

Submission to the Isle of Man Office of Fair Trading Price Investigation into the Steam Packet Company

This submission is made on behalf of TravelWatch ISLE OF MAN an organisation formed in January 2007 to represent and promote the interests of IOM passengers travelling on, off and to the Island by land sea and air. The organisation has over 130 members and supporters and holds public meetings twice a year as well as meeting regularly with transport service providers and the relevant Government departments. We have provided substantial evidence, both written and in public, to the recent Tynwald Select Committee on the Isle of Man Steam Packet Company.

In our August 2007 submission to that Select Committee we concluded that:

- Steam Packet pricing policies complied with the terms of the User Agreement (a view later confirmed by the Select Committee)
- The lack of pricing transparency had led to widespread confusion and that advertised special offer fares were not as readily available as passengers expected.
- Those unable to benefit from special offer fares feel they are being over-charged and not getting value for money.
- Whatever modes of transport are used to or from the ferry, other costs will be involved, and these will form part of the passenger's judgement on the value for money of making the total journey – or in some cases whether or not to make that journey at all. If visitors are to be encouraged to travel to the Island the costs and convenience of the whole journey need to be seen as competitive.

We believe that these general conclusions are still valid in September 2009, although there have been changes in the detail and there are still areas of concern.

Although TravelWatch do not handle individual complaints from passengers we do offer general advice via our Passenger Information sheets on how complaints should be taken up. We are copied with quite a number of complaints, receive phone calls about them and they are raised with us at supporter and public meetings. A significant number of people are clearly discontented about travel costs in general and with Steam Packet fares and pricing in particular. These will be discussed under the following headings:

1. The difficulty in obtaining advertised Special Offer fares
2. The level of fares which many passengers find themselves paying
3. The high cost of travel booked at short notice
4. The cost of changing travel arrangements
5. The cost of extras

In the case of points 1 – 2

The User Agreement regulates standard fares and ensures the number of Special Offer fares without stipulating the levels at which they should be offered. The Steam Packet Company argues, with some justification, that Special Offer fares have encouraged substantial increases in passenger numbers in recent years. It could equally be argued that passenger numbers increased because of a buoyant economy, and there is probably truth in that argument too. A third factor affecting numbers of travellers by sea has been the pricing policies adopted by airlines – itself a function of fluctuating competition both between routes and operators. Whilst there is a correlation between fares charged and numbers of passengers carried, we believe this cannot be used a criterion against which to judge the reasonableness of fares on offer.

We believe that the lowest level of special offer fares represent good value for money. These lowest fares are not available at weekends (Fri / Sat / Sun) and must be booked at least 48 hours in advance – and at times of high demand possibly several weeks in advance. At peak travel times such as Christmas, New Year, Easter, as well as in the TT and MGP periods there may be very few (or none) of the lowest level fares available even to those able to book in good time.

The only fares advertised in the Company brochures and newspapers are the lowest special offer fares – but they are advertised as “from £xx”. The standard (regulated) fares are now available on the Company website (although not up-dated for the mid year reduction in fuel surcharge) but not printed in brochures. The minimum and maximum fares are therefore public – but no information is available to passengers about the levels of special offer fares which may be available once the cheapest have all been sold.

Using Car+2 fares for 2009 as an example (all figures include the fuel surcharge of £3.50 per head applicable and incorporated into August 2009 fares):

- the maximum standard A band return fare would be £410 – this applies July/August weekends and at TT/MGP periods. The “Summertime, any length of stay special” for weekend travel is £272.
- For mid-week crossings in July/August fare band B would apply = £392 standard fare but the (midweek) special offer price would fall to £212.
- In Spring and Autumn (before TT and after MGP) the maximum standard fare would be band C (£372) or band D (£328) whereas the “Autumn any length of stay special” would be £182 – or £230 at weekends.
- For winter sailings band D (£328) and E (£270) maximum fares apply (except at Christmas/New Year when sailings are banded B/C). “Autumn any length of stay special” offer fares continue to apply until 4 January 2010 ie £182 – or £230 at weekends. Special offer fares in Jan/Feb are usually substantially lower.

