AN EXPLORATORY REPORT

The price of passage and haulage

The Isle of Man Steam Packet: what it earns, who pays, and what we can ask for

The Steam Packet earns a margin above a commercial return on the book value of its ships and keeps it to pay for the next ones. Since 2021, users of the service are recapitalising the company through the fare. Nobody accountable to Tynwald has set the level of fares or the return. This report sets out what the revised Sea Services Agreement should require at a minimum: ten changes, none of which needs anything bought or sold.

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Not a government publication.

Reference JC/SPC/2026/01 · Version 3.0 · November 2026

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About this report

The analysis, judgments and recommendations are mine. AI tools were used to extract and cross-check figures from the published accounts and papers. Every figure is traceable to a public source; the full evidence trail is published alongside this report as a separate evidence annex, which goes from each statement to its source document, page and wording.

I hold a BEng (Hons) in Aeronautical Engineering from the University of Glasgow and an Executive MBA with Distinction from Warwick Business School. Section 2 draws on my Warwick work on Manx Telecom (2008) and the Manx economy (2010).

Comments and corrections are welcome. Readers are invited to take this apart.

Executive summary

On the book value of its vessels the Steam Packet earns more than a commercial return: enough to carry 69,000 children free in 2025 and still put money aside for its next ships. Tynwald approved a fleet of three vessels in 2019 without a published cost of the resilience it buys. Nobody accountable to Tynwald has set the level of fares or the return the company should make.

What Tynwald can ask for. Ten changes, all aimed at the revised Sea Services Agreement that the Department of Infrastructure is now negotiating. **Publish (1 to 3):** a return target for the Treasury's shareholding; the average fare, freight volumes and the fuel surcharge formula; the revised agreement itself, laid for approval. **Renegotiate (4 to 7):** a fare level with an efficiency factor; a priced plan for the next ship and the back-up; public port assets charged at cost; a costed resident fare. **Restructure (8 to 10):** an independent referee, such as CURA; the ferry and the airport reviewed together; an independent cost benchmark before the new agreement is signed. None of them requires buying or selling anything. Several are old asks: Table 8 shows what Tynwald's committees have asked for since 1999, and what happened.

- **The island needs a cheap crossing.** The island's real economic output is 11.9% below its 2019-20 peak and deaths have outnumbered births every year since at least 2017. The island depends on a labour force that comes and goes. What still crosses the sea is the island's people, its food and its building materials.
- **Two numbers.** On the books, the operating company made £7.6m more in 2025 than a 'normal' 7.75% return on its ships and working capital. On what the public paid in 2018, the group made about £1m more than the same return, and less in 2023 and 2024.
- **The rent after 2026 belongs to the public.** In 2018 the Treasury paid £124.3m, priced on the cash the business could earn until the old agreement ended in 2026. The private owner had asked in 2017 for sole use of one linkspan to 2041. The 2019 agreement with the newly public company gave almost exclusive use of both linkspans to 2044, and COVID variations in 2021 extended it to 2047. On 2025 figures the business is worth about £170m. Users pay the difference.
- **The board has used its freedom with restraint.** It held the 2023 rise to 5.0% when the cap allowed 10.4%, cut Flexi fares by 10% for 2025 and opened offer fares to the day of travel. Passenger fares fell by about 7% in real terms between 2022 and 2025. Nothing in the agreement stops a future board choosing differently.
- **The fare reset may be costing the air routes.** Since October 2024 every child has sailed free. In 2025 the Liverpool and Manchester flights fell 10.5 points behind comparable routes. One year cannot prove cause, but it fits, and the ferry and the airport both belong to the Treasury.
- **Full at the peaks, a third full on average.** The fleet is sized for TT fortnight, but runs light in February. The resilience the fleet buys has never been priced. Manxman's long absence in 2026 showed why it matters, but handovers between old and new ships could be planned for at lower cost. The third ship is there partly because Douglas harbour cannot take a chartered one.
- **Freight is the island's largest exposure, and the least visible.** No volumes, rates or load factors are published, and a 25% fuel surcharge from April 2026 sits outside the fare cap under a formula nobody outside government has seen. Some sailings are understood to run full of freight with few passengers, and still pay.

Every figure is sourced in the body.

1. The question

Since Tynwald approved the Treasury's purchase of the Steam Packet in May 2018, argument about it has run on two tracks.[1] Critics say the company draws a "monopoly rent" from a captive island, "gold-plates" its fleet, levies a "stealth tax" on everything that crosses the sea, and does "collateral damage" to the air links. Defenders say it is a well-run lifeline that pays its own way. Both sides quote profits. Few quote capital, the contract that shelters the company, or what has happened to the island's airport.

Economists call profit above what the same money could earn elsewhere "rent". It is the reward for holding a protected position, and the Steam Packet holds one: sole use of the Douglas berths under a contract with the government that owns it.

This report asks four questions of the evidence:

1. Does the Steam Packet earn more than it needs?
2. Is the fleet bigger than the island needs?
3. Who pays for the next ships?
4. Is the ferry hurting the air links?

The evidence is six years of audited accounts for the Steam Packet and five comparators, the terms of the Sea Services Agreement, the Tynwald record, official air and sea statistics, and the experience of other islands. Appendix A sets out the method and its limits.

Each of the four questions asks one thing: are the arrangements run for the island's economy, or for the company's balance sheet?

2. An island that needs a cheap crossing

You cannot judge the ferry without looking at the island it serves.[2]

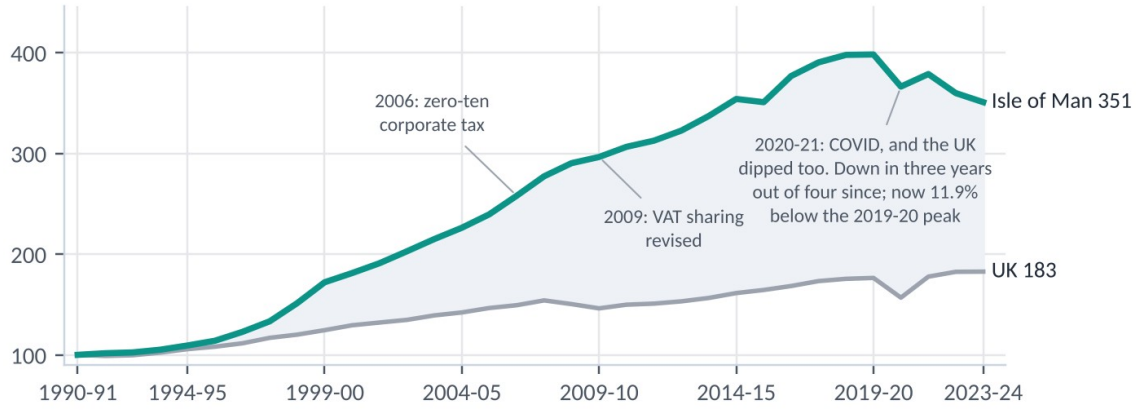
The Isle of Man is a small open economy with few levers. The island uses sterling, so it sets no interest rate and no exchange rate. Under the Customs and Excise Agreement 1979 it shares a VAT and customs area with the UK, and Customs and Excise brought in 41.8% of Treasury receipts in 2023-24.[3] The island's largest tax is collected under rules it does not write, which are now subject to retrospective adjustment. What Douglas does control is direct tax, public spending, regulation, and the terms on which a few firms run its essential infrastructure. The ferry contract is one of the few prices the island sets for itself.

Growth that stopped. For three decades the island outgrew the UK by a wide margin (Figure 1). By 2019-20 real output was 3.98 times its 1990-91 level; the UK's was 1.76 times. Since 2020 the economy has shrunk in three years out of four and is now 11.9% smaller than at its peak. The UK's grew.[4]

Figure 1

Thirty years ahead of the UK, then a fall since 2020

Real GDP, index 1990-91 = 100, financial years to March



Sources: Statistics Isle of Man, National Income 2023/24 and earlier editions (Table 3); ONS, series ABMI, summed April to March. Shaded: the gap between the two.

A changed economy. In 2007-08 banking was the largest sector at 14.5% of national income, and tourist accommodation, catering and entertainment made up 2.5%. By 2023-24 insurance (16.9%) and eGaming (14.2%) led, banking had fallen to 8.6%, and tourism was 1.5%.[5] The Steam Packet was built for a tourist economy. Today's leading exports are insurance policies and online gaming, and both travel by fibre. What still travels by sea is the island's consumption, its building materials, its farm output and its people.

Table 1. The island in numbers, then and now

Measure	Then	Now
Resident population	80,058 (2006 Census)	84,975 (2025, first quarter)
Natural change (births less deaths)	−121 (2017)	−304 (2025-26)
Real GDP growth	+7.5% (2007-08)	−2.5% (2023-24)
Largest sector	Banking, 14.5% (2007-08)	Insurance, 16.9% (2023-24)
Tourist accommodation, catering and entertainment	2.5% (2007-08)	1.5% (2023-24)
Customs and Excise, share of receipts	43.7% (2013-14)	41.8% (2023-24)

Sources: Census 2006; Cabinet Office, Population Report 2025, Tables 1 and 2; Isle of Man in Numbers 2026 (births and deaths, 2025-26); National Income 2007/08 (modernised basis) and 2023/24; Pink Book.

A population that grows only by arrival. Deaths have outnumbered births every year since at least 2017; in 2025-26 there were 587 births and 891 deaths. About 8,000 people moved to the island between the 2021 Census and early 2025. Net of those who left, migration added about 2,200, which is why the population did not fall. In March 2026 fewer people were in work than a year earlier (36,483), holding more jobs between them (53,149).[6] An island that relies on newcomers to replace its working-age people, and whose families live on both sides of the water, depends on the crossing more than its GDP tables suggest.

Imported prices. Registered unemployment was 0.7% in March 2026.[7] In a fully employed island, firms facing higher transport costs either pass them on or leave. Almost everything the island consumes arrives by sea, so freight rates sit inside every shop price. Manx inflation reached 10.8% in July 2022, and the official bulletin attributed part of it to a 104% rise in sea transport prices, a figure the company disputed.[8]

A tariff wall, if the price is wrong. A 2008 study found that Manx Telecom, under licensed exclusivity, earned supernormal profits, over-invested, shaped opinion with selective price comparisons, and was itself exposed to hold-up by its regulator.

A 2010 study found that the island's tax model came with a tolerance of infrastructure monopolies that "exacerbate the effects of geographic remoteness".[9] Whatever part of a crossing is priced above cost works like a tariff wall around the island, collected by a ferry company instead of a customs house. Its size matters. The operating company's whole revenue was £90.6m in 2025, about 1.6% of the island's nominal output of £5.84bn; the £7.6m surplus in section 5 is about a twelfth of that bill.[10]

How the parts connect. Figure 2 maps the feedback between the ferry and the island. Every loop passes through one box, *fares and freight rates*; the price of a crossing matters well beyond the people who buy one.

R1, density. Dearer crossings raise the cost of living and of doing business on the island. After a delay of years (the diagram is simplified), that means fewer people, firms and visitors, less traffic, and a higher cost per passenger and per trailer, which the board recovers through fares.

The loop works just as hard in reverse. Cheaper crossings make the island cheaper to live and work in; over time that brings more people and more traffic, spreads the cost of each sailing more thinly, and makes room for lower fares.

R2, capitalisation, and B4, debt. The User Agreement gave the company almost exclusive use of the linkspans. What that access was worth depended on the profit it could make behind it: the fares it could charge, times the traffic it carried, less the cost of carrying it. Buyers paid for that expected profit, and each sale set the price for the next (R2). Buyers borrowed to pay that price. When the debt outgrew what the route could earn, financial distress followed and lenders wrote the price back down (B4). Together these two loops are the rise and collapse of 2003 to 2013. The link from traffic is the warning: high fares that slowly shrink the island's traffic also shrink what the berth is worth.

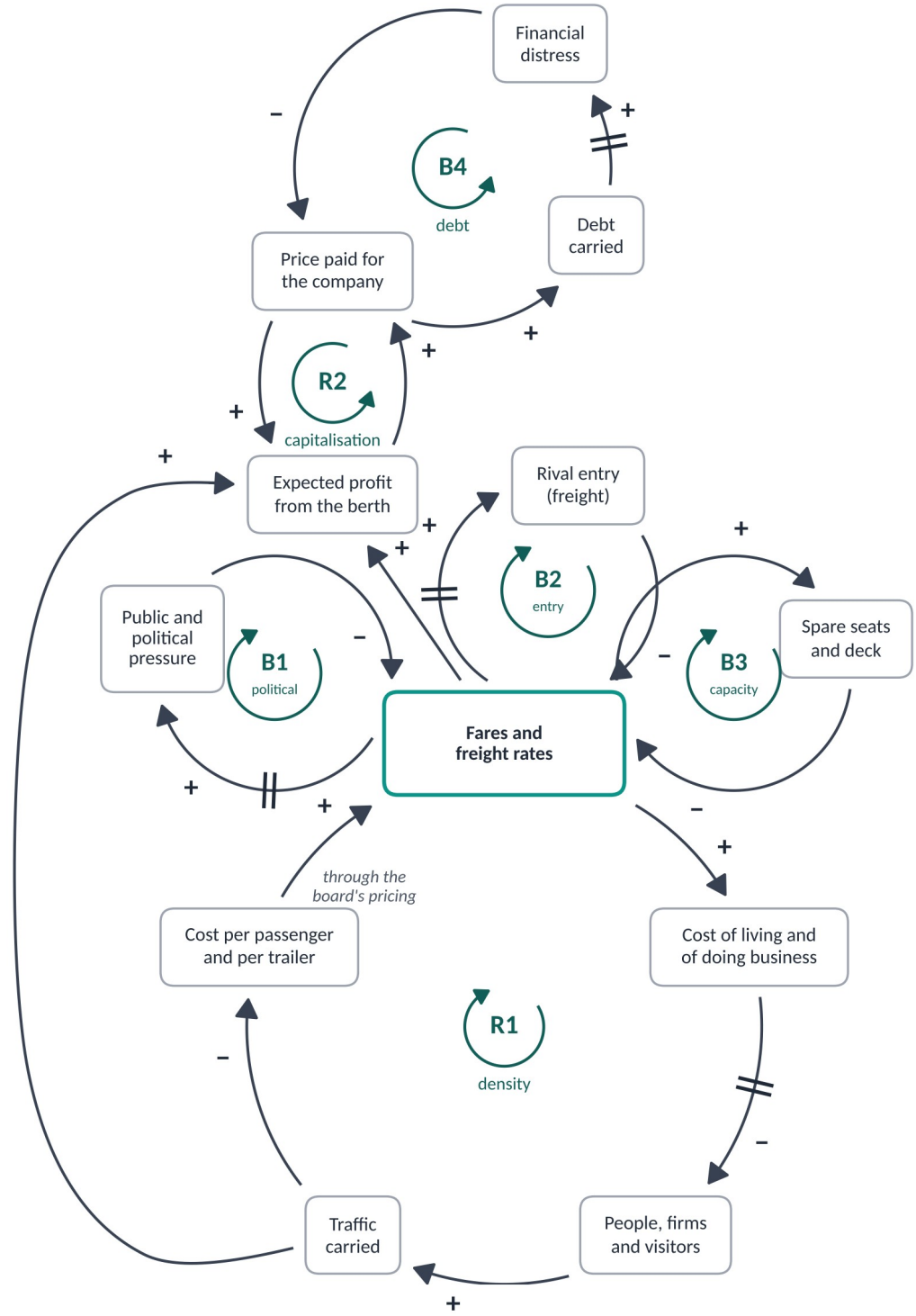
B1, B2 and B3. Three balancing loops pull fares back. When fares climb, public and political pressure builds after a delay: it has twice produced a Select Committee and once a pricing reset (B1). High freight rates invited a rival in 2010 (B2). Spare seats and deck space push the company to discount (B3).

