

STATEMENT ON A MATTER OF OFFICIAL RESPONSIBILITY

7. The Minister for Economic Development - statement regarding the Channel Islands Ferry Service

7.1 Senator A.J.H. Maclean (The Minister for Economic Development)

A year ago I made a statement explaining what had been done in preparation for the expiry of Condor Ferries' permit to operate car and passenger ferry services on 31st December 2013. I would like to take this opportunity to bring Members more up-to-date. My previous statement updated the Jersey-Guernsey joint statement on sea transport. This allowed the Harbour Master to agree a 5-year permit with Condor. This has now been done and an interim 5-year permit covering car and passenger services is in place. I made it clear that we need new long-term arrangements in place that would ensure that Jersey and Guernsey are provided ferry services using modern and reliable ships. I said that ideally this should be delivered through a competitive tender or other competition mechanism but, based on current market conditions, I have concluded that, at present, a successful outcome to a competitive tender cannot be achieved without risks to the continuity of services. Therefore, since my previous statement, our focus has been on working with Guernsey authorities and Condor. As a result of these discussions and negotiations, the opportunity to purchase a new vessel was identified by Condor. On 5th October, the company announced to the media that the opportunity existed to replace its 2 ageing and increasingly unreliable fast ferries on the U.K. routes with a totally new "Austal 102" trimaran. However, although signalling that they wish to invest in the vessel, Condor indicated to the Jersey and Guernsey authorities that they would require a longer-term agreement to justify the significant capital investment. In response, an analysis has been undertaken of Jersey-Guernsey-U.K. routes, their constraints and the size of the markets. This analysis has been discussed with Guernsey and indicates that while there are a number of options for the longer term, the practical implementation of those options may take longer than the time available to make the decision on the purchase (or not) of the Austal 102. The analysis also indicated that over the short term the Austal 102 can provide some immediate improvement in the quality of service to the Islands. Clearly, before making any final decision, I am obtaining comprehensive advice including, but not limited to, 3 key areas that will govern the final decision. Firstly, under provision available to me in the Competition Law, I have asked C.I.C.R.A. to conduct a market study of the operation of current ferry services by Condor to better understand their performance both in terms of pricing, efficiency and profitability. I am awaiting the final version of this report and will take further advice on its findings before deciding on what it implies for a potential long-term deal with Condor. Second, E.D.D. (Economic Development Department) and the Ports of Jersey will determine how to evaluate the optimal fleet configuration taking into consideration the impact of new emissions legislation, new technologies to reduce pollution and the potential to use L.N.G. (Liquid Natural Gas) as a fuel. Clearly, this must be conducted at the right time to inform our long-term thinking. Third, any agreement should remain non-exclusive. However, within a revised sea transport policy, the market scope will be extended to include Ro/Ro freight as well as combined passenger and car ferry services. This means that anyone wishing to compete in one sector of the market would have to offer at least a minimum standard on all services. This is one way to safeguard the Island's long term position and to discourage a potential operator "cherry picking" just the profitable parts, which we have previously experienced and which ultimately causes damage to the market without long term consumer benefit. In addition, an option to tender for services would be retained. Any new agreement will build-in additional service protection so as to ensure that

services continue during the period in the run up to an open tender. What is more, by including Ro/Ro freight explicitly in the market scope, we create a package of services that would likely be more attractive to a potential tenderer. I will update Members of progress in due course.

[12:15]

The Bailiff:

Now we have 10 minutes of questions. Deputy Power.

7.1.1 Deputy S. Power:

Could I ask the Minister as to how realistic he thinks it might be to rely on any agreement with Guernsey given his recent experience with aircraft registration? Also, the precedent having been set by Guernsey in agreeing on the one hand at one stage to a ferry route and ferry operations jointly with Jersey and then to break that agreement.

