

# FREIGHT LOGISTICS MARKET STUDY

CASE M-002

FINAL REPORT JULY 2022

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## EXECUTIVE SUMMARY

The Jersey Competition Regulatory Authority (**'the Authority'**) commissioned Fisher Advisory to support its market study into the freight logistics market. The market study has been carried out against the published terms of reference<sup>1</sup> 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.

Focused on these two areas, the study sought 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.

From this understanding, the study aimed to identify any actions that could promote competition at different levels and across different market segments. These actions should ensure efficiency and supply resilience in the freight logistics market, and constructively and sustainably reduce any barriers to entry found.

The freight logistics market was also analysed in a market study by the Authority in 2017<sup>2</sup>. The 2017 study was focused on understanding the market from the demand perspective, particularly on the choices available to purchasers of freight logistics services. This study extends and complements the 2017 study by considering the supply side/structure of the market and the lessons that can be learned from international comparators. The freight market was selected for the following reasons:

- 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, including the entry and exit of different firms.
- Recent external factors may have also impacted on the market and businesses operating within it, chiefly Brexit and the Covid-19 pandemic.

A draft report was published in February 2022 for public consultation which set out draft findings and options for recommendations. This is the final report and takes account of the feedback received from the consultation and on the key findings and wider evidence collected and presented in this report.

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<sup>1</sup> <https://www.icra.je/media/598360/freight-logistics-market-study-terms-of-reference.pdf>

<sup>2</sup> The documentation from the 2017 study is available at: <https://www.icra.je/cases/2017/c1255gj-freight-market-study/>

Section 2 of this report provides an overview of the freight logistics market in Jersey, following on from which, three key areas are explored further, these are:

- Competition issues in section 3
- Market resilience in section 4
- Market observations in section 5

Drawing these threads together, the study recommendations are set out in Table 1. These recommendations should promote more competition and help improve the price, quality and range of freight logistics services available to Jersey businesses and consumers.

To be successful there will need to be work and support by a wide pool of stakeholders and recommendations 1-4 are intended to address current problems faced by freight logistics and bridge the gap until the Port Masterplan and wider supporting elements are delivered. They therefore need to be implemented quickly, ideally within the next year to help make competition more effective.

Recommendations 5 to 7 concern the Ports Masterplan and wider policy framework, the development of which need to run alongside the short-term recommendations, and we envisage these will be delivered over the medium term.

Full detail on the recommendations is provided in section 6 of this report.

**Table 1: Recommendations**

<ul style="list-style-type: none"><li>• <b>Recommendation 1: Review of facilities and current leasing arrangements at the port of St Helier</b></li><li>• <b>Recommendation 2: Review of traffic/accessibility issues to create temporary and targeted freight corridors</b></li><li>• <b>Recommendation 3: Support initiatives to drive improvements in operational efficiency within current constraints at the port of St Helier</b></li><li>• <b>Recommendation 4: Establish a freight trade association, to drive efficiency and support innovation in the sector</b></li><li>• <b>Recommendation 5: Development of a government policy framework to support effective competition in freight logistics, including a Ports Policy</b></li><li>• <b>Recommendation 6: The Ports Masterplan to support effective competition in freight logistics sector</b></li><li>• <b>Recommendation 7: Support the development of existing and new freight routes to France</b></li></ul>
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## 1. INTRODUCTION AND BACKGROUND

The Authority works to ensure that Islanders receive the best value, choice and access to high quality goods and services, in addition to promoting competition and consumers' interests. This market study focuses on the freight logistics market in Jersey, in particular on competition and resilience.

In this section, we first set out the terms of reference for the study, followed by a discussion of the role of economic fundamentals and outline the approach taken to the study. This section concludes by setting out the structure of the rest of the report.

### 1.1 THE TERMS OF REFERENCE

A market study is a flexible tool to explore whether a market is working well for Jersey consumers. It considers the relationship between consumer behaviour in a market; the behaviour of firms 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.

An important point to note is that the focus of a market study is on the structure and behaviour of the market itself, not the actions of any specific business or firm. This is reflected in the study, which adopts a holistic approach to understanding the freight logistics market, as opposed to a detailed firm-by-firm analysis of behaviour, financials and processes.

Within this context, this market study has been 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.

Focused on these two areas, the study sought 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.

In this study, freight logistics is defined as the transportation of goods to and from Jersey. The key focus is on the supply side for freight by sea, which encompasses: the ferry services (both Roll-on, Roll-off (RoRo) and Lift-on, Lift-off (LoLo) vessels); land-side transportation; and logistics services. The study does not cover air services, bulk transport/storage of fuel and related products, nor the Condor shipping "Rate Card" (tariff) although this is commented on in broad terms.

## 1.2 THE ROLE OF ECONOMIC FUNDAMENTALS

As a starting point, our market study tried to distinguish between economic fundamentals and non-economic barriers. This distinction is driven primarily by whether regulatory and/or policy drivers can be adjusted to influence the extent of competition in the market.

With respect to ferry services, given the requirements of the operating agreement with Condor, it is recognised that there is unlikely to be more than one RoRo operator. LoLo is a more competitive area, with multiple providers competing for cargo against other LoLo providers and with RoRo on the margins.

Freight logistics is highly concentrated on Jersey and this is an outlier when compared to international comparators. The sector is not characterised by high fixed costs and low marginal costs, although costs may be higher than a similar operation on the mainland. High fixed costs and low marginal costs is the cost structure that would be observed in a natural monopoly, where it may be uneconomic to have more than one firm producing the goods/service. This suggests it is other factors and not economic fundamentals that drive this outcome, which means that regulatory and/or policy drivers can help improve the performance of the market.

The factors identified that drive this outcome are geography, demand for temperature-controlled goods, the Condor Rate Card and requirement for transit space. It is noted that these factors, when combined, have led to a concentrated market, and made it difficult for more competition to be developed and maintained in freight logistics.

We cannot comment at this stage on how many players the market in Jersey could efficiently support because the data was not available on cost structures and potential revenues. However, the comparator analysis and our understanding of the sector in Jersey lead us to the view that freight logistics is not a natural monopoly type activity in Jersey.

Further commentary on this issue is provided in Annex A.

## 1.3 APPROACH TO THE STUDY

The approach to the report has incorporated:

- Interviews with key stakeholders (mostly via video conferencing) in Jersey and elsewhere. These have been insightful, with contributors speaking openly about the sector and any concerns and problems and we would like to thank each of the stakeholders for participation in these sessions and their constructive engagement throughout. Stakeholders interviewed include:
  - Breakwells
  - Channel Seaways/Alderney Shipping
  - Condor Ferries
  - Ferryspeed
  - Government of Jersey
  - Iris Freight
  - Isle of Man Harbours and Coastguard
  - JJ Fox Trading

- Nostos Marine
- Ports of Jersey
- Serco Northlink Ferries
- Solent Stevedores
- The Co-op
- Transport Scotland
- Woodside Logistics /Jersey Post
- ZetTrans, Shetland
- Site visit by three members of the Fisher team to see the facilities first-hand, have follow-up meetings, and discuss the Port of St Helier Masterplan proposals.
- Analysis of data and fact gathering to provide evidence to support or question issues raised in the interviews.
- Structured comparisons with markets in Shetland / other Scottish islands, Isle of Man, Isle of Wight, Bornholm (Denmark) and Majorca (Spain). These locations were selected because they are island economies with broadly similar populations. It is obviously not possible to find a mirror image of Jersey, but some of these locations face similar challenges and present different solutions. The findings are based on interviews with stakeholders and desk research and are summarised under the relevant sections of the report and presented in full in Annex B.
- Commissioning two supplementary parallel pieces of work by Jersey-based consultants to:
  - Canvas a wider number of stakeholders, in particular users of freight logistics services to understand their experiences. Sectors covered included:
    - Construction
    - Public sector
    - Retail – supermarkets food and non-food such as DIY, builders’ merchant
    - Retail – other particularly smaller operators
    - Hospitality
    - Producer, semi, or any full manufacturers
  - Look at the practical issues related to developing trade with France. To support this, Jersey Customs and Immigration were also contacted.
- Feedback from the public consultation on the draft report and options for recommendations; and ensuing discussions with key stakeholders. Written responses to the draft report are available on the Authority website and were received from:
  - Breakwells
  - Condor Ferries
  - Ferryspeed
  - Jersey Business
  - Jersey Post

This final report takes account of the feedback received from the consultation. For example, this report has moved away from the themes-based structure in the draft report, toward specific competition and resilience issues in a market context. This is accompanied by a firmer view on the stakeholder(s) best-placed to address each of the recommendations. This builds on the key findings and wider evidence collected and presented in this report

## 1.4 STRUCTURE OF THE REPORT

The remaining sections are as follows:

- Section 2: Market overview
- Section 3: Competition issues
- Section 4: Market resilience
- Section 5: Market observations
- Section 6: Recommendations
- Annex 1: The role of economic fundamentals
- Annex 2: Freight logistics markets in comparator locations