The actual range of fares available at the time of booking is displayed on the on-line booking system. This will produce a number of variations allowing for routing via Heysham or Liverpool, as well as according to the availability of special offer fares on each route. Interrogation of the on-line booking system on 27 August 2009 offered three different fare levels (£212, £232, £252) for a return journey from IOM to Liverpool/Heysham, out on Mon 31 August and returning on Thursday 10 September. If travel were to be out Monday 12 October, returning Thursday 22 October the fare would be £182. Clearly for both these enquiries the only fares being offered were “Special Offers” although in the case of the first example not necessarily at the lowest advertised level. It would appear in the case of these two examples the fares on offer fall within the expected range.

It is worth noting that on popular sailings, special offer fares appear to sell-out well in advance. Thus for the half-term Friday evening 19.45 (Oct 23) departure on the *Ben-my-Chree* to Heysham, no special offer car fares were available a month in advance. For a car+2 return (coming back on Sunday afternoon November 1) the fare quoted was £372 (or £382 coming back via Liverpool). However by travelling to Liverpool at 15.30 on the same day (or by waiting until next morning) the fare dropped to £250. It could be argued that this encourages parents to take their children out of school early!

However it appears that on those (usually weekly) *Ben-my-Chree* evening/night sailings which are designated for hazardous cargo special offer car fares are not generally available. The range of Car+2 fares offered for travel from IOM on Wed 9 September and returning on Thurs 17 September varied between £217 (afternoon sailings in both directions) and £350 (evening sailings in both directions). The number of passengers, rather than the number of cars, allowed on these sailings is restricted so it seems perverse that there are no special offer fares for motorists when “footloose” passenger fares are still offered.

The separate application of fuel surcharges was a cause of widespread dissatisfaction amongst the Company's customers, particularly as it was done in a manner which differed from industry practice and produced increasing surcharges at the time fuel costs were falling. This was a matter which TravelWatch brought to the attention of the Select Committee, and, following Select Committee recommendation 5 (p78), has now been addressed in the new agreement reached between the Department of Transport and the Company earlier this year. We are pleased to note that the Office of Fair Trading must be consulted over any future increase in fuel surcharge. TravelWatch believes these new arrangements represent a reasonable balance between the interests of passengers, hauliers and the Steam Packet Company.

3 Cost of travel booked at short notice

This complaint arises from people having to make short notice arrangements to visit sick relatives off Island, attend funerals and deal with family crises. In many cases weekend travel is involved – when fares generally are higher, and, because it is a time of higher demand, the better special offer fares have already sold out. The Company have indicated some willingness to deal sympathetically with such situations but appear not yet to have published a procedure for so doing – possibly because of the difficulty of establishing which claims are genuine.

The cost and availability of day return fares has also made this problem worse. In 2007 day return fares were from £20 off peak and £22 from May – Sept (with no weekend supplements but subject to a fuel surcharge of £2.50 in each direction)). In 2008 the price of £25/27 included the fuel surcharge but with a £1 supplement in each direction for Fri/Sat/Sun travel. In 2009 day returns were offered at initially at £32 inclusive of fuel surcharge, and from mid year this dropped (with the reduction in fuel surcharge) to £29 but with the weekend supplement doubled to £2 in each direction. Given the steep rises in fuel costs a 22% increase from £27 to £33 for a Saturday day trip to Liverpool may appear defensible, but if fuel surcharges are netted off, the underlying increase is 18% between 2007 and 2009 – which appears excessive.

However the question of availability of these fares also arises – they are advertised as bookable up to 24 hours in advance but subject to availability. For an on-line booking made on 1st September, the earliest Saturday on which the £33 day return to Liverpool is actually available is 10th October! On Sept 12 the adult fare would be £71.50 and on Sept 19/26 it would be £49. On Oct 3 it is £39. Lower fares are available most Saturdays but involve travelling via Heysham in at least one direction, so are of little utility to foot passengers wishing to spend some time ashore. It should also be noted that in 2009 mid-week day returns to Liverpool are not usually feasible during the Spring and Autumn due to the reduced schedule offered – this means higher “overnight” fares being incurred as well as the extra cost of accommodation. This is a clear example of how revenue can be increased without altering prices!

