions and real concerns regarding the maintenance of the Island's lifeline. Open competition proved impossible to sustain, and competing operators faced financial ruin. Eventually, both operators were forced to merge. There were concerted efforts by the Isle of Man Government to ensure future stability of lifeline services, which ultimately led to the introduction of the User Agreement in 1995.

Since this time, the Company has invested more than £60 million in maintaining and upgrading its fleet and facilities, most recently providing a second fast craft to allow an expanded summer service to Ireland and Liverpool. The Company is also actively investigating replacement fast craft investment options, funds for which have already been allocated.

The Steam Packet Company is proud of its long tradition of service to the Isle of Man and remains totally committed to maintaining and continuing to improve services for the long-term benefit of both the Manx community and visitors to the Island. The Company is also committed to fulfilling its obligation to provide a reliable year-round service, without the taxpayer subsidies received by many other UK island operators.

My colleague, John Watt, is the Steam Packet Company's Commercial Director. With the Committee's permission, he would now like to follow with a short précis of the key aspects of the Company's fares and services.

The Chairman: Yes, thank you.

Before Mr Watt does that, could you, just from the outset, as I asked, give us an indication whether the period of adjournment to today, which was to enable an accurate assessment to be made between the scope of this Committee's inquiry and the High Court proceedings... Could you give us the latest position on that, please.

Mr Woodward: Could I ask our advocate to make reply on that?

The Chairman: Yes.

Mr Wild: Thank you, Chairman.

Unfortunately, I was unable to attend the first sitting, on 23rd November, due to illness, but at that time there was, on foot, as I think you are aware, a petition lodged by Seaside Shipping Ltd.

Unfortunately, the evidence that was going to be lodged by them in support of the application was not due to be filed until around exactly the same time as the 23rd November sitting was listed. Eventually, the revised version of the affidavit was lodged – actually, at the beginning of December – and, having had the opportunity to consider that, and comparing it with the remit of the Select Committee, we are hopeful that there should not be an overlap between the High Court proceedings and the proceedings before the Select Committee. We have had, obviously, the opportunity to consider the evidence that has been lodged.

So we are hopeful of that, but obviously we do not know precisely what areas necessarily might be covered, and therefore I have to bear that in mind when listening to the deliberations today. But I can certainly say positively that we are hopeful that matters should be able to proceed without too much of a crossover between that and the High Court proceedings currently afoot.

The Chairman: Thanks for that. I think that – just for the record – indicates that we are happy to proceed on that basis, then.

Mr Wild: Yes, and if, Mr Chairman, you are happy that if an eventuality comes up... We are in a slightly difficult position, because obviously we have seen the petition and the affidavit, and you have not, and that seems to be the position that we are forced to be in. But as I have indicated, we are hopeful that we can simply proceed today without too much further ado.

The Chairman: Thank you very much.

Also, just to clear up this point then: Mr Kelly and Mr Quayle delegated to you – because of their non-availability – representing the Steam Packet, and any questions or any points they would have wished to make, you will make on their behalf.

Mr Woodward: May I first apologise, Chairman, on their behalf. I understand there was some confusion because the original date of 30th January, which they had committed

to and indicated they were available... Subsequently, they were both, I understand, involved with an off-Island meeting which they could not avoid, and latterly, the date of that was then moved to the 30th from the original dates, unfortunately, was something they could not latterly change.

So they did ask me to extend their apologies, and I can confirm that I am able to answer fully any questions that the Committee may wish to ask. Indeed, if we are required to come back for a second sitting to follow that up, with or without them present... If they are available, then we are very happy to do that.

The Chairman: We will certainly reserve the right to recall those two gentlemen, with yourself, following today. Thank you very much.

Mr Watt.

Mr Watt: Good morning, Chairman, Committee members.

I have been a senior manager at the Steam Packet Company since 1995, latterly as Commercial Director. My responsibilities include scheduling, pricing and monthly liaison with the Isle of Man Government about User Agreement compliance and any other issues.

Further to Mark's introduction, I would briefly highlight that, since 1996, we have pursued a policy to stimulate growth with additional services and lower fares, and that policy remains unchanged today. Service improvements and lower fares since 1996 have contributed to more than a 40-per-cent increase in passenger traffic and 120-per-cent increase in vehicle traffic.

In contrast, English Channel, Irish and Channel Islands ferry passenger traffic has declined 18 to 36 per cent, and many other UK passenger ferry services have been cut, and other UK island services have acquired tens of millions of increased taxpayer subsidies.

In contrast, since 1996, the Steam Packet Company has pursued a strategy to promote additional traffic and has been very successful in developing services and lowering fares for the benefit of the Isle of Man, and exceeding all User Agreement requirements.

We have invested over £60 million and the DoT will confirm, in terms of services, that in 1996 the Heysham route usually had one passenger service per day, and today it is obviously usually twice daily. Liverpool usually had four services per week in the summer of 1996; now we have 14 fast craft services, which has more than trebled service provision, and reduced passage times.

Winter passenger service frequency has more than doubled in the same period. Freight capacity required was 2,600 metres per week; we now provide up to 2,400 metres per day. Modern fast craft have replaced aged conventional vessels.

With regard to fares, our pricing policy has been very successful in stimulating growth of resident and visitor traffic throughout the year. Prior to 1996, there were no special offers for the general public; standard fares only. Since 1996, standard passenger and freight fares have reduced by over ½ per cent, in real terms, every year for 12 consecutive years, as per the User Agreement limit. In addition to that, around 80 per cent of passengers now benefit from heavily discounted special offer fares: discounts worth around £10 million per annum to our customers, compared with the standard fares.

The cheapest foot passenger fare brochured in 1996 was

£23; in 2004 it was £19; and today fares start at only £17.50 per adult. Foot passenger fares have reduced 23 per cent since 1996. General inflation in the Island has increased by 40 per cent, and Manx wages have gone up by nearly 70 per cent. These fares have halved, in real terms.

Our car-and-two fares in 1996 started from £73; they are now at £54, again around half the price, in real terms.

There have been no changes in pricing policy over the past two years, but we are pleased to confirm that we have increased the number of offers available. In 2007, an extra 90,000 offer seats were made available. Indeed, over 900,000 offer seats are bookable in 2008: extremely generous allocations, genuinely available.

Carryings increased every month in 2007 – around 60,000 extra passengers – whereas competing air services declined by 25,000.

You will also be aware that studies have confirmed that our prices are competitive with alternative destinations. For example, our prices are very substantially less than those in the Channel Islands and, in reality, are highly competitive with alternative services such as Holyhead-Dublin, despite the very different economies of scale.

Five thousand, three hundred and sixty customers completed our market research in the summer and autumn of 2007 and the results are now published on our website, and we have provided the Committee with a copy of these results. The vast majority of those passengers confirmed satisfaction with the value for money of their trip.

We have provided you with a substantial amount of evidence to assist the Committee.

Our commitment to service improvement, low fares and growth, remains.

Thank you.

The Chairman: Thank you very much for your presentation and also for the written evidence that we had some months ago.

You refer to meetings with the Department of Transport. Could you just indicate to us how often you do meet with them to discuss timetables and fare increases, and who attends those meetings?

Mr Woodward: I can confirm that we meet on a scheduled monthly basis with the Department of Transport. From the Steam Packet side, it is usually myself and John Watt – both of us, if we are available, and at least one of us if the other is not – and, from the Department of Transport side, it is usually the Director of Harbours, Capt. Brew, and Rodney Christopher, also of the Department of Transport.

The Chairman: At those meetings, you discuss general questions of standards of service?

Mr Woodward: The agenda is usually an amalgam of points that we wish to raise with the Department and the points they wish to raise with us, and covers all issues relating to the User Agreement, the service level, fares and any other matters pertinent.

The Chairman: On fares and timetables – and thank you for what you have told us –

Mr Malarkey: Chair, could you ask whether they are actually minuted?

The Chairman: Mr Malarkey.

Mr Malarkey: Could I ask whether any minutes are taken of these meetings at all? Are they minuted by DoT or yourselves?

Mr Watt: They are not minuted; however, they are so regular that we have very strong awareness of what each other's issues or questions are at any time.

Mr Malarkey: There is no documentation that could be looked at to find out what was discussed at the meetings?

Mr Watt: Certainly we do not have any, unless the Department keep separate records.

Mr Woodward: I should add that it is not just monthly meetings. We do have more regular conversations, usually via the telephone. So it certainly is not a case of just one point of contact each month.

Mr Watt: I would say we talk every week.

The Chairman: Thank you.

What is the agreed basis for fare increases, then, and can you just explain the extent to which you are required to agree any proposed increases in standard fares with the DoT?

Mr Woodward: There is a mechanism called schedule 6 of the User Agreement, which is, to all intents and purposes, the basket of fares, which is widely quoted as essentially the engine which drives the fare increases within the User Agreement, and that is the mechanism which also applies the RPI-less- $\frac{1}{2}$ -per-cent formula. Essentially, it is a weighted average basket of all standard fare types – both passenger and freight – weighted by revenue, and the different increases that we propose to put are inserted within that model. The RPI in the given month, which is usually July, August, September – around mid-late summer of the previous year – is inserted. We then work out what the difference is. The fare minus $\frac{1}{2}$ per cent is the maximum upper limit.

Once we have a model that we think is suitable, and we think is one we are happy to go with, we submit that to the Department of Transport for scrutiny. They will then usually come back to us and discuss certain issues with us, and ask us perhaps to modify certain fare types or, if they wish us to perhaps encourage a particular type of traffic, they will say so at that point.

Within that process, eventually a position is agreed where they are happy that we are within the limits of the User Agreement schedule 6 arrangement, and at that point they give confirmation. Until that point is given, we are not able to finalise timetables or publish fares for future years.

The Chairman: Is that on the basis of an average across the board of revenue raised from fares?

Mr Watt: A weighted average.

Mr Woodward: It is a weighted average.

The Chairman: A weighted average.

Mr Woodward: Yes.

Mr Watt: So therefore it automatically caters for any differences in a number of tariffs etc.

The Chairman: So it takes into account both the discounts and the TT period, when we have heard evidence that prices, fares, are raised, for a short period, quite substantially.

Mr Woodward: TT fares are entirely within the schedule 6 mechanism, because they are all the typically standard fares.

The Chairman: Where can passengers find a list of standard fares?

Mr Watt: Published on our website, and available on request.

The Chairman: Available on request.

Mr Watt: And on our website.

The Chairman: What would you say about claims that we have had from members of the public that, at TT period, fares are raised and price increases are quite excessive?

Mr Watt: There is absolutely no basis whatsoever to substantiate that. They are governed by the terms of the User Agreement and therefore must only increase by RPI minus $\frac{1}{2}$ per cent.

Mr Woodward: In real terms, in fact, the passenger prices have tended to increase at less than RPI minus $\frac{1}{2}$ per cent.

The Chairman: Are we talking about specifically the TT period?

Mr Woodward: We are talking about tariff A sailings which, essentially, most of the TT peak inbound and outbound sailings are. They are fully regulated within the schedule 6. So there is no question that we are able to, in any way, flex the pricing in advance to suit ourselves. We have to apply the pricing model to the TT period, as indeed to all other regular scheduled sailings.

The Chairman: So the benchmark, by which you refute the claim that price increases are excessive, is the general tariff. The public, would you not accept, are looking at discounted fares when they look at the increases?

Mr Woodward: I think it is perception. What is important to understand is that there is a set amount of standard fares. Those standard fares are the ones which are regulated under the User Agreement and represent the maximum fares we are able to charge under any given scenario. So that essentially sets an upper limit.

Special offer fares, by their nature, are fares which we have chosen to introduce at times of less than peak demand, to encourage people to travel, and therefore often are substantially cheaper. But that does not mean, in any way, that peak tariff fares are being raised at more than the level we are allowed to, or are in any way profiteering.

The Chairman: Thank you.

We perhaps can come on to the question of discounts and the availability of fares. I am very happy to open the general questions to members of the Committee.

Mr Turner.

Mr Turner: Can I just have confirmation? You say you chose to introduce discounted fares. Could you confirm it is actually a Department of Transport stipulation that you introduce discounted fares?

Mr Woodward: Latterly it became a Department of Transport stipulation, but they were first introduced by us in an attempt to grow the levels of people using our services.

Mr Turner: When did they introduce this?

Mr Watt: In 2005, whereas we introduced them in 1996.

The Chairman: Mr Cregeen.

Mr Cregeen: When you say that you get agreement from the Department of Transport on the levels of increase, and it is structured to schedule 6, do you ever have it below that? Do you ever go to them and say, 'Well, we don't really need to do RPI minus half,' or do you always have it up at the top limit?

Mr Woodward: It is very rare – if in fact ever – that it has been right at the absolute maximum allowed. It has usually been below the RPI-less-a-half limit.

Mr Cregeen: Do you have any records at all?

Mr Woodward: Yes, that is something we can produce to the Committee, if necessary.

The Chairman: Mr Malarkey.

Mr Malarkey: Yes. A bone of contention to a lot of complaints we have had is your brochures.

I have got the 2006, 2007 and 2008 brochures here. It is very clear in 2006. You can tell what your top fare structure is. You have got your maximum and you have got different fare bands, so anybody looking at this brochure would know immediately which sailing to get for what price and most convenience.