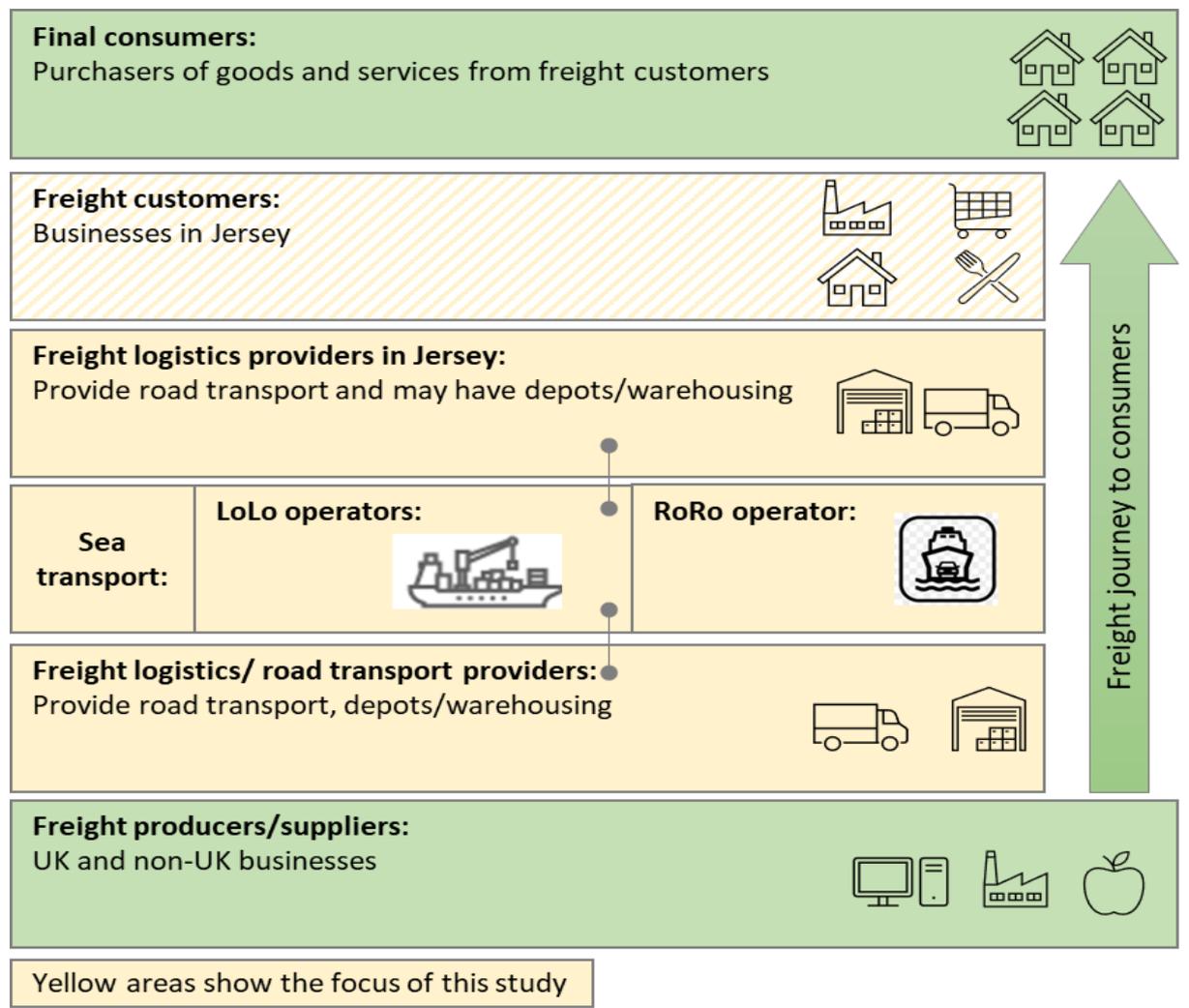
## 2. MARKET OVERVIEW

In this section, we provide an overview of the freight logistics market landscape in Jersey, followed by further detail on shipping services to Jersey, the role of triangular route of Guernsey, freight logistics operations in Jersey and on the Port of St Helier.

### 2.1 MARKET LANDSCAPE

The process of transporting freight from producer to final consumer in Jersey is depicted in Figure 1. For ease of comparison, it is an updated version of the diagram presented by Frontier Economics in the 2017 market study.

**Figure 1: Overview of freight logistics in Jersey**



This figure highlights the role of the ferry services as a crucial link in overall freight logistics which cannot be disentangled from other activities. Ferry services to Jersey take two forms:

- Roll-on, roll-off (RoRo): Transport of freight in trailers and lorries that are driven on and off ferries; and

- Lift-on, lift-off (LoLo): Transport of predominantly containerised freight, which is lifted on/off ships using cranes and then transported to its end destination via lorries.

The RoRo operator is Condor Ferries (Condor). There is an operating agreement with the Government of Jersey for use of the RoRo ramp. It does not restrict other operators from using the ramp, but they would be required to provide the same designated RoRo services in terms of both passengers and freight as Condor. In practice, this requirement has meant that only Condor has provided RoRo services.

With respect to LoLo, there are multiple operators including Channel Seaways, Iris Freight, Normandy Trader Freight Services, Rozel Shipping and Nostos Marine. Ferryspeed also operate a LoLo vessel, and other LoLo ferry operators offer limited logistics services. Although the process is depicted for imports into Jersey, there are exports from Jersey as well.

In terms of capacity, approximately 75% of freight is brought in by RoRo and 25% by LoLo. At the margins there is competition between the two different types of ferry services, however this is product dependent. For example, all temperature-controlled goods are brought in by RoRo, which is also predominantly used for time sensitive products. In contrast, LoLo is often used for less time sensitive goods and bulk products.

The largest freight logistics provider in Jersey is Ferryspeed who are considered by freight operators to account for 75-90% of freight on/off the Island. Woodside Logistics is a competitor of Ferryspeed but operates on a smaller scale. Other providers of freight logistics include UK-based companies, such as Breakwells.

Ports of Jersey, which was incorporated in 2015, operates Jersey's Airport and Harbours. They have contracted the day-to-day operations in the port to Solent Stevedores, who have the stevedoring licence for Elizabeth Harbour and New North Quay, and the professional services contract for managing the Elizabeth Harbour Restricted Zone and New North Quay in the Port.

As we cannot wholly disentangle the ferry services (LoLo and RoRo) from other activities, we have adopted a holistic approach to best understand the freight logistics market. As a result, a lot of the comments and evidence cover shipping too.

The freight logistics market in Jersey has undergone significant change over recent years, with companies ceasing trading; existing operators expanding; and some new companies starting up. It is now characterised by a high level of market concentration with two large service providers present in shipping and freight logistics: Condor (who provide all the RoRo ferry services) and Ferryspeed respectively, plus a smaller number of other players.

Figure 2 shows some of the changes that have taken place in the sector in Jersey since 2005. The last market study into freight was carried out in 2017.

**Figure 2: Freight logistics market timeline**

2005		<ul style="list-style-type: none"> <li>Ferryspeed acquired Channel Express (freight forwarder)</li> <li>Share of temperature-controlled freight increased from 60-70% to 70-80%</li> <li>JCRA approval imposed condition that Channel Express warehouse at Elizabeth Harbour be surrendered.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Condor Logistics ceased trading</li> </ul>	<ul style="list-style-type: none"> <li>Ferryspeed took over Condor Logistics ground handling equipment and building leases at Elizabeth Harbour, and expanded facilities in Portsmouth.</li> </ul>
2013	<ul style="list-style-type: none"> <li>Huelin-Renouf (LoLo) ceased trading</li> <li>Channel Islands Lines was formed (LoLo and ground fleet)</li> </ul>	
2017	<ul style="list-style-type: none"> <li>Channel Islands Lines acquired Paul Davis Freight Services (mostly RoRo freight forwarding) and became PDFS</li> </ul>	
2019	<ul style="list-style-type: none"> <li>PDFS switched their traffic from LoLo to RoRo and withdraw their LoLo vessel from service</li> <li>Bowman Haulage, a key provider of refrigerated services, went out of business.</li> </ul>	<ul style="list-style-type: none"> <li>Ferryspeed took over the temperature-controlled freight when Bowman Haulage ceased, giving it 100% of this market.</li> </ul>
2020	<ul style="list-style-type: none"> <li>PDFS ceased trading</li> </ul>	
2021	<ul style="list-style-type: none"> <li>Jersey Post acquired Woodside Logistics</li> <li>Woodside now operate PDFS vehicles</li> </ul>	

## 2.2 FURTHER DETAIL

### Shipping services to Jersey

Condor operates all the RoRo services between Jersey and the UK, Guernsey and France. They have two freight vessels, the Commodore Clipper and the Commodore Goodwill, which provide twice daily (except Sunday) sailings to Portsmouth. Services call in at Guernsey en-route, either before or after Jersey depending on the tides and any delays. The crossing takes around 10.5 hours to UK and arrivals in Jersey are scheduled for early morning and late afternoon/early evening. The Commodore Goodwill also provides a once-weekly service to St Malo on a Saturday and the crossing takes around 4.5 hours.

The Goodwill is a freight-only vessel, with a capacity for 1,250 lane metres or 90 x 12m trailers. The Clipper can also take 90 x 12m trailers, and up to 300 passengers and 100 cars depending on how

much freight is being carried. Freight takes priority, and during the Covid-19 pandemic there have been periods when passengers were not allowed on this vessel to protect the crew.

Condor also operates two high-speed craft, the Condor Liberation and Condor Voyager on the route to Poole, and the latter also goes to St Malo. These can carry up to 70 tonnes of light freight each, but are primarily passenger services. The crossing to Poole takes about 4 hours.

LoLo freight services are provided by the following operators:

- **Ferryspeed:** The Musketier operates between Channel Islands and Portsmouth and can carry 176 TEU (20-foot equivalent unit containers). We understand from Ferryspeed that LoLo only accounts for a small proportion of its volumes, the majority using Condor RoRo services.
- **Channel Seaways:** The MV Trinity can carry 100 TEU and operates twice a week between Poole and the Channel Islands including Alderney.
- **Iris Freight:** The Channel Chieftain V is a customised 14m catamaran which provides a daily service between Jersey and Guernsey. Iris Freight have also started using Channel Seaways to enable them to expand into UK markets.
- **Normandy Trader Freight Services:** their cargo ship the Normandy Trader provides regular services to Granville in France.
- **Rozel Shipping:** providing services to Granville.
- **Nostos Marine:** new operator providing weekly service to France
- Specialist companies carrying fuels and building materials.

Most freight imported or exported from Jersey is carried on RoRo services. RoRo cargo has the advantage of being convenient and quicker to unload as it is on wheels, whereas LoLo cargo is handled by crane. RoRo is the mode of choice for time-sensitive goods and those with special requirements, particularly temperature-controlled goods, but has also been increasingly popular for other cargo as well. All temperature-controlled freight imported into Jersey is carried by Condor.

### Triangular routing with Guernsey

As mentioned, the RoRo ferry services operate a triangular routing with Guernsey, which has pros and cons for Jersey stakeholders:

- Condor considers that, although Jersey has about twice the volume of freight of Guernsey, if it had direct sailings to both, there would be certain days when the vessels to Jersey would not be full. Serving both islands therefore increases ferry utilisation.
- Having the flexibility to call at Guernsey makes it easier to fit services around the tides in Jersey. Guernsey does not have such tidal constraints, so services may call there before or after Jersey.
- Stopping at Guernsey adds time to the schedule and increases the risk of delays.
- It is not an issue for the freight operators as they receive consignments for both islands.
- Generally, there are not any problems getting space on the RoRo vessels.

In January 2022, the Government of Guernsey announced its intention to buy a conventional RoRo ferry which it plans to lease back to Condor. This decision is driven by public concern over the resilience of the current ferry service. It is early days, and no details are available on the planned routing and

services, but this will impact on Jersey and could be a positive development to improve resilience and reliability if, as expected, it increases the fleet. As of the finalisation of this report no further details were available on this purchase.

### **Freight logistics operations in Jersey**

The structure of freight operations in Jersey is heavily influenced by the restrictions on Jersey's roads which limit the length, width and weight of vehicles<sup>3</sup>. This means that freight companies cannot follow the standard practice of trucking goods straight from the ferry to their destination in Jersey (retailer or warehouse). Most freight inbound from UK distribution centres and supply points has its sea leg as unaccompanied in 40ft containers placed on a trailer. After arriving in Jersey, it is then broken down into consignments for delivery to customers in smaller trucks and vans. This takes place on the port estate unless the operator has an exemption permit which would allow vehicles to travel on specified routes at specified times, but these are only granted in special circumstances.

The transit warehouses in the port are used more for breakdown of consignments than for storage. Indeed, there are now very few warehouses in Jersey as retailers have moved to 'Just in Time' (JIT) ordering and do not hold significant stocks. As a result, resilience is lower than it used to be, and any disruption or delay is felt very quickly.

Ferryspeed are the main provider of freight logistics services. They are considered by freight operators to account for 75-90% of freight on/off the Island. They have invested in the equipment required to handle Jersey traffic, particularly temperature-controlled goods, and control most of the transit space in Ports of Jersey. Ferryspeed currently handles all temperature-controlled cargo, as it is the only company with the capability to do so.

Ferryspeed has a sister company, Profreight, which handles specialist and delicate cargo. It also handles Jersey traffic for the freight company DSV.