R1 matters most to the island and moves slowest. Most of the harm from high fares, and the benefit from low ones, arrives years after the decision that caused it. Sections 3 to 7 show each loop at work, and Figure 2 draws them.

Figure 2

How the ferry and the island push on each other

Causal loop diagram. + moves the same way; − moves the opposite way; ‖ across a link: a delay of years



Arrows inside each loop show the direction it runs. Method: Sterman (2000).

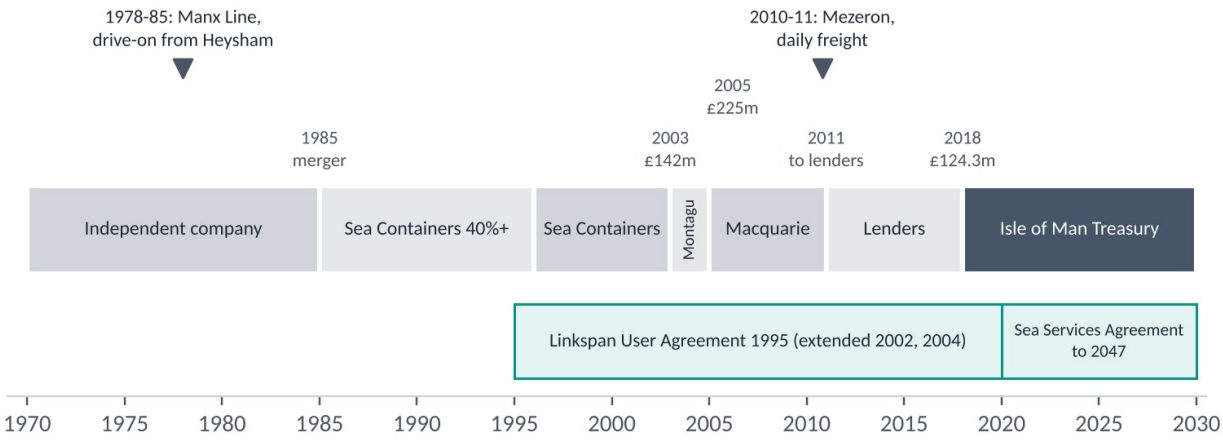
3. Fifty years on the Douglas berth

The route has been contested twice in living memory, and each contest ended with one operator. Control has changed five times since the 1985 merger. Appendix C gives the full history; Figure 3 and Table 3 summarise it.

Figure 3

Fifty years on the Douglas berth

Owners, contracts with government and challengers



Sources: Appendix C. Prices are reported acquisition values; the 2011 change was a debt-for-equity transfer with no cash price.

The first challenger, 1978-1985. The Steam Packet closed its Heysham service in 1974. In 1978 Manx Line began the island's first drive-on service from Heysham, with its own linkspan at Douglas. Sealink took Manx Line over in 1979, and drive-on ferries against the Steam Packet's side-loaders brought the older company close to collapse. The answer was a merger in 1985. The Steam Packet gave up Liverpool, its premium route for 155 years, took over Heysham, and gave Sealink's parent a 40% stake and half the board. Competition ended. Strikes in 1986, 1987 and 1988 then left the island without Steam Packet sailings for ten weeks in all.[11]

The government builds a berth, 1995. To regain some control, the government built the King Edward Pier linkspan in 1994-95 and let it to the company under the Linkspan User Agreement, approved by Tynwald in 1995. The company got near-exclusive use. In return it ran minimum sailings and accepted a cap on fare rises of RPI minus 0.5% a year until 2010, then RPI (Appendix C). The agreement was extended in 2002 and 2004, both times at the company's request, and by 2005 it promised exclusive access to 2020 with an option to 2026.[12]

Selling the protection, 1996-2011. Sea Containers, which held a 40% stake at the merger (about 43% by the 1990s), bought the rest of the company in 1996. In 2003 it pledged the Steam Packet as security for a bridging loan, then sold it to Montagu Private Equity for £142m (Sea Containers booked about $100m profit on the sale). Montagu called the business "ideal for a leveraged buyout" and sold it two years later to Macquarie for £225m (a gain of about £80m in two years).

Table 2. The company's accounts either side of the 2003 buyout, £m

	2002	2003	2004	2005	2006
Tangible fixed assets	38.5	23.1	24.1	20.5	20.5
Profit before tax	7.6	0.3	12.5	15.3	17.5
Total reserves	16.4	53.6	65.9	67.1	68.1
Dividends	15.1	–	–	6.1	19.6

Source: Isle of Man Steam Packet Company Ltd accounts (FAME database), as tabulated in the Report of the Select Committee on the Isle of Man Steam Packet Company, November 2008 (PP 120/08), p. 53. 2003 is the year of the Montagu buyout; its profit is after exceptional items of £7.5m. No dividends were paid in 2003 or 2004. The company told the committee that its accounting treatment changed several times over the period, so year-on-year comparisons need care.

A Select Committee chaired by the Speaker, Steve Rodan, found in 2008 that profit before tax had more than quadrupled between 2000 and 2006, from £4.1m to £17.5m, and that *"the real value of the Company is derived not from its assets, but from its User Agreement"*. Its adviser put the agreement, *"ultimately in the gift of the Isle of Man Government"*, at more than £100m. In 2009 its second report noted that the owners' holding company carried £187.9m of goodwill against £21.3m of ships, and found that the group's structure required high and sustained operating profits to service its financing. Members told Tynwald in December 2010 that the company owed about £240m and paid £12m to £13m a year in interest.[13]

The second challenger, and the turn, 2010-2018. In October 2010 Mezeron started a daily container service from Liverpool, won Tesco and Shoprite, and took more than 15% of the Steam Packet's freight. The company warned of cuts to passenger services; Mezeron stopped in February 2011. In December 2010 Tynwald rejected, by 4 votes to 17 in the Keys, a motion by David Cannan MHK (Michael) to have a Select Committee evaluate public ownership.[14] In April 2011 the shares passed to a company owned by the lenders. The chairman, Robert Quayle, said the old shares had effectively become worthless, and in 2013 a restructuring halved the debt.[15] In July 2017 Tynwald voted only to note the company's offer of a new agreement, which sought exclusive use of the King Edward Pier linkspan to 2041, and to keep negotiating.[16]

Tynwald approved the purchase in May 2018; it completed in June 2018. Alfred Cannan, as Treasury Minister, led it and told Tynwald it was "*a fair price to secure a profitable, cash generative national asset*". He explained that the price was set by what the business could earn in cash to 2026, when the old agreement ended.[17] On 2025 numbers it was a fair price, and better than fair (section 5).

Table 3. Owners of the Steam Packet since 1985

Owner	Years	Price	What changed
Sea Containers (stake, then sole owner)	1985-2003	40% stake by merger; rest bought 1996	User Agreement 1995; fast craft; company pledged for a loan, 2003
Montagu Private Equity	2003-2005	£142m	Leveraged buyout
Macquarie and Australian pension funds	2005-2011	£225m	Debt about £240m by 2010; Mezeron entry and exit
Lenders, through Sealion (Isle of Man) Ltd	2011-2018	Debt for equity; no cash price	Debt halved, 2013
Isle of Man Treasury	2018-	£124.3m: £48.3m equity and £76m loan	Sea Services Agreement to 2047; Manxman, 2023

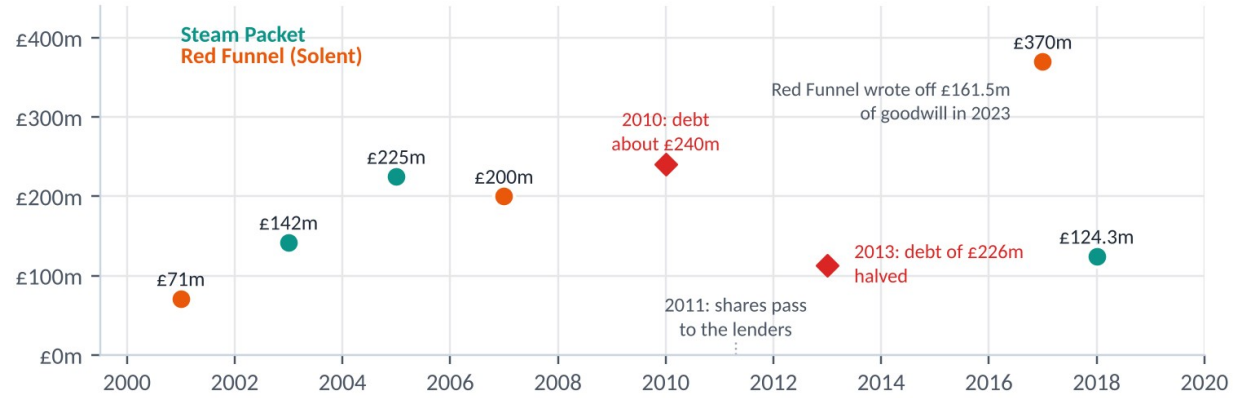
Sources: see Appendix C.

What the history shows. Two challengers came and went: on this route, one operator has always outlasted two. Private owners paid for the berth, borrowed against it and lost it to their lenders: the rise and collapse in Figure 4 is loop R2 running its course, and Red Funnel's buyers on the Solent have repeated it since. The public bought the earnings to 2026 and then gave the company the berth to 2047, so the rent after 2026 is the public's own. Section 5 measures it.

Figure 4

Each buyer paid more, until the lenders took over

Reported price paid for the operator, and debt, £m, nominal



Sources: Appendix C (sale prices, press reports); Hansard 15 Dec 2010 (debt); Manx Radio, July 2013; Transport for the South East (2025) and Red Funnel accounts 2023 for Red Funnel. Prices in different years' pounds.

4. One government on both sides of the contract

The owner's brief. The Treasury Minister's letter of 10 January 2019 to the chairman asks the directors to "*make every reasonable effort to ensure that the business contributes to the economic and social wellbeing of the Island through its pricing decisions and service levels*". It requires no dividend for now, asks the company to "*make stringent efforts to minimise its level of debt*", and sets a strategic maintenance reserve of £8m plus about £3m of working capital. It promises that the Treasury will later "*further clarify how best we can measure the overall performance of the company*".[18] No later paper sets a return target. The Council of Ministers recalls the principle Tynwald set in 2018, that the company "*should be run at arm's length and not be subsidised by the taxpayer*".[19] The Treasury says its Shareholder Agreement is not a mechanism through which it "*would or could seek to quasi regulate the company*", and points to the Department of Infrastructure, through the Sea Services Agreement, as the "quasi-regulator".[20]

What the company gets. The Sea Services Agreement gives the company "*sole use of King Edward and Victoria Pier linkspans*", subject to a concession for specialist, one-off and non-group services, and now runs to 31 December 2047.[21] The Victoria Pier linkspan, which the company had owned, passed to the Department under the agreement.[22] Tynwald approved the heads of terms in March 2019, and the agreement started on 1 January 2020 for 25 years. Two variations in 2021, made in response to COVID, "*granted a three-year extension*".[23]

What it gives. The company guarantees minimum frequencies and capacity, committed at least £70m to a new ro-pax and a replacement fast craft, and must provide a third vessel for back-up and peak capacity. It pays a charge for the linkspans, £515,378 a year in 2021 and rising each year with Manx inflation, and passenger dues of the greater of 5.2% of the previous year's passenger revenue or about £1.09m.[24] Standard fares and freight rates "*cannot increase by more than the published Manx CPI increase for August of each year*".[25]

What Tynwald can change. Five-yearly reviews must be "*subject to a neutral financial effect*", so a review cannot by itself change the company's take. A change to the fare level needs a variation agreed by both sides, and only two have been made since March 2019.[26] The Department has completed its review, and the company says it "*is awaiting revised terms*".[27] That revised agreement is the moment this report is aimed at.

Each side could hold the other to ransom: the island needs ships built for Douglas, and the ships need the government's berths.[28] Buying the company ended the stand-off and put the government on both sides of the table. In 2017 the private owner had asked for sole use of one linkspan to 2041. The agreement signed with the newly public company gave sole use of both to 2044, and the COVID variations took it to 2047.

Public infrastructure the company uses. Part of the company's operating profit rests on assets the public owns. The Douglas linkspans are let for £515,378 a year. The company also pays harbour dues, with a guaranteed minimum of £1.1m a year for passenger dues that was waived while the borders were closed.[29] Tynwald approved £70.7m for the new Liverpool terminal; one member, Mr Hooper, has put the full cost "north of £100m". The Department's running costs of about £710,000 a year compare with a licence fee from the company of about £14,000 a month, and the lease is among the terms still being negotiated.[30]

The English end. Peel Ports controls the berths at Heysham and Liverpool, so the company is a price-taker for port charges there. The berth was used as leverage before the purchase: in April 2016 the owners told the company's chair not to commit to the new Liverpool berth "*until the User Agreement has been resolved*", and both the government and company options for the terminal assumed access charges "*ultimately recovered from the ticket price*". The Public Accounts Committee's 2023 report does not say whether any such charge was set.[31] Nobody has published what the public port assets cost against what the company pays for them (Recommendation 6).

The scrutiny. In January 2024 Tynwald was asked to have the Communications and Utilities Regulatory Authority (CURA) assess regulating the company. Mr Moorhouse brought that motion. Tynwald chose instead a Select Committee, of which he was a member, with Dr Haywood and Mrs Corlett.[32] Its report asked the government to "*consider the practicalities of transitioning the Isle of Man Steam Packet Company to a Statutory Board*" and found a conflict of interest at paragraph 35. In February 2025 the Council of Ministers rejected the statutory board and replied that it "*does not recognise the conflict of interest identified in paragraph 35*".[33] The Committee's work stands, and Recommendation 8 builds on it.