Senator A.J.H. Maclean:

All I can say to the Deputy is that to date negotiations have been very positive with Guernsey on this particular matter and clearly it is very much in their interest they recognise, from advice that they have separately had, that the route represents, from a commercial perspective, a network of routes, that is where the viability lies. So clearly we have a situation here where both islands have a common interest and consequently I see no reason why we should not operate together constructively, which has proven to be the case to date, and join the negotiations.

7.1.2 Deputy J.G. Reed of St. Ouen:

Would the Minister explain what has caused him to conclude that a successful outcome to a competitive tender cannot be achieved without risk to the continuity of services?

Senator A.J.H. Maclean:

Quite simply, if we have a period of uncertainty then we run the risk under the current arrangements that the current operator could quite simply run the service down and not invest in the vessels and, indeed, the routes, during a run-down period in the way that would serve the Island's best interest. I would also point out that economic conditions as such currently, and have been for a number of years, where margins are much tighter, which we are seeing in the European and U.K. ferry markets, and the availability of capital is also restricted. So indeed the market itself, from the conditional point of view, is not particularly strong.

7.1.3 The Deputy of St. Ouen:

Just as a supplementary, I am seriously concerned that the Minister for Economic Development says that if it went into a competitive tendering process the current provider could wind-down its service when we are told at the beginning of his statement that an interim 5-year permit covering car and passenger services is in place. Is he suggesting that that interim arrangement is not sufficiently robust to allow a competitive tendering process to take place?

Senator A.J.H. Maclean:

No, I am not saying that. What I am saying is that there are potential opportunities here for a longer-term agreement with an incumbent operator whose performance has been improving and, both from surveys from customers and also surveys that were undertaken more broadly, in the current economic climate that seems to be the more sensible way forward. That is simply what I am putting to the Deputy.

7.1.4 Connétable M.J. Paddock of St. Ouen:

I see in the statement that the ferry service company is looking at replacing 2 existing ships with one. Could the Minister explain how that would affect the services?

Senator A.J.H. Maclean:

Scheduling details are still to be finalised as part of the negotiations. The vessel that is being replaced or intended to be replaced is ... we have currently 2 86-metre catamarans that will be replaced with one single vessel which is 102 metres. It has, broadly, double the capacity. It carries 50 per cent more passengers and 50 per cent more cars than is existing and it is going to, we believe, do a double rotation. So in terms of the service provided to the Island, there is going to be no loss of service, in fact there will be far greater reliability, far greater capacity, far more environmentally friendly and so on.

7.1.5 The Deputy of St. Martin:

The Minister states that this is one way to safeguard the Island's long-term position. Would he agree with me that increasing the size of the harbour to take larger vessels would be another way of increasing and safeguarding our position?

Senator A.J.H. Maclean:

Yes, but we have to be realistic about the cost of employing capital to that extent to meet the objective that the Deputy refers to. But, yes, of course it would be.

7.1.6 Deputy J.H. Young:

In the 3 pieces of work that the Minister is going to carry out which will dictate his decision, where in those 3 pieces of work will there be some consideration of the various route options that might exist, for example, direct from Jersey to the U.K. and, indeed, France, and in fact to the public to have some input? Where is that going to be done in the 3 pieces of work?

Senator A.J.H. Maclean:

I am not sure if the Deputy is referring specifically to what consumer preference might be because that was dealt with by a Green Paper a few years ago and that was carried out jointly with Guernsey. So we have a clear understanding of what consumer preference is. The second part of the question is part of the negotiations that are under way looking at all options, including the potential of a direct route from the U.K., from Jersey, and various other permutations that would be presented by the opportunity, potentially, of this new vessel.

7.1.7 Connétable L. Norman of St. Clement:

Just briefly, I am pleased about the new interim 5-year agreement, but the statement does not say when the new trimaran will be arriving. Has that been decided or have we got to wait another 5 years for that?