Why was this style of brochure dropped from both the 2007 and 2008...? There is no sign of what the maximum fare should be, there is no indication of what is a good deal or what is a bad deal. Unless you actually pick up the phone and ask, or even go on the net – which is very confusing for some people – you cannot really tell, without a lot of enquiries, what is the best deal to take.

Is there any reason why this was dropped out of the two brochures?

Mr Watt: The percentage of people who pay the standard fare today is extremely small. The vast majority of customers do benefit from the special offer fares. Outside of the TT period, for instance, it is probably over 90 per cent of passengers.

I think you also previously asked for details on a particular sailing in September, for instance, where I think

there were 580 customers travelling, and I think less than 20 customers paid the standard fare. That shows you the sort of numbers of people who pay the standard fares.

Numbers of customers have said that by highlighting the standard fare within our brochure, it was actually off-putting, whereas the reality is they were actually obtaining special offers when they enquired about travel. But some people were not enquiring about travel, because they were confused by the standard fares highlighted.

Mr Malarkey: I would say it is quite the opposite, because it confuses me when I do not know what price I am likely to be charged, whereas I can open a brochure here and know specifically that, if I go on that sailing, I am going on C band and that is the maximum I am going to pay. If there is another offer on top, I do not have a problem with that. But initially you would know, by which sailing you take, or what time of year – if you are planning next year's holiday, for instance – what fare you are going to do, rather than take a little bit of a gamble on the telephone, or on the internet.

Mr Watt: Well, 90 per cent of customers are getting a much cheaper fare.

I do not think there is any ferry company in the UK – I may be wrong, but as far as I am aware, any commercially operated unsubsidised operator... They all publish their special offer fares and their prices to promote increased travel.

Mr Malarkey: I am not disputing whether they are getting a better deal, from the new brochure. I am just going down the line of clarity to the customer. We have had many complaints regarding there being no clarity in the brochure as to what fare they are expecting.

When the Chair asked you, you said they could find it on the website, what your maximum fares are. Not everybody has the facility of the website. These brochures are delivered to every home in the Isle of Man. I would have thought this is where the clarity comes into it, when it is delivered, that people can tell at a glance what your highest fare is and the fact you also have special offers on, because you do it in a different brochure for the offers.

But this is your main one, and I would have thought, from a clarity point of view, this is what people want to see.

Mr Watt: I can understand that point of view; but likewise, we have had many customers who have said that they have been put off by the standard fares and have thought that was the fare they would end up paying. The reality is they are not.

Mr Turner: Mr Chairman, just to answer that: I think this is the common problem that we have had from many of the submissions, that people have not actually a clue what they are going to be paying with the Steam Packet. It is a complete lottery of going on the website, and when you go on the website it can be different from when somebody else goes on the website.

I think the point is that there is nowhere published what your standard rate card is, and this is what is confusing. I do not think – and maybe the Clerk could correct me here, if I am wrong – we have had anybody suggesting that publishing the standard fares is confusing. We have actually had quite the opposite: that the fact you do not publish your standard

fares is potentially misleading them into not knowing what the fares are.

Mr Woodward: I think you should be careful using the word ‘misleading’, because there is certainly no intent on our part to mislead.

The fare structure you see in the brochure is driven by a need to portray the fact that the Isle of Man is a good place to visit and is not an expensive place to visit, and the fact that special offers, as John has said, are available to over 80 per cent of our customers, on average.

Mr Turner: Maybe so, but the perception is that the Isle of Man is an expensive place to visit, Mr Woodward.

Mr Woodward: Well, that perception is one of the ones that we would like to dispel as being erroneous. I believe that the evidence we have provided to the Committee makes a good case to dispel that specific rumour.

The Chairman: Would you agree that the public believe there appears to be no consistency in the availability of discounted fares, depending on when they make the booking?

The Company – I think it is a matter of policy – very strongly advises the public to book early to get a better fare, but that is not always the case, is it? Good fares can be obtained later, and even, in some circumstances, more cheaply than somebody who has previously purchased their ticket.

Mr Woodward: I think the overwhelming majority of special offers are available on an early-booking basis. There are times – and there will continue to be times, I am sure – where, if we are looking at how we best fill sailings, and we decide, perhaps late in the day, that a sailing is very quiet and it needs to be more populated with passengers, that we may well look at doing something at a very late stage to encourage demand, but that is not the norm. The norm is allowing special offers to be available and bookable early, rather than late.

The Chairman: So discounted fares, special offers, do not apply to each sailing. Is that correct?

Mr Woodward: I do not think you can categorise that. I am sure it is the case that every single sailing we operate – apart from the peak tariff sailings – has special offer availability on it, to a greater or lesser degree. My colleague will –

Mr Watt: No, that is absolutely right. There are special offers available on all sailings, with the exception of some peak sailings at TT and Grand Prix.

The Chairman: Just to clarify, then: the peak-time sailings would be TT –

Mr Watt: And Grand Prix.

The Chairman: Grand Prix. Christmas period?

Mr Watt: There would be special offers available on every sailing.

The Chairman: Beginning and end of school terms?

Mr Watt: Special offers on every sailing.

The Chairman: Special... and bank holidays?

Mr Watt: Yes, same again.

The Chairman: How does the travelling public know whether they will get discounted fares at those peak times?

Mr Watt: It is the same system that applies, really, throughout the travel industry worldwide nowadays. If you go into an airline website, you will not know beforehand what the price will be. It is the same in the rail industry nowadays.

All travel companies have the problem where they know they can fill certain flights or ferry services or trains at peak times, but they are trying to boost traffic at the off-peak periods. Special offers are designed to encourage additional traffic during those off-peak periods. It is therefore a variable pricing related to the level of demand.

The Chairman: If the demand on a particular sailing is low, do you discount fares to increase the traffic?

Mr Watt: Yes.

The Chairman: Okay. Mr Malarkey.

Mr Malarkey: I hate to keep coming back onto the brochure here, but you have mentioned discount fares and people paying more at the last minute – book early to get it cheaper – but with this type of outlet here on your brochure, if I wanted to book fare band D, whether I booked it last Christmas or I book it next May, at least I knew exactly what I was going to pay. So the clarity is there, no matter what period of time.

You are saying you are superseding this now to encourage people to book early?

Mr Watt: The vast majority of customers obtain a much cheaper fare than that, and by booking earlier, in general, you will get an even cheaper price.

Mr Malarkey: But it is not made clear, if I book late, what I am going to pay. It is in *this* brochure; it is not in... This is where I am going back to. In this brochure –

Mr Watt: I think this was the point we were trying to avoid. Customers got confused that that was the fixed price. The reality is that most people were paying substantially less. People got the brochure from another ferry operator to Ireland, for instance, and they looked at the standard fares to the Isle of Man, and said, ‘Oh, I’m not going there, it is so much cheaper to Ireland.’ The reality was there was a wide availability of offers that are just as cheap as going to Ireland.

Mr Malarkey: I would like to disagree, because looking at this, I know the maximum I am likely to pay; not whether I get a deal on that, because you have got fewer bookings. This shows you the maximum.

At the moment, this brochure here does not give any indication of what the maximum... It could be right up to your top rate. It is the clarity between this brochure and this other brochure which seems to be the main complaint we have had in from an awful lot of people.

Mr Woodward: I fully understand your point, but I think it is important to understand the position we are in, because we also have a healthy tourist industry here. Those in tourism and leisure are telling us, quite openly, that from their perception, it is far better for us to advertise special offers and not try and put people off with the cost of travelling at standard fares, if there is any view that that is a fare they are likely to pay.

Clearly, there is no right and wrong answer here. What I would say is that if this is something which is causing concern and comes very clearly out of the Select Committee, then it is something we will have to very seriously look at.

The Chairman: Mr Cregeen.

Mr Cregeen: You were saying that you offer discounts to try and encourage traffic. By not offering discounts during TT and Manx Grand Prix, are you saying that you do not want to encourage traffic during those periods?

Mr Woodward: We are saying that the demand at those periods is such that there is no commercial incentive to do that. Indeed, the costs of providing the facilities which guarantee those abnormally high levels of traffic for such a short period mean that it is the practical way in which we can ensure that we are able to provide those services.

Mr Cregeen: It is just like a disincentive to keep your assets as they are, rather than have to increase.

Mr Woodward: I would not use the word 'disincentive', because of course, at that time of year, we are not using our assets, as such. We are forced to bring in, from third parties, a high degree of tonnage which we do not possess ourselves and which we could not justify keeping ourselves.

That usually comes at a very high price, because of the short-term nature of the use of those assets, and the only way we are able to ensure that that makes sense for us, and for the Island, and for the number of people who travel, is to ensure that the fares there are standard fares, rather than discounted fares.

Mr Cregeen: Is there any reason why, when we have this very busy period on the Isle of Man with people coming in here, you increase the cost for people who are leaving? You said there are no special offers going to and from. Surely, if you had been offered the special offers going out –

Mr Woodward: No, in the contraflow direction, there are offers available.

So, for example, if somebody were coming into the Isle of Man at the beginning of Race Week, he would almost certainly be paying a tariff A standard fare, whereas somebody leaving the Isle of Man in race week may well get a special offer fare. That is purely because of the fact that all of the boats coming in are full, whereas most of the boats going out – because there are so many of them at that time – are empty.

Mr Cregeen: Thank you.

The Chairman: Your pricing system clearly favours those who book well in advance of travel. We often get the comment that this is a lifeline service, but what about those residents of the Island who must make travel arrangements at short notice, because they have distressed travel, attendance at hospital appointments, or funerals and so on? They are really at the mercy of whatever the prevailing fare is, aren't they?

Mr Woodward: I think, as a general rule, yes, that is right.

Of course, we can, and often do, get representations from people in just such scenarios as you have described, where we would, frankly, make a special effort to provide something at a cheaper fare for them. So we are not saying that these things are set in stone. We do, and continually are approached to, and recognise our responsibility as part of this community. At times like that, where there are genuine reasons where people must travel at short notice, for example, we have in that past, and will continue in the future, to do our best to make sure those people are accommodated.

The Chairman: When you say 'accommodated'...?

Mr Woodward: That may be something as simple as overriding a standard fare and allowing them to take a special offer fare, if there is a particular reason for doing it. What I am saying is that it is not set in stone. We are not totally insensitive to unusual circumstances, shall I say.

Mr Watt: Having said that, special offers are generally available right up until very late. At some very peak periods, they may well sell out much earlier than that, but generally speaking, they are available until really quite late.

The Chairman: So you are saying, despite the special offer, discounts should still be available even at very short notice.

Mr Woodward: Some certainly are. The fact that over 80 per cent of our passengers on an annual basis benefit from a special offer illustrates the degree of availability, because certainly not 80 per cent of our passengers choose to book as early as we perhaps might like.

The Chairman: We have had evidence, as well, from people who are sorry that you do not any longer offer a frequent traveller scheme. That has been suggested particularly for those resident on Island who are relying on this lifeline service. Is there nothing you can do about that?

Mr Woodward: I think it is important to look at where we were, in regard to the Sail and Save Scheme, which is what you are referring to.

The Sail and Save Scheme first came about as a frequent traveller discount scheme, at a time when there were no special offers, when standard fares were the only fares that were available. So they did reward people genuinely who were travelling on a more regular basis.

Since special offers have come in, the amount of discount provided, on average – which we have illustrated in terms of

what the average fares are now, compared with where they were 10 years ago – have, by many times, outnumbered the discounts the Sail and Save Scheme generated for certain people, and I think it is important to realise that.

In terms of visitors to the Isle of Man and Manx residents, we are the major carrier of visitors to the Isle of Man. We bring in more tourists than any other carrier, and if we were to introduce a scheme which offered residents, that in turn would probably mean higher fares for visitors to the Island, which we are told, and understand, are important for the economy and important for the tourism and leisure industry here on the Island.

So there is a bit of a Catch-22 situation here as well, and it is not, certainly, as straightforward as simply being able to offer a discount and then everyone would be happy, because that would not be the case.

The Chairman: So it is still pot luck, to some extent, whether a passenger gets discount when they make a booking.

Mr Woodward: ‘Pot luck’ sounds quite emotive, but essentially, I guess it is a fair description.

The Chairman: What about variation in fares? We have talked about the discounts, and Mr Malarkey has highlighted the timetable not indicating the fare that the passenger will necessarily get; it is the discount fare that is headlined. What about variation in fares, depending on whether people make the booking on or off Island? Equally, variation in fares when people book online or offline, but just for the first one – booking on or off Island – there is a different policy in operation, is there not?

Mr Watt: There is no difference in the pricing to or from the Isle of Man. It is exactly the same.

The Chairman: Depending on where the booking is made?

Mr Watt: Yes. If they are booking from the UK, it is the same price on a particular individual sailing as if they booked from the Isle of Man. There is no difference there.

The Chairman: We have heard evidence from individuals who have booked, for the reason that they had made an erroneous booking online, as if they were a resident of Liverpool, and got an entirely different fare quoted than when they went back online two minutes later to book as an Isle of Man resident.

Mr Woodward: That can only be a function of time and availability of the system in real time, working through the tiers of discounts available.

The Chairman: But they were only minutes apart.

Mr Woodward: That can often be the case. There is absolutely no policy within the Steam Packet – we need to be quite clear on this – that people booking from one location pay a different fare to people booking in another location.