Woodside Logistics was recently acquired by the States-owned Jersey Post, with a view to offering different end-to-end services and providing customers with choice. They share half a warehouse with Ferryspeed and wish to expand.

### **Ports of Jersey**

Ports of Jersey Limited was incorporated in 2015 and is responsible for operating the Jersey Harbours, Jersey Airport, Jersey Marinas, and Jersey Coastguard. The day-to-day operations in the Port of St Helier are contracted to Solent Stevedores, who have the stevedoring licence for Elizabeth Quay and New North Quay, and the professional services contract for managing the Elizabeth Harbour Restricted Zone and New North Quay.

The primary objective of Ports of Jersey is to provide safe, secure and efficient port operations<sup>4</sup>, but as an incorporated entity, it also has the requirement to operate commercially '*in the manner best calculated to secure sustainable growth in the economy of Jersey in the medium to long term*'. A key objective of incorporation was for the Ports to achieve financial self-sustainability, thereby

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<sup>3</sup> <https://www.gov.je/Travel/Motoring/OversizedVehicles/pages/p30.aspx>

<sup>4</sup> [https://www.jerseylaw.je/laws/revised/Pages/03.050.aspx#\\_Toc504060190](https://www.jerseylaw.je/laws/revised/Pages/03.050.aspx#_Toc504060190)

removing their reliance on the States Treasury to fund shortfalls. In particular, the Ports is expected to cover all the requirements of its long-term capital programme and develop new revenue streams.

### **Developments in the freight logistics sector**

The freight logistics sector globally is undergoing rapid transformation through digitisation, environmental issues and changing customer expectations. This creates uncertainty in the future needs of freight logistics, particularly on port estates.

Growth in freight logistics is linked to population growth, but the sector is also experiencing changes in demand patterns that impact on the physical movement of goods:

- The growth of e-commerce is leading to increased demand for warehousing, transportation and deliveries.
- Manufacturing is becoming more customised with items dispatched individually rather than in pallet loads.
- Growing demand for fulfilment centres to re-package consignments.
- Customers have increasingly higher expectations to have goods delivered faster, with flexible deliveries at low or zero cost, and retailers have to be able to respond.
- The Covid-19 pandemic and global supply chain disruptions are making businesses re-consider holding inventory under a 'just in case' model rather than 'just in time'.
- Environmental pressures are growing, and shipping is faced with the need to adopt green fuels whilst the technology is still rapidly evolving. This makes it difficult for ports to plan for future provision of fuel.
- Amazon is buying freight aircraft<sup>5</sup> to ship consignments by air. This is only in the US at the moment and it is early days, but tied in with the growth of e-commerce, could have future implications for the relationship between sea and air freight.

Information technology is already used extensively in logistics, but it is expected that big data will become more important in digitising transport and trade documentation and facilitating data sharing between collaborators in the supply chain.

In Jersey, specifically, there are a number of large construction projects in the pipeline which will lead to importation of building materials. This is further impacted by the need to import sand following the closure of the sand quarry.

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<sup>5</sup> <https://www.modernretail.co/platforms/a-long-term-commitment-how-amazons-cargo-fleet-ambitions-are-getting-serious/>

### 3. COMPETITION ISSUES

In this section, we provide an overview of the key findings with respect to competition issues in the freight logistics market in Jersey. This is followed by further detail of some of the drivers/market characteristics linked to these issues, this includes lack of space in port, transit warehousing/depot capacity, Jersey road restrictions, use of the RoRo ramp, Condor Rate Card, the impact on buyers of freight logistics services and staffing issues.

#### 3.1 OVERVIEW

The key issue that emerged under this area related to the lack of space at the Port of St Helier. The Port of St Helier is physically constrained because of its location within the town, and this causes operational challenges, as well as limiting new entrants and expansion of existing operators because they cannot get additional transit warehousing. Ferryspeed, by virtue of the size of their operation and long-standing presence in the port, hold the majority of the warehousing.

The temperature-controlled business currently lies solely with Ferryspeed, and this has reduced the choice for the supermarkets who import fresh and frozen produce. Significant investment in equipment is required for an operator to have temperature-controlled capability, but it also requires space which comes back to the main issue.

Ports of Jersey are developing a Masterplan for the Port of St Helier. The plans are not yet in the public domain, but they consider moving LoLo to Elizabeth Harbour. The Masterplan provides the opportunity to improve the operating environment, rationalise the use of facilities and create more flexible working areas. However, the implementation of these proposals will not be completed in the short term, and, in the meantime, the space issues will need to be managed.

Freight logistics in Jersey operates within the wider Government policy framework. In particular, the restrictions on Jersey's roads for large vehicles, which is driven partly by the physical capability of the road network, but also cost of infrastructure, environmental and quality of life benefits. This constrains freight operators to breaking down loads on the port estate for onward distribution, hence the need for space in the port.

Another policy area concerns Condor and the operating agreement. The study did not include the Condor Rate Card, but stakeholders have complained that they cannot compete on price because of the volume discount-based structure. Without first addressing issues of the lack of space at the port for warehousing, however, changing the Rate Card would have limited impact on attracting new freight logistics operators, because there is no transit space in the port.

Access to the RoRo ramp was also mentioned; there appears to be some interest in setting up RoRo freight services alone, but this is effectively not permitted under the Condor Operating Agreement as any new entrant would have to provide both freight and passenger services at the same scheduled level of service as Condor.

In effect, all this means that Condor's services are already regulated through the operating agreement, which sets out the characteristics of the service that must be operated; the performance criteria; and it includes the prices charged to freight users (reflected in the Condor Rate Card). Moreover, it was

acknowledged by stakeholders that there is a complex relationship between passenger and freight services and a desire not to jeopardise the provision of passenger services.

In the comparators, the situation regarding landside space in the port is mixed, but none of the other locations have the same restrictions on the roads as Jersey, so they have greater flexibility in delivering goods directly to customers' sites or to inland warehouses/depots. Further detail on the findings from the comparator markets is presented in Annex 2, section A2.2.

### Key findings with respect to competition issues

- Lack of space in the port limits new entrants, constrains growth and introduces potential inefficiencies in operations.
- Warehousing capacity at the port is a specific constraint, in particular in the context of temperature-controlled business.
- Competition in freight logistics is also affected by wider policy matters, for example road accessibility and vehicle restrictions, which reduce the scope for handling freight outside the port. Further, the Condor Operating Agreement makes it difficult to set up new roll-on, roll-off (RoRo) freight services.

## 3.2 FURTHER DETAIL

### Lack of space in the port

Space in the Port of St Helier is physically constrained because of its location within the town, and this causes operational challenges, as well as limiting new entrants and expansion of existing operators because they cannot get additional transit warehousing. All the stakeholders who are active in the port raised space as an issue, and the problems they face as a result are described below.

The RoRo ferry ramps are in Elizabeth Harbour, and Ferryspeed control most of the warehousing nearby.

LoLo is handled on New North Quay, and that is where Woodside Logistics and Ferryspeed share a warehouse.

Trailers are marshalled in the Elizabeth Harbour Restricted Zone (RZ) near the RoRo berths.

Figure 3: Port of St Helier



Source: Ports of Jersey

Ports of Jersey are in the process of developing a Masterplan for the Port of St Helier. The plans are not yet in the public domain, but we understand that they consider moving LoLo to Elizabeth Harbour<sup>6</sup>. The Masterplan provides an opportunity to improve the operating environment, rationalise the use of facilities and create more flexible working

<sup>6</sup> <https://www.bailiwickexpress.com/jsy/news/north-north-quay-and-la-folie-housing-new-ports-plan/>

areas. This is going to take a few years to finalise and implement however and, in the meantime, the space issues will need to be managed. The specific issues faced by the stevedores because of space restrictions in the marshalling areas are discussed in Section 5 below.

### **Transit warehousing/depot capacity**

**Ferryspeed**, by virtue of the size of their operation and long-standing presence in the port, have the majority of the warehousing. Nevertheless, Ferryspeed say they are at capacity, and are re-working some of their depots, but will need more space (20,000 square feet) in the future. Ferryspeed have a lease on development land on the port estate, but we understand that work has stalled due to a question over the need for remedial work on the quay.

The **temperature-controlled business** currently lies solely with Ferryspeed, and this has reduced the choice for the supermarkets who import fresh and frozen produce. It is more practical for them to keep most of their business with Ferryspeed, than to split out temperature-controlled and ambient goods and use different operators.

**Woodside Logistics** have half a warehouse (9,000 square feet) which does not allow them conventional in-out vehicle flow and impacts on efficiency. The location of an electricity sub-station inside their part of the building further reduces their space and impacts on operations. The yard in front of the building can just accommodate a 40ft trailer, but the rest of the area to the quay side is marked out for LoLo. Woodside would like to invest in temperature-controlled freight handling, but cannot fit the equipment inside their building and this is a factor that limits competition. They would also like to invest in the southern route to France, but growing their business will be made more difficult by the lack of space.

The historic legacy of **leases** and their varying duration, means that the allocation of landside facilities has been somewhat ad hoc, and buildings have been occupied by businesses that do not have a direct need to be located on the port estate. Ports of Jersey recognise this, and the joint Woodside /Ferryspeed warehouse on New North Quay is on a relatively short 3-year lease with 6-month review, thus offering flexibility, but there is still a lack of space and nowhere for another new entrant to handle freight.

There are other historic issues which impact on freight operations, particularly on New North Quay. Car parking space is limited, so Woodside have to use half of their vehicle marshalling area for staff cars. There is also a skate park next to the operational areas. Other occupants of the port estate include a DHL courier facility for aviation business, a contact lens despatch centre, residential uses, and the land earmarked for development of a warehouse by Ferryspeed which has been initiated, but not yet progressed.

### **Jersey road restrictions**

The Government has a policy of restricting vehicles on Jersey's roads for environmental, cost of infrastructure, and quality of life benefits, and it also reflects the physical capacity of the road network which in many places is not suitable for large trucks. Vehicles or trailers that are over 2.3m wide, over

6.7m long, over 10,500kg axle weight or with a gross weight over 32 tons, are not allowed to travel on Jersey's roads without a P30 permit<sup>7</sup>.

P30 permits are issued on a temporary or permanent basis for specific routes. They are only issued if considered to be in the public interest. The typical freight vehicles used for longer journeys in the UK and Europe are too large to be allowed on Jersey's roads. This means freight either has to be transported to and from the Island in smaller/bespoke trucks (such as Breakwells use) or broken down into smaller consignments in the port for onward distribution.

### Use of the RoRo ramp

Whilst Ports of Jersey report that there are no issues with the availability of the RoRo ramps, the Condor operating agreement affects their usage. It does not restrict other operators from using the ramps, but they have to provide the same designated RoRo services in terms of passengers and freight as Condor. The base level of service if there is more than one operator is shown in Table 2. It includes freight and passenger services to the UK and France, and both conventional vessels and high-speed services.

As mentioned above, this means that Condor's services are in effect already regulated through the operating agreement sets out the characteristics of the service that must be operated; the performance criteria; and it includes the prices charged to freight users (reflected in the Rate Card). The effect of the agreement is to shelter Condor from competition on the services specified in the agreement, because an additional operator would need to replicate much of what Condor offers and the limited market is unlikely to be able to sustain two operators offering (nearly) the same service, particularly as Condor currently has spare capacity.

