

# Strategic Sea Services

18th March 2017



Isle of Man  
Government  
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infrastructure  
bun-troggalys

# Overview

- ❑ Background to the User Agreement
- ❑ Economic Appraisal and Strategic Options for Sea Services
- ❑ Strategy Sea Service Policy
- ❑ Liverpool Landing Stage
- ❑ Next Steps

# Isle of Man User Agreement

## WHY WE HAVE AN AGREEMENT:

- ❑ Steam Packet strikes 1986 & 1987/88
- ❑ No Ro-Ro freight for total of about 10 weeks
- ❑ Douglas harbour linkspans not usable
- ❑ DoT built Edward Pier linkspan 1994/95
- ❑ User Agreement signed 1995
- ❑ Steady decline in passengers to 1995
- ❑ Constraints on freight

# Isle of Man User Agreement

## **PURPOSE:**

- ❑ The current mechanism by which Government involvement and influence is secured.
- ❑ It provides Government, the Island and the Company with an operating framework and business and service security which none of the parties had before 1995.
- ❑ Provided a requirement to invest in vessels.

# User Agreement

- ❑ Preferential use of Edward Pier in exchange for investment and a guaranteed minimum service
- ❑ Provides IOMSPCo with long-term stability
- ❑ IOMSPCo free to use commercial knowledge and experience
- ❑ Government able to control & influence IOMSPCo
- ❑ Gave IoM certainty that it will not be cut off again

# User Agreement

- 1995 User Agreement
- 2002 Extension
- 2005 Extension
- 2016 IOMSPCo Offer

# User Agreement

## MINIMUM SERVICE LEVELS

- ▣ Freight Capacity (Inbound)
- ▣ Service Frequency to NW UK Ports
- ▣ Summer period frequency Liverpool port range
- ▣ Annual Services East Coast of Ireland
- ▣ Fast Craft Capacity
- ▣ Freight capacity in excess of previous years  
carryings
- ▣ Special Offer Fares
- ▣ Fare Control Standard Fares and Charges
- ▣ Investment by Company
- ▣ Standard of vessels
- ▣ Fast Craft Provision
- ▣ Day Trip Excursion

# User Agreement

<b>Minimum Service Level</b>	1995 Agreement	2002 Extension	2005 Extension
<b>Freight capacity (inbound)</b>	2,600 metres	7,000 metres	7,800 metres
<b>Service Frequency NW UK Ports</b>	382 Return sailings	764 Return sailings	936 Return sailings
<b>Summer period frequency Liverpool port range</b>	3 return sailings / wk end May - Beginning September	7 return sailings/wk end May - Beginning September	Daily service April - 3rd week October
<b>Annual services East Coast of Ireland</b>	63 Return sailings	63 Return sailings	63 Return sailings



# User Agreement

Minimum Service Level	1995 Agreement	2002 Extension	2005 Extension
<b>Fast Craft Capacity</b>	110% previous years carryings June – September	110% previous years carryings June - September	115% of previous years carryings June-September
<b>Freight capacity in excess of previous years carryings</b>	No Provision	Plus 10% more lane meterage	Plus 12½% lane meterage
<b>Special Offer Fares</b>	No provision	Minimum 250,000 seats per annum	Minimum 50% of previous years carryings
<b>Fare Control Standard Fares and Charges</b>	MRPI minus - ½% (on a weighted basis)	MRPI minus - ½% (on a weighted basis)	MRPI minus - ½% to 2010 MRPI from 2010 (on a weighted basis)

# User Agreement

Minimum Service Level	1995 Agreement	2002 Extension	2005 Extension
<b>Investment by Company</b>	£20 million (minimum)	N/A	£26 million (minimum)
<b>Standard of vessels</b>	High standard (no detail)	High standard (no detail)	Benchmarked against UK passenger ferry operators
<b>Fast Craft Provision</b>	Optional by Company	Optional by Company	Now a requirement
<b>Day Trip Excursion</b>	No requirement	No requirement	Now a requirement if suitable vessel available

# User Agreement

## CONTROL AND INFLUENCE:

- ❑ User Agreement is a legally binding contract;
- ❑ IOMSPCo must comply;
- ❑ IOMSPCo carry out internal compliance checks
  - To meet above obligations;
- ❑ Liaison meeting at senior officer level
  - DoI – Director of Ports/ Director of Estates Shared Services
  - IOMSPCo –Directors;
- ❑ Percentage Link Agreement – annual review/open book on turnover;
- ❑ Personal, public and political contact at all levels.