Mr Malarkey: Could it be the fact of the actual vessel going from Liverpool to the Isle of Man has got a lot of

passengers on it, so you have lost all the special fares going in one direction?

Mr Woodward: But that is not the question that was asked. Yes, that could well be a scenario, but that is not the question that was asked.

Mr Watt: If they chose a different sailing, then the price would be different.

The Chairman: But if they were choosing the same sailing –

Mr Watt: If they chose exactly the same sailing, the price would be the same.

Mr Woodward: If a person in Liverpool and a person in the Isle of Man were booking onto the identical sailing at the same time, they would get the same fare.

The Chairman: At the exact minute.

Mr Woodward: If they were contemporaneous, they would get the same fare. If they were not, there may well be a difference, because the person booking in the Isle of Man may have got the last special offer fare at a certain tier, whereas the next person booking in Liverpool may have then defaulted to the next higher tier of special offers.

But if you could make a simultaneous booking, with the space being infinitely available, they would get exactly the same fare.

The Chairman: Thank you, that is clear.
Mr Cregeen.

Mr Cregeen: On booking online, where you have your return sailing prices, it has been a comment that if you book two singles, it can actually be cheaper than booking a return. I understand that you have got possibly the different flexibility, but surely it should be the lowest available price and not that if you booked it as a one-way ticket, instead of the return... The price should be the same, shouldn't it?

Mr Watt: There will be, from time to time, some pricing anomalies. Those are extremely rare. When you are booking online, it is an automated process, and therefore the system is automatically generating the cheapest fare for the specific request that you have asked for.

So it may, in very isolated examples, show you a cheaper single fare on a foot passenger ticket – this will never apply on cars, by the way – rather than booking a return at that particular time, but it is a very isolated example.

The Chairman: It would be a fair comment, would it not, that getting discounts for booking online is perfectly okay if you are in a competitive travel environment, but where you have effectively a monopoly situation, is it still reasonable?

Mr Watt: We compete with the local airlines, we compete with other destinations. When a UK resident is deciding where they want to go on holiday, we want to be as competitive as possible. Online bookings save us considerable costs, and those are passed on to the consumer.

That is the same throughout the travel industry. In the last 10 years, those savings have allowed fares to come down. If you do not have that automated process, eventually the cost goes up and the price goes up.

The Chairman: Thank you.

Mr Malarkey: Do you still operate Magic Holidays?

Mr Woodward: Yes. It is now called Steam Packet Holidays, but we do operate it.

Mr Malarkey: Steam Packet Holidays, because I could not see it in your new brochure.

They are allocated so many passengers, cars etc on every sailing. Am I right?

Mr Woodward: No.

Mr Malarkey: To a degree? I have used Magic Holidays several times over the years for one specific reason: that, on the old brochure prices, if I wanted to try and book and it was last minute, or whatever, and the boat was full, I always seemed to manage to get on if I went through Magic Holidays.

Secondly, if I booked late, when I went to book, I had to get quoted full price. I think on one occasion it was about £220 for the car and two return, and yet when I went through Magic Holidays, for £168 I got a hotel overnight as well. I think, by going through Magic Holidays... Going direct to the Company, I am being charged far more.

Mr Woodward: John can perhaps give more detail on this, but the general principle is that Steam Packet Holidays is a package holiday subsidiary and is given an allocation of fares at a certain rate. So they are able to avail themselves of those fares, as long as they are part of a general package.

We give exactly the same deal to other travel operators on the Island who may also wish to put a package together for visiting the Island, or visiting the UK, using the Steam Packet as their means of travel. There is no difference between what we do internally for our own holiday operator, compared with a company like, for example, Travel Services, who would externally package up that holiday. It may well be that, because they have a special-rate deal with the Steam Packet, they are able to get access to a fare which has been allocated when other offers have run out. That may, on occasion, be the case.

I think that is fair, John?

Mr Watt: Yes, that is right. Tour operators, such as Magic Holidays, but mostly tour operators bringing people to the Isle of Man, are given a discounted rate on selected sailings to make the overall package... because if you are booking a week's accommodation, it would be fairly expensive in the Isle of Man. So, to try and increase the number of visitors – but also for Magic Holiday customers with a package going away from the Island – there are cheap package deals available, where effectively the ferry price has been discounted to promote extra travel.

Mr Malarkey: But surely the fact that they have got these discounted ones is taking away the discounted ones from the general public, because you are classing, in your

80 per cent of cheap fares... A lot of these are going out to travel companies, and are not available to the public.

Mr Watt: The discount given to Magic Holidays, or any other tour operator, is included in that 80 per cent.

Mr Malarkey: But they are not available to the public, because they are only specially for... What I am saying is it is a bit of a false figure, the 80 per cent, because maybe 20 per cent of them are not readily available to the public because they are given to travel companies.

Mr Watt: They are still available.

Mr Woodward: The proportion is small.

Mr Watt: The same system applies across the board.

Mr Malarkey: Why then, if I ring up and try and book tomorrow on the Steam Packet and I am quoted £100, and I can go to Magic Holidays, or somebody else, and get quoted £60 because they have still got the special reserved...?

Mr Watt: No, they do not. They have the same system availability. It depends on the actual price of the individual ticket.

Mr Malarkey: I have done it on several occasions. I have been quoted by the Steam Packet one price, and I have actually been quoted by Magic Holidays, including hotel accommodation, a cheaper price, on the same day, within minutes of the telephone call. I put the phone down and I...

I do it automatically now! My daughter, going to university, booked a return on the boat with her car. She ended up paying £40 more, without the accommodation, than I paid, booking a day after her, through Magic Holidays.

Mr Watt: Magic Holidays are benefiting from a discounted rate.

Mr Malarkey: What I am saying is: because they have the discounted rates, they are occupying some of that 80 per cent, to one side. They are not being readily made available to the public. I am only querying –

Mr Woodward: They are, but as part of a package holiday selling arrangement.

Mr Watt: Yes, they are still available to the public. Magic Holidays have an even cheaper deal than is available to the general public.

Mr Malarkey: What I am trying to work out is why I can get it cheaper from a travel company than I can from the Steam Packet, if we are all using the same discounted package.

Mr Watt: The special offer is available to the general public at the brochure rate in there, whether it is £17.50, or whatever. Magic Holidays may well have a cheaper rate available only for a package rate. So if a customer wants a week in a hotel, or whatever, then they may well benefit from a cheaper rate than the £17.50, but only as part of that inclusive package.

Mr Cregeen: Can I just put a supplementary to that, please?

If you say 80 per cent of your fares are discounted, if you put 10 or 15 per cent off to package holidays – something like that – is all that... It is a small –

Mr Watt: It is a tiny per cent; actually, probably 1 per cent. I do not know the figure, but that is the sort of scale of it.

Mr Cregeen: So, coming closer to the date, would you put that discounted area back to the general public, or do you still leave it available to –

Mr Watt: When it is available –

Mr Woodward: It is never taken away from the general public.

Mr Cregeen: So it will go back to the general public if –

Mr Woodward: Look at it this way: from a Steam Packet Holidays point of view, if they are trying to book a package holiday, in terms of the sea leg of that package, they are treated as any other customer if they are booking at a certain time. So if there is a fare available, they will get it from the pot of fares available. If there is not, they will not.

The Chairman: Mr Turner.

Mr Turner: When pricing, what do you class as a commercial vehicle?

Mr Woodward: Do you mean a freight vehicle?

Mr Turner: If I was to try and book a transit van, I believe I could not use your website. Is that correct?

Mr Woodward: Correct.

Mr Turner: Why is that?

Mr Woodward: Because you are transporting goods for commercial purposes.

Mr Turner: Can you define ‘commercial’ for me?

Mr Woodward: You are carrying goods or tools for commercial gain. In other words, you are operating a business, rather than travelling as a private passenger on private business.

Mr Turner: But a businessman coming in his Lexus is also commercial. He is also coming as commercial, so why do you differentiate between a man coming in a van and a businessman coming in a car?

Mr Woodward: Because we are obliged to maintain a fair and level playing field for our freight customers, because they are paying, clearly, higher than elsewhere rates for the freight metrage, and it would be unfair to them if we were to allow small operators to simply load up transits and so on with goods and thereby pay a private rate for that vehicle, which is far less per metre than they are forced to pay under

the commercial rates.

Mr Turner: But I could load up a people carrier with the same tools.

Mr Woodward: You could load up a people carrier with the same tools, but you would be subject to check and, if found, then you may be surcharged.

Mr Turner: They could be private tools.

Mr Woodward: They could be private tools: we are (*Interjection by Mr Turner*) always open to that.

What you must be clear on here is that we are trying to maintain a level playing field so that people who are in the business of transporting goods to and from the Island are paying the same rate and that passengers who are travelling for private purposes are paying a different rate.

Mr Turner: It just seems there is a clear discrimination between certain types of businesses that you are classing as commercial and other types of businesses are not commercial, if you see my analogy.

Mr Woodward: Well, there has to be – I see your analogy – a discrimination at some point. You may argue we have got that in the wrong place, but it is a very difficult one to set.

Mr Turner: How does that policy affect TT when mechanics are coming?

Mr Woodward: We have a competitor rate at TT.

Mr Turner: Competitor rate.

Mr Malarkey: Could I just ask you when you introduced that policy?

Mr Woodward: The commercial charge?

Mr Malarkey: Commercial about vans and what you are allowed to...

Mr Woodward: To my knowledge, and I would have to check this, it has certainly been in force since I joined the company in 1989.

Mr Malarkey: There was never objection if anyone was moving house or bringing themselves furniture over. As long as you could prove that it was for yourself –

Mr Woodward: And that remains the case.

Mr Malarkey: – there was never an objection.

Mr Woodward: That remains the case. We do issue something called a private exemption certificate, which, if somebody is travelling with their van with goods for their own purposes, simply applies to our freight office, we will then book a fare at a passenger rate for them.

Mr Malarkey: Still available?

Mr Woodward: Absolutely, yes

Mr Malarkey: Good. Do you advertise the fact that it is still available? I mean, that is the first I knew about it.

Mr Woodward: I think, I am pretty sure that we do advertise it actually, yes; I would have to check that. Certainly, there is a form of words, which explains the situation with regard to what is private and what is commercial and how you can ensure that if you are travelling for private purposes you are not charged commercial rates.

Mr Malarkey: It only seems to the forefront recently, with some of the letters we have had over this. I mean, I know personally, for like 20 odd years I have been taking my van backwards and forwards and bringing items back. I would very, very, very rarely ever be queried, but it seems to be like constantly people are saying now they are stopped, checked... they are told that they cannot do it.

Mr Woodward: No, we certainly do police it and we do do spot checks to ensure, as I say, that people are not unfairly prejudicing the genuine freight customers to the Isle of Man, but if people are genuinely travelling on private business they will be charged private rates. If they were wrongly charged for freight rate for that business we would happily refund that and restore the position as it should have been.

Mr Waft: You mentioned a higher freight metrage elsewhere. What did you mean by that?

Mr Woodward: Well, the freight metrage we charge to the Isle of Man and, indeed, the Channel Islands is higher than you might find, for example, on the Dublin/Holyhead route, which is commonly understood in terms of the economies of scale of the operation and also the fact that, on the Island, the freight rates are used in part to subsidise loss-making passenger services that otherwise would not be provided.

The Chairman: We will come back to freight issues.

I just want to ask you about the fuel surcharge. Can you confirm you still operate a fuel surcharge?

Mr Woodward: We do still operate a fuel surcharge. It is a model that was agreed separately to the User Agreement with the Department of Transport some years ago now, because of the worrying – at the time – trend of rising fuel prices.

Obviously, from our perspective fuel prices are an enormous part of our operating cost base and have become a much bigger part of our operating cost base. There are some fairly sort of horrific statistics in terms of fuel which do not make for easy reading, but we have chosen to absorb the vast majority of those costs within the standard fares. Only when it got to a stage where it really was getting very difficult to continue to do that, did we seek to agree a model for fuel surcharges with the Department of Transport and that model means that the fuel surcharge is shown separately to the standard or special offer fare on the basis that, if the fuel price were to decrease, then that would certainly go down in the same way that, if it increases, it would go up. So, in other words, it is meant to be a transparent addition and, by virtue of the fact that it is a surcharge, a non-permanent addition.

The Chairman: What is the life of a particular surcharge.

How often are they reviewed?

Mr Woodward: They are reviewed every six months and they look at a six-month period in arrears. We agree then with the Department of Transport what the fuel cost was during that period and that then feeds into a model, which has different bands of pricing.

The Chairman: What is the current surcharge and how long has it been in place?

Mr Watt: It is £2.50 per passenger and £1.50 per freight metre. It has been in place now for quite a long time, although the price has fluctuated in the meantime. The model that the DOT monitor automatically calculates the weighted average price over the six-month period to determine the level which should apply in the following six months.

The Chairman: Is the Department of Transport's agreement required, then, for any increase in the fuel surcharge?

Mr Watt: Yes.

The Chairman: Thank you.

Reductions of fuel surcharges; we have had comments from the public that the fuel surcharge did not reflect decreases in fuel prices, which was the case a little while ago now – prices went up but not went down.

