



Case M-002

Freight Logistics Market Study

Consultation Paper

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# 1 Overview

- 1.1 This document provides an overview of the Jersey Competition Regulatory Authority (**the Authority**)’s consultation for the freight logistics market study.
- 1.2 A market study is the analysis of a market as a whole, or features of a market, using a variety of evidence to assess how well it is working and if any changes should be recommended to make it work better.
- 1.3 The market study is being carried out against the published terms of reference which identified the key areas to consider as:
  - Competition – what choice is available to purchasers of freight logistics services.
  - Supply resilience – what is the market’s ability to handle unexpected events and to respond and recover quickly to these disruptions.
- 1.4 Focused on these two areas, the study seeks to understand:
  - The current structure of the market: the extent to which economic fundamentals (such as the cost of transport) shape the market, versus other non-economic barriers (such as procurement policies or institutional factors).
  - Comparable international experience: experiences in other jurisdictions which have similar market features to Jersey and to understand if lessons can be drawn from them.
- 1.5 In the delivery of this market study the Authority has been supported by experts from Fisher Associates.<sup>1</sup> Accompanying this document is a Fisher Associates draft report “Freight Logistics Market Study Draft Report” (**draft report**).<sup>2</sup> The draft report sets out the detail behind the draft findings and options for recommendations of the study.
- 1.6 The consultation seeks views on the draft report to help increase the Authority’s understanding of the freight logistics market and ensure the recommendations are appropriate for Jersey. After the consultation closes, the draft findings and options for recommendations will be reassessed, taking into account stakeholder feedback received.
- 1.7 The considerations will be captured, as appropriate, in the final report which is due to be published in June 2022. The final report will set out the findings and recommendations to increase competition and benefit consumers.

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<sup>1</sup> Fisher Associates was founded in 1995 and is a firm with extensive international experience providing specialist management consultancy in the maritime and related logistics sectors

<sup>2</sup> Authority document number: JCRA 22/15

## 2 Background

2.1 This section is split into three subsections, which cover in turn:

- The Authority (see paragraphs 2.2 to 2.4);
- Overview of market studies (see paragraphs 2.5 to 2.8);
- Terms of reference (see paragraph 2.9); and
- The market study process (see paragraphs 2.10 to 2.14).

### The Authority

2.2 The Authority is responsible for promoting competition in the supply of goods and services in Jersey, together with the economic regulation of the ports, postal and telecommunications sectors.

2.3 As an independent regulator, the Authority has ambitious aims to help shape and sustain the Island's economic future, for the benefit of Jersey consumers, citizens and businesses. These aims are captured in the Authority's Strategic Plan.<sup>3</sup> This plan is the guiding framework within which the Authority shapes, prioritises and delivers its annual Business Plan.

2.4 Competition law and economic regulation seek to achieve economic efficiency and sustainable competition. This allows consumers to have the benefits of fair prices, desirable goods and services and the opportunity to choose what they want to buy. This can be challenging at times in a small market, such as Jersey, given understandable economic constraints. But equally, can present opportunities to consider pragmatic approaches tailored to market needs.

### Overview of market studies

2.5 A market study is a flexible tool to explore whether a market, or a feature of a market, is working well for Jersey consumers. It considers the relationship between consumer behaviour in a market, the behaviour of businesses in that market, and the market's structure. By looking at these relationships, the Authority can determine whether action that will encourage changes to consumer behaviour, business behaviour, or both, will help address any market problems found.

2.6 The outcomes of a market study may be one or more of the following:

- A clean bill of health for the market;
- Consumer/business focused action; and /or
- Recommendations to Government.

2.7 An important point to note is that the focus of a market study is not the actions of any specific business or firm, but rather the functioning of the market as a whole. It should be nevertheless noted that, if as part of a study, evidence were found of a firm/s breaking Competition Law, the appropriate tool would be competition enforcement, not a market study. In this scenario the market study would be stopped and instead a formal investigation launched.

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<sup>3</sup> See: <https://www.jcra.je/strategic-plans/strategic-plan/strategic-plan/>

2.8 Consistent with the Authority’s Strategic Plan market studies are used to address issues with competition in those markets where change would most benefit Islanders.

### Terms of reference

2.9 The study was carried out against published terms of reference which are included in the box below. These were set by reference to an initial analysis of the market.

**Box: The published terms of reference**

The Authority shall conduct a market study into the freight logistics market to establish the factors that may affect competition and the market structure. The study will cover the following areas:

1. Whether the current structure of the freight logistics market reflects economic fundamentals (such as the cost of transport) or other barriers and market failures;
2. Comparable international experience of competition, efficiency and supply resilience in the freight logistics market; and
3. Any actions that could promote competition at different levels and across different market segments, ensure efficiency and supply resilience in the freight logistics market and constructively and sustainably reduce any barriers to entry found.

For the purposes of this terms of reference freight logistics is defined by the Authority as the facilities and services available for transporting goods between a point of specific despatch to the island and arrival at a local distribution, forwarding or storage point and between a local point of despatch and arrival at a specific non-local distribution, forwarding or storage point.