The market. The Steam Packet's accounts name no competitor and print no market share. Its peers live in different worlds. On the Solent, three private operators compete on parallel crossings without regulation, and a 2025 study for Transport for the South East reported suggestions that they earn returns "*well in excess of normal market returns*". Jersey's 2025 concession with DFDS runs for 20 years without subsidy, caps fares in the first year, indexes them to inflation thereafter and requires the operator to report the mean fare in each booking category. In Scotland, CalMac is publicly owned, subsidised and *"not intended to make any profit*".[34]

The Isle of Man sits between Jersey and Scotland. Like Jersey it has an exclusive operator, no subsidy and an inflation cap, but no fare level set by government and no average fare reported. Like Scotland its operator is publicly owned, but it is expected to make a profit and nothing limits how much. That leaves Wightlink as the one useful yardstick, and its own region suspects it of overcharging.

How the company is financed. The group is geared like a state ship-owner: 66.2% of its capital is debt, almost all of it a Treasury loan at 1.7%. CMAL, which owns Scotland's ferries, is geared at 66.4%, and Red Funnel at 65.3% after its 2025 debt write-off. Debt is usually cheaper than equity, and when the lender and the shareholder are the same Treasury the split between them is largely a label. The terms matter for two other reasons. On 13 January 2022 the Treasury refinanced its £76m acquisition loan and lent a further £84m for Manxman, both at a fixed 1.7% over 30 years, secured on the group's assets with no significant financial covenants.[35] Thirty-year gilts then yielded about 1.3%, so the rate was close to the Treasury's own cost of long money. It was well below what a commercial lender would charge a single-route ship-owner, and that gap flatters the group's profit after interest against any private comparator. The Treasury had also waived interest on the original loan from March 2020 to December 2021, worth about £2.9m.[36] The public carried the downside then. Users pay for the upside now. Who should carry which, users or taxpayers, is a decision nobody has taken.

5. Does the Steam Packet earn more than it needs?

Yes, on the ships' book value, and its pricing shows it: £7.6m above a 7.75% return in 2025, or 8.4% of revenue. About normal on what the public paid in 2018. The rent after 2026 was created by the public, and users pay it.

The usual case for a single operator is that the route is a natural monopoly: one operator can carry the island's traffic more cheaply than two could.[37] That is a test, not a fact, and here it is only partly met. Year-round passenger services do favour one operator: the fleet already runs a third full on average, and one operator needs only one spare ship. Freight does not, as Mezeron showed in 2010. Much of the rest was made by policy.

A monopoly partly made. Ships are mobile, so entry to the Irish Sea is cheap. Entry to Douglas is not: the berths are held under contract, and in 2019 the harbour could take no other ro-pax ferry in the Irish Sea (section 6). The monopoly owes as much to the licence and the harbour as to the economics of the route. A long franchise over specific assets tends to drift into regulation by negotiation, written in terms of inputs, and the Sea Services Agreement fits that pattern closely.[38] It was never auctioned, runs for 28 years, and specifies ships, sailings and seats while leaving the price level alone. Where that happens, the expected result is a return above the cost of capital that lasts, disciplined only by the contract and the owner.

The business since 2017. Table 4 sets out the operating company's traffic, revenue and earnings over nine years. Revenue was flat at about £60m in the last years of private ownership, collapsed to £28.4m in 2020 when the borders closed, and passed £90m in 2025. Passengers fell from 565,423 in 2019 to 66,875 in 2020 and reached a record 682,907 in 2025. Earlier years, back to 1998, are in Appendix C (Table C1): in 2002 the company carried 634,000 passengers on revenue of about £43m.[39]

Table 4. The operating company at a glance, 2017 to 2025

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Passengers (thousands)	n/a	n/a	565	67	262	597	623	630	683
Revenue, £m	58.5	59.1	61.3	28.4	41.7	72.2	78.0	87.2	90.6
of which passenger, £m	29.6	29.7	n/a	n/a	n/a	36.7	39.5	42.2	43.3
of which freight, £m	21.6	22.9	n/a	22.9	24.4	27.6	28.3	33.6	33.0
EBITDA, £m	n/a	n/a	n/a	−1.7	7.0	20.9	20.2	23.8	28.1
EBITDA margin	n/a	n/a	n/a	−5.8%	16.7%	28.9%	25.9%	27.3%	31.0%
Operating profit, £m	10.8	10.5	n/a	−7.6	−0.6	14.2	10.5	9.7	14.8

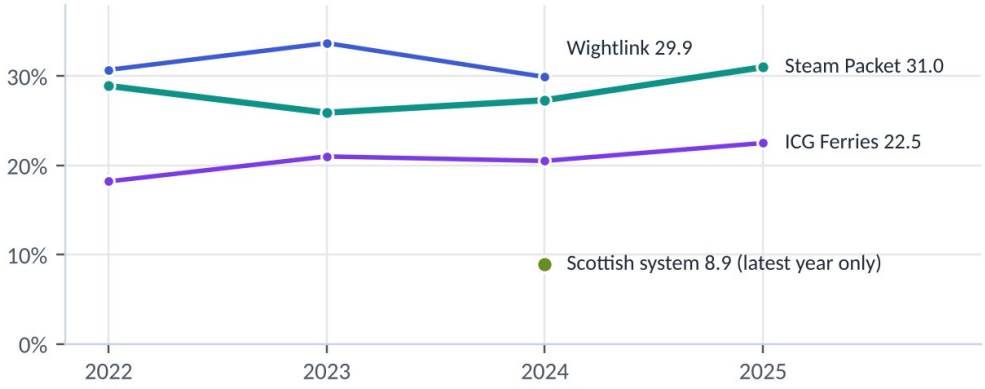
Sources and notes: 2017 to 2019 are group figures from press reports of the laid accounts; group and company revenue are the same, but the 2017 and 2018 operating profits are on the group basis, after amortisation from earlier acquisitions. 2020 onwards: company accounts. EBITDA is operating profit plus depreciation and impairment; 2024 adds back the £2.2m Arrow impairment. n/a: not found on a comparable basis.

Margins. In 2025 the operating company (SPC) turned 31.0% of its revenue into earnings before depreciation, and 16.3% into operating profit. That is level with Wightlink on the Solent, the operator its own region suspects of overcharging (Figure 5; Appendix B gives the full table).[40] But a ship-heavy business needs a large margin just to stand still. The real test is the return on the ships.

Figure 5

The Steam Packet's margin is level with Wightlink's

Earnings before interest, tax, depreciation and amortisation, % of revenue



Sources: company accounts; author's calculation. Wightlink and the Scottish system (CalMac and CMAL): year to March following. ICG Ferries is a lower bound, with all group lease costs charged to ferries.

The cost of capital is the return the same money could earn elsewhere at similar risk. Profit above it is rent. Profit below it means the owner would do better selling up. The only cost of capital printed in any of these accounts is Red Funnel's 7.75% after tax, set in 2022.[41] Because the Steam Packet pays no tax on the Isle of Man, the same 7.75% is also its rate before tax. A public owner might argue for less, but the opportunity cost of capital follows the risk of the asset, whoever owns it, and 2020 and 2021 showed what that risk can look like.[42] A reasonable range for an unregulated lifeline ferry is about 6.5% to 9% before tax. ICG's average borrowing rate on its leases, 4.5% in 2025, is what a lender would want. An owner carrying the risk would want more.[43] This report uses 7.75% and shows 6% and 9% beside it.

The capital. "On the books" is the capital that runs the ferries: the ships and working capital of the operating company, £92.2m at the end of 2025, leaving out its cash and investments.

"On what the public paid" is the same capital plus what is left on the group's books of the price paid in 2018, £144m.[44] Asset age distorts both. The Steam Packet has both extremes: Manxman, near full book value, and Manannan and Ben-my-Chree, both built in 1998 and largely written down.[45] A replacement-cost measure would remove that distortion, but the data to build one are not published (Appendix A).

Table 5. Economic profit: operating profit less a 7.75% return on capital, £m

	2020	2021	2022	2023	2024	2025	Six years
On the books (SPC)	−8.8	−2.2	10.2	2.7	1.8	7.6	11.4
On what the public paid (SPG)	−16.6	−10.3	3.0	−4.1	−4.4	1.2	−31.3
Memo: on the books at 6%	−8.5	−1.8	11.1	4.4	3.6	9.3	18.1
Memo: on the books at 9%	−9.0	−2.4	9.5	1.4	0.6	6.5	6.6

Sources: Steam Packet Company and Group accounts, 2020 to 2025; author's calculation. 2022 rests on a small capital base before Manxman entered service and should be read with care. Appendix B gives the full table and an original-cost sensitivity.

Since Manxman entered service it has earned more than 7.75% on its books every year, by £7.6m in 2025, or 8.4% of revenue. Over six years, including the COVID losses, it earned £11.4m more than its cost of capital. At group level, on what the public paid, the picture flips: a shortfall against the cost of capital of £31.3m over six years, and only £1.2m above it in 2025.

Figure 6

Above the cost of capital on the books; at it on what the public paid

Operating profit as % of operating capital



Sources: Steam Packet Company and Group accounts, 2020-2025; author's calculation. Operating capital excludes cash and investments.

Wightlink makes more. Its operating return on capital was 19.6% in its year to March 2025, against SPC's 16.0%, and it pays UK corporation tax at 25%. A 7.75% after-tax cost of capital is about 10.3% before tax, and Wightlink clears that comfortably. Red Funnel made losses in four of the last five years.[46]

What the pricing says. A 31% EBITDA margin is not proof of rent on its own: Wightlink runs at about the same, and a fleet has to be paid for. The stronger sign is what the company can afford to give away. A firm earning a normal return against rivals could not carry 69,000 children free, cut Flexi fares by 10% and still earn twice its cost of capital on its books. The Steam Packet can, because the berth is protected. Free travel for children is the rent being spent, on families, and against the airlines (section 7).

Where the money comes from is the question the accounts cannot answer. Freight is captive. If trailers pay for children's seats, the island runs a cross-subsidy from shop prices to family travel, through a Treasury company, against the Treasury's own airport. Only route and segment accounts would show it (Recommendation 2).

Who owns the rent. Think of a taxi plate in a town with a fixed number of licences. Whoever holds the plate when the limit is set gets the windfall. Anyone who buys it later pays for it in the price. In 2018 the Treasury bought the Douglas plate's earnings to 2026. Then it issued itself a new plate to 2047.

None of this was news. Tynwald's committee found in 2008 that the company's value lay in its agreement with the government, which its adviser called a "gift" worth more than £100m. The 2004 extension, made at the company's request, ran exclusivity to 2020 with a further six years to 2026, and the company exercised that option in September 2018, after the Treasury had agreed to buy it.[47] So by 2018 the public was buying back eight years of a protected position it had given away in 2004.

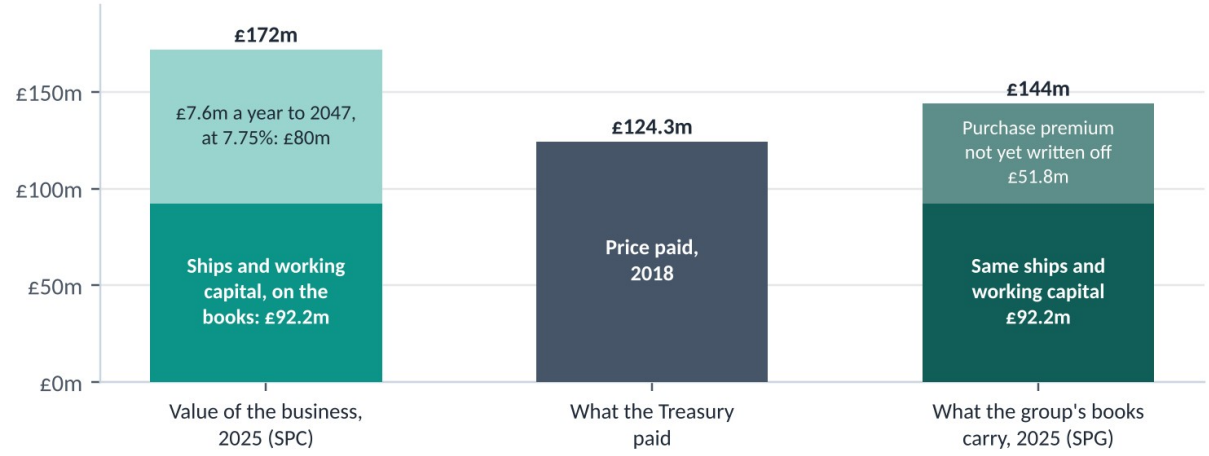
The Treasury paid £124.3m. The price was set on what the business could earn in cash to 2026, when the old User Agreement ended. After the purchase the government gave the company exclusivity to the end of 2044, and the COVID variations extended it to 2047. The group's accounts show the accountants agree on what was bought: the £54.3m of intangible assets left from the purchase is being written off at about £2.5m a year, a pace that runs out in 2047.[48]

Figure 7 puts 2025's numbers on that story. If the operating company's £7.6m surplus lasted to 2047, it would be worth about £80m today, discounted at 7.75%. Add the £92.2m of ships and working capital, and the business is worth about £170m. That is a strong assumption, and the surplus will move with fuel, traffic and the next ship. Even so, the Treasury paid £124.3m for a business worth well over that. The rent from 2026 to 2047 was never sold to anyone. The public created it and owns it, and users pay it. The Department said so itself in 2019: the key question in negotiating the new agreement was how to secure "*an appropriate share of the significant value created in IOMSPCo as a consequence of its monopoly*", and it chose to take that share as services, leaving the linkspan charge where it was.[49]

Figure 7

The Treasury paid £124m for a business worth about £170m on 2025 numbers

£m, different years' pounds



Sources: SPC and SPG 2025 accounts; Hansard 15 May 2018; author's calculation. Present value of the 2025 surplus held flat for 22 years at 7.75%. A strong assumption: the surplus will move with fuel, traffic and the next ship.

That is good news for the 2018 decision and a hard question for the next one. Private owners paid for the protected berth, borrowed against it and, by 2011, lost it to their lenders. Red Funnel's last buyers wrote down £161.5m of goodwill in 2023.[50] The public owner has done better, because it wrote the extension itself. Any owner with a purchase premium on its books has a reason to resist a rule that would write it down. The Treasury is no exception. A fare level set below today's, an efficiency factor or an independent referee would all reduce the surplus, and the group earns only a normal return on what it paid while the surplus lasts. That incentive should be named before the revised agreement is negotiated.