Mr Watt: It will automatically reflect fluctuations, so if the price has come down over a sustained period it will automatically come down. It is a weighted average for the period, which accurately reflects the costs incurred.

The Chairman: How do you explain that the charge remained the same during an extended period of falling fuel prices? That is what the public are asking.

Mr Woodward: It is because the model works in arrears so, for example, if fuel prices had fluctuated or had fallen during a particular six-month period then that would not be reflected until the next review period. Now, similarly, if prices were increasing during a six-month period we would not be able to increase a fuel surcharge until the following six-month review period.

So, there is always a time lag between the actual real impact of fuel prices and our ability to then change the fuel surcharge.

The Chairman: I appreciate what you are saying about it being determined in arrears, but the public did not see any reduction, albeit relating to a previous period of arrears.

Mr Woodward: Well, I suspect what actually happened was that when the fuel surcharge model first came in we were in a certain band. The fuel surcharge subsequently increased and we were entitled to put that surcharge up to a higher level in the following band. We chose not to do that and when the fuel price model then came back down for a sustained period we actually were back in the band we had been in originally.

We had not put our price up and therefore had not brought the price back down again to reflect the price increase in the

interim period. I think that is the...

The Chairman: So, it is not true to say, then, that any prolonged decrease in fuel prices will automatically see a fall in the fuel surcharge? It depends whether or not you choose to put the surcharge up subsequently.

Mr Woodward: Yes, we have no ability to raise the fuel surcharge without the agreement of the Department of Transport. Of course, we are free to reduce the fuel surcharge if we volunteer to do that, but we have no ability to raise it without their agreement and their agreement would be based on the pre-agreed model, which has specific bands of fuel prices.

So, as long as the average fuel price during a particular period is within a certain band there is a clear limit on which we are allowed to increase our fuel prices. If it were to fall from one band to another band, we would be obliged at the next review to reduce our fuel surcharges for that next six-month period.

The Chairman: Right. So, in essence, falling fuel prices will not see a reduction in the fuel surcharge and will be used to offset a subsequent period of higher fuel costs that you choose not to implement.

Mr Woodward: That may be the practical result of the six-month time lag, but that is not the policy behind how the fuel surcharge model is designed to work.

The Chairman: Mr Cregeen.

Mr Cregeen: When you are looking ahead for last year, when you were looking to this year's brochure, were you looking at the cost of fuel before you went forward with your pricing structure for this year?

Mr Woodward: We will be looking at the cost of fuel.

Mr Cregeen: As an overall cost of the business, you will have been looking at the cost of running the business, your profit margin. When you come forward with your pricing structure for this year you will be looking ahead.

Mr Woodward: Yes, I mean we are obviously aware of what the fuel price is doing.

I mean, for example, the fuel price, from our perspective, has gone from something like, I think, 10 per cent of our cost base to more than 20 per cent of our cost base, which is a significant increase. Now the fuel hedge that we are talking about, the fuel charge agreement, gives us a little bit of that back, but only a tiny proportion of it back. The vast majority is still absorbed by the Company.

Mr Cregeen: But won't that be included in part of the RPI that you have with inflation coming up; fuel will be part of that.

Mr Woodward: Well, no.

Mr Cregeen: So you have got an increase in fuel included in your brochure price and then you have got the security that you can charge extra on top of it, because it is like people feel like they are being charged twice.

Everybody goes to the petrol station, they buy fuel; it has gone up. You will be looking ahead, so you put your prices at the cost of fuel now. Now, I could understand part of the thing, in six months' time, if fuel goes up again, saying, 'Well, we had allowed a certain amount of money for this period for fuel and now there is a surcharge,' but what you are saying is that we are charging extra money from the time that we have given you this brochure. Isn't there a part of your pricing structure which includes the price of fuel?

Mr Woodward: Only to the extent that it is inflated by the cost of RPI, which clearly is not the case when we have...

I think the statistics John quoted earlier for RPI over the last 10-year period are something like RPI has gone up by 40 per cent. The cost of fuel has gone up by 800 per cent over the same period! Now, clearly, the two are not compatible.

Mr Watt: And our special offers are cheaper now than they were 10 years ago.

Mr Woodward: And yet our average fares have halved.

Mr Cregeen: When you compare your prices to 10 years ago it could be said that, maybe, your prices were too high 10 years ago. So, you have just brought them down to a more manageable level, rather than actually being at a fairer price 10 years ago.

Mr Watt: The single fare to the Channel Islands, for instance, I think, if you look on their website, it is difficult to get a fare under £39, whereas it is very widely available on the Isle of Man for £17 and it is not a dissimilar type of service.

Mr Cregeen: But is their traffic volume exactly the same as yours and your running costs ...

Mr Watt: Their traffic volumes used to be the same as ours. We have increased by 40 per cent in the last 10 years, they have decreased by about 40 per cent.

Mr Cregeen: But is that not part of the growth of the Isle of Man, because the Isle of Man, as a whole, has grown and the economy has done very well? It could be said that it is the Isle of Man economy that has grown your business.

Mr Watt: Well, it is not just the Isle of Man economy. I mean, essentially one of the drivers of our business is population level because that is essentially a driver of all sorts of spending. Now the Channel Island's population is twice that of the Isle of Man.

Mr Cregeen: But on the freight wise you have probably had a sustained area of growth over here, where people have come over and you have had extensive building works.

Mr Woodward: There has been additional traffic, certainly, with the high level of capital programmes that the Government has implemented over the last few years. That has tailed away dramatically at the moment and, obviously, from our point of the view the freight volumes we are seeing now are somewhat, in fact, substantially reduced from what

we have seen in the last... For the last two years now they have been declining, but, certainly, since the last seven or eight years they are substantially less now in terms of growth than we have had previously, so that reflects the fact that we are not doing as much within the Isle of Man in terms of capital projects and building projects that we have been doing.

The Chairman: We are straying onto other territory.

I just want to have a word about TT. The Company obviously encourages TT fans to book for the following TT. Are deposits taken and are these refundable if people change their plans?

Mr Watt: The deposit system has been in existence as long as I can remember – I suspect 20 years or more – and it evolved because customers want to secure their accommodation, perhaps a year in advance, when they are here and they want to be able to book their passage, as well as booking their accommodation. Now, at that particular time we take only a deposit because we want to highlight the fact that sailing timetables are provisional and may be subject to alteration: a year in advance we do not have the port slots. We have not had the prices agreed with Government and therefore do not know the final fare, although we can advise the approximate fare.

So the provisional booking system has evolved to try and allow customers to make a booking, secure their ferry passage to the Isle of Man and also secure in the knowledge that the Steam Packet Company will honour that booking in a reasonable manner. If we are not able to honour it, then we would obviously refund the deposit.

The Chairman: Okay.

Are fans able to book early to get discounted fares, like other people?

Mr Watt: The deposit system only applies on the peak TT period and therefore the standard fares generally apply.

The Chairman: So, there is no paying a deposit a year in advance... does not constitute an early booking for getting any sort of discount.

Mr Watt: No, it secures you the best choice of sailings. Everybody, unfortunately... they all want to come on the Friday before Race Week and they all want to go on the following Friday.

Mr Watt: Do they know what it is going to cost them when they do that – provisional booking?

Mr Watt: Yes, our staff will advise them that it will be based on this year's price plus RPI minus a half per cent and that is also stated on our website and in the terms and conditions.

Mr Woodward: And on the booking form that they book.

The Chairman: Mr Turner.

Mr Turner: The committee received an e-mail, which was copied to the Steam Packet, which slightly contradicts

what you are saying. It says here – this is from a hotelier – that they have taken a call from a customer looking to make a booking for TT 2008 and was advised that, although she can reserve a space for ferry travel by paying a non-refundable deposit, the Steam Packet Company are not releasing timetables or taking confirmed bookings until November.

Now, it means, basically, that the customer is unable to book their hotel, as they do not know when they are going to be arriving on the Island. So, how can that be offering people security when they do not know when they are going to arrive here?

Mr Watt: They are secure in the knowledge of the day they have provisionally booked. The Steam Packet will honour that booking as close as possible.

If we only offered 'guaranteed times', then the capacity that we could actually guarantee would probably be about half that we actually provide in the event, so the provisional system, therefore, actually allows a substantial growth in TT visitors, which would benefit the accommodation provider.

Mr Turner: But we also had cases where people were turning up for sailings and were not able to get on them; they were transferred to different sailings. Therefore, they cannot guarantee to the hotel they are booking when they are going to arrive and, therefore, they could, in effect, be classed as a 'no show' and lose a night's accommodation.

Now, the hotel would argue, 'It is your problem how you get here. It is not our fault that you are late, you should have arranged your travel arrangements better'. This is the problem people seem to be facing. Equally, the hotel have lost out on this booking, because the person could not, or would not, book the hotel on the basis they could not book a sailing.

Mr Watt: Now this last TT was exceptional – over twice as many visitors as normal. Even in normal TT there is a huge increase in demand compared to normal, so this is quite an exceptional level of increase of traffic that we have to try to cater for.

Last TT, for instance, we had as many vehicles during the TT – in the short TT period – as were carried in the whole of the first 20 weeks of 2007. Now we try to increase the number of sailings, increase the capacity, charter additional ships and we do not know in advance all of the final details of that, so we therefore operate a provisional system with reasonably modest changes required. That does increase the number of visitors that can come to the Isle of Man.

If we were only offering the guaranteed times, say the *Ben My Chree*, then the numbers bookable would be much smaller and the number of fans would be less and the hotels would also lose.

Mr Turner: Maybe so, but the individual trying to book their holiday here does not really have regard to what your operating problems may be. All they want to be able to do is to secure a booking to come to the Isle of Man on a date and, hopefully, get here when they expect to get here.

I understand weather and *force majeure* situations can change that, but generally, under normal operating circumstances, they should be able to book. They were told it was a non-refundable deposit so you can see where their uncertainty is coming in. They have got to put the money up, but they are not quite sure when they are going to get here.

Mr Watt: That has existed for 20 years or more. We will... nine times out of ten we will change the booking.

Mr Turner: Except for this year.

Mr Watt: Yes, okay.

The Chairman: Okay.
Mr Malarkey.

Mr Malarkey: On the refund side of it, keeping the thread the same: as everybody that comes in TT week obviously pays the top whack, if they cannot, for some reason, are they all entitled to a complete refund, because they are paying the maximum price for a ticket? Now, if I travel with British Airways, if I pay the full price or I pay the economy one, the economy one you cannot change and you cannot get your money back. When I pay the full price, if I cannot go I am entitled to ...

Mr Watt: Standard fares are economy.

Mr Malarkey: So everybody in TT Week who cannot for some reason because you have changed sailings or times or certain...

Mr Watt: If we change the sailing they are entitled to a full refund.

Mr Malarkey: And even if they suddenly decided they cannot get the time off, are they still entitled to a full refund, because they are paying full price?

Mr Watt: There are cancellation charges that apply on all standard bookings and there are cancellation charges for the TT period as well. So they do apply.

Mr Malarkey: Are they different for the TT period – cancellation charges – in comparison to the rest of the year, and if they are, what is the difference?

Mr Watt: Compared to standard fares that apply the rest of the year they are slightly different.

The difficulty for the Isle of Man is we have very limited accommodation availability and, of course, there is a finite capacity on the ferry. Our whole purpose is to try and obtain the bookings for those who are genuinely wanting to come to the Isle of Man. If somebody cancels very late on, that is basically lost business for the Isle of Man, not just the Steam Packet Company.

Mr Malarkey: But if I pay you a deposit for TT and I do not know what sailings are available, how much it is going to be and you do not come back to me until four months before and then I go looking for accommodation but I cannot get any because it is all gone, are you going to give me my deposit back, firstly, for my deposit, or if I have paid the full fare are you going to give me my full fare back?

Mr Watt: We would not refund the deposit in that instance.

Mr Malarkey: You would...

Mr Watt: If we were to take bookings from all comers,

as it were, you would end up with a situation whereby you would get a very large number of cancellations from people who were not as committed as the genuine fan, as it were, and then the Isle of Man would loose out, because there would not be the opportunity for the hoteliers and the Steam Packet Company to re-sell that space.

Mr Malarkey: Could I ask you how much you charge deposit for the TT period?

Mr Watt: It has been fixed at £20 for as long as I can remember.

Mr Malarkey: Per person?

Mr Watt: Yes.

The Chairman: Thank you.

Mr Cregeen: If I was a passenger booking from Germany and I said I wanted to travel with the Steam Packet on the Friday of Practice Week and I put my deposit down, will I be guaranteed a passage on the Friday of Practice Week?

Mr Watt: Yes, basically. If we were not able to guarantee that, if we could not for some exceptional reasons and I cannot think of when we have not been able to, then you would obviously get a refund, full of the deposit, as well.

Mr Cregeen: Because it has been a concern that people, when they book so far in advance, not only do they have to book the hotel in the Isle of Man, but they would have to book alternative travel from their country of origin. Now, at that time if I book for the Friday at the end of last year's TT, I would probably want to book my transfers all the way through.

Mr Watt: Yes.

Mr Cregeen: And one of the concerns was that, yes, I can get my provisional booking so I book all my transfers all the way through and then it could come November and I get confirmation: 'Oh, by the way, we can only book you on the Thursday.'

Mr Watt: I cannot think of any circumstances where we have ever done that. However, if that were to happen, then we would give a full refund.