**Table 2: Condor Operating Agreement service schedule**

Route	Service	Base schedule (No. rotations)		Maximum journey time
		Peak	Winter	
<b>Northern</b>	Freight RoRo	5 /week	5 /week	Rotation UK – CI (Jersey and Guernsey) – UK in 24 hours
<b>Northern High Speed</b>	Passenger & vehicle	7 /week	2 /week	UK – CI (where a stopover in Guernsey within 5 hours)
<b>Northern Lifeline</b>	RoPax	5 /week	5 /week	Rotation UK – CI (Jersey and Guernsey) – UK in 24 hours
<b>Southern</b>	Passenger & vehicle	12 /week	3 /week	St Malo – Jersey in 1.5 hours
<b>Southern</b>	Passenger & vehicle	7 /week	2 /week	St Malo – Guernsey in 2.5 hours

This is thus a significant barrier to entry for a competitor to Condor. The logic of this from the States' perspective is understood to be that the arrangement guarantees Condor can benefit from maintaining a profitable service, as it prevents other operators from undermining them by cherry picking profitable services. In return, the States has the assurance that a service can be maintained (security of supply), and without subsidy.

<sup>7</sup> <https://www.gov.je/Travel/Motoring/OversizedVehicles/pages/p30.aspx#anchor-1>

If there were no conditions on use of the ramps, others have said they would consider providing RoRo freight services, but it would not be a certainty. It was acknowledged that Condor provides the passenger services as well, and these could be impacted by such a policy. We have heard different views on the cross-subsidisation of services: Condor advised that the summer passengers subsidise winter passengers; others maintain that freight subsidises passengers, or that the fast ferry passenger services are subsidised by conventional services. Jersey services are not subsidised by the Government, though, unlike some comparators.<sup>8</sup>

Stakeholders raised concerns about the environmental impact of high-speed RoRo vessels per se, but also the practical operational and environmental implications of servicing more vessels than are actually needed if new players arrive.

We understand that Ports of Jersey and the States of Jersey are currently renegotiating the operating agreement, which provides a good opportunity for Government to consider the outcomes it wishes to influence with regard to freight logistics. In line with the Authority's prioritisation principles<sup>9</sup>, this is outside the remit of the Authority and the scope of this market study.

### **Condor Rate Card**

The Condor charges for freight are set in accordance with the Rate Card. This specifies the charge per lane metre, and declines in bands as volume increases, based on a 12-month rolling total. As Ferryspeed handles most of the freight on the RoRo vessels, it will be receiving volume discounts which a smaller operator or new entrant cannot access, so the latter will be paying more per lane metre than Ferryspeed. There are substantial discounts available at the highest volume over those for the lowest volume. The Rate Card also gives reduced rates per lane metre for commodity cargo (e.g. building materials), which is cargo more usually suited to LoLo because of its lower value and lower time sensitivity. The commodity cargo rate was not raised as an issue by interviewees.

The study did not include examining the Rate Card, but other stakeholders have complained that they cannot compete on price because of this. Nevertheless, in recent years, Woodside Logistics has been able to establish itself in the market and attract customers, with a focus on aspects other than price, which suggests the Rate Card has not prevented new entrants although its structure will make it harder for new entrants to compete. Even for a company such as Woodside, however, not all customers will be prepared to accept a higher price in exchange for other aspects of service, which could constrain future growth and make it difficult to reach the lower rate bands.

Without addressing issues of the lack of space at the port for warehousing, changing the Rate Card now would likely have limited impact on attracting new freight logistics operators, because there is no transit space in the port.<sup>10</sup>

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<sup>8</sup> It was outside the terms of reference and hence scope of the market study to assess whether cross subsidisation, if any, occurs.

<sup>9</sup> For example, within the principles, under Strategic Significance, it is asked whether the Authority is best placed to act. <https://www.jcra.je/strategic-plans/prioritisation-principles/jcra-prioritisation-principles/>

<sup>10</sup> With respect to the Rate Card and whether, for example, the discount structure may be anti-competitive, this is outside the scope of a market study, which is designed to review the structure of the market. Instead, an investigation into any alleged anti-competitive behaviour of an individual or combination of firms would come under the Authority's responsibility for Competition Law. This would take the form of a separate formal

### **Impact on buyers of freight logistics services**

Consistent with the terms of reference, the focus of the study was not on understanding the market from the demand perspective, so we did not focus our analysis and engagement on buyers of freight logistics services. Nevertheless, for buyers who were interviewed, it was often noted that prices are higher on Jersey than the mainland, albeit it was recognised there are multiple factors contributing to this, for example sea transport costs.

Some stakeholders further commented on issues with track and trace and the need to employ a local 'fixer' if you need to locate a consignment because the system is hard to navigate. It was also noted that inefficiencies in freight handling, particularly arising from congestion in the port, lead to overtime payments which may also be passed on to consumers.

### **Staffing issues**

Another common theme in the stakeholder interviews was staffing issues, with concerns expressed about the difficulty in attracting staff with the necessary skills, particularly in customer services. For freight operators who have to compete on quality of service rather than price, it is important that they have the right people to deliver that service.

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investigation to establish whether there had been a breach of the Competition Law. The threshold to launch an investigation is for the Authority to either have found or be provided with 'reasonable cause to suspect' that individual or a combination of firms are acting in contravention of Competition Law.

## 4. MARKET RESILIENCE

In this section, we provide an overview of the key findings with respect to market resilience in the freight logistics market in Jersey. This is followed by further detail of some of the drivers/market characteristics linked to these issues, including the role of different operators, risks, scheduling issues, LoLo traffic and trade with France.

### 4.1 OVERVIEW

The freight logistics market in Jersey is characterised by lack of diversification. It is reliant on:

- One RoRo operator
- One large freight logistics services provider
- Trade with the UK

There was overwhelming agreement that freight logistics performed well during the Covid-19 pandemic. However, there are risks to future market resilience, and most users were concerned about choice going forward.

Possible adverse events include the failure of the assets such as the RoRo ramp and the vessels; changes in the key operators; and problems with the UK supply chain/logistics.

Jersey has not followed the trend in some other comparators where freight has mostly transferred from LoLo to RoRo, indeed, LoLo traffic remains strong. Although LoLo cannot replace RoRo for convenience and speed of handling, hence would not replace RoRo for temperature-controlled goods, it can be more cost-effective than RoRo and more eco-friendly, and provides an alternative in an emergency.

Jersey is heavily dependent on the UK for imports and exports. Even goods sourced in Europe tend to come via the UK on grounds of cost. This places Jersey at the end of a long supply chain, and subject to knock-on effects from problems being faced in the UK. There was general consensus that having trade with France makes sense. The Covid-19 pandemic and impact of Brexit has also opened eyes to the risks associated with focusing solely on the UK market. Previous attempts to trade with France have not succeeded for a variety of reasons, not least the need for regular services. This seems to be changing as Condor plan to provide some RoRo freight capacity and a new LoLo ferry service starts up.

Most of the comparator islands have concerns about market resilience, mainly due to having one or two ferry services and the growing reliance on RoRo in Scotland in particular. The Isle of Man Government took ownership of the Isle of Man Steam Packet Company in 2018, with the strategic aim of bringing stability to the ownership of the Island's lifeline ferry services. The comparators appear to have lower concentration in freight transport than Jersey, though. Further detail on the findings from the comparator markets is presented in Annex 2, section A2.3.

### Key findings with respect to market resilience

- Jersey is heavily dependent on one RoRo operator / one large freight logistics provider / trade with UK. This could be a potential market resilience risk.
- LoLo traffic in Jersey remains high relative to other locations and, for some goods, offers an alternative to RoRo.
- Proximity to France creates an opportunity to diversify and increase supply resilience.

## 4.2 FURTHER DETAIL

### One RoRo operator

Condor carries all RoRo freight and, until 2018, this has typically represented about 74% of total unitised<sup>11</sup> traffic (RoRo + LoLo) (see Figure 4).

As discussed above, the Condor Operating Agreement sets out service requirements for freight and passengers. This reflects the Government policy objective “..to maintain and develop year-round, long-term, reliable, robust and reasonably priced roll on/roll off passenger, car and freight ferry services”<sup>12</sup>. However, there are risks associated with this relating to:

- RoRo ferry company failure.
- Asset failure with regard to the vessels/ substitute vessels.
- Issues related to tight vessel scheduling and delays having knock-on effects and cost implications, particularly for Just in Time ordering.

Jersey has seen a number of ferry operators come and go, but Condor has been providing services on the UK routes since 1985, and for longer on the French routes. Commodore Shipping, which is now part of Condor, has been established in the freight market for over 70 years. The company therefore has a long track record, and is now owned by a consortium of Colombia Threadneedle European Infrastructure Fund and Brittany Ferries who regard Condor as a “clear sustainable business” proposition<sup>13</sup>. Stakeholders did, however, raise the question of what would happen if Condor did fail.

### Asset risks

If one of the freight ferries breaks down, this will cause problems for the retail sector foremost, but also for freight transporters, stevedores and other customers. Capacity utilisation of freight is about 75% overall, so there would not be enough RoRo capacity to meet demand, but the impact would be greater because of uneven demand. The first arrival in the morning has very high utilisation because retailers want to get fresh produce and short shelf-life goods onto supermarket shelves first thing. The evening vessel carries a large number of empty containers/trailers back to the UK. Wednesday is not

<sup>11</sup> Unitised cargo includes containers, pallets, trailers and trucks.

<sup>12</sup> Sea Transport Policy, 2014 <https://statesassembly.gov.je/assemblyreports/2014/r.099-2014.pdf>

<sup>13</sup> <https://www.bailiwickexpress.com/jsy/news/why-condor/>

so busy during the day, but Thursday nights are. Stakeholders said that they do not have problems with shortages of RoRo capacity when the services are operating normally.

Once this pattern is disrupted, apart from delays/shortages in getting goods into the shops, there will be issues with trailers/containers being stuck in the port, exacerbating current congestion problems, and equipment being in the wrong place. Although the number of units in and out will reach equilibrium after a few days, it would take much longer to clear the backlog of units in the port.

Condor has a contract for a substitute vessel, the MV Arrow, which it brings into service when one of its freight vessels requires maintenance. This vessel could be called on when unscheduled repairs have to be carried out, but the MV Arrow is also deployed as a back-up in the Isle of Man and Scotland, so there is no guarantee it will be available.

The MV Arrow has problems meeting the current schedule; Condor have advised that it can only provide 80% of the service it replaces, but this is offset by the convenience of not having to try and charter a vessel for 2-3 weeks. The contract for the Arrow comes to an end in 2023, so there is an opportunity to consider alternative vessels. In theory there is the option to charter a RoRo vessel, but in practice there are very few that can be accommodated in Jersey/ meet Jersey demand and would be available at short notice.

### **Scheduling issues**

Condor runs a tight freight schedule, and concerns were expressed by stakeholders that the vessels are now too old to manage a 24-hour rotation as there is little time built in for unexpected delays. The Commodore Goodwill entered service in 1996 and the Commodore Clipper in 1999 which means that they are 25 and 22 years old, respectively. The economic life of a vessel is usually assumed to be 25-30 years. Condor considers that they still have 10-15 years life remaining if they are maintained properly. It is fair to say that these vessels could continue in service for a few more years, but the risk of mechanical failures and breakdowns will increase. Condor reports that all the vessels are available for over 87% of the time. It is hard to comment on this, as the impact on freight transportation depends on overall capacity available and whether replacement vessels can be deployed.