# User Agreement

## POLITICAL CONCERNS

- ▣ Prices
- ▣ Value of Company as a traded asset:
  - ▣ 1996 – Sea Containers Ltd
  - ▣ 2003 – HSBC/Montague - £142m
  - ▣ 2005 – Macquarie - £225m
- ▣ Debt placed against the Company
- ▣ Impact of new agreements on price/debt

# Tynwald Resolution

## JULY 2016:

- a) 8 strategic principles for the Strategic Sea Services;
- b) the strategic principles should form the basis of a new Strategic Sea Services Policy;
- c) an Independent Economic Appraisal required;
- d) investigate alternative ownership models.

## Overview of Recommendations

### FERRY SERVICES

*either*

- extension of the User Agreement  
+ separate economic regulation or other control mechanisms

*or*

- open-market tender after transition of the current User Agreement

### PORTS

- secured passenger and freight facilities on the GB mainland

*and*

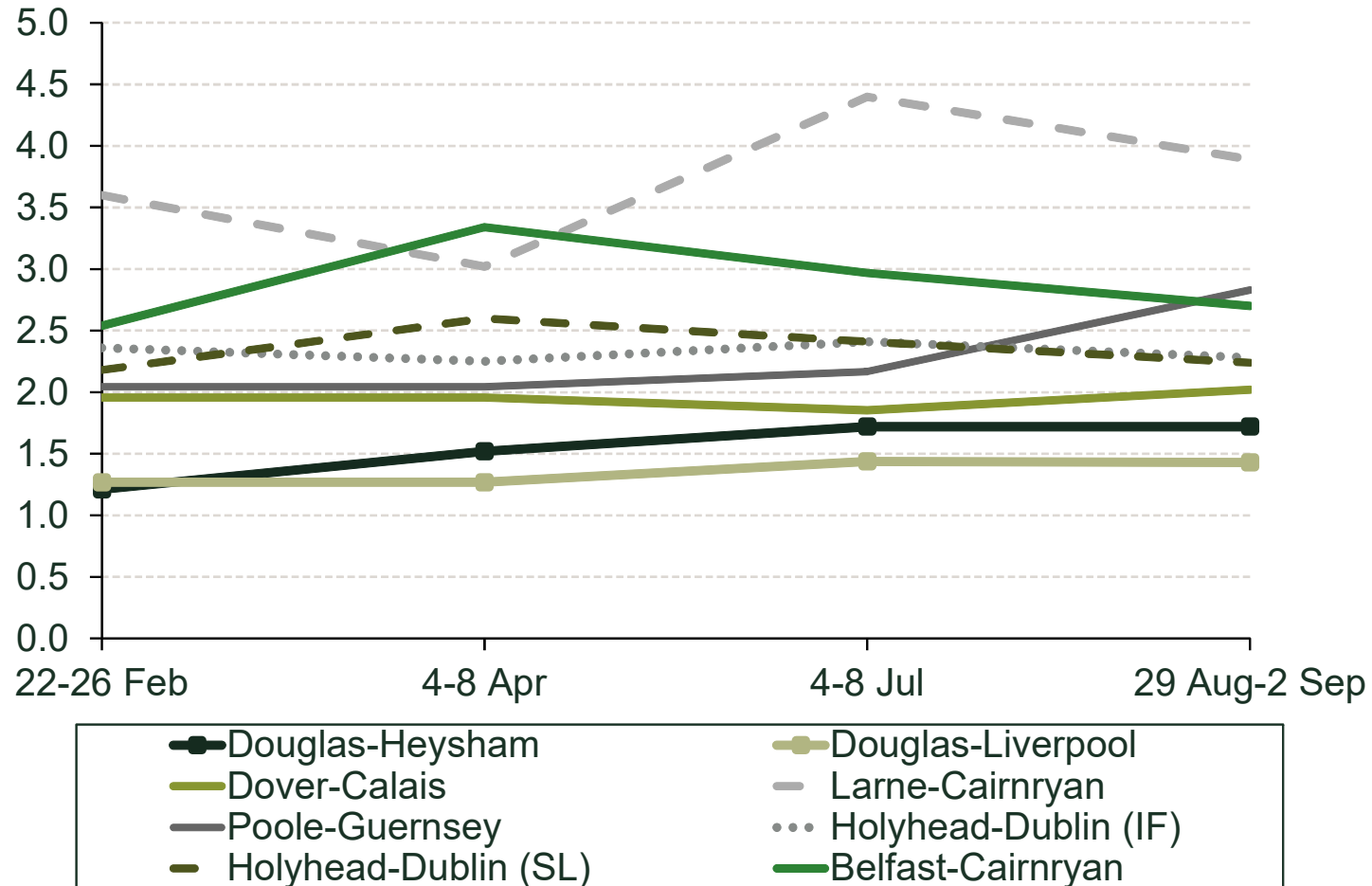
- enhanced capacity of the port at Douglas to maximise flexibility of ferry services