Mr Cregeen: And would you compensate him for the loss of their other one, because that is what you have actually done. You have lost that...

Mr Watt: I honestly cannot recall a single instance in 10 years. I really cannot.

Mr Woodward: As a matter of policy, we would not compensate them for non Steam Packet related legs.

The Chairman: Can I move on?

Mr Watt: Could I just ask, Mr Chairman...

The Chairman: Is this on prices?

Mr Waft: Yes.

The Chairman: Yes.

Mr Waft: How often do you update your software with regard to prices?

Mr Waft: Prices are reviewed on a daily basis.

Mr Waft: But is your software reviewed?

Mr Waft: The system is...

Mr Waft: I am talking about the customer friendliness of the software.

Mr Waft: The software is reviewed on a regular basis: it is not a once a quarter, or whatever it is all the time. We have software releases probably every week.

Mr Woodward: It is a living system, which means that not only can we find ways of improving things but also things that are pointed out to us, which we have genuinely missed or like, with any computer system, needs correcting, then that is done as a matter of routine maintenance.

Equally, where we want to add service improvements or ways of making the site more friendly or more flexible, then we do apply those upgrades, as well, when we can.

The Chairman: Just to move on, then, from pricing and fares, moving on perhaps to facilities on the vessels and at the ports, and standards of service more generally.

Just to wind up that issue of pricing, then. You would maintain that the policies being pursued are in accordance with the agreements with the Department of Transport under the User Agreement, that they make no complaint about that and, secondly, you, I think, highlighted at the start that your fares on the Irish Sea are extremely competitive, compared with other vessels and other companies. Is that correct?

Mr Waft: That would be a fair assumption, Chairman, yes.

The Chairman: Yes, thank you.

Would you agree that it is intense competition from the airlines that have kept that situation, kept that competitiveness?

Mr Waft: Yes.

The Chairman: Okay.

Would it, therefore, be fair to say that, whereas there is no concern about the general level of fares and you have explained the discount policy, what there is a concern about on the part of the public is the level of transparency on how those prices and fare structures are communicated. We spent a little bit of time over the timetables and the information contained within them. We talked about the cancellation policy and so on. Would that be fair comment?

Mr Woodward: I think we need to be careful in terms of transparency, because we are in a dynamic competitive market with the airlines and we do not want to, frankly, reveal our position.

We want to make sure we are able to compete effectively and, obviously, provide the service that our customers want, but if by transparency you mean – as Mr Malarkey has said – that we should in some way demonstrate what the maximum fare i.e. the standard fare that the customer is likely to pay, then I think that is something we will have to look at how we address.

The Chairman: You would maintain that the organisation Travel Watch has made that one of their key issues. Can you confirm that you have discussed that issue with them and is the Company going to take the comments both from Travel Watch and what you have heard this morning on board?

Mr Woodward: We are a listening company and we will certainly take all comments we have heard and properly consider those. I can assure you that that will be the case and if there are benefits to our customers that we can implement as a result of these discussions we will, of course, look very hard at how we achieve that.

The Chairman: Okay, thank you.

Turning to facilities on vessels. Can you just tell us the seating capacity of *Ben My Chree*, please?

Mr Woodward: She has a passenger certificate of 660.

The Chairman: And what would be the average occupancy?

Mr Woodward: Typically probably around the 300/350 as an average load in sort of summer season. She has been higher than that in the past historically, particularly when we have been operating a fast craft in the winter, where we have been forced to consolidate passengers between two ships. Equally, when she has performed that role for other reasons she has had a higher PC (Passenger Capacity). During the TT period she would typically operate at or around the 630 level.

The Chairman: Does buying a ticket guarantee you a seat?

Mr Woodward: Yes, absolutely. That is a marine requirement.

The Chairman: Why do so many passengers, then, complain that they cannot find a seat?

Mr Woodward: I think the problem with all these things is, as you get near to a ship's capacity, the issue of contiguous seating is difficult to achieve, because people are not in uniform groups that exactly match the seat configuration. People tend to reserve seats with their bags and so on, or try and arrange for buffer spaces around them and they are, perhaps, not as fair as they might otherwise be. That is the job of our crew, then, to make sure that people do move bags, do move if necessary and allow others to sit down, but there are certainly seats for everyone on board.

The Chairman: What about the cafeteria and the eating facilities around the tables. Passengers can and do occupy those for the duration of the journey. What about passengers,

can you confirm that that, therefore, is included within the seating capacity?

Mr Woodward: Those areas are included within the seating capacity, but obviously, as on all of our ships now, it is very much a service. There are tables in most areas, either seatback or fixed, and we do offer an 'at seat' or 'in cafeteria service', if that is what people want.

The Chairman: And the same for the bar, the seating in the bar?

Mr Woodward: There is a limited amount of seating included in the PC, not all of it. Some of it is casual seating, if you like.

The Chairman: Yes, so anybody who wants to eat are advised to go in and grab a table pretty early on, or they won't get a seat, will they?

Mr Woodward: It depends which ship we are on, because obviously there is only the *Ben My Chree* which has a fixed cafeteria area. The others have, typically, seatback tables, which are throughout the ship, but I must emphasise that this is not something which is specific to Steam Packet: this is quite standard throughout the marine industry.

The Chairman: Yes, so whereas buying a ticket guarantees you a seat, that seat might well be in the bar or the cafeteria.

Mr Woodward: That is a possibility, certainly.

The Chairman: And, of course, if that is so and that is your seat for the voyage you are denying that seat to somebody else who has bought a ticket, sits in the lounge and wants to go and sit at a table for the purposes of eating...

Mr Woodward: That is why we offer...

The Chairman: That is normal for the ferry industry, is it?

Mr Woodward: That is normal for the ferry industry and that is why we offer an 'at seat' service for those people who either do not want to sit at a certain defined area or are unable to for some other reason

Mr Watt: Could I just clarify one thing: that is 670 seats or slightly more, I believe, and 95 per cent of the sailings of the *Ben My Chree* we only take bookings up to 500, because the demand is not there.

The Chairman: Thank you.
Mr Turner.

Mr Turner: I think Mr Malarkey is going to come onto the point I was going to raise.

Mr Malarkey: Several points. You will be aware that the Committee, on 21st September, did a trip to Heysham and back from Liverpool to test the system, if you like; to find out whether... to monitor a lot of the complaints that we had actually had. As a result of that trip, we wrote to the

Steam Packet, asking for some details.

If I could just relay some things from this. On this particular day we asked how many passengers were carried on the *Ben* and it was 436 passengers. Now, this was on a vessel which is licensed to carry 630 passengers. At 8.50 am when Mr Turner, Mr Cregeen and myself went into the seating area, the lounge area, there was nowhere on the vessel where a family of four could have actually sat together and this vessel was not full.

Now, on the breakdown that you have kindly given us for the *Ben*, it has got 670 seats. Of these, 108 of them are in the cabins, so are not accessible to the passengers. Another 59 of them are in First Class, which are not accessible to the passengers unless you pay extra and 24 of them are in Blue Riband. So, when you actually deduct the 191 seats which are not accessible without either paying extra or becoming a member of the Blue Riband or paying for a lounge, you then fall well short of the 436 passengers that were on the vessel.

Mr Woodward: Are you then saying that there are no passengers in cabins or the First lounge or Blue Riband?

Mr Malarkey: I have no idea. I cannot actually confirm, because we were privileged to go into First Class and the Blue Riband: both of these lounges were almost empty.

Mr Woodward: Right. I do not think I have got details of that particular sailing to hand, so I –

Mr Malarkey: The point I am getting at here is, if a passenger is paying the full rate, without having to pay any premiums on top, they are entitled to a seat. If you were to sail and there was no Blue Riband, no First Class and no cabin people on the boat on any particular day, you do not have enough seating for the top rate standard fare of going on the boat, without paying an additional cost, which I think is contrary to the User Agreement.

Mr Watt: If the number of cabin occupancy was very low, we would, of course, reduce the overall booking capacity of the vessel. Most of the time, however, we are only booking up to 500. So, there are effectively 170 seats over and above. Even if you take the cabins out – and there are always people booking cabins – that is a calculation that we will always look at to reduce the capacity or the bookings to reflect actual cabin occupancy.

Mr Malarkey: What it comes back to: you have only actually got 379 seats, including the bar, the cafeteria area, which are up in –

Mr Woodward: Let me be clear. Are you saying that you counted the passengers in the main areas and the seats and that there were too many passengers for seats?

Mr Malarkey: No, what I am saying is there was not enough room for a family of four at 8.50 am, as the vessel set sail. Had they been late coming on the boat, they could not have sat together and I did not consider the boat... certainly on the car deck, it was not an exceptionally busy day. There were 438 passengers on the boat. Of them, there were a lot of pensioners, etc. They were all going back to Heysham, having spent –

Mr Woodward: No. I understand the point and, of course, it is always preferable for people to sit together in families and, where that can be achieved, it is right that that is the case.

I have to say that I have recently flown on an airline, paid a very much higher fare than I would have paid on the Steam Packet, and managed to get seats where my family of four... two of us were sat in an entirely different area to the other two. Now, unfortunately, that was the luck of the draw and the fact that I was late onto the aircraft.

Mr Malarkey: That obviously does happen, but the point I am trying to make here –

Mr Woodward: That is the point I am trying to make.

Mr Malarkey: This was not a full passenger... This was only 436 of the 600 you are likely to take in TT Week. Where are these passengers expected to sit? This is the complaint we get time and time again, keep coming back, that there is insufficient seating.

Mr Woodward: Well, this is one reason why we have addressed the issue in terms of reservable seating because we have had, from our own customer feedback, a number of people who have made comment that they would like the ability to be able to book and reserve seating in certain areas so that they know, when they get onto the ship, it does not matter whether they board early or late but they have a pre-existing seat, as you can do on many airlines, which they can identify in advance, which will allow them to sit together.

Mr Malarkey: For which they have to pay an additional cost.

Mr Woodward: If they choose to. This is an issue of choice. Customer choice is something that our customers very clearly tell us they want. Now, if that means they want to choose to have a meal on board, they want to choose to book in advance, seats together, that is something which they have clearly told us they want.

I understand you may have feedback from customers who say they do not want that, but we have market research, which John referred to earlier, which equally says that customers do want these facilities on board, so we have to respond in some measure to those.

Mr Turner: Could I come onto the subject of reserved seating? Thank you, Mr Chairman.

I would suggest that the reserved seating is possibly the cause of the reason why nobody can get a seat because, as I mentioned in the last public session that we had, passengers are reserving seats and then wandering off and sitting in other seats in the cafeteria and bar. Therefore, they are taking up two seats, which is reducing the capacity for people who are getting onto the vessel and are unable to find anywhere to sit. This problem has been highlighted.

Now, I travelled on your vessel in August and witnessed a vast number of the reserved seats with nobody sitting in them, but they all had the stickers on. It was some hour out to sea before the bulk of those seats were sat in by people. Would you not consider that the fact that so many people cannot find a seat is because of reserved seating?

Mr Woodward: No. I would not agree at all. I do not

know what the specifics of that case you refer to are and I would suggest that it is not for us to tell people that, having reserved a seat, they must sit in that seat.

I would suspect that people, having chosen to pay the money, would then sit in the seats they have chosen to book. If they do not do that, then it is very difficult for the Steam Packet or, indeed, any other travel operator, to enforce that. I am certainly not aware of any powers that we would have to make that the case.

The Chairman: Is it not likely that those people have gone on board in the knowledge they have got a reserved seat; they then go to the cafeteria; sit there for breakfast, a coffee. Those seats that have been allocated are part of those for non-reserved passengers and that is contributing to the issue?

Mr Woodward: That is certainly a possibility but this is not a problem that we have been made aware of directly in any scale whatsoever, so this is really –

The Chairman: This is the first time you have heard this?

Mr Woodward: Not the first time, certainly; there have been occasional instances, but not a common theme. It is certainly not something that we have come across on a regular basis.

Mr Turner: Can I suggest that I did bring this to the attention of your on-board Customer Service Manager about this very issue and I relayed my observations as to what was happening.

Now, the result was that myself, my partner and our baby were crammed into the corner of the quiet lounge on what could only be described as a small bench when there were seats available. The point is, should, maybe, you not look at a system where, if people have reserved seats, they sit in them until the vessel is loaded, otherwise, if they are not in them when people are still getting on board, they will just lose the seat because it is grossly unfair for them to take up two seats when other passengers are left with no seats.

Mr Woodward: I agree entirely with that. I am just not entirely sure how we would police such a system. I am not saying that it is not something that is achievable, but I am not entirely sure how we would police it or enforce it.

The Chairman: Can I just ask a related question? You have First Class seating available, clearly, for which people pay a supplement. Do you make unallocated First Class seating available to other passengers?

Mr Woodward: Yes.

The Chairman: You do that?

Mr Woodward: If we are in a situation where we have clearly an imbalance or have had an imbalance of passengers between normal and reserved seating, or Blue Riband, or First and normal seating, then we have voluntarily upgraded people to the First area, if that is the case, so that there are enough seats for people in those other areas. That has happened on very, very few occasions.

Mr Turner: Do you get any feedback from passengers who have paid First Class prices that they are finding that people, in order to accommodate everyone, are being put in at the last minute?