That split explains why both sides of the Steam Packet argument can quote the accounts and both be right.

6. The fleet, and who pays for the next ships

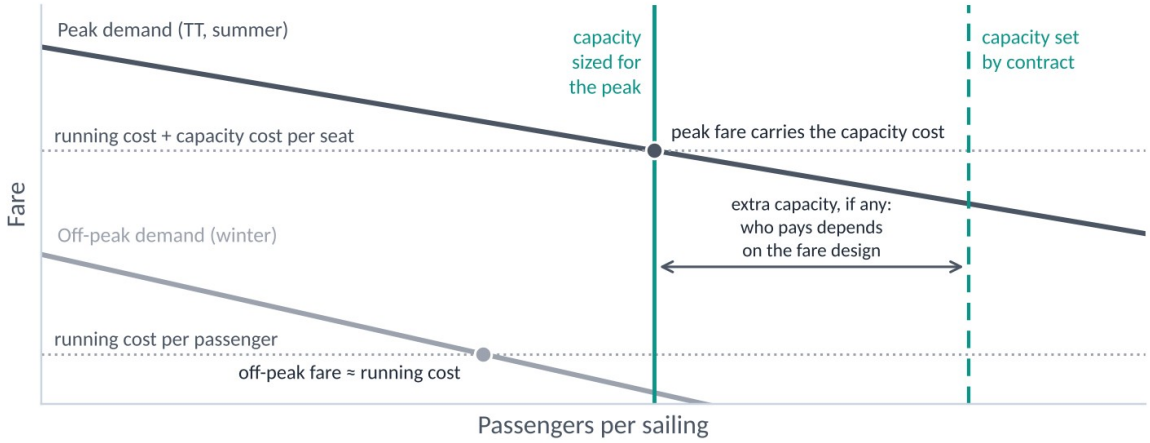
The fleet is required by contract, never costed, and users pay for the next ships through fares and freight rates. Full at the peaks, a third full on average; the freight deck is unpublished. The island is buying capacity without agreeing the premium.

Where capacity cannot be stored, an efficient operator sizes it for the peak and charges peak users for it. Off-peak users then pay little more than the running cost.[51] An island ferry sized for TT fortnight and a winter Irish Sea will carry spare seats for most of the year even when it is sized well (Figure 8). The questions are whether the fleet is bigger than the peak needs, and who pays for the margin of safety.

Figure 8

A fleet sized for the peak runs part-empty off-peak

Illustrative: shapes only, not to scale



After Boiteux (1960) and Steiner (1957).

How full are the ships? The company does not publish load factors. However, in 2024 Manxman, Manannan and Ben-my-Chree offered about 1.92 million passenger places on the sailings they ran, and the company carried 630,279 passengers. The average sailing was 32.9% full.[52] A fleet sized for TT looks a third full in February, so it proves nothing about excess. It does mean an extra passenger costs almost nothing to carry.

On a ro-pax the vehicle and freight deck usually binds before the seats do, so the passenger load factor is the wrong measure for sizing the fleet. Freight was 36.4% of revenue in 2025, and the company publishes no measure of how much deck it uses. A sailing devoid of passengers may be full of trailers.[53]

Is the fleet heavy for its traffic? The Steam Packet earns 59p of revenue a year for each £1 its fixed assets cost, against 69p at Wightlink and Red Funnel and 87p at ICG. That is illustrative only: Solent crossings take 20 to 60 minutes and Douglas to Heysham nearer four hours, so a Manx ship carries far fewer passengers a year for its size.

Resilience. The case for the third ship is resilience, and 2026 has tested it. Manxman was out of service for much of the year with wear to her shaft bearings and liners, due back in December. Arrow, the back-up freight ship, has been on long-term charter to the Western Isles, which earns money but limits cover. Ben-my-Chree is 28 years old. For 2026-27 the company is running a three-vessel schedule.[54] In 2019 the Department told Tynwald's Environment and Infrastructure committee that requiring three ships, so that two could be out of service and one still sail, was "*a far cheaper way of providing that resilience*" than larger port works.[55]

A harbour that only fits its own ships. The same committee heard that Douglas could then take ships of up to 135m, that the smallest ro-pax readily available for hire was 145m, and that Ben-my-Chree was the only ro-pax in the Irish Sea able to berth there. It warned that lengthening the berth to only 142m would leave no

room for other operators' ships at peaks or in an emergency. The island owns a spare ship because its harbour cannot take anyone else's. Spare capacity is insurance, and insurance has a price.[56] Neither the Department nor the Treasury has published the resilience case for the fleet, the cost of the back-up after charter income, or weather cancellations by route. Tynwald approved the fleet specification in 2019 without a published cost of the resilience it buys. Nor has anyone published whether a third ship costs less than a berth that could take a chartered one.

Service. Reliability, which counts weather cancellations, has held at about 95%. Punctuality has fallen from 88.5% to 79%: one sailing in five now runs late.[57]

The workforce. The company employed an average of 468 people in 2025. Staff costs were 25.1% of revenue, against about 40% at Wightlink and Red Funnel; adding £3.9m of other staff costs in operating expenses takes the Steam Packet to about 29%.[58] A lower share of revenue reflects long crossings and a large freight business. It is not evidence of underpayment. The evidence is thin, and none of it points to a bloated workforce. Nothing in this report proposes cutting crew. The efficiency factor in Recommendation 4 applies to unit costs such as fuel, port charges and overheads, set by review.

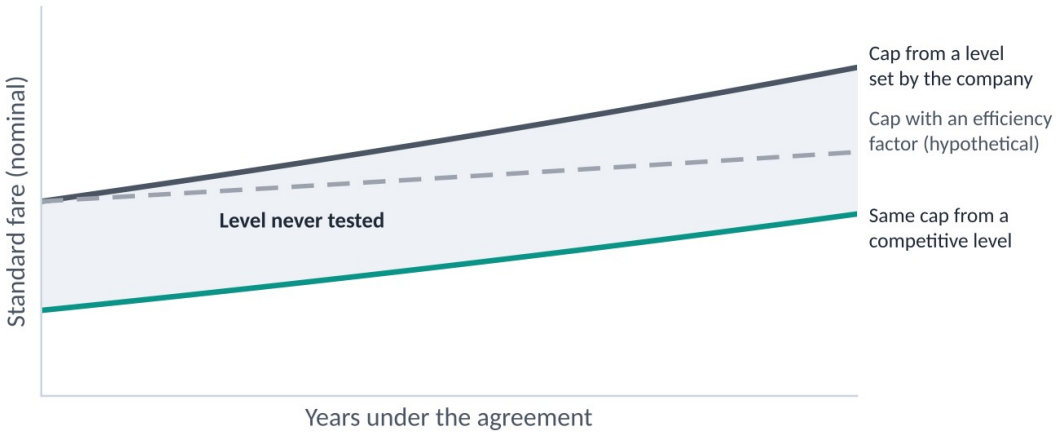
Who pays for the next ships. Users, through fares and freight rates. Passenger fares have fallen in real terms since 2022. Freight, the island's largest exposure, is unmeasured.

What the cap covers. The cap limits how fast standard fares and freight rates rise. It does not set their level. The 2019 agreement also guaranteed 450,000 offer fares a year, against 275,000 before, and froze foot passenger fares until a new ship replaced Ben-my-Chree.[59] The private owner's 2017 offer had proposed that standard fares rise by the greater of inflation or 2% a year. The agreement signed in 2019 dropped that floor. Whoever set the starting level set every fare since (Figure 9).

Figure 9

A cap on increases controls the path of fares, not their level

Illustrative: shapes only, not to scale

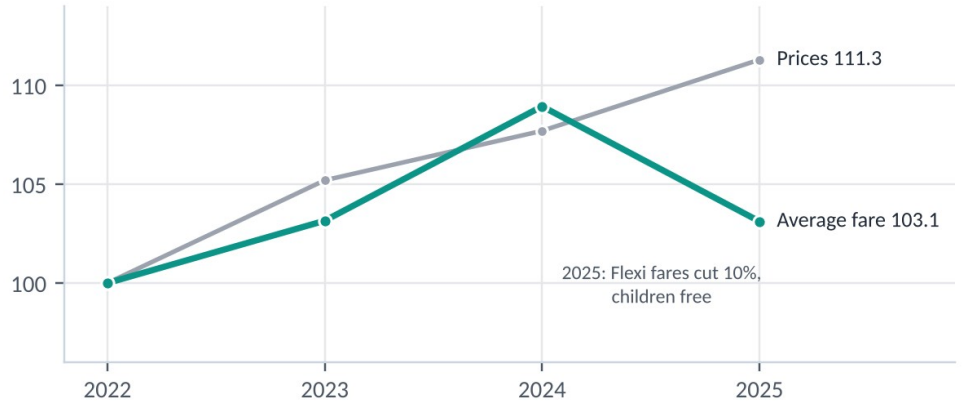


Passenger fares. Passenger revenue per passenger, the cleanest fare measure in the accounts, was £61.53 in 2022 and £63.45 in 2025, 3.1% higher. Prices rose 11.3% between December 2022 and December 2025. The average passenger paid 3.1% more. In real terms the average fare fell by about 7% (Figure 10).[60] That is the board's restraint at work. It held the 2023 rise in standard fares to 5.0% when the cap allowed 10.4%.[61] A real fall from a level nobody tested can still leave a high fare.

Figure 10

Prices rose 11.3%; the average fare rose 3.1%

Index, 2022 = 100: passenger revenue per passenger and Manx CPI (December)



Sources: Steam Packet Company accounts 2023 and 2025; Statistics Isle of Man, CPI historic dataset (index 149.4, Dec 2022; 166.3, Dec 2025).

The 2025 reset. In October 2024 the company announced that, excluding TT, all standard Flexi fares would be discounted by 10% from 2024 rates, with no inflation uplift for 2025, although the cap allowed 2.1%. It also stopped charging the standard fare by default to people booking within 24 to 48 hours of travel.[62] From 24 October 2024 every child under 16 sailed free, on every sailing, and more than 69,000 did.[63] Passenger revenue rose from £42.2m to £43.3m and the company carried 682,907 passengers, up 8.2%. Operating margin rose from 11.1% to 16.3%, mostly for other reasons: a £2.2m write-down of Arrow in 2024 did not recur, fuel fell by £1.3m and port charges by £1.9m. The reset filled seats cheaply, as any operator with spare capacity would.[64]

Freight. Almost everything the island consumes arrives by sea, and freight brought in 36.4% of the company's revenue in 2025. The company publishes growth rates only. The government publishes nothing either: its own statistical yearbook, *Isle of Man in Numbers 2026*, counts the tonnes of oil, cement and LPG landed in 2025, but not one trailer or ferry passenger.[65] It was not always so: under Sea Containers the annual report gave freight volumes, 458,000 lane metres in 2002, up from 326,000 in 1998 (Appendix C). In 2025 freight revenue fell while the length of freight carried rose, which implies revenue per metre fell by about 5.8%; the accounts put that down to "*reductions in SSA market-linked fuel surcharges*".[66] Hauliers and farmers say freight is expensive. A 2024 study for the Manx National Farmers' Union put a trailer to Heysham at £2,234 (which the company said it did not recognise). DEFA told the 2024 Select Committee that producers were choosing not to explore "*live market opportunities*" because of the cost of freight.[67]

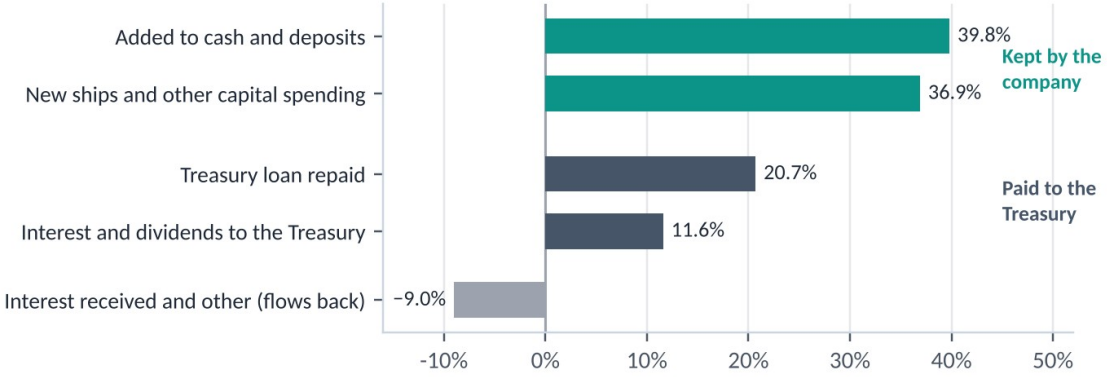
The 2026 fuel surcharge. From 1 April 2026 the company raised its freight fuel surcharge by 25%. A survey by the Isle of Man Chamber of Commerce found 88% of members reported harm, and more than 15% said the viability of their business was at risk.[68] Fuel surcharges sit outside the fare cap. They are reviewed every three months and "agreed and audited" by government under a formula nobody outside government has seen.[69] Freight is where a mark-up would sit if the company wanted one, because shops and hauliers cannot switch.[70] The limit is that freight is more contestable than passengers. The agreement allows lift-on, lift-off services at other berths, and Mezeron showed in 2010 that a rival will come if rates rise far enough. The company publishes nothing that would show where its freight rates sit.

Where the cash goes. The surplus reaches the Treasury only as loan service. In 2025 the group put 39.8% of its operating cash into the bank and 36.9% into its ships; repaying the Treasury loan took 20.7%, and interest and dividends to the Treasury 11.6% (Figure 11).[71] Depreciation and cash kept for replacement are capital recovery. They are not rent. A firm that earns its cost of capital on the book value of old ships, with prices rising, will still need to save to replace them at today's prices. Only the economic profit in Table 5 is a candidate for anything else.

Figure 11

Saving and new ships take most of the cash

Steam Packet Group, uses of operating cash flow, 2025, %



Source: Steam Packet Group accounts 2025, cash flow statement; author's calculation. Shares sum to 100%. Capital spending is capital recovery for the fleet, not surplus.

The next ship. The agreement requires Manannan, the fast craft, to be replaced by the end of 2026, and the company is seeking more time. Published estimates put a replacement at £100m to £120m, with about half to come from the company's own cash.[72] Against that, the group held £39.5m of cash at the end of 2025. Every £1m a year spent on lower fares means more Treasury lending for the ship, or a later ship. The choice between another fast craft and a conventional ship also turns on fuel burn and the island's climate targets.