### The market study process

2.10 The freight logistics market was selected for study following a structured approach. This involved the identification of a long list of potential candidate markets which were screened to determine those most relevant to Jersey. The subsequent short list was then assessed against a structured range of criteria to rank in order of desirability. This process resulted in the freight logistics market being selected as:

- Jersey is dependent on its freight logistics connections for the transportation of goods onto and off the island. All islanders benefit from regular and reliable services available at a fair price, or will feel the impact if this is not the case.
- The freight logistics market is subject to structural and economic constraints, and it is important to understand how this impacts the market and competition within it.
- There have been structural changes to the market since the last market study into freight logistics in 2017<sup>4</sup>, including the entry and exit of different firms.
- Recent external environmental factors may have also impacted on the market and businesses operating within it, chiefly Brexit and the Covid-19 pandemic.

<sup>4</sup> See: <https://www.jcra.je/cases/2017/c1255gj-freight-market-study/>

- 2.11 After finalising the terms of reference, the Authority launched this market study publically in July 2021.<sup>5</sup> In September 2021, Fisher Associates were appointed to support the market study after a competitive procurement process based on criteria including proven expertise, strategic fit and value for money.
- 2.12 Across October to December 2021, the following steps were taken to develop the draft report:
- Interviews (mostly via Microsoft Teams) with key stakeholders in Jersey and elsewhere covering ferry services, Ports of Jersey, freight transport companies, Government, and some customers in retail and wholesale sectors.
  - Analysis of data and fact gathering to provide evidence to support or refute issues raised in the interviews.
  - Structured comparisons with the markets in Shetland / other Scottish islands, Isle of Man, Isle of Wight, Bornholm in Denmark and Majorca. These locations were selected because they are island economies with similar populations to Jersey, and face similar challenges and present different solutions.
  - Commissioning two supplementary independent pieces of work by Jersey-based consultants to:
    - Canvas a wider number of stakeholders, in particular users of freight logistics services; and
    - Look at the practical issues with developing trade with France.
  - Site visit by three members of the Fisher Associates team to see the facilities first hand, have follow-up meetings and be shown the port masterplan proposals.
- 2.13 After reflecting on the information gathered and analysis carried out, the Authority decided to introduce an additional step in the study process, which is this consultation on the draft report. This was announced to stakeholders by the publication of an Information Note in January 2022.<sup>6</sup>
- 2.14 After the consultation closes, the draft findings and options for recommendations will be reassessed, taking into account stakeholder feedback received. The considerations will be captured, as appropriate, in the final report which is due to be published in June 2022.

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<sup>5</sup> See: <https://www.jcra.je/cases/2021/m-002-freight-logistics-market-study/freight-logistics-market-study-press-release/>

<sup>6</sup> See: <https://www.jcra.je/cases/2021/m-002-freight-logistics-market-study/freight-logistics-market-study-information-note-1/>

### 3 Draft findings and options for recommendations

- 3.1 A number of factors are likely to influence the structure of the freight logistics market currently observed. As a starting point, the market study is trying to distinguish between economic fundamentals and non-economic barriers to a less concentrated market. This distinction is driven primarily by whether regulatory and/or policy drivers can be adjusted to influence the extent of competition in the market.
- 3.2 Within this context, economic fundamentals are those factors that cannot be overcome through regulatory/policy intervention. Examples of economic fundamentals likely include transport costs, role of economies of scope and scale, marginal cost of entry/supply. If barriers to competition that are not economic fundamentals are found, then the market study can suggest in its recommendations potential mitigations to these barriers.
- 3.3 As set out in the draft report, section 3, the assessment is that the situation in Jersey, in particular in freight logistics, does not reflect economic fundamentals. This means there are options that would help improve the competitive outcomes and benefit consumers.
- 3.4 Reflecting this assessment, three key themes for the study have been developed to organise the draft report. The themes are:
- Theme 1: Barriers to competition.
  - Theme 2: Lack of diversification.
  - Theme 3: Understanding and driving improvement.
- 3.5 Figure 1 below sets out the draft findings and options for recommendations under each theme. The options aim to increase competition and benefit consumers. Implementing the options, if they are adopted, will require both work and support by the Authority, Government, Ports of Jersey, businesses and wider stakeholders.