Mr Woodward: I suspect we may have had one or two comments on that front. Generally, we would try and do it in a discreet and subtle manner so that others were not aware that was the case.

As I say, it is certainly something we have looked at internally and, for this year, we have more closely tailored the seating arrangements so that we are able to make sure that is less of an issue.

The Chairman: Is there any other question about facilities on vessels? Mr Cregeen.

Mr Cregeen: Could it not be considered that this seating problem with the reserved and the cafeteria is actually creating what could be seen as an extra revenue stream for you, because people have seen the difficulty of getting a seat together and they are now being *forced* into the situation where they have to pay this additional sum to get a seat?

It could be seen that it is an advantageous position for the company to be charging somebody for a seat which they have already paid for. I feel that when we went on there it was a case of people going, 'Well, we cannot get a seat together. Next time we are going to have to try and reserve one' – when they have already paid for that seat and you are generating money! Do you consider that inside the User Agreement?

Mr Woodward: I consider that that is a facility which our customers have asked for and, increasingly, it is one which is widespread within the travel industry, where people want to avail themselves of services other than the basic service which they have already paid as part of the ticket price.

I further consider that it is money which is then usefully used, which allows the general level of fare prices to be further subsidised in terms of costs, which is part and parcel of why our fare prices are maintainable at RPI less than half per cent year on year.

Mr Cregeen: But you are comparing yourself to competitive companies, not to other companies which have got this Agreement.

Mr Woodward: We should not be under an illusion that because we have the User Agreement we are not a competitive company. We compete very directly with the airlines for a substantial portion of our passengers. That is the case.

Mr Cregeen: But they do not charge you any extra for the seat coming to the Isle of Man.

Mr Woodward: But you book into a fixed seat as part of that price.

The Chairman: The point has been made. Mr Malarkey.

Mr Malarkey: Carrying on about the vessel, I can say, on behalf of the Committee, on the day that we did travel,

the cleanliness of both vessels we travelled on was relatively good, for which we did not have any major comments to make.

A curious point was, when we arrived in Heysham, the second we docked there a team of cleaners came on the boat. Obviously they blitzed the vessel before it did the return journey. Having talked to the Steward on the fast craft, the staff were expected... There is no cleaning people put on in Liverpool. I found that a little bit strange. The vessel, certainly in busy times, I would have thought that could not be good for the staff having to clean it. That was something I personally just found a bit strange.

Mr Woodward: I can explain that fairly simply. In terms of the turnaround, the *Ben*, obviously, is physically a much bigger ship. The turnaround times in terms of crew, because she has a longer passage time and we have restrictions on crew hours to a 12 hour period, whereas a fast craft, which typically turns round in something like 8 hours, means there is a much greater slack so the crew do have time to genuinely clean the fast craft, whereas on the *Ben my Chree* they do not within their normal working hours.

The Malarkey: Well, the fast craft was coming in at something like 6 pm and going back out at 7 pm. So, it was being turned around quite quick.

Mr Woodward: It is not the turnaround *per se*, it is the shift cycle. It is how long the crew are physically on board the ship or allowed to be on board the ship.

Mr Malarkey: And being sad as I am, every hour, virtually on the hour, on each voyage, I checked the toilets, because many complaints came from smell. A lot of people thought that this is where you get a lot of bad reputation: smelling.

What was noted was that any mess in the toilets was not cleaned up at any time during the voyage. Now, I would have thought, from a company point of view – this is a suggestion coming forward – that best practice would be to have a board on the wall like you find in virtually every public toilet in the Isle of Man where somebody comes in, ticks and say, 'I have checked these toilets.'

Mr Woodward: There is one on the *Ben my Chree*, to my knowledge.

Mr Malarkey: Well, there certainly was not one in the gents toilets on the *Ben* that we were... I frequented quite a few of them on the voyage.

Mr Woodward: Certainly, the last time I travelled there was one and, as far as I am aware, there is a system in place. However, having said that, I think I made reference on my blog recently, that one of the things I am concerned about in terms of raising the level of passenger service is cleanliness in general and, obviously, toilets are an integral part of that.

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

Mr Turner: Just a very brief point. To go back to your analogy with the airlines about families being split up: I cannot accept that analogy as, if you are split up from children on an aircraft, they are strapped into a seat in a

confined area. Splitting a family up on a vessel such as the *Ben my Chree* with outside decks really is unacceptable and I do not think we should be drawing those analogies. I think it is a totally different situation if a family is split up on an aircraft, where there is quite a considerable difference in the space that a child could roam about. I would hope that, maybe, the stewards on board would try to accommodate families to get them together for safety reasons.

Mr Woodward: Well, I think I alluded to the fact that is their instruction. Obviously, they are instructed to do that and will make announcements and, if necessary will try and reorganise things.

Ultimately, we are dependent on the goodwill and the nature of the people being asked to move to comply with that. We have no powers to force them to do so.

Mr Waft: Just on the facility of the lift on the *Ben my Chree* for the disabled people was absolutely, fundamentally essential and I am glad to see it operating. The problem that I find – even the able bodied people – there is a difficulty getting out of the car once it has been parked, especially on the small craft, because of the size and how they are packed. It is sometimes extremely difficult to get out of the car.

Mr Woodward: I accept that point totally and I agree it is something which, fundamentally, is almost impossible to do something other than to allow for the fact that people may need a little more time and may need to let their passenger out before they get into their final parking position and so on. Again, that is something that our crews are being told to make sure is the case when they do load these ships in very tight and confined spaces.

Ultimately, it is a very difficult space sometimes and they are confined, compared to, for example, the *Ben my Chree* which typically has more space around the passenger, but they are very different vessels. Certainly, our intention is not to cause distress and, also, to allow people to egress and access their car as easily as we are able. If there are any concerns, the crew members are aware that, if asked, they are to make every effort to assist those passengers.

Mr Waft: Just on the toilet facilities, as has been mentioned, there has been an upgrade fairly recently on the toilets, which were appalling, but I do take the point that they need to be facilitated during the trip to make sure that the quality is there and the standard is there for everyone.

Mr Woodward: I absolutely accept that point. Certainly, as far as I am concerned, it is a key part of the level of customer service going forward.

The Chairman: Thank you.

Now, I want to just touch on service to ports. Can we just confirm that the company is obliged to provide particular services to particular ports and is required to undertake an agreed number of sailings?

Mr Woodward: There are clear restrictions within the User Agreement which oblige us to sail both to the ports in the north west of England and also to Ireland. The level of frequency which we are obliged to offer at different times of the year are also closely controlled within the User Agreement.

The Chairman: What contingency is available if the *Ben my Chree* is down for some reason?

Mr Woodward: Typically, it depends if it is a planned downtime, then we will usually arrange at a time which is convenient when other ships are available, either a short term charter vessel, if that is what is needed, or when we have our own fast craft operating and can provide a reliable level of service.

In terms of unforeseen problems, that is obviously a much more difficult problem. We have made it quite clear that we are a small company. We cannot afford to have a fleet of ships sitting mothballed waiting for any potential scenario to reveal itself, so what we have and are trying to do is strike alliances with other operators on the Irish Sea who would be able to provide us facilities in those scenarios. The fact that we have two fast ferries of our own now does give us a degree of redundancy if we were to have a problem peak season with either of the fast ferries. The *Ben*, obviously, is something that does not, *per se*, have a back up because she is primarily, overnight, a freight carrier. Now, there are other operators, such as Sea Truck, based in Heysham, who we have chartered ships from before and who we will, in all probability, charter ships from again, but we would also like to forge alliances with these people which give us some surety in terms of a guarantee that a ship would be released at short notice if that were possible.

The Chairman: I think we will touch on this later, if we have time.

Facilities at ports: are you satisfied that they are of an acceptable standard? I am thinking particularly of Heysham and Liverpool.

Mr Woodward: I think Heysham is a port, obviously, that the Steam Packet have served since the merger with ManxLine. It does have problems, both tidally in terms of dredging, and other approach issues which have caused some timetable issues recently where we have had to be very careful about low water. But we have spent a significant amount of money in upgrading terminal facilities in Heysham which, I think, certainly from a toilets point of view, were poor in the past. These are not facilities that are owned by us; they are leased by us from Heysham Port. As I say, we have spent money upgrading those facilities.

In Liverpool, we are well aware that the facilities we have had there for a number of years now are not ideal and we have been in lengthy, protracted negotiations with the Mersey Docks and Harbour Company and, indeed, Liverpool City Council to try and improve those facilities. I think, post TT this year, we should finally be in a position to operate with a new shore car marshalling facility with a direct link to the landing stage, which avoids the need that we currently have to cross a public roadway to and from the landing stage. Also we should have a new terminal building built on the south end of the Liverpool landing stage. So those will be substantial steps forward in terms of facilities there.

The Chairman: So you obviously agree that is a major improvement in what currently exists?

Mr Woodward: Yes. From our perspective, it is a major improvement, a major step forward from what we currently have in Liverpool.

The Chairman: What you currently have: the marshalling yard at the Liverpool Pier Head, whose responsibility is the upkeep and maintenance of that area?

Mr Woodward: It is an area which we have been allowed to use by the Mersey Docks and Harbour Company until such time as they choose to develop it. We are responsible for the upkeep of the terminal, which is not owned by us but part of it is given to us by Mersey Docks and Harbour Company again. But we have entered a long term contract with Mersey Docks and Harbour Company which has allowed these new facilities to be built, which we are paying for over a prolonged period of time.

The Chairman: So, if that yard was in a situation where there were overflowing bins and rubbish and weeds, whose responsibility is it to deal with that?

Mr Woodward: The bins, as far as I am aware, would be the responsibility of the Steam Packet. If it were infrastructure in terms of the concrete or the ground, then that would be something Mersey Docks and Harbour Company would be asked to come and attend to for us. However, I have to say, obviously, from their perspective, they have been loath to spend significant amounts of money on that site, knowing that we are moving to a new one relatively soon.

The Chairman: Would you accept that we wrote to you last year and we had a response from Mr Watt that said that the upkeep and maintenance of these facilities in Liverpool was the responsibility of the Mersey Docks and Harbour Company.

Mr Woodward: I think, as John was saying, that is true. Equally, I have to temper that with the fact that they are aware that we are moving to a new site and that site is, literally, a building plot and will be developed after our vacation.

The Chairman: The response we had from the Mersey Docks and Harbour Company Chief Executive was that the responsibility for the upkeep and maintenance of the facility fell clearly with the Isle of Man Steam Packet Company.

Mr Woodward: For the building, we would accept that was the case.

The Chairman: For the building? What about the yard and weeds?

Mr Woodward: As I say, we would dispute that. We would say that the Mersey Docks and Harbour Company were responsible for the yard area.

The Chairman: Does that situation, difference of opinion, perhaps, account for the truly appalling state that is to be found in that marshalling yard?

Mr Woodward: I think what is more likely is the fact that both parties know that we are surely to move to a new site and that obviously we are in a winter period now where there was intended to be no usage of that site whatsoever because of the situation with the *Ben my Chree* sailing to the Birkenhead terminal.

The Chairman: If I could show you these photographs –

I will just pass them – which were taken on 22nd September, when the Committee visited Liverpool. Ironically, it was the day the Ocean Cruise Terminal was being officially opened by a member of the Royal family. These photos were taken late in the afternoon as we were waiting to board the vessel at the 6.30 pm sailing. It was very evident to us that there were skips overflowing with rubbish; wheelbarrows which had once held tar on their side; weeds growing up, knee length, along the perimeter fencing.

Mr Woodward: I think I would make it clear. These are not Steam Packet property. These are related to the contractors who are working next door on the British Waterways Canal extension, which is why they are delineated by the railings.

The Chairman: Yes, but there is a photograph in there inside which is clearly in your yard.

I am standing next to a wheelbarrow on its side that has been there for months and there is weeds all growing up all through it all. This is where people are walking about and in the background is the Royal Liver Building and all the iconic landmarks of Liverpool, which, of course, in the Liverpool Year of Culture is increasingly important – and the gateway to the Isle of Man with your name on it shows a place like a scrap yard!

Mr Woodward: I accept that the area is less than ideal. As I say, that is because –

The Chairman: We brought it to your attention last year and were told that it was the Harbour Board Liverpool's company and they replied and told us it was your responsibility.

Mr Woodward: We have made representations to the Mersey Docks and Harbour Company, asking them to tidy that area up and the response we got at the time was very clearly that they felt that because we were moving, there was no real –

The Chairman: Is it still like that, as far as you are aware?

Mr Woodward: Some of those skips have now gone, because they were removed by the contractors working on the British Waterways Board, but that area is not used by the public now because of the Birkenhead scenario at the moment.

Mr Watt: The new marshalling area is now complete.

Mr Woodward: The car marshalling area.

Mr Watt: Which will replace this whole area. This is why there has been a lack of investment in the old area, because Mersey Docks were completing the new area.

The Chairman: Do you think it is acceptable that the travelling public to the Isle of Man are faced with that scenario before they are waiting to board the vessel?

Mr Watt: No, of course not.

The Chairman: Has it been dependent on these new

facilities coming along to remove the disquiet that exists about that?

Mr Woodward: No, because some of those, as I say, are not Steam Packet nor Mersey Docks and Harbour Company rubbish, for want of a better description. There are contractors working in that area, immediately adjacent to our terminal for this British Waterways Canal scheme and they are generating a degree of building rubble and general disarray as a result of that. We are, obviously, having to work alongside that.