The split. Users pay a margin above a commercial return on the ships' book value. The Treasury, as lender and owner, takes back less than a commercial return on what it paid. Nobody seems to have decided that split. Passengers and hauliers pay, through the fare, for a back-up fleet that Tynwald has never been shown the cost of. The company told the 2025 Government Conference that its vision was a service "*at no cost to the taxpayer*".[73] That is true of the cash. The public port assets in section 4, the interest waiver and the cheap loan are costs to the taxpayer by another name. Whether heavy freight and standard fares carry the winter Irish sailings, Liverpool and the back-up ship cannot be tested without route accounts.[74]

7. Is the ferry hurting the air links?

Not through Manxman. Possibly through the 2025 fare reset, and free travel for children above all. One year of data fits a move off the north-west flights; 2026 will show whether it lasts.

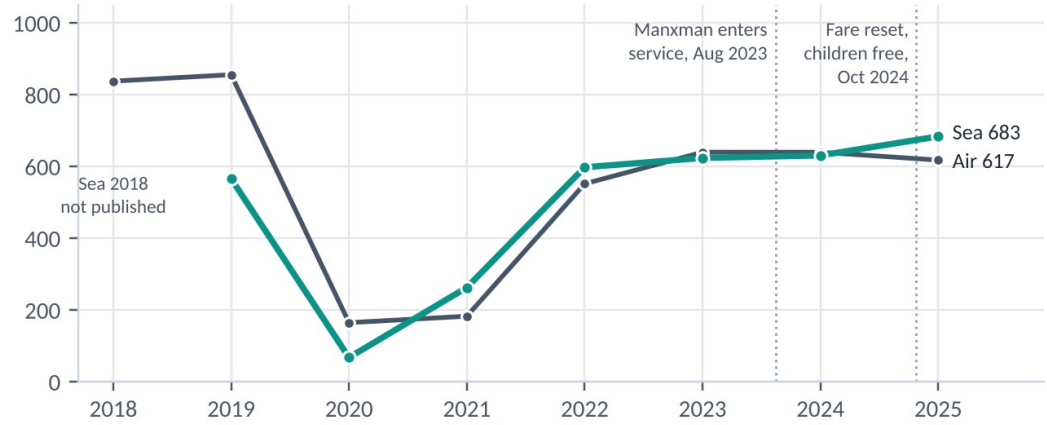
Air and sea are substitutes for foot passengers and partial substitutes for people with cars. Air routes need density: below a minimum load an airline drops a route, and everyone is worse connected, including business travellers and visitors who will never take a four-hour crossing. A ferry with spare seats can fill them cheaply and draw passengers from the airport. The airport and the ferry both belong to the Treasury. A passenger who switches is the Treasury competing, in part, with itself.

What happened. Terminal passengers at Ronaldsway fell from 855,000 in 2019 to 617,000 in 2025. Most of that fall came before Manxman entered service in August 2023: the airport lost a quarter of its passengers between 2019 and 2023, through Flybe's collapse in March 2020, British Airways' exit from London City in 2020 and Loganair's withdrawal from Heathrow in 2021. Since then easyJet has left Belfast (October 2024) and cut services to Liverpool and Manchester in 2024 and 2025.[75] The Steam Packet carried 565,423 passengers in 2019 and 682,907 in 2025. Air and sea moved together until 2024; in 2025 sea pulled ahead (Figure 12).

Figure 12

Air and sea moved together until the fare reset; then sea pulled ahead

Passengers a year, thousands



Sources: UK CAA, Table 10.3 (Ronaldsway terminal passengers); Steam Packet accounts and traffic releases; DoI harbours figures for 2019-2021.

The long view. Air overtook sea as the island's main way in and out in 1988. For three decades sea departures held between about 220,000 and 315,000 a year while air grew and then levelled off.[76] The survey was suspended from 2019 and resumed in 2023 on a different method.

The test. A fair test compares routes where the ferry is a real alternative with routes where it is not, before and after the change at sea. Liverpool and Manchester are close to Heysham and the Liverpool terminal. The comparison group is London (all airports counted together, because passengers move between them when airlines do), Birmingham, Bristol and Edinburgh. Two events at sea could matter: Manxman's arrival in August 2023, which mainly replaced Ben-my-Chree on Heysham, and the October 2024 fare reset, which cut what a passenger pays.

Table 6. Air passengers by route group, change over each period

Route group	2019 to 2023	2023 to 2024	2024 to 2025
Liverpool and Manchester	−31.8%	+3.1%	−7.3%
Comparison routes	−24.1%	−0.5%	+3.2%
Gap (percentage points)	−7.7	+3.6	−10.5

Source: UK Civil Aviation Authority, airport-pair statistics (Table 12.2), Isle of Man routes; author's calculation. 2020-21 omitted. Belfast and the method are in Appendix A.

The north-west routes were already losing ground by about eight points before Manxman. In the year after it arrived they gained a little. Manxman changed nothing you can measure. The 2025 fare reset is a different matter: in its first year the north-west routes fell ten points behind the others. That fits some diversion to the ferry, but easyJet also cut north-west flights that year, and one year cannot separate the two. Two periods are too few to check that the routes were moving together beforehand, and Dublin, the Irish route with a real ferry alternative, is not in the UK statistics (Figure 13).

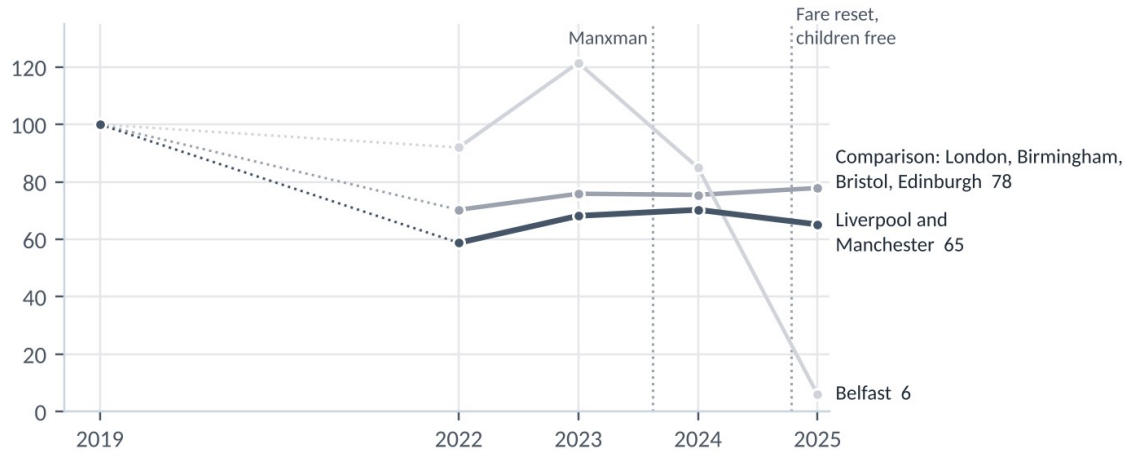
Why the reset, and why children. From 24 October 2024 every child under 16 has sailed free, on every sailing, all year, whatever the ticket. A family of four now pays the ferry for two adults and the car, and still pays an airline for four seats. No airline on these routes matches that. The company's chair put the cost of the offer at £800,000, against £110,000 for the 10% cut in Flexi fares, so free travel for children was most of the reset.[77] More than 69,000 children sailed free in 2025, and the Steam Packet carried 52,600 more passengers than in 2024. Families on holiday are the summer load that keeps leisure routes such as Liverpool and Manchester flying all year, and that is where the gap opened.

The causes can run both ways. Weaker loads lead an airline to cut flights, and fewer flights push more people onto the ferry. easyJet's own cuts that year sit inside the same numbers.

Figure 13

North-west routes fell before Manxman, and again after the fare reset

Air passengers by route group, 2019 = 100 (2020-21 omitted)



Source: UK CAA, Table 12.2, Isle of Man airport pairs; author's calculation. London counts all London airports together.

What happened to residents. In the government's Passenger Survey, residents leaving by air fell from 247,921 in 2018 to 138,359 in 2025, and residents leaving by sea rose from 135,072 to 181,482. Residents' journeys by air and sea together fell by 16.5%, and the rise at sea covers only 42% of the fall in the air. Visitors leaving by air were flat at about 170,000.[78] The whole air decline is residents. That fits a fall in business travel after COVID as well as a switch of mode, and the survey changed method between the two years, from interviews to airline and ferry booking data, which can move the figures on its own.[79]

What it means for the routes. An airline judges a route on its weakest months. If the ferry takes the families in summer, the route loses the load that carries the winter, and the winter flights go first. Losing a route is a

step change: the frequency goes, the business travellers and visitors who will never take a four-hour crossing go with it, and the airport's fixed costs fall on fewer passengers. That is loop R1 running through the airport.

The public balance sheet. A resident who moves from a flight to a ferry with spare seats adds revenue at little cost to the Steam Packet and takes a passenger from an airport whose costs are mostly fixed. The airport cost the government about £9.2m in 2023-24.[80] For the public purse the switch roughly washes out. The island pays in lost routes. The government's own air policy calls connectivity "a matter of strategic national importance", and its visitor strategy names the cost of travel as a barrier.[81] No one in government looks at the ferry and the airport on the same page.

8. Filling the empty seats

Section 6 found a fleet with spare seats on most sailings, and an undisclosed freight deck. This section asks what the company could do with them.

Dynamic pricing is already here. The company "uses a demand management system", and popular sailings sell out of offer fares first. In August 2025 the Treasury, answering Mr Moorhouse, said a question about the gap between night and day fares was "*difficult to answer*" because of "*dynamic pricing*".[82] What is missing is any public account of how it works, what fares people actually pay at the peak and off it, or who pays most. A table of standard and lowest fares for a TT sailing, a summer Saturday and a February Tuesday would show whether off-peak fares sit near running cost, as they should on a peak-sized fleet. This report could not build one from published sources (Appendix A), which is why Recommendation 2 asks for the mean fare by booking category.

Done well, demand pricing fills seats that would sail empty and charges the full price only where capacity is tight. Done badly, it charges most to the people with least choice: the resident who has to travel tomorrow for a hospital appointment or a funeral. The 2024 Select Committee raised compassionate fares, and the company has since let offer fares be booked up to departure.[83] Freight can be priced the same way. Overnight and midweek sailings with spare deck could carry trailers for less, spreading the load and cutting what hauliers pass into shop prices. The company harmonised accompanied and unaccompanied freight rates in 2025 at an estimated cost of £724,000.[84]

What other islands do. Most comparable places treat residents differently from visitors (Table 7). A resident fare turns price discrimination on its head: for once the captive buyer pays less.

Table 7. Resident and island fare schemes

Place	Scheme	Paid for by	Effect
Scotland (Clyde and Hebrides)	Road Equivalent Tariff: fares set by road distance, for residents and visitors alike	Scottish Government, about £25m a year	11.6% more passengers and 20.6% more cars by 2018 than without it; vehicle booking harder
Canaries, Balearics, Ceuta and Melilla	75% off air and sea fares to the mainland, residents only	Spanish state; regional governments add inter-island discounts	Applies to air and sea alike
Isle of Wight	15% resident vehicle offer (Red Funnel); low-income schemes with the Council	The operators	Voluntary; no control on the base fare
Jersey	Maximum fare in year one, then inflation; mean fare reported	Unsubsidised concession	Mean fare published
Isle of Man	Same fares for all; no resident fare	Users	Not measured

Sources: Transport Scotland, Evaluation of Road Equivalent Tariff, executive summary; Spain, Ley 6/2018 de Presupuestos Generales del Estado, disposición adicional 147, and Real Decreto 949/2018 (BOE-A-2018-10651); Red Funnel and Wightlink fare pages; States of Jersey, ministerial letter to the Scrutiny Panel on ferry services, 2025; Isle of Man Steam Packet Company booking terms.

What a resident fare would cost. In 2025 residents made 181,482 sea departures. Each departure implies a return, so residents made about half of the 682,000 journeys. At the average fare that is about £23m of passenger revenue. A 10% resident discount would cost about £2.3m a year and 25% about £5.8m, before any extra travel it brought in.[85] That is an upper bound. Residents buy more offer and midweek fares than visitors, passenger revenue may include some vehicle charges, and 69,000 children already travel free.

Who pays. A 10% resident fare is more than the £1.2m the group earned above 7.75% on what the public paid in 2025. It is a decision to move £1m to £2m a year from taxpayers to resident travellers, or to delay the next ship. The Treasury has a good counter-argument: about 47% of journeys are made by visitors, and a margin on visitors is the cheapest tax the island can levy. Who would gain is also unclear. Frequent travellers would gain most, and they are not necessarily those in most need. A targeted scheme for compassionate and medical travel, alongside the existing patient travel budget, would cost far less. Whether a resident fare from a state-owned operator is lawful under the Competition Act 2021 and the agreement, and whether it should extend to Manx hauliers, are questions for the design.

The airlines. A resident ferry discount would add to what free travel for children may already be doing. Residents have already moved part of their travel from air to sea since 2018. A discount on the sea alone, paid for by a Treasury company, would push more of them across, onto the cheaper-to-fill ship and away from the routes the island most needs to keep. A resident fare should be at least costed against the air routes first, and should start off-peak, where the seats are empty.

In short. The company already prices by demand but publishes nothing about the result. A resident fare is a choice about who pays, and the right design spreads it across air and sea and starts off-peak.

9. What Tynwald can ask for

The Department of Infrastructure has finished its review and the company is waiting for revised terms. These recommendations are aimed at the revised Sea Services Agreement. **Publish (1 to 3)** before negotiations close. **Renegotiate (4 to 7)** in the revised agreement. **Restructure (8 to 10)** alongside it.

Several of these are old asks. Tynwald has been told most of this before. Table 8 sets out what its committees found, what they asked for and what became of it. The last column links each to a recommendation in Table 9.