The impact of adverse weather on services is complicated. The Ports of Jersey and Condor have reported that the incidence of bad weather is growing – the first named storm was earlier in 2020 than in previous years and winds are becoming more erratic. Although storm frequency is not increasing, Condor reports that the frequency and duration of near gale force winds is. The Goodwill and Clipper are conventional ferries, so they are less impacted than the high-speed craft – this means that services are likely to be delayed rather than cancelled. Ports of Jersey report little weather-related delay in the port for freight.

There is a suggestion that a change that has taken place over recent years, in that ships' Captains have become more risk averse, because of more stringent health and safety regulations and their liability, plus repercussions of shifting loads. Condor have advised that there may have been occasions in the past when they would have sailed, when they would not risk it now.

Irrespective of the cause of delay, if a ferry is late arriving in Jersey, this has knock-on impacts on the stevedores, freight transporters and retailers. This is discussed in Theme 3.

## The RoRo ramps

This is not related to the operating agreement, but there are risks relating to the RoRo ramps. There are two ramps, so it would be very unfortunate if both were out of action at the same time, although it is not inconceivable if a vessel strikes them. However, it would cause significant disruption even if one of them failed; even in normal operations, stakeholders have expressed frustration that priority is always given to passenger services, and freight may be kept waiting.

## One large freight logistics provider

Following the exit of a number of firms, Ferryspeed has become the largest freight logistics provider. In particular, Ferryspeed now services 100% of temperature-controlled freight because no other provider has refrigeration facilities. This has been a gradual process:

- In 2005, Ferryspeed acquired freight forwarder Channel Express, and JCRA expected that this would increase its market share of refrigerated freight from 60-70% to 70-80%<sup>14</sup>.
- In 2012, Condor Logistics ceased trading. They were estimated to handle 10-20% of refrigerated freight in 2005. Ferryspeed were assigned the leases for Elizabeth Harbour Warehouse which had been leased to Condor Logistics and Commodore Properties Limited.<sup>15</sup>
- Bowman Haulage ceased trading in 2019 and they were the remaining handler of refrigerated cargo.

Although Ferryspeed is well-regarded, this exposes Jersey to the risk of being reliant on a single firm, a concern that was raised by several of the interviewees.

## LoLo traffic

LoLo traffic remains strong in Jersey, particularly compared to locations such as Shetland where it is rarely used now. There was a temporary change in 2019 and 2020 when the volume of freight travelling by RoRo increased, as a key LoLo player switched to RoRo then left the market, but RoRo seems to have returned to around 75% in 2021 based on part-year data from Ports of Jersey (Figure 4).

This indicates that there is a future for LoLo in Jersey, particularly with increasing demand for imports of building materials. The stevedores reported that they typically handle 100,000 tonnes by crane on the New North Quay annually, but by October 2021, they had already handled this amount plus aggregates. The sand quarry in Jersey ceased extraction in 2021, and does not have a licence beyond 2023, so sand is being imported. The Proposed Government Plan 2022-2025<sup>16</sup> describes construction projects in the pipeline, for example: over 900 new homes; a hospital; Fort Regent development; improvements to roads, drains and sea defences; and improvements to Elizabeth Castle, schools and other public buildings.

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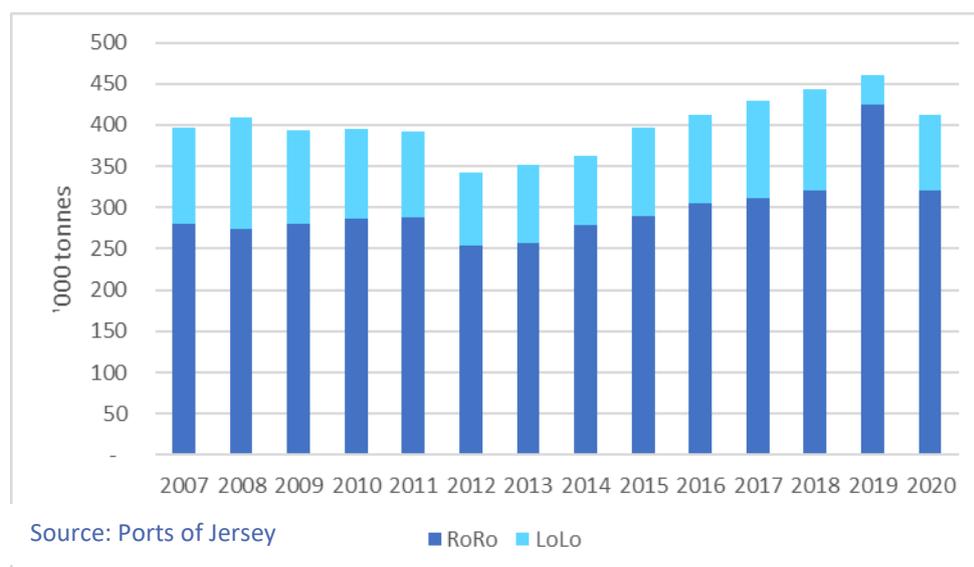
<sup>14</sup> <https://www.jcra.je/media/4069/m005-05-decision-notice-conditional-approval.pdf>

<sup>15</sup> <https://www.gov.je/Government/PlanningPerformance/Pages/MinisterialDecisions.aspx?docid=C79360FD-3ACA-4A82-90D4-404BB8D601FC>

<sup>16</sup>

<https://www.gov.je/Government/PlanningPerformance/GovernmentPlan/pages/governmentplan.aspx#anchor-1>

**Figure 4: Sea freight by type of vessel**



It is unlikely that LoLo will be a practical long-term alternative to RoRo for temperature-controlled freight, but could be used for this in an emergency.

### Trade links with France

Jersey is heavily dependent on the UK for imports and exports. Even goods sourced in Europe tend to come via the UK on grounds of cost. This places Jersey at the end of a long supply chain, and subject to knock-on effects from problems being faced in the UK (staffing, delays, access to parts, etc.).

An option for diversification is to develop trade links with France. There was general consensus that this makes sense. France is closer than the UK and the weather conditions on French routes are more favourable, which reduces potential delays. However, dealing with the UK is straightforward for reasons relating to the ordering policies of the main retailers and their UK counterparts, language, labelling, currency, business culture, etc. Many of those consulted expressed the opinion that there is a real or perceived difficulty in dealing with suppliers in France.

Previous attempts to develop trade links with France and the wider European Union have been hindered by the infrequency of ferry services and cost - a once-weekly service is no use to a supermarket that needs daily supplies of fresh produce. Even for ambient goods, research by one of the stakeholders has demonstrated that it can be cheaper to route European goods via the UK. There has also been a lack of marketing and promotion of the French route, and general lack of awareness. Without demand, a service cannot survive, but without a regular and reliable service, customers will not make the commitment to sourcing goods from the EU.

This may now be changing. The Covid-19 pandemic and impact of Brexit has opened eyes to the risks associated with focusing solely on the UK market. On the supply side, Condor has announced that it will be running five freight sailings per week<sup>17</sup> on the high-speed craft the Voyager, which is already operating to St Malo. In the past, it had no trailer capacity on the fast ferry on the southern route, but

<sup>17</sup> <https://www.bailiwickexpress.com/jsy/news/five-new-freight-sailings-week-france/>

the Voyager does and Condor has recently received certification to carry cargo<sup>18</sup>. The additional cost of carrying freight is thus low because the vessel serves the route anyway. In addition, a new LoLo ferry operator, Nostos Marine, entered the market in 2022 with services to France. They have been working with Woodside Logistics in developing the project.

Nostos Marine plans to sail from St Malo to Jersey three times a week and have started with a once weekly service as they build up the market. They have a general cargo vessel which can carry around 20 x 20ft containers or flat beds on deck. The vessel has a side door and lift which means it can also handle pallets and big bags. Reefers can go on deck, but a cold chamber is planned for palletised temperature-controlled cargo for smaller customers such as hotels. Whilst carrying temperature-controlled foods on a LoLo is not as convenient as on a RoRo, this would provide resilience on this route should there be a problem with the Voyager.

Nostos Marine commented that Jersey Business (which provides free advice and support to businesses in Jersey), has been very welcoming and provided introductions to key players. They

There is also growing awareness of the impact of transport, and shipping in particular, on the environment. Although greener fuels are being developed, reducing the distance goods are transported is the most efficient option: moving goods from France, through the Channel Tunnel, by road to Portsmouth and by long sea crossing to Jersey is inefficient.

Jersey Customs noted that there is a shortage of experienced customs agents in Jersey. Now that the Brexit transition period has come to an end, Jersey has to operate a full external border with the EU, which means full customs declarations and controls will be applied to goods from the EU. Jersey Customs is already experiencing incorrect customs documentation, particularly regarding origin of goods.

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<sup>18</sup> Condor has been granted approval from its classification body, Bureau Veritas, to carry freight on the Voyager. It would be small scale with a capacity for 8 x 13.6m trailers, but is a start. The Voyager has 12 reefer sockets which will allow it to carry refrigerated cargo. It is intended to base the Voyager in St Malo overnight, so it would arrive in Jersey in the morning which is convenient for retailers.

## 5. MARKET OBSERVATIONS

In this section, we provide an overview of the key findings with respect to market observations in the freight logistics market in Jersey. This is followed by further detail on drivers of these findings, which include understanding performance, impact of delays, information technology and innovation, sharing information/communication and carbon issues.

### 5.1 OVERVIEW

The freight logistics sector is undergoing significant change in terms of IT and other technology. This presents challenges to traditional practices, but also opportunities to improve efficiency, enhance customer service, better understand how well services are performing, and reduce waste and make a positive contribution to carbon emissions targets. Improvements in productivity, delivered by increased efficiency, will help to limit inflationary pressures.

We acknowledge the difficulty in securing data to understand how well Jersey's freight logistics market is operating, a problem we faced in this study, and identify improvements which could help support better performance. We also note the 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.

The environment and carbon emissions are also going to play an increasing role and impact the operation of Jersey's freight logistics market. This includes potential future changes in fuels for shipping, alongside changes in how freight vehicles are fuelled. For example, through the use of bio-diesel or electric vehicles.

The comparators have faced similar challenges in monitoring freight services, with the focus largely on passenger services. Data sharing and digitisation is also mixed, but there are initiatives such as the Shetland External Transport Forum and the investment by the Isle of Man Harbours in IT for the tracking of vehicle movements and freight. Further detail on the findings from the comparator markets is presented in Annex 2, section A2.3.

#### **Key findings with respect to market observations**

- There is scope to improve efficiency within the current port constraints, through a better understanding of how freight logistics is operating in Jersey.
- 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.

### 5.2 FURTHER DETAIL

#### **Understanding performance**

From the Government and regulatory perspectives, there is a need to understand the performance of local freight logistics services, the robustness of performance measures used, and how well such measures align with the needs of customers and key players in the sector. Delays, for example, have

impacts throughout the supply chain, as well as to the retailer relying on the early morning delivery of fresh produce. Conversely, the reliance of retailers on Just in Time places additional pressures on freight logistics services.