The Chairman: Thank you. Mr Turner.

Mr Turner: I am just confused as to what area your lease actually...?

Mr Woodward: We do not have a lease. That is a clear situation. We have not had a lease for some period now because of the result of Mersey Docks and Harbour Company –

Mr Turner: Is there normally a lease for that site?

Mr Woodward: There was a lease, I think, five years ago now.

Mr Turner: What did that cover? What area?

Mr Woodward: That covered the area which was within the black railings at the time.

Mr Malarkey: You say it is building rubbish. You can clearly see from the picture that we clearly witnessed, that this was bags of what I would class as domestic or household, or that style of rubbish. It certainly was not building materials. It was either bags that had been brought off the vessel and tied up, or brought from somebody's house because it had tin cans, bottles, all sorts of things in these skips here.

Mr Woodward: I appreciate that. It is unfortunate that any sort of skip which is readily accessible in that area was filled with rubbish from all sorts of sources.

Mr Cregeen: Would you not say that those bins are within the black railing area and, as you can see on there, it does have 'Steam Packet.com' on it, so it gives the impression to anybody arriving there that that whole compound is under your control.

If it would have been mine, I would have been making the utmost representation to the people to get these removed because it shows very badly on your building. Also, some of the photos that we had of the seating in the area that was ripped and torn; you had a television in there on which there was more snow than on the peaks of Everest! Do you think that is acceptable for your main entry to the Isle of Man?

Mr Woodward: I do not know what was there on the day. Obviously, I have seen those photos now.

There is no instruction that they are not to replace or repair damage that occurs and, unfortunately, damage does occur from the travelling public from time to time, so whether that was there for a long time, I cannot say. Certainly, I can say that there is an instruction to ensure that facilities are

maintained within the terminal building.

Mr Cregeen: I would have said that the state of that terminal had been very poor for a long time. It does not look like somebody has just gone and ripped a piece of material off the seating. It looks like it has been there for a long time and there is very little good housekeeping in there.

For the public to be seeing that as they are going on holiday is not a very good advert for either your company or for the Isle of Man.

Mr Woodward: I agree and that is why we have fought so hard to get better facilities in Liverpool, which we are now within sight of achieving.

The Chairman: Okay. I think we really must move on now.

I just want to turn to the question of freight. Freight rates, like passenger fares, are presumably agreed with the Department of Transport?

Mr Woodward: They are part of the schedule 6 model.

The Chairman: How do those rates compare with other Irish Sea operators?

Mr Woodward: Well, they are higher than other Irish Sea operators because of the reasons we discussed earlier, but they compare favourably with other operators in a similar scenario such as the Channel Islands where, in fact, our freight rates are typically lower, or substantially lower, than the Channel Island freight rates. I do not know if John has got any specifics.

Mr Watt: They are around 20 per cent – and you need to bear in mind that the Channel Island's population is twice as high as the Isle of Man.

The Chairman: Up until the acquisition of the *Ben my Chree*, the *Peveril* carried much of the freight between the UK and the Isle of Man and passengers and cars on other vessels. When, essentially, the *Ben my Chree* came in, a new ship to replace two older ships, would you accept that there were economies of scale, lower unit costs, as a result of that?

Mr Woodward: Not necessarily, because we went from single trip in two ships to double trip in one ship. So there were some economies in some areas: crew costs, for example, but there were not the savings that you might imagine.

The Chairman: Okay, but there was a net freight capacity increase at that time?

Mr Woodward: There was not a net freight increase as a result of the *Ben*; the demand was there already, it was just staggered more. In terms of overall growth, it was not because of the *Ben my Chree*. There has been a steady progression and the *Ben* was necessary to meet that continuing growth, but it did not *per se* generate that growth, if that is the question you are asking.

The Chairman: Were there efficiency gains at the time

of obtaining the *Ben my Chree* as the main freight carrier?

Mr Woodward: I think it is fair to say that, generally, where you would replace two with one, you would expect efficiency gains.

The Chairman: And did those result in a corresponding reduction in freight rates to customers in the Isle of Man?

Mr Woodward: There was no specific linkage between freight rates and the freight service.

What we said very strongly, at the time, was that what this meant was that the freight service was very much enhanced, from a situation where freight customers, at times, were waiting two or three days, in order to get trailers to the Isle of Man, because of the capacity of the vessel, they were now able to get those trailers to the Isle of Man on the night of their choosing. There was no allocation system which previously existed, which meant that operators essentially had to prioritise their traffic, to ensure they got the most urgent traffic when they needed it.

The Chairman: We have heard evidence from a number of your customers that whereas they were quite complimentary about the quality of service, without exception they do complain about the high freight prices.

Mr Woodward: Well, I think that is understandable and I have heard that, obviously, direct from many of our customers themselves.

What I would add is that the customers here are paying higher than average fares, but our fares are still a small percentage of their overall running costs. So we are an element in the fact that they have higher costs, but only one element, not a substantial element.

The Chairman: In your own submission to us on freight pricing – this was contained in page 9 of your submission dated 31st August – you say that freight charges provide the bedrock of revenues throughout the year, which helps support the full range of Island services as required under the terms of the User Agreement. So is that correct?

Mr Woodward: That was an integral part of the schedule 6 pricing strategy.

The Chairman: So can you tell us what percentage proportion of revenue is from freight, relative to passengers and cars?

Mr Watt: Forty per cent.

The Chairman: About 40 per cent: so correspondingly the majority of the Company's profits are obtained from freight?

Mr Woodward: It depends how you choose to break down the costs, because obviously, there are overhead costs of running the business generally; there are vessel-specific costs. The *Ben my Chree* is, by a large margin, the majority freight carrier, but also has a significant amount of our passengers.

The Chairman: Okay, in terms of Irish Sea crossings, do

you accept then that the cost of shipping a trailer across the Irish Sea between, say, Fishguard and Rosslare is considerably less than a comparable journey to the Isle of Man?

Mr Woodward: Yes, I do not think there is any way that we would disagree with that.

The Chairman: And why are Steam Packet freight rates so high then?

Mr Woodward: I think, historically, because of the vessels that we use to transport freight. I am obviously going back long before my time at the Steam Packet, but at the time of the User Agreement, the freight rates were well understood and were obviously part and parcel of the Agreement that was reached. That fundamentally accepted the principle that freight fares were used, in part, to provide winter loss-making passenger services that, in any other scenario, would simply not be provided. So the long-term or overall benefit for the Isle of Man was a positive, rather than a negative.

The Chairman: So, in other words, the profits from your freight side of the business are subsidising considerably the passengers.

Mr Woodward: Certainly, without the freight services, the passenger business would look entirely different from what it looks like today. That would be driven by simple market economics here on the Isle of Man, in terms of the number of passengers that we attract annually.

The Chairman: We have had, I think you would agree, a substantial increase in freight carryings over the life of the User Agreement over the last 10 years or so. Would you agree that, from over 25,000 trailers carried in 1997, in 2006 that has gone up 50 per cent to 38,000?

Mr Woodward: Yes.

The Chairman: Would you see a 50-per-cent increase? Do you envisage that over the next 10 years?

Mr Woodward: No, I think the view at the moment is, certainly, we are seeing a year-on-year reduction now in the level of growth of freight traffic. I do not see that the rate of increase will be anything like as high in the coming years as it has been in the last 10 years.

Mr Watt: It has actually declined a little bit in the last few years.

The Chairman: It has declined a little bit. The evidence that we have had is that there have been substantial increases in freight costs, over the 10 years, to a level where it is way above comparable transport costs by other companies in the Irish Sea.

Now, by your own submission, passenger traffic has grown, but it has now peaked. If passenger and car fares have not increased substantially and passenger prices are, I think we have agreed, have general customer satisfaction, then where is the Company achieving its profitability? Is it from freight?

Mr Woodward: I do not think you can say that because,

clearly, there are summer passenger services which are well used and which, by most measures, would be deemed profitable, as well as year-round freight services which you could deem profitable. Equally, there are shoulder and winter passenger services which are clearly unprofitable. So it is not easy to package it up into neat categories like that, unfortunately.

The Chairman: Thank you. Mr Turner? Mr Malarkey.

Mr Malarkey: You agreed with the Chairman that, between Fishguard and Rosslare, you would expect it to be a bit more expensive. The figures that have been put to us regarding some livestock carriage here are: between Fishguard and Rosslare, it works out at £15 per metre; but the Isle of Man Steam Packet from the UK to the Isle of Man is £50 per metre.

I can understand we would be twice the price; but this is coming nearly four times the price for a similar distance. Can you explain that to us?

Mr Woodward: I cannot objectively explain how the fundamental economics work because they are partly a product of history, at the time of the User Agreement and the rates that existed then.

What I can say is that those rates, however high they are, are specifically the things that have allowed, for example, the figures I referred to earlier – 1,000 extra passenger sailings a year; halving, in real terms, of passenger fares and so on – which have benefited the Isle of Man in lots of other ways.

I think it is very dangerous to start trying to cherry-pick certain aspects of the fares and say we would like... Of course, we would all like lower freight fares and lower passenger fares. The reality is we would have a very different level of service, if that were the case, from what we have today, and these should be very much viewed as a package of services, not a simple freight or passenger service.

Mr Malarkey: I am quite sure it would also relate to the fact that the Company will have increased its profits over the years as well, in relation to that.

Although you are growing, you are saying you are doing more sailings, the growth in the Isle of Man over the last 10 or 15 years has been remarkable. We have had some incredible growth. You have mentioned major investment by the Government in the construction industry, where it has obviously helped your freight side to grow as well –

Mr Woodward: Historically, that is absolutely right; but those things are now coming to an end, so the core level of freight –

Mr Malarkey: Let us not look for the future; let us look at what has happened in the last five or ten years, where you have been growing, where growth has been there. We have not seen the freight going down.

You are telling us now to be cautious of the future, because it is slowing down. But we have seen major growth, in the last 10 years, not only of the population of the Island, but the economy of the Island, the building boom on the Island. So, obviously, from a Company point of view, you have obviously been transporting far more freight – let us leave the passenger side out of it, at the moment – but we

have not seen any reduction in freight prices offset by the fact that your Company has been doing so well, as the Island boomed.

You are just warning us now that it has now slowed down, so you have to be cautious in the future –

Mr Woodward: I do not quite understand the point, because we have been constrained by a commercial agreement, which obliges us not to increase our basket of fares by more than RPI less a half per cent for a period of 10 years.

In real terms, costs have come down.

Mr Malarkey: Well, it does not... Nowhere in the Agreement does it say that you cannot reduce your costs. It says you cannot increase them by more than –

Mr Woodward: What it does say in the Agreement is we cannot reduce our services. In fact, we are obliged to increase our services each time there have been negotiations regarding the User Agreement, and that is because the general view has been that those services are of benefit to the Isle of Man, much more so in the round than simply taking one aspect, i.e. freight fares.

Mr Malarkey: Have you increased your profits for the Company?

Mr Woodward: I am not sure the profitability of the Company is in issue here. What is in issue is do we provide value for money and a level of service. We are very clear that we do.

Mr Malarkey: Value for money will come out of the profit being made, as to where volume of traffic has increased in the last 10 years.

Mr Woodward: There are many measures of value for money: it is not simply about profitability; it is about providing a service that otherwise would not be provided. I think there are many instances where the Steam Packet does do that.

The Chairman: Would it be fair to say that passenger fares which...? Passenger volumes have been flat over the last three or four years, in contrast to freight, which has shown a very healthy 50 per cent increase. Passenger fares, while not subject to direct competition, are certainly subject to competition from airlines, as you have agreed with us, and are subject to discounting of prices.

By contrast, the freight situation is not open to competition and you are free to... You do not have special offer discounts on freight. That is subject to price increases and, therefore, the majority of your profits represent... Your revenue is 40 per cent from freight, but the majority of your profit must inevitably be coming from freight. Is that correct?

Mr Woodward: Again, I am not sure you can make that broad assumption, because it depends entirely on how you choose to allocate certain costs, whether they are split between freight and passengers. If so, if they are split in a certain proportion, then you would get very different paper results, if you were to pursue each of those different exercises.

This is why we are firmly of the view that you cannot view these services as separate services. This is a package which, on the whole and in the round, is beneficial to the Isle of Man and has proven that to be the case with the amount of traffic that we have grown, from a passenger perspective, in the 10 years since the User Agreement came into being – and the fact that prices have decreased in real terms and the fact that services have improved in number, in real terms.

The Chairman: Would it be unfair, then, to say that the cost of maintaining competitive and low passenger prices is a fourfold, by comparison, increase in freight charges, per metre per mile crossed, of the Irish Sea; that the freight is contributing disproportionately to offsetting the market prices, the market conditions for passenger travel?

Mr Watt: There is a huge difference in scale. The Irish population is 40 times bigger than the Isle of Man. There is a massive difference in the scale of operation in terms of the number of freight units going from the UK to Ireland, and that will have a massive impact on the costs.

The Chairman: But you see, the Manx NFU, for example, would point out to us that the freight rate for shipping livestock between Scotland and Ireland of £15 a metre, £204 a trailer, compares with £680 a trailer between the UK and the Isle of Man. Is that fourfold differential just a fact of economies of scale, in your view?