Senator A.J.H. Maclean:

What in fact Condor have said to us is that they are looking for a longer-term agreement, that we have an interim 5-year agreement in place from 1st January 2014. What they are looking for is significantly longer for an investment that equates to round about £50 million for the Austral 102. They have not committed yet to that vessel coming on to the route until negotiations are complete for a longer-term agreement. As I have said, they want it considerably longer, they start at a range of round about 20 years, negotiations are closer to 7 to 10 years at the moment, but those negotiations are ongoing at the present time. If successful, the new vessel would be on-station, we understand, by round about October of this year.

7.1.8 The Connétable of St. Brelade:

What will the Minister do to ensure any vessel purchased or leased by Condor will be fit for purpose, especially with regards to the ability to navigate safely into all port services, including Weymouth.

Senator A.J.H. Maclean:

I am not sure if the Connétable is referring to the safety of the vessel itself and the crew, or the capacity. Could he perhaps clarify?

The Connétable of St. Brelade:

That is the size of the vessel and the ability to navigate into ports such as Weymouth.

Senator A.J.H. Maclean:

That would be part of the ramp permit arrangement. Certainly from a Jersey perspective, a ramp permit clearly would need to be issued for an extended period beyond what is currently in place and that concentrates, among other things, on safety and various regulatory requirements, and fitting the vessel into the port is clearly important. Of course, the Connétable will appreciate that the significant investment of some £50 million would not be undertaken by the operator if the vessel was not going to meet the requirements of the various ports that it was serving.

7.1.9 The Connétable of St. Brelade:

A supplementary on that. I do take the Minister's point but will the Minister take independent advice as to the suitability of this vessel, in terms of, as I say ...?

Senator A.J.H. Maclean:

Yes. From a Jersey perspective, that would certainly be undertaken as part of the permit considerations.

7.1.10 Deputy J.M. Maçon:

Within this contract is the Minister able to clarify if there is a break and review clause?

Senator A.J.H. Maclean:

If the Deputy is referring to the longer-term agreement, that is under negotiation at the moment. The current agreement runs for 5 years from January 2014. The intention is to potentially extend for a further 2 years, which would be the break clause before a total extended 10-year period.

7.1.11 Deputy S. Power:

I am glad to see the second condition whereby the Ports of Jersey will determine optimum fleet evaluation. I wonder, can the Minister assure the Assembly that he is aware that the Austal 102 ... there is only one in existence on service to the Canary Islands and that this is the second vessel ever to be built; that he will appraise the vessel independently of Condor so that, in relation to the Constable of St. Brelade's question, this potentially prototype vessel is fit for purpose on Channel Islands routes?

Senator A.J.H. Maclean:

...

7.1.12 The Deputy of St. Martin:

Is the Minister aware that if you rotate a single vessel twice during a 24-hour period there will always be somebody embarking at an anti-social time and somebody disembarking at an anti-social time?

Senator A.J.H. Maclean:

Yes. The rotations that I mentioned in the schedules have yet to be concluded but there is potential, obviously, that if you are doing a double rotation that the tide times, of course, being a tidal port we are constrained in that regard. But, yes, indeed, the schedules need to be finalised and considered as part of the overall package.

7.1.13 The Connétable of St. John:

Over recent months Condor have been doing serious advertising on deals, 3, 4 and 5-day deals, in the media and through letter drops. Yet the public are telling me that they are trying to get these deals, shall we say, 2 adults and 2 children, and they cannot get any of these deals even if it immediately comes through the door or immediately it has been in the newspaper. The deals are not available. Will the Minister please look into this because if there are some catches going on with the public, your department needs to be aware of them.

The Bailiff:

I do not think that arises out of the Statement, but anyway ...

Senator A.J.H. Maclean:

I think he was referring to the Minister's department as well. Yes, of course, I am not aware of any issues; they have certainly not been raised with me. If the Connétable has some examples then he is definitely welcome and at liberty to pass them on. We will raise them, of course, with Condor.

The Connétable of St. John:

Yes, I will get the people to write direct to the Minister.