The Condor Operating Agreement sets out operational performance and customer satisfaction measures covering:

- Cancellations (reliability).
- Schedule performance (punctuality).
- Customer satisfaction.

Monthly Quality of Service reports are submitted to the Harbour Master and the Ferry Services Steering Group (FSSG). These are published on the Ports of Jersey website<sup>19</sup>. If the operator does not meet the standards, they will be required to provide an explanation to the FSSG for discussion and proposals for remediation. If the service continues to fail to meet performance requirements, this could lead to termination of the contract. The agreement gives termination triggers for cancellations, but not for delays to freight services.

If more than 48 hours' notice is given or there was 'no fault', then a cancellation or delay is not included in the performance measure.

The provider is also entitled to amend the schedule "to account for tide times or for reasons of market demand, commercial or economic viability, or operational necessity", provided such amendments do not take the schedule below the relevant service schedule as set out in Table 2.

Table 3 shows the definitions of cancellations and delays as a result of a Fault Event. Disruptions caused by weather, health and safety, scheduled maintenance, or unforeseen or unmanageable events would be classed as No Fault Events.

**Table 3: Ferry operator performance measures relating to freight to/from UK**

Performance measure	Definition	Frequency allowed	Termination triggers
<b>Cancellation</b>	A sailing that is not completed on the day it is scheduled or before 10:00 the following day.	Up to 2 in any quarter	12 cancellations in any 1-year rolling period
<b>Material delay</b>	More than 2 hours overdue	1 in any quarter	None listed for freight
<b>Moderate delay</b>	90 minutes – 2 hours overdue	5 in any 1 year	

The problem with this performance monitoring is that it does not necessarily fit in with the needs of the freight sector. A delay of 89 minutes would not class as a delay, but could mean that stevedores, freight transporters and retailers all incur inconvenience and even overtime costs. Moreover, the performance indicators do not fully reflect what is happening within their definitions, because re-scheduling of vessels is allowed under the Agreement, and the cancellations and delays can be

<sup>19</sup> <https://www.ports.je/reportsstatistics/qosreports/>

measured from the re-scheduled time, not the original timetable. Moreover, when late changes are made to the schedule, this may not be fully reflected in the performance indicators.

Stakeholders were consistent in their view that vessels are having increasing difficulty in meeting the schedule, but this is difficult to confirm as analysis of actual arrival time against original scheduled arrival time, and the precise reasons for delays, is not produced. There is no single cause of these delays, and the weather may be a significant factor, but the monitoring data is not providing relevant feedback.

Jersey is an island and the weather can be bad. People are very understanding of disruptions caused by a storm when they can look out of the window and see it. It is accepted that the monitoring needs to make allowances for the physical and other challenges of operating on Jersey routes. However, there needs to be a greater understanding of what needs to be measured, how it should be measured, the impact of disruptions on all stakeholders, the impact of customers' demands on freight logistics, and how things can be improved to reduce inefficiencies.

The focus on performance falls on Condor because of the operating agreement. There is little information however, on how well the rest of the freight logistics sector is performing. Stakeholders have said that although they have been served well, particularly through the Covid-19 pandemic, there is a lack of innovation, for example in track and trace, and customers do not always feel they are getting the level of service that meets their needs, for example 7 day/week service.

We describe some of the impacts that delayed services have on other operators and customers below.

### **Impact of delays**

**Solent Stevedores** manage capacity in the Elizabeth Harbour Restricted Zone where freight trailers are marshalled. Space is limited as there are only 90 trailer spaces, which is lower than the capacity of the vessels. This is a challenge at the best of times. When the weather is bad, the main priority of the freight operators and Condor is to get goods from the UK to Jersey, not to bring in an empty vessel to take empty trailers back to the UK. Also, Condor is under pressure to meet the schedule and, if they have been delayed, this could reduce the time they have to load empty trailers, which means the trailers get left behind in Jersey. As a result, there is a build-up of trailers in the RZ. Spaces are held for inbound trailers, but as the area fills up, a 'one in, one out' procedure has to be implemented.

Resource is expended moving trailers, double parking them, shunting them around, even using car lanes outside the RZ (when permitted). Solent Stevedores has invested in additional tugs to speed up movements and employ a full time operative to move trailers. Although the freight operators regard the area as not fully fit for purpose, having an independent company controlling the RZ arguably works to maximise the use of the space available.

There is also an issue relating to passenger services and their impact on freight. Passenger vehicles take priority over freight for loading / discharging, and a high-speed craft can take an hour to discharge. If a passenger vessel arrives in port at the same time as a freight vessel, this causes delays to the freight. It is reported that this has become more of a problem with the Voyager, which can carry 180-200 passenger cars. It is not unknown for two or even three vessels to arrive at the same time.

The stevedores have crew in place to handle RoRo between 06:00 and 22:00, and they work split shifts to a maximum of eight hours in the day. So any ferry arriving outside these hours, or inefficiencies during the day which make staff exceed eight hours, will trigger overtime payments. The overtime costs are covered by Condor, but are additional costs in the system.

Similarly, **Ferryspeed** will incur overtime payments, and the added inconvenience of equipment being in the wrong place. Ferryspeed have estimated that they need 30% more equipment to allow for trailers being left behind.

For **the retail sector**, the resilience of the ferries has been described as ‘challenging’, especially when the MV Arrow is in service. They will have staff in place to handle incoming goods, so delays have a knock-on effect right through the chain.

Part of the pressure on freight logistics comes from the Just in Time business model of the customers. Warehouses in Jersey have been closed, and limited stocks are held on the Island, so disruptions in the supply chain have an immediate impact.

### **Information technology and innovation**

There are a range of approaches on Jersey in terms of adoption of IT and sharing of information in freight logistics. Some players have implemented systems such as track and trace, but others have not, preferring to rely on personal communication. New customer facing systems are costly, and for some of the smaller operators, the more hands-on approach works and is arguably proportionate, although time intensive. Even for the larger players, there are gaps in the chain of communication from when a consignment leaves the depot in the UK to when it is delivered to the customer in Jersey.

One stakeholder described the logistics IT in Jersey as “trailing edge” with little tracking of vehicles, packing, digital manifests and so on. This might be attributed to the practices of a UK company not providing manifests early enough, but even when information is available, consignments cannot be tracked throughout. When things are running smoothly, there is not a problem. If a consignment goes astray, then locating it may depend on personal connections and knowing who to call. In the independent canvassing of businesses, businesses were asked to rank some common concerns, and the top three included:

- Traceability and notification of delays – communication and track and trace could be improved.
- Order to delivery lead times – e.g. not being able to guarantee next day delivery; ordering from UK increases lead times and reduces shelf-life.
- Customer service could be improved.

The logistics sector is undergoing a technological transformation with integrated systems, the rise of e-commerce, real-time record keeping, warehouse automation and so on. Not to mention the internet of things, where both equipment and goods can be connected to the internet per se. Whilst some of the advances will not be relevant or proportionate to Jersey, e.g. fully automated large ‘Amazon’ style smart warehouses, it is important that logistics still meets reasonable customer expectations and looks for ways to improve efficiency. Steps are being taken by key players in Jersey and this is to be encouraged.

**Solent Stevedores** have invested in IT in recent years to be compatible with Ports of Jersey, who have upgraded to Office 365 and cloud storage. All the stevedores' quayside paperwork is now on tablets, and detailed data are collected on:

- Vessel scheduled and arrival times.
- Timings for the first/last trailers out and off the top and main decks, similarly for loading.
- Times the ramp was raised/doors closed.
- Scheduled and actual departure times.
- Record of how many trailers were left behind and comments on the circumstances.

The stevedores are encouraging other operators to become more digitised.

**Ferryspeed** have digitised load lists, defect report systems, and are making significant investment in IT to improve the whole customer experience, including a new track and trace system.

**Woodside Logistics** are incorporating the tracking capability that Jersey Post has had to use for cross-border e-commerce, which includes track and trace and identification, digital manifests, etc. They are also implementing new warehouse management systems. Postal services increasingly use radio-frequency identification (RFID)<sup>20</sup>, and Woodside are looking into it for tracking.

**Condor** acknowledged that things have moved fast since Brexit regarding customs clearance, advance passenger information, and the need to dovetail with requirements for international documentation in advance. They have legacy systems that are not as agile as they need to be – it takes three hours to implement a schedule change – and they need to be able to handle big data. They are in the process of identifying how they can remove the 'noise' from their current systems (40% of the content is not needed) to make improvements.

**Customers** all tend to have different IT systems of varying complexity, and there are issues with linking with the freight operators, so this is work in progress.

### **Sharing information/communication**

There appear to be varying levels of enthusiasm for sharing operations data and engaging in open discussions on how services could be improved. Investment is taking place in IT, but a holistic and constructive approach is likely to be required to ensure full benefits are realised and systems are interoperable.

As discussed in section 3, space is tight in the port and this places pressure on all parties when there are disruptions, thus there is an even greater need to communicate to reduce the amount of 'juggling' and management of inefficiency required to keep things moving. Timely communication regarding ferry services in particular could be improved.

The aviation sector is completely regulated, so collaboration between stakeholders and governments is well-established, largely driven by safety, but also the need for cost control and efficiency improvements. For example, the European Commission has laid down a performance and charging scheme for the Single European Sky which is monitored by EUROCONTROL, an intergovernmental

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<sup>20</sup> Digital data is encoded in RFID tags or smart labels which can be read remotely

organisation which also provides support across the aviation community and shares data<sup>21</sup>. Individual air navigation service providers have to justify their cost base for the setting of en-route airspace charges.

Freight logistics lags behind in terms of collaboration, but with improvements in systems and increasing awareness of environmental impacts, there is the opportunity and increased incentive to share information.

The stevedores share vehicle condition reports, safety checks and incident reports directly with Ports of Jersey. They have also initiated sharing the data on handling of each ferry referred to earlier, initially with the Port, but they are encouraging Condor to engage with it as well, and it could be rolled out to other operators. The overriding objective is to improve the service by identifying problems and weaknesses, not to apportion blame. This could inform the monitoring as, for example, a ferry may be delayed leaving because the stevedores asked them to stay for 30 minutes to clear trailers from the compound.

Customers may not realise the pressure that Just in Time places on the freight logistics services and the constraints that the operators work under. Holding stock does not have to be inefficient and costly if it is managed well.

### **Carbon emissions**

The environment agenda is likely to become ever more prescient, particularly as the States, in the Carbon Neutral Strategy 2019<sup>22</sup>, have adopted the ambitious aim of achieving carbon neutrality by 2030. Scope 3 of the strategy is *“the emissions associated with the manufacture and transport of the goods and services consumed in Jersey. This includes the full life cycle emissions throughout a supply chain”* and includes *“the burning of marine diesel when shipping food to Jersey”*.