Stand by-tickets

We would however suggest that the arrival of the *Manannan* with its greatly increased capacity both for foot passengers and cars would make the possibility of offering stand-by tickets worth re-examining. Last Spring the Director of Harbours expressed the hope that *“the introduction of the new larger fast craft Manannan later this year should provide the catalyst for future growth along with an increase in the availability of special offer fares”*.

TravelWatch are not aware of any increase in the number or types of special offer fares arising from the introduction of the *Manannan* and believes that the introduction of stand-by fares might be a way of both addressing the problem of short notice travel as well as stimulating passenger numbers. Clearly the details for such a scheme would need to be fleshed out to ensure that it is beneficial both to passengers and the Company.

4 The cost of changing travel arrangements

As is common in the travel industry the Company makes an administrative charge for passengers wishing to change special offer fares – although standard fares are fully flexible. Unlike some operators there is no facility in the on-line booking system for passengers to select whether they wish to purchase a flexible or special offer ticket, and standard (flexible) fares are usually only offered when special offers for the required sailings have been sold out. Given that in most cases buying a special offer fare and paying an amendment fee to change it will be cheaper than buying a standard (flexible) fare this is not a problem for most people.

Where problems can and do arise are if passengers miss their booked sailing. This is more likely to happen for passengers travelling from UK to the Island where longer journeys to the port of embarkation are involved and motorway or public transport delays may be encountered. The Company's practice under these circumstances seems to be that the passenger must pay the difference between the fare already paid and the "on the day" fare applicable to a new booking. This can result in passengers (with cars) who have missed the boat having to pay in excess of £100 to transfer to the next sailing. We believe this is unjust and that, if the next sailing has space available, the Company should only seek to recover the administrative charge associated with the change. We accept that on occasions there may not be sufficient space on the next sailing and on occasion it might be necessary to offer the customer a choice of paying extra for early shipment or waiting longer to avoid having to pay an upgrade fee.

5 The cost of extras

The cost of extra services, whether for the provision of reserved or premium seating, cabins or payment by credit card - or administrative charges for changing bookings - are not covered by the User Agreement and are therefore not monitored by the Department of Transport. The cost of on board food is neither regulated nor subject to approval.

It is important to realise that some of these form increasingly significant revenue streams for transport operators and can add considerably to the costs of travel for passengers. Unlike the airline industry, the ferry industry does not charge for passenger luggage, nor does it seek to profit from the payment process with excessive charges for the use of credit cards. The Steam Packet Company works to the norms of the ferry industry in this respect – and we have no problem with that.

One "hidden" extra is the use of an 0871 phone number – such numbers are frequently used by the travel industry. with calls costing a set up charge of 8p plus anything between five and ten pence per minute from a landline and considerably more from a mobile. Calls to 0871 numbers involve a form of micro-payment whereby revenue can be shared between the company being called and the third party that providing the telecoms service. From 1 August 2009 these were formally recognised as Premium Rate Services and now fall under the PhonepayPlus' Code of Practice. Calls to 0871 numbers are normally not included in "call-inclusive" packages for landline or mobile phones whereas calls to the Steam Packet's "geographical" number 01624 661661 usually are (even from UK). The Steam Packet telephone reservations system answers calls immediately, offers the caller a range of options and then puts the caller into a holding queue until an operator is available – all of which contributes to their income.

In the case of Niarbyl reserved seating the 2009 charge is £3 - 50% higher than in 2007. The Manannan premium Lounge (formerly 1st) is £13.50 – no increase on 2008 and only £1 higher than in 2007. Both of these are extra services which passengers may select if they wish. They are offered on an opt-in basis on the booking system .

FARE LEVELS

As already indicated we believe that the lowest fares, when they are available, are highly competitive – but that does not mean all fares are competitive. With Car+2 fares ranging from £118 return (up to 2 March 2009) to £410 in high season there is bound to be a wide variety of opinion as to what constitutes a fair fare. Foot passenger return fares currently vary between £37 (£41 at weekends) and £85 (standard fare band A).