Mr Woodward: Yes, on that market, certainly I think that would be our view, yes. You are talking about major conurbation populations there, between Scotland and Ireland, which clearly do not exist between the Isle of Man.

The Chairman: So the Isle of Man economy is certainly suffering adversely, in terms of the freight costs that suppliers and manufacturers have to bear, compared with our neighbours?

Mr Woodward: I would not accept that was the case at all, because you cannot simply take the fact that freight fares are higher as being an indicator that the economy is suffering.

The economy clearly is not suffering. There is more capacity than we currently are being asked to provide already in the system. Nothing we are aware of that wants to come to the Island is not able to come to the Island, and the fact that we have that security of the freight providing or underwriting a passenger service year round, for the benefit of both Islanders and businesses has allowed, as I say, the level of services here to become *very* much higher than would otherwise have been the case.

So I think, in terms of the benefit to the Isle of Man *per se*, it is a win-win situation.

The Chairman: So the healthy economy can comfortably absorb these fourfold increases in freight costs?

Mr Woodward: Well, they have not been fourfold increases.

The Chairman: Well, a fourfold differential – sorry, not increase, but differential.

Mr Woodward: There is a fourfold differential. But that

is historic. The infrastructure of the Isle of Man and the way in which we are set up has been that way for a very long period of time. Obviously, the economy is geared to that level of charging, just as different economies in different parts of the world have different models for how they operate, in terms of input pricing for raw materials and so on and labour. They have to find their place, as have we found our place.

The fact is that the Agreement that was struck here provides a level of services that otherwise would not be achieved, without significant taxpayer subsidies.

The Chairman: What is the Company going to do, then, about trying to keep its freight charges competitive? Is the fact that there is not competition there, the question does not arise?

Mr Watt: The User Agreement ensures that freight prices are part of that basket of fares and the fares have reduced, in real terms, year on year, for 12 consecutive years. If you look at individual freight rates, they are also significantly cheaper than they were 10 years ago.

I do not think the example of a four times differential is actually representative of the overall market. I think you also need to bear in mind that the UK wholesaler and retailer often absorbs the costs of the freight to the Isle of Man. So if you go into Tesco or wherever, you will find the goods on the shelves there are similarly priced to they are in Liverpool. We have done a study and it has confirmed that. The exception to that is largely the Manx produced goods.

Mr Malarkey: Could I pick up on that Mr Chairman?

I have actually had the Office of Fair Trading looking into that, because of some of the advertising they were doing and they were including the Isle of Man. By their own admission, our prices are different from stores in the UK over here on quite a lot of the items. They have been told to actually stop using some of the... They have to now put in the Isle of Man as a disclaimer, because it has been proved that the consumer on the Island is paying for a lot of the transportation.

That is just a point of clarification.

The Chairman: I am just conscious of the time and I think issues of freight we will want to revert back to you.

Could I just ask you just to say a quick word about your proposals and future investment – it is a matter of public agreement, of public record, that you have an Agreement with Government to commit to certain levels of investment by 2012 and 2018 – what those proposals currently are and whether you have, in recent years, sought to make the necessary investment?

Mr Woodward: I can confirm that we are intending to replace the *Viking*, formerly the *SuperSeaCat 2* with a new, to us, fast ferry, which will offer a significant step forward in terms of comfort facilities and capacity. The search for such a vessel is currently happening.

We are looking at certain opportunities, but what we must make very clear is that we cannot afford, as a company, to get the wrong ship to replace what we have already. We must get something which is clearly a step forward and does deliver the service benefits to our customers that we know need to be delivered.

For that reason, it is something we have to take very seriously and investigate exhaustively. We are certainly doing

that. That is a process which is ongoing. We are obliged, under the User Agreement, to invest significant sums of money, as part of the Agreement. We have made this a matter of record, that we have every intention of adhering to that and, of course, that will be the case.

The Chairman: So you are going to purchase a new ship?

Mr Waft: New to you?

Mr Woodward: We will be purchasing a replacement fast ferry for the *Viking*, as soon as we find one that fits the brief and does what we need it to do.

There are vessels around. There is a class of vessels that we have identified and we have been close, on a number of occasions, in the last couple of years, where we have been pretty keen on certain vessels, but there have been a variety of reasons why we have not pursued those.

Mr Waft: Are you saying it is new to you, or leased? What is the situation? In fact, how many vessels do you actually own? Is it just the *Ben my Chree* and you lease the rest?

Mr Woodward: No, we own the *Ben my Chree* and *Snaefell*, formerly *Sea Express 1*, *SeaCat Isle of Man*.

Mr Waft: Are you looking to lease the vessel, then?

Mr Woodward: Well, in practical terms, we own the vessel on a temporary basis, if you like: the *SuperSeaCat* is on a long-term charter, so she is ours until September 2010.

The Chairman: So to be clear, that investment may be a purchase cost or it may be a leasing cost?

Mr Woodward: Whichever is the preferable option or whichever is on the table, but yes, potentially, it could be either. What it will mean is that there will be a long-term commitment to a replacement vessel.

The Chairman: The current vessel that you own: what would be the current value of that, the *Ben my Chree*?

Mr Woodward: It is difficult to say, but I would have thought a ball-park figure would be in the region of £15 million to £18 million.

The Chairman: The value of the Company, of course, and the value of its assets are two entirely different things. It is a matter of fact, is it not, that the Steam Packet Company was purchased by Macquarie's for £225 million: why so high a price, when the assets are so minimal?

Mr Woodward: Well, companies like Macquarie do not simply look at assets; they look at the long-term potential to generate a steady and stable return, because of the type of infrastructure business they are in. So we were attractive, as are many other infrastructure assets such as roads, rail networks etc, because we provide a degree of stability which matches their needs, in terms of generating a return on a steady basis. That is simply a factor which is imputed

by them, in terms of the value they are prepared to pay for any given company.

The Chairman: If one was to suggest that the value of the Company rests in the value of the User Agreement that is in place for the next 16 to 18 years, would that be fair: that that is the most valuable asset and that reflects the value of the Company?

Mr Woodward: I do not think it would be fair, because I think you would have to take for example, the Channel Islands, where a very similar price is likely to be paid – and indeed, was paid last time for the company when it was sold – and that has no such agreement.

The Chairman: Okay, thank you. Can I ask my colleagues if there are any final questions.

Mr Cregeen: On the £16 million investment that you have said that you have spent on the business, can you clarify exactly or give us some sort of breakdown of what the investment was?

Mr Watt: I think we will do that separately, if that is alright.

Mr Cregeen: The only other issue was you were saying about the reduced times: that these craft that you brought in, say, from Liverpool to the Isle of Man, have brought in reduced times. I think most people will be well aware, over the last year, that the *SuperSeaCat 2* performed very poorly – most of the time down on three engines. So do you consider the time that it took from Liverpool to the Isle of Man as an increased service?

Mr Woodward: Well, I would dispute the fact that she performed poorly; in fact, she did not. *SuperSeaCat 2* had a very successful season last year. She had a more than 90-per-cent reliability. The much vaunted three-engine running certainly has been a problem on occasions. It is not just one engine; it is endemic, unfortunately, on this type of fast craft. The key is that they are quickly repaired – which ours are, and made ready as soon as we are able.

But certainly three-engine running is not the norm, and I do take issue with people who bandy this about, because that simply is not the case. Our fast craft are among the most reliable fast craft operating anywhere in the world.

The Chairman: Mr Malarkey.

Mr Malarkey: I would just like to go back on the Chair's last point over the price of the Company. I am surprised by you denying that the User Agreement makes up a large part of the Company.

The Company was originally, in 2003, bought for £142 million. There was a new User Agreement put in place within 10 months, and then it was sold for £225 million – which would indicate to me that it was the very fact that there was an increase in the timescale of the User Agreement from 2012 to 2026 that accounted for the nearly £80 million increase in the value of the Company.

I would personally feel that the biggest asset that the Company does have is the User Agreement, which has been used as a commodity.

Mr Woodward: Well, I do not agree with that. I think the biggest asset the Island has is the User Agreement, frankly.

Mr Malarkey: Would you not agree that the User Agreement was put in, in 1994, when the economy of the Isle of Man was at rock bottom, and it could not sustain two shipping companies?

I know you would like to take praise that the reason that we have got so many people in the Isle of Man now is because they have all come through the Steam Packet; but as I keep going back, we have had an incredible amount of growth in this Island in 10 years which indicates... Our figures and passenger figures show that we have almost doubled.

Mr Woodward: We are absolutely convinced that, had we not implemented the programme we did of bringing in fast ferries, of dramatically improving service provision for passengers during the peak periods, we would not have had the growth in passenger numbers or visitors to the Island that we have had.

I accept that the resident travel situation would have naturally improved with the level of population generally; but we have been instrumental in generating new business visitors to the Isle of Man, and we are very clear about that.

Mr Malarkey: I do not dispute that, but my point is: if there was another company working alongside you, you would have had to work even twice as hard –

Mr Woodward: I fundamentally disagree with that assertion. If there were another company working alongside us, the Isle of Man would be the poorer for it, because we would be left in a situation very much like we were in the 1980s.

The Chairman: Thank you. We understand the point very well.

Mr Turner.

Mr Turner: Yes, you compared the Steam Packet with the operation in the Channel Islands. Are you then saying even without the User Agreement, the Company would have been sold for £225 million?

Mr Woodward: I am saying that a company with a very similar profile to the Steam Packet was sold for that amount, that did not have a user agreement.

Mr Turner: In terms of investment, obviously the Agreement says that you are to carry out investment by certain dates. Would that include plans to replace the ageing ManxLine link span? Do you have any plans to renew that at any stage?

Mr Woodward: There are plans going forward to replace all sorts of infrastructure assets within the Company and that is something which would have a natural life and obviously would have to be replaced at some point.

Mr Turner: Is that your link span or is that the Department of Transport?

Mr Woodward: That is our link span, although I think

there was at one point – I may be wrong here, John – the Government were latterly intending to own both link spans eventually?

Mr Watt: The Department of Transport has long-term plans, where it has made provision for possible link span investments to replace that facility.

The Chairman: Final point.

Mr Turner: What would be the impact of the Department of Transport taking ownership of that link span?

Mr Woodward: We would simply pay, I expect, a fee for use of that, in addition to what we pay currently.

Mr Turner: And if the ownership transferred, would the User Agreement also transfer from the DoT link span to the new link span on the Victoria Pier?

Mr Wild: I think, if I can jump in, it is very difficult to answer hypothetical questions about what might happen in the future, legally, in terms of a... I do not want to interrupt the flow, but –

Mr Turner: Can I clarify, Mr Chairman, does the User Agreement solely relate to the Department of Transport's link span on the Edward Pier?

Mr Woodward: There is a licence which runs alongside the User Agreement to site our own link span, like the one you are talking about at Victoria Pier. So, the two are linked in that sense.

The Chairman: Thank you. Final point, Mr Watt? (**Mr Watt:** No.)

Prof. Baird, I will just give you the opportunity at this stage.

Prof. Baird: Thank you, Mr Chairman.

Just one question I have: I have been able to access some reference to the Company's accounts through our university database. It would appear that profits have increased quite substantially, from £4 million in 2000 to £17.5 million in 2006.

Now, that is a profit margin going from 10 per cent to 36 per cent, resulting also in very substantial dividends being paid. Profits do seem to have increased substantially, but at the same time, revenues do not seem to have increased.

I wonder if you could perhaps explain why you think profits have increased so substantially; and also whether, under your new ownership through the financial institutions, there are, I assume, sustained pressure to deliver significant profits.

Mr Woodward: I am not sure I can or should answer those questions, at this stage.

Mr Wild: The difficulty with this is we have not had any questions in advance for the last... The Committee was set up in June 2007: there have not been any questions in relation to analysis of accounts or production of a commentary. I think it –

Prof. Baird: It does relate to pricing. My question does

relate to pricing, which is under the remit, because all of these financial aspects do eventually relate to pricing policy, whether it is for freight or passengers.

The Chairman: Are you saying the profitability of the Company and the profits it might be making do not have an impact on pricing?

Mr Wild: No, I am just indicating that I think it would be fair to allow the Company the opportunity to consider what has just been said, in the context of responding on the profits. It affects a lot of other people, not just the two people sitting in front of you. I think it would be helpful to give us time – especially as both people have been sat here since 10.30 – a little bit of an opportunity.

The Chairman: Right, well, what we will do, in that case, is we will put some more detailed questions in writing to you, prior to having you back in public session. That would be the best way forward.

Prof. Baird, do you concur with that? (**Prof. Baird:** Yes.) Malachy, any final points from yourself?

The Clerk of Tynwald: No, Mr Speaker, no.

The Chairman: In that case, I would just like to thank you gentleman very much for coming in. You have been most helpful, this morning, in answering our questions. I think we have had a very full discussion. Certainly, the Committee is the better for having had your input. As I say, we will be in written communication again, and look forward to seeing you on another occasion, hopefully 3rd March. Thank you very much.

That brings the public session to an end. I thank members of the public for their attendance, and the press. Thank you.

The Committee sat in private at 1.08 p.m.

Corrigendum:

At page 37 for ‘Standard fares are economy’, read ‘Standard fares are refundable’.