Figure 1: Overview of draft findings and options for recommendations

Theme	Draft findings	Options for recommendations
Theme 1: Barriers to Competition (section 4 of draft report)	<ul style="list-style-type: none"> <li>• Lack of space in the port limits new entrants, constrains growth and introduces inefficiencies in operations.</li> <li>• Warehousing space is specific constraint as Ferryspeed occupy most of it and have 100% of temperature-controlled business.</li> <li>• The Condor roll-on, roll-off (RoRo) Rate Card is seen by some as a barrier, but, given Jersey market characteristics, the lack of space is primary constraint on competition.</li> <li>• The Condor Operating Agreement makes it difficult to set up new RoRo freight service. There are interrelationships between freight and passenger services.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Option A. Facilities planning and leasing strategy</b> The Port Masterplan should improve the working environment. It is also important to have a holistic plan focused on freight logistics to overcome space constraints and ensure flexible use of infrastructure which is responsive to the changing needs of the sector. This includes a review of all leases in the port estate.</li> <li>• <b>Option B. Multi-user facilities</b> Ensuring access to warehousing for all, with facilities managed by a third party logistics provider as opposed to individual freight firms. This could increase efficiency and capacity and provide the flexibility required to meet the needs of the sector.</li> </ul>

<p>Theme 2: Lack of diversification (section 5 of draft report)</p>	<ul style="list-style-type: none"> <li>• Freight logistics is highly regarded in response to Covid-19 pandemic but there are widespread concerns about resilience.</li> <li>• Jersey is dependent on one RoRo operator / one large freight logistics provider / trade with UK.</li> <li>• Risks to future resilience include the potential failure of assets (ferry, RoRo ramp, warehouse), failure of companies (Condor, Ferryspeed) and/or problems with UK supply chain.</li> <li>• Lift-on, lift-off (LoLo) traffic in Jersey is strong in comparison to other locations, and proximity to France creates opportunity to diversify.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Option C. Support lift-on, lift-off (LoLo) services</b></li> </ul> <p>Address any infrastructure requirements to support LoLo e.g. for refrigerated cargo, and thereby strengthen resilience by offering alternative to Condor roll-on, roll-off services.</p> <ul style="list-style-type: none"> <li>• <b>Option D. Support the development of French routes</b></li> </ul> <p>Welcome and encourage initiatives to develop French trading links, for example providing Government stimulus support as appropriate. This could also include the development of customs skills and dissemination of market information.</p>
<p>Theme 3: Understanding and driving improvement (section 6 of draft report)</p>	<ul style="list-style-type: none"> <li>• Rapid changes in IT and technology in the sector challenge traditional practices, but provide opportunity to improve efficiency and enhance customer service. Take-up in Jersey is mixed.</li> <li>• It is difficult to secure data to understand how freight logistics is operating in Jersey and identify improvements to support better performance.</li> <li>• There are challenges in developing a coherent approach to customer service such as track and trace and ensuring communication between all users of freight and associated services. This results in operating inefficiencies.</li> <li>• A greater focus on the environment and carbon emissions offers both challenges and opportunities for freight logistics, for example the use of green fuels for both shipping and landside operations.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Option E. Data reporting</b></li> </ul> <p>Improvements both measuring and sharing information should be made. This will improve efficiency and enable a better understanding of how the sector works and whether Jersey is being served well.</p> <ul style="list-style-type: none"> <li>• <b>Option F. User Forum</b></li> </ul> <p>This would be a safe space to encourage the sharing of ideas; greater communication and collaboration between all players in the supply chain; and to drive improvements and innovation.</p> <ul style="list-style-type: none"> <li>• <b>Option G. Encouraging innovation</b></li> </ul> <p>There are a broad range of options that could stimulate enterprise and encourage greater innovation and research and development, for example best practice awards, pilot funding schemes.</p>



## 4 The consultation

- 4.1 The Authority is consulting on the evidence, draft findings and options for recommendations set out in the draft report and accompanying documentation. The Authority welcomes feedback from any interested parties and hopes to gather views from stakeholders with a diverse range of perspectives. The topics the Authority is seeking views on are set out in the box below.

### **Box: The consultation topics**

1. The Authority's understanding of the markets within the scope of the study. This includes whether there are any other relevant issues to markets within scope of the study, which are considered relevant, but have not been covered in draft report.

2. The Authority's draft findings under each theme:

- Theme 1: Barriers to Competition
- Theme 2: Lack of diversification
- Theme 3: Understanding and driving improvement

3. The merits and challenges of the potential options for recommendations under each theme:

- Theme 1: Barriers to Competition (option A, option B)
- Theme 2: Lack of diversification (option C, option D)
- Theme 3: Understanding and driving improvement (option E, option F, option G)

This includes views on who is best placed to help implement each option.

- 4.2 Responses can be submitted by email to [info@jcra.je](mailto:info@jcra.je) or alternatively in writing to:

Jersey Competition Regulatory Authority  
2nd Floor Salisbury House  
1-9 Union Street  
St Helier  
Jersey  
JE2 3RF

- 4.3 All responses should be clearly marked: "Freight Logistics Market Study". Please respond by no later than 5pm on 1 April 2022. For transparency and to inform public debate, the Authority intends to publish all responses received. In providing responses:

- Please supply a brief summary of the interests or organisations you represent, where appropriate;
- Please consider whether you are providing any material that you consider to be confidential, and explain why this is the case; and
- If the response contains confidential information, please also provide a non-confidential version of your response alongside it.

- 4.4 If you are an individual (i.e. you are not representing an organisation), please indicate whether you wish for your response to be attributed to you by name or published anonymously.