Table 8. What Tynwald has been told, and what happened

Report	What it found	What it asked for	What happened	Rec.
Select Committee, 1999	–	A Manx Transport Users' Consultative Committee	Never set up, the 2008 committee found	8
Select Committee, 2008 (PP 120/08)	Freight rates three to four times other Irish Sea routes, and "not scrutinised at all"; the company's real value lay in the User Agreement	Benchmark freight rates; a liaison committee chaired by a Member; a statutory consultative body; investment in new ships from 2020	Fuel surcharge revised in 2009; investment agreed in 2019. The department said it could not act on freight while rises stayed under the cap. No freight figures published since	2, 4, 8
Select Committee, second report, 2009 (PP 93/09)	Value "resides predominantly in the User Agreement"; profit needed to service the owners' debt	None	Lenders took control in 2011	1
Economic Policy Review Committee, Open Skies, 2013 (PP 132/13)	Air and sea are substitutes on the north-west routes	A contingency plan for licensing air routes; regular reviews of route access	No formal contingency plan; the 2018 review was done in 2021; policy unchanged	9
Environment and Infrastructure Committee, harbours, 2019 (PP 2019/0102)	Douglas takes almost no ro-pax but the company's own; a 142m berth is the bare minimum	Urgent harbour works; an independent strategic review of the island's harbours	No published review found	5
Tynwald, heads of terms, 2019 (GD 2019/0009)	Three ships and almost exclusive use of both linkspans to 2047	An amendment to bring the final agreement back to Tynwald	Amendment defeated	3
Public Accounts Committee, Liverpool terminal, 2023 (PP 2023/0123)	Terminal cost to be "ultimately recovered from the ticket price"	Twice-yearly briefings to Members on projects over £10m; record contract expiry risks	No published outcome found	6
Select Committee on Regulation, 2024 (PP 2024/0168)	The department is "marking its own homework"; the Treasury is "too passive"; a profit cap should be considered	A new sea services framework, led by DfE, by the end of 2025; a statutory board, or stronger Treasury oversight	Council of Ministers: the DoI to lead, the conflict "not recognised", statutory board rejected, Treasury review accepted (GD 2025/0015). No framework published	1, 3, 8

Sources: the reports named, and the government's responses where published; the 1999 committee as reported in PP 120/08, para 15.14. "No published outcome found" means none in the Tynwald record or government papers reviewed for this report.

Table 9. Ten recommendations

#	Recommendation	Owner and vehicle	Cost and value
	Publish: before the revised agreement is settled		
1	Set and publish a return target and cost of capital for the group, as a ceiling tied to the fare level in Recommendation 4, so that it cannot be used to justify higher fares. Do this first. Until the owner names a target, nobody can say whether the profit is too high.	Treasury, as sole shareholder. Written question to the Treasury Minister, then a motion.	Nil. Decides whether today's surplus is too much.
2	Publish the mean fare by booking category; freight volumes and revenue per lane metre; load factors for passengers and the freight deck by sailing; reliability and punctuality since 2018; route accounts sufficient to show cross-subsidy; and the fuel surcharge formula with its quarterly workings.	Company annual report; Department of Infrastructure under the agreement. Written questions to the Minister.	Nil. Makes the second, third and fourth questions testable.
3	Publish the Department's review and its timetable, and lay the revised Sea Services Agreement before Tynwald for approval. Noting it is not enough.	Department of Infrastructure. Motion at the following sitting.	Nil.
	Renegotiate: in the revised agreement		
4	Set a fare level, then cap its growth with an efficiency factor applied to unit costs (fuel, port charges, overheads) and reset at each review. The island had one, RPI minus 0.5%, from 1995 to 2010.	Department and the company; variation to the agreement; Tynwald motion.	Up to about £0.75m a year per point of X across fares (£0.43m) and freight (£0.33m), in years when the cap binds.
5	Price the next ship and the back-up: publish the Manannan replacement cost and funding plan, the reserve formula from the 2019 letter, the resilience case for the fleet, the net cost of the back-up vessel after charter income, and the cost of a berth that could take a chartered ship instead. Agree in advance how any surplus above the reserve is split between fares, freight rates and the Treasury.	Treasury, Department and the company board.	Nil to publish. Ends the stand-off over the cash.
6	Charge public port infrastructure (the Douglas linkspans and the Liverpool terminal) at cost in the revised agreement, or publish the gap.	Department; the agreement and the Liverpool lease.	To be quantified.
7	Cost and design a mode-neutral, off-peak resident fare inside the socio-economic assessment for the revised agreement, stating who pays (users, the Treasury's return or the replacement fund), and test targeted options such as compassionate and medical travel.	Department for Enterprise and Department of Infrastructure, with DHSC on patient travel.	About £2.3m a year for 10%, an upper bound. More than the group's £1.2m surplus over 7.75%.
	Restructure		
8	Put an independent referee between the berth owner and the berth user, finishing the work the 2024 Select Committee began. Take advice from the Attorney General's Chambers on whether giving CURA that role needs primary legislation.	Tynwald; order or Bill after legal advice.	CURA's marginal cost; to be estimated.
9	Review the ferry and the airport together: the joint public surplus, and the connectivity cost of each passenger who moves from air to sea.	Treasury, Department of Infrastructure and Department for Enterprise.	Officer time.
10	Commission an independent cost benchmark for the route, a "shadow tender", before the revised agreement is signed.	Treasury and Department of Infrastructure.	A consultancy fee. Gives today the discipline a tender in 2047 would give then.

Figures for Recommendations 4 and 7 are the author's calculations from the 2025 accounts (sections 6 and 8).

10. Conclusion

The Steam Packet earns more than a commercial return on the book value of its ships: £7.6m in 2025, and £11.4m over six years that included the COVID losses. On what the public paid in 2018, it earns about a normal return. Both are true, and that is why the argument never ends.

The history explains the gap. Twice in fifty years a second operator tried the route and failed. Private owners paid for the protected berth, borrowed against it and, by 2011, lost it to their lenders. In 2018 the Treasury bought the earnings to 2026 at a fair price, and then gave the company the berth to 2047. The rent after 2026 was created by the public. Users pay it, through fares and freight rates, and it buys the next ship.

The board has used its freedom with restraint since 2023. Passenger fares have fallen in real terms, and the 2025 reset filled empty seats. The fleet is sized by contract for the peak, so it runs a third full on average, and the resilience it buys has never been priced. Freight, the island's largest exposure, cannot be tested at all. The air routes' losses came mostly before Manxman and from airline decisions. The 2025 reset, and free travel for children above all, fits a move off the north-west flights; 2026 will show whether it lasts.

Nobody accountable to Tynwald has set the level of fares or the return. The owner sets no target, the cap governs the growth of one set of prices, and the department that owns the berth is also the regulator. The company has made defensible choices inside that frame, and nothing in the frame would stop a future board making worse ones. A fare level nobody accountable to Tynwald chose works as a tariff on the island's households, firms and newcomers. The proceeds buy the next ship.

The revised Sea Services Agreement is the chance to change that without buying or selling anything. **Publish** the numbers. **Renegotiate** the terms they should meet. **Restructure** so that someone independent checks them.

Readers are invited to take this apart. The evidence annex published with this report traces every figure to its source.

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Appendix A. Method, limits and what is not covered

Method. The financial tests use six years of audited accounts, 2020 to 2025, for the Steam Packet Company (SPC, the operator) and the Steam Packet Group (SPG, its parent, which holds the Treasury loans and the 2018 acquisition intangibles), and for five comparators: Wightlink and Red Funnel on the Solent, CalMac and its vessel owner CMAL in Scotland, and Irish Continental Group (ICG). Every input was taken from the published accounts in two independent extractions and reconciled, and every calculation was done in a workbook and checked. Operating capital excludes cash and financial investments. Leases are put on one basis (FRS 102), with ICG, CalMac and CMAL restated. Wightlink, CalMac and CMAL have March year ends; each is paired with the preceding December, and none has filed its year to March 2026. ICG's euro figures are converted at Bank of England average rates.

Outside the accounts, air and sea traffic, the agreement's terms, the Tynwald record and other islands' arrangements come from official statistics, government and regulator papers and company releases. Where only a press report could be found, the note says so. AI tools were used to extract and cross-check figures; the analysis and judgments are the author's. The evidence annex published alongside this report records, for every figure, the document, page, exact wording, any calculation and a plain-words grade of confidence.

The air test. Table 6 compares the change in air passengers on the Liverpool and Manchester routes with the change on London (all airports together), Birmingham, Bristol and Edinburgh, using CAA airport-pair data. Counting London as one group avoids a false signal when an airline moves a route between London airports. Adding Belfast to the treated group makes the gap after Manxman about ten points worse, but Belfast's collapse was easyJet's decision to leave. Dublin is not in the UK statistics, so the best test route is missing. With two periods before and after, the test cannot check that the groups moved together beforehand. It shows timing and pattern; it cannot prove cause.

How the loop diagram was built, and how it could be tested. Figure 2 is a causal loop diagram: a statement of structure, built link by link from the evidence in sections 3 to 8. The loops stand on different footings (Table A1). R2 and B4 match the recorded rise and collapse of the company's sale price. B1, B2 and B3 match the sequence of events but rest on few cases. R1, the slowest loop and the one that matters most to the island, is a hypothesis. Testing it would mean turning the diagram into a stock-and-flow model and checking it against the island's traffic, fares, population and output since 1995: the step beyond the causal loop model of the Manx economy I built in 2010.

Table A1. The loops in Figure 2 and the evidence for each

Loop	Evidence in this report	Status
R2 capitalisation; B4 debt	Sale prices of £142m and £225m, a debt-for-equity swap, then £124.3m (Figure 4); the 2008 and 2009 committees on goodwill and debt (section 3)	Seen in the record: the rise and collapse the loops predict
B1 political	Fare and freight rises, then Select Committees in 2008 and 2024, then the 2025 reset (sections 3 and 6)	Fits the sequence of events; too few cases to test
B2 entry	Freight rates three to four times comparable routes in 2008, then Mezeron in 2010 (section 3)	One case
B3 capacity	Ships a third full on average, then discounting and free travel for children (sections 6 and 7)	Shown; the company's motives are inferred
R1 density	Dearer transport, a shrinking economy, a population held up only by arrivals (section 2)	Hypothesis: the slowest and least proven loop

Limits.

- **Market power** is a legal and economic finding made on market definition, barriers to entry and conduct. This report tests outcomes and makes no finding under competition law.

- **The cost of capital.** Neither the company nor its owner has published one. The only printed figure belongs to a leveraged private operator in 2022.
- **Replacement cost.** A test on the cost of replacing the fleet today would be the best measure of rent. It needs Manxman's outturn cost per lane metre, the written-down values of the older ships and a ship-price index, which are not published together.
- **Fares and freight rates** are not published. The price tests rest on revenue per passenger, which mixes fares, ticket types and routes. No set of fare captures for peak and off-peak sailings could be assembled from published sources.
- **Air and sea statistics** come from different collections with breaks in definition. The Passenger Survey was suspended from 2019 to March 2023 and changed method.
- **The 2025 comparators.** Wightlink, CalMac and CMAL have not filed for the year to March 2026; SPC's 2025 is compared with their year to March 2025.

Not covered in this report.

- TT sailing allocation and accessibility for disabled passengers (Recommendation 2 would publish the data).
- The economics of the Irish routes, which need the route accounts in Recommendation 2.
- The Department of Home Affairs consultation on identity checks at the ports.
- Decarbonisation beyond the choice of the next ship.
- Patient travel, beyond its place in Recommendation 7.

Appendix B. The operators

Table B1. Ownership, market position and contract, as printed in the accounts

Operator	Owner	Market position	Contract or licence
Steam Packet (SPC)	Wholly owned by the Isle of Man Treasury	Routes between the Isle of Man, the UK and Ireland; no competitor named	Sea Services Agreement: sole use of the Douglas linkspans to 2047
Wightlink	Arca Topco group; no controlling party	Vehicle market share 63.5% (year to March 2025)	None
Red Funnel	Njord Partners (from 2025)	Private vehicles 34.5%, high-speed passengers 37.2%, freight 45.6% (2025)	None
CalMac	David MacBrayne Ltd, owned by the Scottish Ministers	35 vessels on 30 routes	Clyde and Hebrides public service contract, subsidised
CMAL	Scottish Ministers	Owns ferries and harbours for CalMac and NorthLink	Ministers lend 100% of vessel costs
ICG	Listed (Dublin and London); largest holding 21.6%	Ireland-Britain and Ireland-France routes; cites "competitive pressures"	None

Sources: each company's latest accounts.

The comparators in brief. Red Funnel's 2021 accounts said the Solent market "*limits our ability to adjust prices or pass on external cost increases*". The 2025 study for Transport for the South East cited estimates that Isle of Wight fares rose "*at least 80%*" between 2013 and 2023, described residents as facing "*localised (natural) monopolies*", and noted that Red Funnel was sold for £71m in 2001, £200m in 2007 and £370m in 2017. The Isle of Wight Council resolved in September 2024 that unregulated private Solent services "*are no longer appropriate*". Jersey's concession requires the operator to report "*the Mean Average Fare under each booking category*" and introduces a performance bond. Scotland's new Clyde and Hebrides contract,

tendered in 2007 and 2016, was directly awarded to CalMac from October 2025, with an estimated subsidy of £3.7bn over ten years set by an externally commissioned cost model and recovered "*through clawbacks if necessary*".[86]

Table B2. Margins, latest year

	EBITDA margin	EBIT margin	Note
SPC (2025)	31.0%	16.3%	Isle of Man tax 0%
Wightlink (year to March 2025)	29.9%	16.8%	Paired with December 2024
ICG Ferries (2025), lower bound	22.5%	12.9%	All group lease costs charged to ferries
Scottish system (year to March 2025)	8.9%	0.6%	Publicly contracted

Table B3. Revenue and profit after tax, £m

	2021	2022	2023	2024	2025
SPC revenue	41.7	72.2	78.0	87.2	90.6
SPC profit after tax	−0.5	14.5	11.7	10.5	16.0
SPG profit after tax	−3.2	11.1	8.0	6.9	12.3
Wightlink revenue (year to March following)	71.1	78.7	87.6	89.2	n/a
Wightlink profit after tax	13.6	15.9	15.0	11.2	n/a
Red Funnel revenue	47.6	55.3	61.1	60.0	60.4
Red Funnel profit after tax	−34.8	−29.5	−195.3	−32.4	57.3
ICG Group revenue	287.5	498.6	497.4	511.0	571.1
ICG Group profit after tax	−4.2	51.0	53.6	50.7	64.2

SPG's revenue is SPC's; its profit is lower because the Treasury loan and the acquisition intangibles sit in the group. Red Funnel's 2023 loss includes a £161.5m goodwill impairment; its 2025 profit includes a bank debt waiver. ICG converted from euros at Bank of England average rates. Sources: company accounts.