Freight logistics can make a positive contribution to the strategy by:

- Adopting green fuels for shipping: proposed alternative fuels for shipping include LNG as an interim solution, ammonia, hydrogen, methanol and biofuel. It may be possible to make a round trip from UK without re-fuelling in Jersey, but for security of services, Jersey would need the capability.
- Green fuels for landside operations – this is already underway, for example, Woodside Logistics vehicles use biodiesel and Ferryspeed are looking into electric vehicles.
- There is speculation that the days of fast ferries are numbered because these might either be regulated out of use, or the cost of fuel render them uncompetitive.
  - IT and technological innovations can help improve efficiency, give better asset utilisation, and reduce waste.

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<sup>21</sup> <https://www.eurocontrol.int/prudata/dashboard/vis/2021/>

<sup>22</sup> <https://statesassembly.gov.je/assemblypropositions/2019/p.127-2019%28re-issue%29.pdf>

## 6. RECOMMENDATIONS

In this section we present our recommendations, within each recommendation we identify the most appropriate stakeholder to lead the implementation, whilst recognising that there will need to be work and support by a wide pool of stakeholders to be successful.

This study has identified that increasing diversity in freight logistics services providers is, given the constraints on using the Island's roads, heavily dependent on having enough capacity within the operational harbour estate.

The Ports of Jersey Masterplan for the Port of St Helier offers potential for reshaping and expanding transit space. A lot rests on this. It is important that the Masterplan process proceeds, and that landside operations are specifically addressed; Ports of Jersey are aware of the need to support freight logistics services and clear Government policy will help ensure a clear vision for the sector. However, the Masterplan is some years away from being fully implemented and the space constraints are already biting, so there is a need to take action in the interim.

Further, the Authority, through its role as the ports' regulator, can also help influence the implementation of these options. For example, by considering steps to support their implementation within the context of the upcoming Regulatory Framework Review for Ports of Jersey included in the Authority's 2022 Business Plan and due to commence in autumn 2022.

Recommendations 1-4 are intended to address current problems faced by freight logistics and bridge the gap until the Masterplan and wider supporting elements are delivered. They therefore need to be implemented quickly, ideally within the next year to help make competition more effective.

Recommendations 5-7 concern the Masterplan and wider policy framework, the development of which needs to run alongside the short-term recommendations, and we envisage these will be delivered over the medium term.

### RECOMMENDATION 1: REVIEW OF FACILITIES AND CURRENT LEASING ARRANGEMENTS AT THE PORT OF ST HELIER

A review of port leasing is suggested to gain a clear understanding of who currently controls what, when the leases expire and whether they contain any break clauses. Following on from that, the Ports of Jersey should develop a coordinated leasing strategy for the allocation of port land and how freight logistics will be overseen. The future leasing / contracting policies adopted by Ports of Jersey should investigate the feasibility of reserving certain facilities for operating on a common user basis, to provide flexible space.

The trend on the mainland has changed from having warehouses out of the port towards 'port-centric logistics' where businesses fulfil orders directly from the port, rather than using an intermediate distribution facility. This allows them to deliver products very quickly. There is also a growing expectation to 'drop ship' goods i.e. where retailers expect manufacturers to deliver directly to customers. The growth of e-commerce is changing the way that people shop and depots/warehouses on the port estate have become a strategic hub within an evolving supply chain. Operators in Jersey

have to operate the port-centric model because there is no choice, but in terms of efficiency, it is now considered good practice.

Freight logistics systems and operational practices may become increasingly driven by objectives related to minimising environmental impact. Ways to decarbonise include consolidating orders into fewer deliveries, incentives to reduce demands for very fast delivery, and expanding click and collect services. This may impact on the way that warehousing space is used in the port and hence the amount required in the future.

In the shorter term, there are some areas that could be looked into to increase competition by allowing new entrants to come in.

## RECOMMENDATION 2: REVIEW OF TRAFFIC/ACCESSIBILITY ISSUES TO CREATE TEMPORARY AND TARGETED FREIGHT CORRIDORS

Freight logistics in Jersey operates within the wider Government policy framework. In particular, the restrictions on Jersey's roads for large vehicles. This constrains freight operators to breaking down loads on the port estate for onward distribution, hence the need for space in the port.

Discussions should take place between Government and Driver Vehicle Standards on whether it would be possible to relax some of the road restrictions, perhaps in the form of a freight corridor, as a temporary measure until the Masterplan proposals are implemented. This was allowed during the Covid-19 pandemic. Having large vehicles on the roads, however, is an emotive subject so it is important that such delivery highways are as short and few as possible, targeted and time limited.

This could help facilitate further competition. If there was certainty that a corridor could be given effect until the Masterplan is implemented, this could encourage further investment in facilities, for example facilities enabling additional handling of freight outside the port.

## RECOMMENDATION 3: SUPPORT INITIATIVES TO DRIVE IMPROVEMENTS IN OPERATIONAL EFFICIENCY WITHIN CURRENT CONSTRAINTS AT THE PORT OF ST HELIER

A new code of practice on expectations for data reporting should be developed, based upon analysis of what would actually be needed to provide meaningful monitoring of freight logistics services. This code could cover what is reported, by whom and when.

There are many supply chain key performance indicators (KPIs) that could be set, but the focus should be on measures and information sharing of things that really matter to increasing operational efficiency and meeting customer needs in freight logistics. It should not be a burden and metrics should not be easily gamed. A good starting point could be the operational data that Solent Stevedores have started gathering (see section 5.2 – Understanding performance 5.2 ).

Metrics and data reporting need to be developed for all significant players in the supply chain i.e. port, ferries, stevedores, freight operators and customers; this is not just about ferry operations although they are crucial and a better understanding is required of the factors that affect reliability, so that the whole sector can work together. These should not be developed in isolation, but take account of what is important for other parts of the supply chain to function efficiently. The metrics also need to take

account of context, for example, it may be beneficial overall for a ferry to leave late, if that enables containers to be cleared from the yard, as long as that does not lead to knock-on delays.

Consideration should also be given to the interfaces between the IT systems used by different stakeholders, what data could be shared and how, and whether in real-time or not. It is important that data communication should be easy and not time-consuming.

The experiences of buyers of freight logistics services should also not be forgotten in this. Steps should be taken to ensure a better understanding of their experiences of the Jersey freight logistics market and areas where improvements can be generated for the benefit of all parties.

Given the broad suite of potential initiatives as set out above, Ports of Jersey, is best placed to lead their implementation.

#### RECOMMENDATION 4: ESTABLISH A FREIGHT TRADE ASSOCIATION, TO DRIVE EFFICIENCY AND SUPPORT INNOVATION IN THE SECTOR

The establishment of a Freight Trade Association to encourage the sharing of ideas; greater communication and collaboration between all players in the supply chain; and to drive improvements and innovation, particularly digitisation. The response from a wide variety of stakeholders, both service providers and customers, about participating in such an association has been very positive.

The potential impact and longevity of such soft measures should not be underestimated. At their best, they provide the right balance between driving competitiveness, whilst at the same time encouraging cooperation for the benefit of the market as a whole.

It is important that such an association provides a safe place for members to talk about what is not going so well, manage expectations and make suggestions for improvement in a constructive manner. An independent body such as Jersey Business would be well-placed to manage the association.

Safeguards would need to be put in place to ensure no exchange of sensitive commercial information takes place amongst competitors during such forums to ensure compliance with competition law requirements. The Authority Competition Guideline on Trade Associations<sup>23</sup> gives examples of the considerations that should be taken in setting up a Trade Association.

#### RECOMMENDATION 5: DEVELOPMENT OF A GOVERNMENT POLICY FRAMEWORK TO SUPPORT EFFECTIVE COMPETITION IN FREIGHT LOGISTICS, INCLUDING A PORTS POLICY

We recommend that the Government develops a policy framework which ensures that the needs of freight logistics are met not only through port facilities being fit for purpose into the future, but addressing wider issues impacting on the sector.

Government policy and activities impact on the freight logistics sector in different ways, directly and indirectly:

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<sup>23</sup> <https://www.jcra.je/media/598534/guideline-3-trade-associations.pdf>

- The Condor Operating Agreement and Rate Card. The Government of Jersey is currently renegotiating the Operating Agreement, which provides a good opportunity for Government to consider the outcomes it wishes to influence with regard to freight logistics.
- The commercial objectives of Ports of Jersey may lead to decisions such as selling off port land for housing development, in order to cover capital expenditure costs, particularly for the Masterplan, which would limit options for meeting future requirements.
- Road restrictions on freight vehicles.
- Ability of freight logistics companies to recruit the right staff, which is partly related to immigration policy and to housing shortages.
- Environmental policy, particularly for carbon emissions, which could, for example, impact on the future of high-speed craft and hence passenger and freight shipping services as well as the demand for green fuels in the port.
- Public sector infrastructure projects which will increase requirements for building materials.

A key enabler here is the approach to the Ports of Jersey. The development of a clear Government policy for Ports regulation was recommended in the 2015 Jersey Regulatory and Competition Framework Review.<sup>24</sup> This was followed up by the Office of the Comptroller and Auditor General in 2019 in its Report into 'The States as Shareholder' where it recommended that such a policy should be prioritised by the Government.<sup>25</sup> A Ports Policy will help provide clarity on Government policy and ensure a common position between Government (as both policymaker and shareholder), regulator and industry that would enable the identification of a clear vision for the port.

#### RECOMMENDATION 6: THE PORTS MASTERPLAN TO SUPPORT EFFECTIVE COMPETITION IN FREIGHT LOGISTICS SECTOR.

Typically speaking, port bodies tend to focus their energies on the waterfront interface, and there is a need for detailed consideration and planning of how facilities and outside space for freight logistics services can be shaped in future to improve the scope for competition. It is important on several levels that Jersey has the flexibility of infrastructure and superstructure to meet the changing needs of the sector.

The **future fuels** for shipping, for example, could require additional space in the port. The technologies are still being developed and shipping companies are waiting to see which are the most feasible technically and economically before they commit; under consideration are battery, hydrogen, ammonia, methane, biofuels, and LNG as a transition fuel. It is quite possible that not all the shipping companies using Jersey will use the same fuel.

To ensure freight is not overlooked, Ports of Jersey should consider a specific sub-project for an associated Masterplan for freight logistics facilities, which should include future flexibility as one of its key objectives. Within this, consideration should be given to the feasibility of having third-party

<sup>24</sup> This recommendation covered each of the sectors regulated by the Authority, including its policy for promoting competition or direct regulation. See:

<https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20A%20review%20of%20the%20Jersey%20regulatory%20and%20competition%20framework%2020151123%20VP.pdf>

<sup>25</sup> Recommendation R3, see: <https://www.jerseyauditoffice.je/wp-content/uploads/2019/03/States-as-Shareholder-Follow-up-Report.pdf>

logistics (3PL) operated multi-user warehouses, leased from Ports of Jersey, which could offer the capability to manage peaks and troughs in demand and provide maximum flexibility to meet the needs of all port users.

Unlike most of the comparators we looked at, Jersey still has LoLo freight, and it also has spare capacity on its LoLo services. Although LoLo cannot replace RoRo for convenience and speed of handling, it does have advantages:

- LoLo vessels can be more cost-effective than RoRo because they are more space efficient.
- They are more eco-friendly – a RoRo vessel emits three times the amount of CO<sub>2</sub>e per tonne-km compared to an equivalent general cargo vessel<sup>26</sup>

RoRo will remain the easier option, particularly for temperature-controlled and time-sensitive freight, but LoLo can provide a back-up service particularly for frozen goods.

