



Chris Robertshaw MHK has provided us with a copy of the speech he made during the debate on David Cannan's proposal to have a select committee examine the viability of the Manx government placing the Steam Packet into public ownership.

After a 90 minute debate Tynwald voted 24-4 against.

"Mr President I beg to second the motion.

I believe my views on the user agreement are fairly well known having been an ardent and consistent critic of it for the past 15 years. In fact I believe I did all any one person could reasonably do to try to stop it at its inception back in the mid nineties.

Had we not had the user agreement the huge debt directly attributable to it which was raised on the international money markets would never have come into being in the first place and thus the IOMSPCo would not have found itself in the position it does today.

This debate would not be taking place.

I think the user agreement is very well named as the cost of that the debt can only in the end be recovered from every individual living on the Isle of Man and every business bringing in freight and of course from every visitor. You do not need to travel to and from the Isle of Man by ferry to contribute to the cost of the debt – you simply have to buy goods from one of our shops.

We are a captive audience. We are all well and truly being used. It would have been more accurate if it had been called the Agreement to Use the People of The Isle of Man.

Let me be blunt - the debt raised on the back of the user agreement was grossly irresponsible and born out of market greed and excess during the boom years.

But please do not take my word for it – as the Chairman of the IOMSPCo said on Manx Radio last Sunday – this type of transaction used to be illegal.

The debt is nothing to do with our trading ferry company but it none the less impacts upon that service in **every conceivable way** through the cost of borrowing and for other reasons. I am not privy to the very latest ferry company numbers accounts but with a debt well north of £200m it is not unreasonable to point to interest costs in the region of, say, twelve to thirteen million pounds per annum which rises towards fourteen million when taking into account the, at least, one million pound per annum charged for the so called management fee taken by the complex company structure above the actual ferry company. Given that these costs are deductible each year and that there appears little opportunity to pay down the actual loan capital one could reasonable say that this will mean a drain on our pockets in the next ten years alone of some one hundred and forty million pounds with absolutely no return.

This debt controls and informs all the actions taken by the owners of our ferry company. Let me quickly run through three of the key issues – the balance sheet, the company's response to competition and finally future capital investment in new vessels.

First the balance sheet.

The required rate of depreciation of the dominant element in the balance sheet – namely the goodwill, which captures the perceived value of the user agreement, seriously informs the owner's determination to keep pushing for extensions of the user agreement. In fact it gives the company little alternative.

Again let me refer to the steam packet chairman's words – it (the user agreement) has been extended twice – on both occasions **at the instigation of the IOMSPCo**. He said we have taken on some very serious obligations in order to get these extensions.

Had they not persistently done this (and this is an extremely important) inevitable and serious consequences would have followed from it. Let me explain.

When you have the debt (the liabilities - the money borrowed by the company) sitting on one side of the balance sheet and a quickly depreciating figure on the other (the asset- the goodwill born out of the user agreement) then very quickly the liabilities will exceed the assets. Serious consequence obviously come about when this happens. (This if the debt cannot be paid down and I have seen no evidence of that pay down is neither happening nor can afforded).

Clearly this is poor quality debt because the asset upon which the debt was raised quickly disappears so the only way to recover from this is to extend the agreement again and again and in so doing put back up the value of the goodwill to match the debt and then hope to goodness you can squeeze enough profit out of your customers to keep the balance sheet stable. That's pretty stressful and I think it is beginning to show.

Compare this to a debt raised against property – at least you have the property at the end of the term to sell on should that be your wish.

This imperative to extend was of such major significance that older vessels were to be bought in and tarted up to engender an atmosphere of confidence and growth sufficient to pursued our government that it would be advantageous to allow the extensions. Unfortunately we fell for it not once but twice – and the result – aging vessels with poor mechanical reliability records - the consequences of which we are now all too well aware.

This imperative drives all before it. It comes before the customer, before the Isle of Man, before the staff.

Turning next to the company's response to competition.

The complete inability of the ferry company to respond to a quite modest competitor has resulted in a most extra ordinary few months. First the freight customers were insulted and then apologized too, then it was the turn of the passengers, both on foot and by car to be threatened with higher fares, then it was the turn of the staff who have been put into a state of anxiety, then for good measure a limitation of services was threatened. Had they been able to respond to competition in a normal way then they would simply have reduced their prices, taken a hit, and

then moved on with a competitively price service. This they could not do because of the financing pressures that exist as a direct consequence of the artificially high debt burden. Had the price structure enjoyed the respect of their customers in the first place then the challenge would not have taken place – but again the debt burden inhibits attractive pricing.

Turning to future investment.

The debt raises a huge question mark over the ability of the ferry company to find further funds for quality vessel replacement, something that is becoming a priority if the island is to meet ever changing market circumstances.

Once again allow me to use the Chairman of the Steam packets words to support my argument.

When challenged about new vessels on Sunday he said

'Hang on – there is no commitment to renew vessels after 25 years our commitment is not to invest in vessels over 25 years of age

.'

Welcome to a world of second and third hand vessels. Almost a Greek Tragedy.

So, contrary to the expressed opinion of some, the user agreement resulted in a seriously faulty strategy, unattractive pricing, poor customer relations and an inability to invest properly for the future. It denies the very thing it set out to achieve. A pretty damning indictment if ever there was one.

To understand how we ended up with such a poor settlement between our ferry company and the Isle of Man Government is to understand the mindset at the time of signing. The then board of directors had failed to modernise the role of the ferry company in response to the enormous changes taking place in its markets. Their stubbornness, arrogance and complacency saw the people of the Isle of Man turn away from its own ferry company in anger and frustration.

It was only a matter of time before a competitor would arrive on the scene.

So the original ferry company badly directed and in no fit state to face a challenge was set

against a competitor of questionable quality and depth. The outcome was inevitable.

Unfortunately this experience also seriously undermined the confidence of our government and it was in this state of mind that the user agreement was entered into. Our government negotiated from a perceived position of weakness and anxiety and sadly a degree of naivety.

So here we are again with confidence in our ferry company low and a new competitor on the scene but this time we also have a massive debt which has been placed at our door and from which we will gain nothing.

Let's be clear about one simple principle.

With an island population now in the region of 82,000, an improved standard of living and a gradually expanding economy this is a really attractive and solid business base for any company charged with the responsibility for a sea lifeline and we should recognise this and allow it to inform our thinking.

We cannot exactly predict what is ahead but we have a duty of care to ensure we are proper and fully informed. We cannot rely on hearsay or rumour or private conversations. We need to know exactly where we stand.

The last select committee on the subject did a good job in examining 'what is' in relation to the user agreement but it is now extremely important that we look at our options in the event of a variety of outcomes to ensure our response is a sound one. I believe we have an absolute duty of care to do so. This is not simply a matter for the Department of Infrastructure to struggle with, nor is it just for the council of ministers – it is a matter which impacts upon everyone's life and it only right and proper that this honourable court gives itself the opportunity to take evidence.

The question is a simple one.

Does the ferry company serve the people of the Isle of Man or do we all serve the interest of the ferry company owners?

Tynwald Steam Packet debate 15/12/2010

Written by PAG

Thursday, 16 December 2010 09:55

Mr President I see this motion as an opportunity to do our duty and I commend it to honourable members."