Are fares reasonable?

Steam Packet standard fares are regulated by formula rather than market forces. They do not therefore follow the same market trends to which competition has led amongst other Irish Sea operators. This has led to levels of standard fares which would not encourage travel nor enable current passenger numbers to be maintained. Volume business is therefore substantially dependent on the number and level of special offer fares available.

There are two markets – Island residents who need affordable travel – or will stay at home. The second group are visitors who in many cases have the option of going elsewhere if travel to IOM is too costly. They will compare the cost of travel to the Island with the costs of travelling to alternative destinations by a variety of means. The fact that fierce competition between airlines to the sun or ferries across the English Channel provides cheaper fares than coming to the Island is all that matters to them. The fact that the Steam Packet incurs the costs of providing excess capacity to meet its obligations under the User Agreement and to the Island is of no consequence or interest to them. What the second report of the Tynwald Select Committee has revealed is that the Steam Packet is required to generate a very high level of profits for the ownership structure which the local operation is called upon to support. This appears to require the Company to make profits well ahead of the sector norm – and at a level which the Select Committee expressed concern.

Intuitively this leads to a conclusion that fares are higher than they ought to be – although the Company would obviously take an opposite view. The User Agreement means that the only way of taking this forward would be by increasing the availability of the lower levels of Special Offer fares. Whether this would generate sufficient extra volume to be cost effective is difficult to predict.

We would therefore suggest that an independent passenger opinion exercise be considered to establish the level of satisfaction with available fares and the degree of stimulus which lower fares might provide.

Future fares:

We again refer to the Select Committee recommendations – in this case No 6 (p79) that *the Steam Packet Liaison Committee should involve the Office of Fair Trading, when it enters substantive discussion with the Company on fare increases.*

The User Agreement regulates the maximum increases allowed in standard fares and freight charges. It is clear from evidence given to the Select Committee that this maximum is the figure which has always been sought and appears to have been agreed without question. The rate of movement of the Manx RPI is the major determinant but there can be a significant difference between the Manx RPI used in the calculation and the Manx RPI at the time of application of new fares (as happened when 2009 standard fares were established). We believe this needs further investigation before 2010 fares are agreed.

The different economics of running various types of vessel has a significant bearing on the Company's costs and ultimately on fares. The *Manannan* consumes more fuel than both the *Viking* (the vessel she has replaced) and the *Viking* consumed more than the *Snaefell* (currently still in service). The *Ben-my-Chree* uses cheaper fuel and less of it – but is a slower vessel. In fuel terms the fast craft are more expensive to run than the *Ben-my-Chree*. Whatever fleet configuration may be agreed for 2010, profits can only be maximised by reducing sailings and increasing payloads – a process which has already started in 2009, with the midweek cutbacks on the Liverpool route.

This raises issues of service level provision v pricing which require proper debate, consultation and discussion before 2010 services and fares are finalised. Ultimately this debate and consultation needs extending to cover the whole cheaper fares v faster crossings issue, ahead of further investment decisions. There may be ways of keeping fares down which fall short of reducing the number of services – and these need to be explored.

Conclusions:

1. **Those unable to benefit from the lowest of Special Offer fares feel that fares are too high**
2. **More transparency over the availability of Special Offer fares is needed.** The Company website gives advice which, if followed, may increase the chances of getting a Special Offer fare for those who can be flexible and those who can book ahead. See page: <http://www.steam-packet.com/SteamPacket/Book-Now/special-offers.htm> Expectations are raised by the statement that *Around 75% to 80% of customers do benefit from the range of offers available.* Whilst we realise that does not mean that 75-80% of passengers are able to travel at the advertised lowest fares, we believe this gives rise to an expectation amongst the public that the lowest fares are often not as readily available as they anticipate. The percentage for that is not publicly known. The further statements that *very many offers still go unsold every year!* and that *For 2009 there are over 900,000 seats available at offer prices* lead to the expectation that these fares are more readily available.
3. **The issues of late booking, changed bookings, day-return and stand-by fares need further consultation and discussion.**
4. **TravelWatch recognises the need for fares to be established at levels which will both encourage passenger travel and enable the operator to make a return on capital in line with the rest of the ferry sector.** In the absence of competitive market forces we are therefore concerned that the high profit expectation of the Steam Packet Company by its parent group and shareholders leads (or will lead) to pressure on fares and charges which will neither encourage travel nor be in the interests of the Island economy. We therefore welcome the involvement of the Office of Fair Trading in the discussion of any further fare increases.

