



Hon R Harmer MHK
Minister for Department of Infrastructure
Sea Terminal
Douglas
IM1 2RF

14th July 2017

Dear Minister

The text of your Motion in Tynwald and the accompanying report by Oxera has been received by the Company with considerable surprise and disappointment. After a prolonged engagement in an iterative process of development of this Offer between your officers and Steam Packet management, the Company had believed that you would be placing the outcome of that process before Tynwald with a positive recommendation for approval. To learn that you are not, only a matter of days before the sitting of Tynwald at which our Offer is to be debated, is most regrettable.

Since the Company cannot participate in the debate on your Motion in Tynwald and place before Members its own perspective on a number of the points made in your Report, we feel we must respond to some of the issues raised where we feel the Company's position has been misrepresented. You have indicated that the Department's decision was "finely balanced"; it would be unfortunate if that balance was adversely affected by some misunderstandings or misinterpretations of the Company's Offer.

Negotiation Process

In January 2016, after an extended period of discussion over the provision of sea services between Government and the Company, we responded to an invitation from your Department to submit a definitive offer for the provision of Strategic Sea Services (SSSA) beyond 2026, the year in which the current User Agreement, if extended in 2020, expires. Since January 2016 the terms of that offer have been exhaustively discussed with your Department, other agencies of Government, interested third parties such as Travelwatch and the Chamber of Commerce and various consultants. These discussions culminated in a request from your

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The Isle of Man Steam Packet Company Limited Imperial Buildings, Douglas, Isle of Man IM1 2BY

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Department for a 'best and final offer' which was submitted in March 2017 containing a significant number of variations from the offer originally submitted.

During that period there was also an unprecedented disclosure of commercially sensitive information by the Company, at Government's request, to assist your Department to evaluate our Offer. The Company and its shareholders have also been prepared to renegotiate on key terms such as change of company ownership and debt protection and some of the significant changes to the original Offer have arisen from those renegotiation discussions.

At the conclusion of that process, those acting on behalf of Government advised the Company that nothing more was sought.

Fares and Services

It is, with respect, incorrect to state that, without the SSSA, the Company might raise fares and cut services. These matters are closely regulated by the User Agreement which remains in force until 2026, and the Company's ability to make changes, even if it wished to do so, is constrained already and would be further constrained by the proposed SSSA.

It is also unfortunate that the considerable benefits the Manx community has enjoyed as a direct result of the User Agreement over the past 20 years, such as the reduction in fare costs in real terms, and the very considerable improvement in services have not been recognised. Nor have the substantial additional benefits which the SSSA would introduce with immediate effect rather than 10 years hence, been enumerated. Those benefits will be lost to the community if the SSSA is not introduced now.

Vessels and Financing

Your Report refers to various alternative vessel configurations which might be preferable or more suitable than the Company's proposal to replace the Ben-my-Chree and Manannan with broadly similar vessels as well as retaining the Ben for stand by and additional peak capacity. Again, with respect, this issue was never raised during the prolonged negotiation period, indeed the feedback on our proposals was nothing but positive. Had it been raised, we could have expressed our view that, based on our experience of operating the route and anticipated future demand, our proposed vessel configuration was best suited to the needs of the Island and the need to respond to the peaks of demand experienced over short periods such as the TT. However our Offer provides for consultation, giving your Department the opportunity to fully contribute to the procurement process.

For clarification, we must also point out that our agreement on vessel financing was not a commitment to allow the Government to finance new tonnage but to be able to participate in any bid financing tender – clearly the Company would need the freedom to obtain the best possible terms for financing new tonnage.

Oxera Report

Your Report and its recommendations clearly places reliance on certain conclusions on values and costs contained in the Oxera Report, a copy of which was only provided to the Company with the copy of your Report shortly before papers were published.

The Company does not recognise the headline figures in the table on page 6 of the Oxera Report and believes them to be misleading. The value of the Company today is very considerably in excess of £118 million, whereas the uplift in Company value which might arise from a new SSSA, is very much less than the £89 million predicted.

Oxera's analysis also seriously understates the cost of delivering certain of the benefits which are part of our Offer. For example:

1. The cost of new vessel investment is £51million, not the Oxera estimate of £12 million. Oxera does not appear to have understood that the Company is under no contractual obligation to renew the existing vessels within the unexpired period of the User Agreement.
2. Oxera suggest that having a back up vessel is somehow a net financial benefit to the Company. The actual predicted cost is £37million which covers charter, crewing, maintenance and lay up costs. Potential sub-charter revenue might offset some of those costs, but such revenue is highly unpredictable particularly under the constraints as to availability and emergency recall conditions which would have to be imposed.
3. Oxera's analysis totally ignores other elements of our Offer such as the proposed frequent traveller scheme which is forecast to cost £9 million.

The cost of just these three items and the proposed change to MRPIJ inflation indexation is approximately £104 million; even ignoring the other SSSA benefits which are harder to place a specific value upon, the costs of these items almost matches Oxera's estimate of the uplift in the Company value which could arise from the SSSA.

Had the Company been given the opportunity to challenge these highly contentious Oxera conclusions at the time your Department received them in April, we believe your Department might have reached a different conclusion.

Motion in Tynwald

The Company has been asked to accept regular postponements of the submission of its Offer to Tynwald and there would have been a further postponement beyond July had the Company acceded to the request it received only 10 days ago to withdraw its Offer to allow Government to pursue new avenues including vessel and even Company ownership.

The terms of your Motion in Tynwald have been noted. The Company believes that members of Tynwald should be afforded the opportunity to approve or reject its Offer, not just to 'Note' it, but on the basis of what we believe is objective and accurate information, hence the Company's wish to correct what it believes could be misleading information in your Report. If Tynwald declines to approve the Offer, the Company regrets that it will have no alternative but to withdraw the present offer terms and any other agreements predicated on the introduction of the SSSA. Whilst the Company is open to discuss alternative options to the current proposals, these would need to be carefully considered by both the Board and Shareholders and, to avoid a further time and resource consuming exercise which ultimately proves fruitless, the Company would expect there to be some prior evidence that any new proposals would have clear political support. Following a meeting with our shareholders requested by your officials in April 2017, our shareholders conveyed their position in this respect and their complete support for the SSSA.

In conclusion, the Company believes its Offer represents a comprehensive and commercially viable proposition for the Island's strategic sea services over the next 25 years, a proposition in which the Company carries significant commercial risk, but which would be delivered without any subsidies or other taxpayer support. We believe it is unlikely that any other possible operator could replicate such an offer, at least without significant Government support. Thus we believe our Offer is in the best long term interests of the Isle of Man and we commend it to Tynwald.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Robert Quayle", with a long horizontal line extending to the right from the end of the signature.

Robert Quayle
Chairman