Table B4. Economic profit in full, £m

Capital and return	2020	2021	2022	2023	2024	2025	Six years
SPC capital on the books, £m	15.4	20.9	52.0	101.0	101.5	92.2	
SPC operating profit	−7.6	−0.6	14.2	10.5	9.7	14.8	
SPC at 6%	−8.5	−1.8	11.1	4.4	3.6	9.3	18.1
SPC at 7.75%	−8.8	−2.2	10.2	2.7	1.8	7.6	11.4
SPC at 9%	−9.0	−2.4	9.5	1.4	0.6	6.5	6.6
SPG capital on what the public paid, £m	82.3	90.1	112.7	155.9	150.3	144.0	
SPG operating profit	−10.3	−3.3	11.7	8.0	7.2	12.3	
SPG at 6%	−15.2	−8.7	5.0	−1.3	−1.8	3.7	−18.4
SPG at 7.75%	−16.6	−10.3	3.0	−4.1	−4.4	1.2	−31.3
SPG at 9%	−17.7	−11.4	1.6	−6.0	−6.3	−0.6	−40.4
Sensitivity: SPC, ships at original cost, 7.75%				−1.0	−2.0	2.9	

The original-cost row values the whole fleet at what it cost before depreciation while still charging depreciation in operating profit, so it counts some capital twice and overstates the capital. It is shown only as a bound. The interest waiver of 2020-21 (about £2.9m) sits below operating profit and is not in these figures. Sources: as Table 5.

Appendix C. History and price controls

Section 3 tells the story from 1978. This appendix adds what came before, the detail behind Tables 2 and 3, and the price controls since 1995.

Before 1978. The Steam Packet has run since 1830 and has seen off challengers before. An earlier Manx Line in 1887-88 forced it to give equity and board seats to the Fairfield shipbuilding group. By the 1970s it carried cars on side-loading ferries and passengers on turbine steamers, with Liverpool as its main port. It closed its Heysham service in August 1974.[87]

1995: the Linkspan User Agreement. The government built the King Edward Pier linkspan in 1994-95 and kept it. Under the 1995 Linkspan User Agreement, approved by Tynwald, the company received near-exclusive use in exchange for minimum sailings, based on 1993's, and a cap on fare rises. The agreement was extended in 2002 and 2004 at the company's request; by 2005 it gave exclusive access to 2020, with an option to 2026. Whether the company paid for the berth was disputed: a member told Tynwald in 2010 that it was free, while the company said it paid the capital and maintenance costs in full.[88]

2003-2011: private equity and debt. Montagu sold the company to Macquarie and Australian pension funds in October 2005 for £225m. Macquarie also bought Wightlink in 2005 and Condor Ferries in 2008. In 2007 a member told Tynwald that more than £10m had been paid in bonuses, and a Select Committee chaired by the Speaker, Steve Rodan, examined fares. Its 2008 report found that profit before tax had risen from £4.1m in 2000 to £17.5m in 2006, that £15.1m in dividends was paid in 2002 and £19.6m in 2006, and that the company's value lay in its User Agreement. By December 2010 members put the debt at about £240m, with interest of £12m to £13m a year; one estimated that owners had taken out £160m to £180m.[89]

2011-2018: the lenders. In April 2011 the shares passed to Sealion (Isle of Man) Ltd, a company owned by the lenders led by Banco Espírito Santo. In July 2013 a restructuring roughly halved debt of about £226m. A 2015 consultation led to the Strategic Sea Services Policy of November 2016. In 2017 the company offered new ships and service levels for a 25-year agreement, including exclusive use of the King Edward Pier linkspan to 2041; the Council of Ministers rejected the offer and Tynwald voted only to note it.[90]

2018-2026: public ownership. In May 2018 Tynwald approved the purchase of the parent company for £124.3m, £48.3m of equity and a £76m loan to replace the company's debt. The later events are in section 4 and Table C2.

The numbers that survive. Sea Containers reported the company's traffic and revenue in its annual reports, including freight volumes in lane metres, which the company no longer publishes. Table C1 brings together the figures that can be found for years before 2017.[91]

Table C1. Selected years before public ownership

	1998	1999	2000	2001	2002	2006	2010	2013	2017
Passengers (thousands)	502	557	601	556	634	n/a	n/a	n/a	n/a
Vehicles (thousands)	140	148	159	134	173	n/a	n/a	n/a	n/a
Freight lane metres (thousands)	326	355	393	420	458	n/a	n/a	n/a	n/a
Revenue, $m (as reported)	51.2	53.3	57.2	55.3	64.8				
Revenue, £m (approximate)	30.9	32.9	37.7	38.4	43.1	n/a	n/a	n/a	58.5
Profit, £m	n/a	n/a	4.1	n/a	n/a	17.5	n/a	n/a	10.8
Dividends, £m					15.1	19.6			
Debt, £m							240	226	

Sources and notes: see the note above. 2001 fell with foot and mouth disease. Profit for 2000 and 2006 is profit before tax and dividends for 2002 and 2006 are as found by the 2008 Select Committee from the company's accounts (PP 120/08, p. 57); the 2000 figure sits in the 2000 column. 2017 is group operating profit. Debt: about £240m in 2010 as members told Tynwald; £226m in 2013 before the restructuring roughly halved it. Vehicles are cars, coaches and motorcycles. Figures from 2003 to 2016, the years of private equity and lender ownership, were not found in any published source.

Table C2. Timeline

Date	Event
1830	First sailing, Douglas to Liverpool
1887-88	An earlier Manx Line competes; the company yields equity to the Fairfield group
August 1974	Heysham service closed
1978	Manx Line starts drive-on sailings from Heysham
1979	Sealink takes over Manx Line
February 1985	Merger with Sealink-Manx Line; Liverpool dropped; Sealink's parent takes 40%
1986-1988	Strikes: ten weeks without sailings in all
1994-1995	King Edward Pier linkspan built; Linkspan User Agreement approved
1996	Sea Containers becomes sole owner
2002 and 2004	User Agreement extended at the company's request
June 2003	Sold to Montagu Private Equity, about £142m
October 2005	Sold to Macquarie, £225m
2007-2009	Select Committee on fares and the User Agreement
October 2010	Mezeron freight service starts
December 2010	David Cannan's motion on public ownership lost
February 2011	Mezeron service ends
April 2011	Shares pass to the lenders' company, Sealion
July 2013	Debt restructured and roughly halved
November 2016	Strategic Sea Services Policy
July 2017	Tynwald notes the company's offer and asks for further negotiation
May 2018	Tynwald approves the purchase (Keys 23 to 1); completes June 2018
March 2019	Tynwald approves the heads of terms of the Sea Services Agreement
January 2020	Agreement starts, for 25 years
March 2020	Flybe collapses; the Treasury waives loan interest to December 2021
2021	Two COVID variations extend the agreement to 2047
January 2022	Treasury loans of £76m and £84m at 1.7% fixed for 30 years
August 2023	Manxman enters service on Heysham
October 2024	Pricing reset: Flexi fares cut 10%, no 2025 inflation uplift, all children sail free
December 2024	Select Committee report on regulation published
February 2025	Council of Ministers responds
April 2026	Freight fuel surcharge raised by 25%
2026	Manxman out of service for repairs; Department's review complete; revised terms awaited

Price controls, 1995 to 2026. The island has controlled the Steam Packet's prices for thirty years, always in the same way: it caps how fast fares may rise and leaves the starting level to the company.

Table C3. Price controls, 1995 to 2026

Period	Instrument	What was capped	Rule
Before 1995	None	Nothing	n/a
1995 to about 2010	Linkspan User Agreement, clause 5.2.4.1.1	Weighted basket of standard fares and freight rates	RPI minus 0.5% a year
2011-2019	User Agreement as extended	Fare increases	RPI
2017	Company's offer (not accepted)	Standard fares	The greater of RPI-J or 2% a year
2020-2047	Sea Services Agreement	Standard fares and freight rates	Manx CPI for August each year
2020-2047	Sea Services Agreement	Offer fares	450,000 a year; no price set
Throughout	Fuel surcharges	Outside the cap	Reviewed quarterly; agreed and audited by government

Sources: PP 120/08, p. 120 (clause 5.2.4.1.1); Hansard, 17 February 2016, p. 886 (the Minister dated the change to plain RPI from January 2011; the owners' accounts, quoted in PP 93/09, give 31 December 2009); gov.im, 10 July 2017 and 7 March 2019; SPC 2025 accounts, p. 41; company booking terms.

Table C4. How the cap has been used since 2022

Year	Cap allowed	What the company did
2023	10.4% (Manx CPI, August 2022)	Standard fares up 5.0%
2025	2.1% (Manx CPI, August 2024)	No uplift; Flexi fares cut 10% from 2024 rates, excluding TT
2026	3.3% (Manx CPI, August 2025)	Freight rates up 3.3%

Sources: SPG 2023 accounts; company release, 9 October 2024; Treasury written answer, February 2026.

The level has never been set. Every regime since 1995 has started from the company's own prices: first its 1993 schedule, then whatever it charged when the next agreement began. In 2016 the Minister for Infrastructure confirmed that the agreement capped increases but did "not prevent the Steam Packet Company introducing decreases to fares".[92]

The island once had an efficiency factor. From 1995 to about 2010 increases were held to RPI minus 0.5%, a small version of the efficiency factor in Recommendation 4.[93] It lapsed in January 2011, and the Sea Services Agreement did not restore it. Had the 0.5% factor continued from 2011 to 2025, and had the cap bound, the cap on standard fares would now sit about 7% lower. The private owner's 2017 offer went the other way and asked for a floor of 2% a year.

Most of what people pay sits outside the cap. The cap covers standard fares and freight rates. Offer fares, which the agreement guarantees in number but not in price, and fuel surcharges are outside it. In 2022 the company said no fare, excluding fuel surcharges, had risen by more than 3.1% in the year to June 2022, while the official index recorded a 104% rise in sea transport prices.[94] A control on one price, applied to a menu of prices, controls very little. Jersey's 2025 concession fixed a maximum fare for the first year, indexed it from there, and requires the mean fare paid to be reported.

Appendix D. Glossary

- **Rent**: profit above what the same money could earn elsewhere at similar risk; the reward for a protected position.
- **Cost of capital**: the return the same money could earn elsewhere at similar risk. Profit above it is rent.
- **Economic profit**: operating profit less a return at the cost of capital on the capital used.
- **Capitalisation**: when a protected position's expected profits are built into the price a buyer pays for it, so that later owners earn only a normal return on what they paid.
- **Efficiency factor (X)**: a percentage taken off the inflation allowance each year, so that prices fall in real terms unless costs are cut (RPI minus X).
- **EBITDA**: earnings before interest, tax, depreciation and amortisation.
- **EBIT, operating profit**: profit after depreciation, before interest and tax.
- **ROCE**: return on capital employed; operating profit divided by the capital tied up in the business. **Operating capital** excludes cash and financial investments.
- **WACC**: weighted average cost of capital; a company's own estimate of its cost of capital.
- **Load factor**: passengers carried as a share of places offered.
- **Lane metre**: the length of vehicle deck used by freight; the standard unit of roll-on, roll-off freight.
- **Linkspan**: the hinged bridge between a ferry's vehicle deck and the quay.
- **Causal loop diagram**: a map of cause and effect in which a closed chain of arrows is a feedback loop, reinforcing (R) or balancing (B).
- **Difference-in-differences**: the change on routes exposed to the ferry minus the change on routes that are not, which nets out shocks common to both.
- **SPC, SPG**: the Isle of Man Steam Packet Company (the operator) and the Isle of Man Steam Packet Group (its parent, which holds the Treasury loans and the 2018 acquisition intangibles).
- **Sea Services Agreement (SSA)**: the contract between the Department of Infrastructure and the company, in force from 1 January 2020 to 31 December 2047.

Notes

1. Tynwald approved the purchase on 15 May 2018 and it completed in June 2018. Hansard, Tynwald Court, 15 May 2018, pp. 1298, 1303-1304; Treasury, *Review of its Oversight of the Isle of Man Steam Packet Company Ltd*, December 2025 (GD 2025/0122), p. 2.

2. This section updates two earlier studies by the author: J. A. J. Cochrane, *The Economic Determinants of Strategy under De-regulation*, Managerial Economics assignment, Warwick Business School, June 2008 (a study of Manx Telecom as it faced its first competitor); and *The Psychology of a Tax Haven*, MBA dissertation, University of Warwick, September 2010 (a causal loop model of the Manx economy built from interviews with ministers, officials and business leaders).

3. Customs and Excise Agreement 1979, as amended 2018; Isle of Man Treasury, *Pink Book 2025-26*, receipts by source, 2023-24 outturn.

4. Cabinet Office (Statistics Isle of Man), *Isle of Man National Income 2023/24*, Key Results p. 2 and Table 3 (real GDP −2.5% in 2023-24 after −5.0% in 2022-23); UK: ONS series ABMI. Index calculations by the author.

5. 2007-08 shares are on the modernised (ESA) basis published with the 2007/08 figures: Treasury, *Isle of Man National Income 2007/08*, Table 1, "Modernised" column (banking £407.7m, insurance £373.1m, tourist accommodation £19.9m and catering and entertainment £50.1m, of £2,820.8m Manx-sourced income). On the original basis then in use, banking was 16.3%. 2023-24: *National Income 2023/24*, sector table.

6. *Isle of Man in Numbers 2026*, GD 2026/0097, p. 10; March 2025 figures (36,593 people, 52,929 jobs) from *Isle of Man in Numbers 2025*, GD 2025/0111, p. 9. Compiled from income tax data, so casual and zero-hours workers are included.; Cabinet Office, *Isle of Man Population Report 2025*, Table 2 (births and deaths, 2017 to 2025 Q1), and *Isle of Man in Numbers 2026*, GD 2026/0097, p. 35 (2025-26), Table 3 (inward migration: 8,065 from the 2021 Census to 2025 Q1) and Table 8 (outward migration: 5,839). Net figure: author's calculation from Tables 3 and 7.

7. The Island has an unusually narrow measure of unemployment; there is currently some debate whether the Island is missing key cohorts who would in ONS terms be measured as 'unemployed'. The claimant count was 298 people in March 2026; the government's own estimate on the international (ILO) definition was 1.7%, or 743 people (*Isle of Man in Numbers 2026*, GD 2026/0097, p. 10).

8. Cabinet Office (Statistics Isle of Man), Consumer Price Index bulletin, July 2022; Isle of Man Steam Packet Company, statement on the CPI figures, August 2022.

9. Cochrane (2008), section 4; Cochrane (2010), chapter 5. On distance and income, see S. Redding and A. J. Venables, "Economic geography and international inequality", *Journal of International Economics* 62(1), 2004, pp. 53-82.

10. Revenue: Isle of Man Steam Packet Company Ltd, consolidated financial statements, year to 31 December 2025 (GD 2026/0090), p. 12. Nominal GDP 2023-24: *National Income 2023/24*, Table 1. The comparison mixes a calendar year with a financial year and is a sense of scale only.

11. Commercial Motor, "Manx-Lancs", 9 February 1985, p. 8, https://archive.commercialmotor.com/article/9th-february-1985/8/manxlancs; Select Committee of Tynwald on the Regulation of the Steam Packet Company, Official Report, 8 May 2024 (PP 2024/0104), p. 58 (strikes). Earlier events rest on secondary histories, listed in Appendix C.