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APPENDIX

TravelWatch ISLE OF MAN Media Release

TYNWALD SELECT COMMITTEE on the ISLE OF MAN STEAM PACKET COMPANY.

TravelWatch ISLE OF MAN welcomes the appointment of the Tynwald Select Committee. TravelWatch has prepared and submitted evidence to the Select Committee which takes into account our study of the User Agreements, the terms of reference of the Select Committee and views expressed to us. Copies of the full 25 page submission can be downloaded from

http://www.travelwatch-isleofman.org/SPC_SC_final_PDF.pdf

The following is a brief summary of that evidence.

PRICING:

The lack of transparency in Steam Packet pricing policies has led to widespread confusion and public expectation that advertised special offer fares will be more readily available than appears to be the case. This, coupled with absence of standard fares being listed in the Company's brochures, or in advertisements, has led to a view that those unable to benefit from special offer fares are being over-charged and are not getting value for money. Standard fare prices are the only ones which the User Agreement regulates.

Despite this we find no evidence that the pricing policies followed by the Company are in breach of the User Agreements reached with the Department of Transport in 1995 (extended in 2002) and 2004. We are however concerned that there is no provision to update or revise a formula for fares which was established in 1995 during the life of the current agreement which runs until 2020 – maybe 2026.

Whatever modes of transport are used to or from the ferry, other costs will be involved, and these will form part of the passenger's judgement on the value for money of making the total journey – or in some cases whether or not to make that journey at all. If visitors are to be encouraged to travel to the Island the costs and convenience of the whole journey need to be seen as competitive.

STANDARDS OF SERVICE:

We are concerned at the lack of agreed and published service standards.

Whilst the User Agreement stipulates ports to be served, frequencies and capacities to be provided there is no requirement for consultation with customers and reporting of timekeeping / cancellations / complaint levels / information to be provided for passengers (particularly when things go wrong). These shortcomings were identified by the Select Committee which reported in 1999 but these and the remedies suggested at the time appear not to have been given any consideration when the User Agreement was renegotiated in 2004.

We believe that the comfort and ambience of the company's vessels, particularly fast craft, is below that of most other ferry companies on the Irish Sea.

MAIN RECOMMENDATIONS:

TravelWatch ISLE OF MAN recommendations to the Select Committee include that:

- • The Steam Packet website and literature be required to show Standard Fares as well as Special Offers and that a full timetable be included in the printed brochure (as in previous years). The local 01624 telephone numbers should be advertised so that callers can benefit from inclusive call and local rate tariffs – rather than pay a “national rate” tariff.
- • Service standards be agreed across a number of areas not covered by the User Agreement. Performance against these standards should be regularly and publicly reported and a remedy process be established in the event of non-performance.
- • Regular consultation with passenger representatives be instigated.
- **TravelWatch ISLE OF MAN** has other areas of concern which in the absence of publicly available information we have been unable to explore fully. We are therefore suggesting that the Select Committee might look into:
 - • The accounts of the Company which are not available to the public but are needed to determine whether prices charged are equitable i.e. enabling the company to make a reasonable but not excessive profit from its business. We hope the Select Committee will obtain the necessary financial information to form such a judgement and will also ask the Company for details of price-related complaints.
 - • The appropriateness of the control mechanism on Standard Fare levels in the User Agreements – possibly to include benchmarking of fares against other operators.
 - • Whether in a monopoly situation on life-line routes it is acceptable that the lowest fares can only be purchased on-line. This practice is common across the travel industry in competitive markets.
 - • The application of Fuel Surcharges, the formula for which is not included in the User Agreement, to determine whether the current arrangements are equitable and to establish transparency.

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