## ANALYSIS FOUND CURRENT IOM FERRY SERVICES HAVE 4 MAIN CHARACTERISTICS:

- passenger vehicle market is a **natural monopoly**;
- **roll-on roll-off freight** is contestable, but ferry operator has considerable degree of market power;
- current vessels and service frequency are designed to address **peak demand** → significant **excess capacity** for freight (year-long), and for passenger services in the off-peak season;
- certain routes (e.g. Dublin) are unlikely to be economic on a stand-alone basis.

# Economic Appraisal – Oxera Consulting

## COST PER MILE CAR + 2 RETURN (£2016)





# Economic Appraisal – Oxera Consulting

**Table 4.4** Various ferry operating models assessed against different stakeholder objectives

Model	User outcomes	Government objectives		Operator objectives	
	Reliability, price, frequency	Cost	Long-term stability	Certainty	Returns and independence
Full state ownership	Meets objective	Does not meet objective	Meets objective	n.a.	n.a.
Company limited by guarantee	Meets objective	Does not meet objective	Meets objective	Potentially meets objective	Meets objective
Partial state ownership	Meets objective	Potentially meets objective	Potentially meets objective	Does not meet objective	Potentially meets objective
Negotiated concession	Potentially meets objective	Meets objective	Potentially meets objective	Potentially meets objective	Potentially meets objective
Regulated utility	Meets objective	Meets objective	Meets objective	Potentially meets objective	Potentially meets objective
Franchise	Meets objective	Potentially meets objective	Meets objective	Potentially meets objective	Potentially meets objective
Joint Venture	Meets objective	Potentially meets objective	Potentially meets objective	Meets objective	Potentially meets objective
Fully commercial outcome	Does not meet objective	Meets objective	Does not meet objective	Meets objective	Meets objective

Meets objective  
  Potentially meets objective  
  Does not meet objective

Source: Stakeholder interviews and Oxera analysis.

# Summary of Options

- ❑ Ownership/partial ownership;
- ❑ Accept the IOMSPCo Offer;
- ❑ Negotiate a new agreement with IOMSPCo + introduction of a regulator;
- ❑ Franchise Isle of Man ferry services from 2026 onwards;
- ❑ Continue with the IOMSPCo until expiry of the Linkspan User Agreement in 2026.

# Sea Services Policy

**DECEMBER 2016**

*"The Department will intervene in the ferry services market to the extent that is necessary to provide for the social and economic requirements of the Isle of Man."*

# Liverpool Landing Stage

## **TYNWALD RESOLUTION JULY 2016:**

- Supported £3.5m for purchase of Princes Half-Tide Dock, Liverpool.
- Endorsed open tender for design and build contract to develop the facility.

# Liverpool Landing Stage

## CURRENT POSITION

- Agreement to purchase site being finalised;
- Design team appointed, design stage due to start.

# Next Steps

- Consideration of latest IOMSPCo Proposal;
- Evaluation of strategic options for delivery of ferry services;
- Progression of Liverpool Landing Stage;
- Return to Council of Ministers and Tynwald: ferry services, and funds to build ferry terminal.