12. PP 2024/0104, p. 58; Hansard, Tynwald Court, 15 December 2010, pp. 583-597 (extensions at the company's request); Hansard, Tynwald Court, 17 February 2016, p. 886 (fare formula).

13. Montagu Private Equity, portfolio page, https://montagu.com/portfolio/steam-packet-company/; *Report of the Select Committee on the Isle of Man Steam Packet Company*, November 2008 (PP 120/08), paras 15.2 and 15.4, pp. 57, 64-65; *Second Report of the Select Committee*, July 2009 (PP 93/09), p. 11; Hansard, Tynwald Court, 15 December 2010, pp. 586, 588, 591. Sale prices: see Appendix C.

14. Hansard, Tynwald Court, 15 December 2010, pp. 583 (mover) and 597 (division: Keys 4-17, Council 1-8).

15. Isle of Man Steam Packet Company, release, 8 April 2011; Manx Radio, April 2011 (chairman's remark) and July 2013 (press reports).

16. Isle of Man Government, "Future of strategic sea services to be considered by Tynwald", 10 July 2017, https://www.gov.im/news/2017/jul/10/future-of-strategic-sea-services-to-be-considered-by-tynwald/; Hansard, Tynwald Court, 18 July 2017.

17. Hansard, Tynwald Court, 15 May 2018, pp. 1257-1258 (price basis and quotation), 1303-1304 (division: Keys 23-1, Council 9-0).

18. Treasury, GD 2025/0122, Appendix B (letter of 10 January 2019), pp. 23-24.

19. Council of Ministers, *Response to the Report of the Select Committee of Tynwald on the Regulation of the Steam Packet Company*, February 2025 (GD 2025/0015), Chief Minister's foreword, p. 2.

20. GD 2025/0122, pp. 3-4.

21. Isle of Man Steam Packet Company Ltd, consolidated financial statements, year to 31 December 2025 (GD 2026/0090) ("SPC 2025 accounts"), pp. 3, 41.

22. PP 2024/0104, p. 58.

23. Hansard, Tynwald Court, 19-20 March 2019 (heads of terms); SPC 2025 accounts, p. 3.

24. Environment and Infrastructure Policy Review Committee, *Annual Report 2023-24* (PP 2025/0004), briefing on the Sea Services Agreement, pp. 48-49; GD 2019/0009, para 14.2.

25. SPC 2025 accounts, p. 41; Isle of Man Steam Packet Company, statement, August 2022 (wording of the cap).

26. SPC 2025 accounts, p. 41; Hansard, Tynwald Court, 17 June 2025 (written answer on variations).

27. SPC 2025 accounts, p. 3; Hansard, Tynwald Court, July 2026.

28. B. Klein, R. G. Crawford and A. A. Alchian, "Vertical integration, appropriable rents, and the competitive contracting process", *Journal of Law and Economics* 21(2), 1978, pp. 297-326.

29. Isle of Man Steam Packet Group Ltd, consolidated financial statements, year to 31 December 2025 (GD 2026/0089) ("SPG 2025 accounts"), note on the Sea Services Agreement (COVID waivers).

30. Tynwald written answers to Mr Hooper MHK and others, 2024-2026; DoI figures as reported to Tynwald. The £100m figure is a member's estimate.

31. Standing Committee of Tynwald on Public Accounts, *Isle of Man Ferry Terminal Project* (PP 2023/0123), paras 26-28, pp. 9-10.

32. Hansard, Tynwald Court, January 2024; Select Committee of Tynwald on the Regulation of the Steam Packet Company, *Report*, PP 2024/0168, membership page.

33. PP 2024/0168, paras 35 and recommendations; GD 2025/0015, response to recommendation 3 and section on the Sea Services Agreement.

34. Transport for the South East, *Solent Ferry Services: a principles-based economic assessment*, 2025, pp. 12-14; States of Jersey, Minister for Sustainable Economic Development, letter to the Economic and International Affairs Scrutiny Panel on ferry services, 2025; Competition and Markets Authority, *Report on the proposed subsidy to CalMac Ferries Limited*, 2024, para 3.4. Further detail in Appendix B.

35. SPG 2025 accounts, note on borrowings; Isle of Man Steam Packet Group Ltd, financial statements for 2021 (GD 2023/0025), note 33.

36. The 2018 loan bore interest at base rate plus 2%: SPG financial statements for 2021, note 22. Value of the waiver: author's estimate at about 2.1% on £76m for 22 months. Gilt yield: UK Debt Management Office, *Quarterly Review*, January-March 2022.

37. W. J. Baumol, "On the proper cost tests for natural monopoly in a multiproduct industry", *American Economic Review* 67(5), 1977, pp. 809-822.

38. O. E. Williamson, "Franchise bidding for natural monopolies", *Bell Journal of Economics* 7(1), 1976, pp. 73-104; H. Demsetz, "Why regulate utilities?", *Journal of Law and Economics* 11(1), 1968, pp. 55-65.

39. 2017 to 2019: Isle of Man Steam Packet Group Ltd, financial statements for 2018 and 2020, as reported by Isle of Man Today, October 2019 (2017 and 2018 revenue, passenger and freight revenue, operating profit) and by Manx Radio and Gef.im, 2021 (2019 revenue of £61.25m); passengers 2019 to 2021: Department of Infrastructure harbours figures, as reported by Isle of Man Today, 16 March 2022 (press reports; the laid accounts for 2017 to 2019 were not retrieved). 2020 onwards: Isle of Man Steam Packet Company Ltd, consolidated financial statements, 2021 to 2025.

40. SPC 2025 accounts, pp. 12, 26; Wightlink Ltd, annual report, year to 29 March 2025 (Companies House 01059267), p. 17.

41. Red Funnel Ltd, group annual report, year to 31 December 2022 (Companies House 10823670), p. 48.

42. K. J. Arrow and R. C. Lind, "Uncertainty and the evaluation of public investment decisions", *American Economic Review* 60(3), 1970, pp. 364-378; HM Treasury, *The Green Book*, 2022, on risk and the discount rate.

43. Irish Continental Group plc, *Annual Report 2025*, p. 154.

44. SPC 2025 accounts, pp. 12-13; SPG 2025 accounts, pp. 12-13. Operating capital excludes cash (£39.5m) and short-term investments. Author's calculation.

45. Manannan was built by Incat in 1998 (hull 050) and bought by the company in 2008; Ben-my-Chree entered service in 1998. Isle of Man Steam Packet Company, vessel pages, https://www.steam-packet.com/ (accessed November 2026).

46. Wightlink annual report 2025, pp. 17, 34; Red Funnel annual reports 2021 to 2025; SPC 2025 accounts. Return on operating capital: author's calculation.

47. PP 120/08, para 2.4, p. 9, and pp. 64-65; Department of Infrastructure, *Sea Services Agreement Heads of Terms Report*, March 2019 (GD 2019/0009), para 1.4, p. 5 ("following extension by IOMSPCo in September 2018"). A director of the then owners told the 2009 committee "we have the option to extend the User Agreement in 2026" (PP 93/09, p. 102); the government's consultant described the option in 2018 as "exercisable by either party" (GD 2019/0009, p. 61).

48. SPG 2025 accounts, intangible assets note (balance £54.3m; annual charge about £2.47m). The amortisation period follows the life of the Sea Services Agreement.

49. GD 2019/0009, paras 3.1 and 14.1-14.2.

50. Red Funnel annual report, year to 31 December 2023, p. 40.

51. M. Boiteux, "Peak-load pricing", *Journal of Business* 33(2), 1960, pp. 157-179; P. O. Steiner, "Peak loads and efficient pricing", *Quarterly Journal of Economics* 71(4), 1957, pp. 585-610.

52. Passenger capacities from the company's vessel pages; sailings from the 2024 timetable as operated; passengers from the Isle of Man Steam Packet Company, traffic release, January 2025. Author's calculation. Two of the three capacities include crew, so the true load factor is slightly higher.

53. SPC 2025 accounts, p. 25 (revenue by type).

54. Isle of Man Steam Packet Company, service statements on Manxman, 2026; charter revenue rose from £2.5m in 2024 to £4.4m in 2025 (SPC 2025 accounts, p. 25).

55. Environment and Infrastructure Policy Review Committee, *Harbours Strategy*, First Report 2018-19 (PP 2019/0102), Volume 1, paras 90-94, p. 30.

56. M. A. Crew and P. R. Kleindorfer, *The Economics of Public Utility Regulation*, Macmillan, 1986, on reserve capacity and reliability.

57. Isle of Man Steam Packet Company, Sea Services Agreement performance statistics, 12 months to October 2024 and 12 months to September 2026, https://www.steam-packet.com/customer-services/performance (accessed October 2026). The company publishes only rolling 12-month figures.

58. SPC 2025 accounts, pp. 25-26, and staff note; Wightlink and Red Funnel accounts 2025.

59. Isle of Man Government, "Passengers' needs at the forefront of new Sea Services Agreement", 7 March 2019, https://www.gov.im/news/2019/mar/07/.

60. SPC accounts, 2023 and 2025 (passenger revenue and passengers carried); Cabinet Office (Statistics Isle of Man), CPI historic dataset: index 149.4 (December 2022) and 166.3 (December 2025). Real change 1.031 ÷ 1.113 − 1 = −7.4%.

61. Isle of Man Steam Packet Group Ltd, financial statements for 2023 (GD 2024/0127), financial highlights.

62. Isle of Man Steam Packet Company, "IOMSPC unveil strategic reset of pricing for 2025 sailing schedule", 9 October 2024; SPC 2025 accounts, p. 4; Manx CPI, August 2024, 2.1%.

63. Isle of Man Steam Packet Company, presentation to the Isle of Man Government Conference 2025 (GD 2025/0078), p. 5; SPC 2025 accounts, p. 4.

64. SPC 2025 accounts, pp. 4, 12, 25-26; Isle of Man Steam Packet Company, traffic release, January 2026.

65. Statistics Isle of Man, *Isle of Man in Numbers 2026*, GD 2026/0097, November 2026, "Freight", p. 70: 72,254 tonnes of oil, 1,900 of LPG, 2,879 of cement and 35,599 of bulk and general imports in 2025 (Department of Infrastructure). The "Transport" section covers driving tests and vehicle registrations only.

66. SPC 2025 accounts, p. 4; author's calculation.

67. Birnie Consultancy for the MNFU, freight comparison, 2024, as reported by Manx Radio, 9 July 2024 (press report); Select Committee on the Regulation of the Steam Packet Company, oral evidence from DEFA, June 2024.

68. Isle of Man Steam Packet Company, freight customer notice, March 2026; Isle of Man Chamber of Commerce, members' survey on freight costs, April 2026.

69. Isle of Man Steam Packet Company, booking and ticketing terms, https://www.steam-packet.com/customer-services/booking-and-ticketing (accessed November 2026). In February 2026 the Treasury told Mrs Lord-Brennan MHK, in a written answer, that freight rates would rise by 3.3% for 2026.

70. F. P. Ramsey, "A contribution to the theory of taxation", *Economic Journal* 37(145), 1927, pp. 47-61; W. J. Baumol and D. F. Bradford, "Optimal departures from marginal cost pricing", *American Economic Review* 60(3), 1970, pp. 265-283.

71. SPG 2025 accounts, cash flow statement; author's calculation. Interest received on cash comes back the other way, a balancing item of −9.0%.

72. Isle of Man Steam Packet Company, fleet plan statements to the Government Conference 2025 (GD 2025/0078) and since; press reports, 2025-26.

73. GD 2025/0078, p. 3.

74. R. A. Posner, "Taxation by regulation", *Bell Journal of Economics and Management Science* 2(1), 1971, pp. 22-50, describes a protected firm using profitable services to fund unprofitable ones the legislature never voted on.

75. UK Civil Aviation Authority, *UK Airport Statistics*, Table 10.3, 2019 to 2025; airline events from press reports, 2020-2025 (listed in the evidence annex).

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77. Isle of Man Steam Packet Company, "IOMSPC unveil strategic reset of pricing for 2025 sailing schedule", 9 October 2024; Manx News, "Fare offers 'well taken up'", reporting the chair, Dan Clague, at the 2025 Isle of Man Government Conference.

78. Isle of Man Passenger Survey, annual reports 2018 and 2025 (Department for Enterprise / Visit Isle of Man); author's calculation.

79. Passenger Survey 2018, methodology ("conducted by Economic Affairs, who interview departing passengers"); Passenger Survey 2025, methodology (MIDT airline data and Steam Packet ticketing data).

80. Isle of Man Today, 5 December 2024, reporting Department of Infrastructure figures (press report; departmental accounts not found).

81. Department for Enterprise, Strategic Air Services Policy, December 2024; *Visitor Economy Strategy 2022-2032* (GD 2022/0036), p. 9.

82. Isle of Man Steam Packet Company, booking and ticketing terms, https://www.steam-packet.com/customer-services/booking-and-ticketing (accessed November 2026); Tynwald written answer to Mr Moorhouse MHK, August 2025, as reported by Manx.News, 29 August 2025 (press report; the Hansard record of the answer was not found).

83. PP 2024/0168, recommendations on compassionate fares; Isle of Man Government, "Government welcomes pricing announcement from Steam Packet", 16 September 2024.

84. GD 2025/0078, p. 4.

85. Author's calculation from the Passenger Survey 2025 and SPC 2025 accounts.

86. Red Funnel annual report 2021, p. 7; Transport for the South East (2025), pp. 12-14; Isle of Wight Council, Full Council minutes, 18 September 2024; States of Jersey ministerial letter (2025); Competition and Markets Authority, CalMac subsidy referral and report, 2024; Transport Scotland, Clyde and Hebrides Ferry Services contract, 2025.

87. Manx Experience (mers.org.im), shipping keynote; Wikipedia, "SS Snaefell (1948)" (secondary sources).

88. PP 2024/0104, p. 58; Hansard, Tynwald Court, 15 December 2010, pp. 583-597; Bloomberg, reported in the New Zealand Herald, October 2005 (press report, for the 2020 and 2026 dates).

89. Bloomberg via New Zealand Herald, October 2005; Ships Monthly, 2011; isleofman.com, "Steam Packet bonuses obscene", 21 June 2007 (report of Mr Houghton's remarks in Tynwald); PP 120/08, pp. 57, 65; Hansard, Tynwald Court, 15 December 2010, pp. 586-591 (Mr Malarkey's estimate).

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92. Hansard, Tynwald Court, 17 February 2016, p. 886.

93. M. E. Beesley and S. C. Littlechild (1989) set out the logic of RPI minus X.

94. Isle of Man Steam Packet Company, statement, August 2022; CPI bulletin, July 2022.