The Ports of Jersey should review and address any infrastructure requirements to support LoLo services and ensure that there are reefer points (electrical supply) on the quayside for temperature-controlled goods, thereby supporting diversity.

#### RECOMMENDATION 7: SUPPORT THE DEVELOPMENT OF EXISTING AND NEW FREIGHT ROUTES TO FRANCE

Developing additional supply chains via France is an option for diversification, and there is already interest from retailers and wholesalers, particularly to enable new products to be offered. This may prove more successful now than it was in the past for a number of reasons:

- Significant investment in new passenger and freight handling facilities is planned for the Port of Saint Malo - in particular improvements to the berthing and ramp arrangements, which will make it easier for the high-speed craft to dock.
- Solent Stevedores expanded into St Malo in 2021 and bring their experience of the UK and Channel Islands markets, as well as working relationship with Condor.
- Condor now owns a freight forwarding, shipping and customs agent, Morvan Fils, which specialises in the Channel Islands and UK freight markets. This company has a warehouse in St Malo port and can handle customs clearance documentation. Condor now has approval to carry freight on the Voyager.
- Further LoLo capacity on the route will be provided by a new entrant, Nostos Marine who commenced services in 2022.
- Retailers are starting to look to France to extend their product lines and investigating solutions to issues such as re-labelling.

The initiatives from both existing and new operators to establish services to France are to be welcomed and encouraged. Open communications should be established so that any problems can be addressed.

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<sup>26</sup> <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021>

Government stimulus funding to support services until they are established would send a strong signal to customers that it is worth making the necessary investment (such as in barcode labelling) in trading with the EU.

Support should be provided to ensure the necessary customs skills are available through recommending frequent importers and customs agents attend a course at the UK Customs Academy.

Further independent market research may be required to establish the size of the market and support its development and growth, based on which information on market potential can be disseminated. For example, this could be via business support groups.

We explored the possibility of connecting France with the UK via Jersey to improve back-loads on the Jersey – UK leg. However, under current operations, the same vessels would not be used on both legs, so goods would have to be transhipped through Jersey. The Brittany Ferries ships that operate between the UK and France are too large to berth in St Helier.

## ANNEX 1: THE ROLE OF ECONOMIC FUNDAMENTALS

A number of factors are likely to influence the structure of the freight logistics market currently observed. As a starting point, our market study is trying to distinguish between economic fundamentals and non-economic barriers. This distinction is driven primarily by whether regulatory and/or policy drivers can be adjusted to influence the extent of competition in the market.

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 we find barriers to competition that are not economic fundamentals, then the market study can suggest in its recommendations potential mitigations to these barriers.

In this section we set out and assess the extent to which these factors apply to Jersey. The assessment is at a high level and qualitative, consistent with the market study framework. We did not carry out a detailed analysis of margins and pricing of market participants, for example to determine minimum efficient scale, because the data was not available.

Our assessment is that the situation in Jersey, in particular in freight logistics, does not reflect economic fundamentals, for example, freight logistics cannot be characterised as a natural monopoly type-activity, and there are options that would help improve competitive outcomes and benefit consumers. With respect to freight logistics, the services in Jersey are highly concentrated. As such, Jersey is an outlier when compared to international comparators, where multiple providers are the norm.

With respect to the ferry services, there is only one RoRo operator. A second RoRo freight service is not economically feasible under the Condor Operating Agreement, as any new entrant would be required to provide both freight and passenger services at the same scheduled level of service as Condor.

In contrast, LoLo has a number of competing providers. This may be in part as LoLo does not have the same requirements as RoRo with respect to providing a set level of service(s). This results in lower barriers to entry, which are also supported as LoLo vessels are more widely available and at a lower cost, than for example a RoRo ferry. LoLo services also provide a competitive constraint on RoRo at the margins.

While there are segments of freight logistics which require significant investment, such as cold chain facilities, which will affect minimum efficient scale, there is the potential for small scale entry and growth. For example, Ferryspeed, who are the largest company, started small and grew over a number of years.

Within this context it is important to understand possible reasons why the freight logistics market is concentrated on Jersey. Our analysis has identified a number of potential drivers:

- Geography, as by nature of its location and focus of the services from the UK, the long crossing means that equipment is less productive than on short routes as it spends a larger proportion of its time in transit.
- Demand for temperature-controlled goods, which require significant investment to service.

- Condor Rate Card, this offers discounts by volume, with substantial discounts available at the highest volume over those for the lowest volume.
- Requirement for transit space, Jersey road restrictions<sup>27</sup> require freight to be broken down and distributed in relatively small vehicles. This means a company can only offer such services if it has access to transit space in the port.
- Higher costs of service, linked to the need for transit space, there are additional costs to serve the market, because a freight operator may need to invest in more equipment in Jersey than they would in other locations, due to the need to break down consignments for delivery and distribution.

As Ferryspeed handles most of the freight and operates most of the transit space in the port, they benefit from volume discounts because of the structure of the Condor Rate Card. Moreover, as a result of the additional requirements to service the Jersey market, e.g., vehicle configuration and additional containers, new entrants may be deterred because they cannot find the required transit space, and/or because they cannot generate sufficient scale to effectively compete.

Further, the profile of customer demand also impacts competition. For example, the requirement for temperature-controlled goods requires investment and space, two key constraints. Purchasers of these services are also likely to have ambient freight and certain customers may wish to contract with a single supplier for different types of freight. This could have a bearing on countervailing buyer power.<sup>28</sup>

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<sup>27</sup> The policy of restricting vehicles on Jersey's roads offers environmental, cost of infrastructure, and quality of life benefits, and also reflects the physical capacity of the road network. Any additional costs that this imposes with respect to freight logistics services, constitute the price to pay for this. This does not necessarily prevent competition in supply of such services.

<sup>28</sup> For example, this could come from the ability of buyers of freight logistics services to switch to other suppliers, or to vertically integrate into the freight logistics market or to sponsor upstream expansion.

## ANNEX 2: FREIGHT LOGISTICS MARKETS IN COMPARATORS

In this annex we set out findings from our analysis of the comparator markets to Jersey considered for the study. We first provide an overview of comparators, before then setting out the comparisons for each area considered in the report, that is competition issues, market resilience and market observations.

### A2.1 OVERVIEW OF COMPARATORS

The criteria for choosing comparator markets were those with physical characteristics or some indicators in common with Jersey. It is clearly not possible to find a mirror image of Jersey, but comparisons can be made, and lessons learned, from other locations.

Table 4 shows some key characteristics of the comparators. Jersey has a larger population than the others, and the second highest GDP per capita. Although the Isle of Wight has the next highest population to Jersey, it has lower GDP per capita, and is much closer to the mainland and has more freight ports than the other locations. Guernsey was not included as a direct comparator because it shares ferry services and freight operators with Jersey, although we have commented on certain aspects of freight logistics in Guernsey where appropriate.

Table 5 summarises the supply of freight logistics services in each location. This is based on those companies that have a physical presence in the location or we know are active there. They are defined as freight logistics in business listings, so do not include companies that are essentially couriers or removals. They do not include the ferry companies.

**Table 4: Key characteristics of comparators**

	Population	GVA/GDP per capita	Distance from mainland nautical miles (nm)	Number of ports <sup>29</sup>
<b>Jersey</b>	107,800	£45,320	167 (Portsmouth) 37 (St Malo)	1
<b>Isle of Wight</b>	141,000	£27,100	10	3
<b>Menorca</b>	93,397	£24,487	115-220	2
<b>Isle of Man</b>	83,314	£65,163	40	1
<b>Bornholm</b>	39,439	£32,108	40-100	1
<b>Shetland</b>	22,870	£25,320	202	1

Source: Fisher Advisory

<sup>29</sup> Main ports that handle freight.

**Table 5: Overview of freight markets in comparators**

	No. of RoRo operators	No. of LoLo operators	No. main freight sea routes served	No. of freight companies
<b>Jersey</b>	1	5+	2	2+
<b>Isle of Wight</b>	2	0	3	6
<b>Menorca</b>	2	0	3	7
<b>Isle of Man</b>	1	1	2-4	3-10
<b>Bornholm</b>	1	0	3-4	5
<b>Shetland</b>	1	0	1 <sup>30</sup>	4-10

Source: Fisher Advisory

### Ferry services companies

The first observation is that only Jersey and Isle of Man have retained LoLo services. In all other locations freight is carried on RoPax vessels (which can carry freight and passengers), and/or freight-only RoRo.

Most of the comparator islands, in common with Jersey, have one RoRo ferry operator providing services that carry freight (either freight-only RoRo or RoPax). The exceptions are Menorca and the Isle of Wight which have two. These are supported by Menorca having a substantial tourism sector, and the Isle of Wight having around 3,000 commuters per day to the UK mainland, as well as strong tourism.

The comparators have often faced similar issues to Jersey with a general difficulty in attracting new ferry operators and retaining existing ones:

- **Menorca:** In 2020, the surprise near collapse of Trasmediterránea threatened core services to the Island. The company faced financial difficulties attributed to the impact of the Covid-19 pandemic on Menorca’s tourism sector. The ferry company was hit by the drop in passenger numbers and lower demand for freight from the tourist sector. This has now been settled through a merger and asset swap, but only one company (Grimaldi) was interested.
- **Bornholm:** Five companies were called to tender for the service in 2011, but only one did and this was the state consortium, which was legally obliged to bid. Other potential operators may have been deterred because the two routes are public service obligation (PSO) routes with low demand in winter months, and they would have been up against a company that was 50% state-owned, which meant that the state would bear some of the commercial risk, and 50% owned by the Nordic Ferry Services which was backed by Clipper A/S, the second largest Danish shipping company. As a result, the other potential bidders may have considered that they would face higher risk and be less likely to win the contract.

<sup>30</sup> Some sailings between the mainland (Aberdeen) and Shetland call at Orkney en route

- **Isle of Man:** In 2018, the Isle of Man Government took ownership of the Isle of Man Steam Packet Company, with the strategic aim of bringing stability to the ownership of the Island's lifeline ferry services.
- **Isle of Wight:** there is general concern about lack of competition, and successive MPs have asked the UK Government to oversee ferry timetables, take steps to assist new ferry operators, look into issues such as debt levels and impose service level obligations. In November 2021, Isle of Wight MP, Bob Seely, made the case in Parliament for a public service obligation to be imposed on cross-Solent transport providers to legally mandate ferry companies to run a certain number of services each day and at certain times. He also asked for Treasury support to the Isle of Wight Council or Department for Transport in taking a share in one of the ferry companies.

Many of the island services receive direct or indirect financial support:

- Direct service subsidy:
  - Bornholm: around £16 million per year via service tender.
  - Orkney and Shetland: the current holder of the Scottish Government contract-Serco Northlink Ferries-receives a Scottish Government subsidy of £75 million per year for combined services.
- Indirect subsidies via discounts to islanders:
  - Menorca and Shetland.
- Preferential / monopoly access:
  - Menorca: control of terminal and warehousing in Mahon.

In Bornholm and Menorca, there is competition in the summer months as other ferry companies put on seasonal services.

### **Shetland triangular routing**

There is a triangular routing from Aberdeen – Orkney – Shetland. About half of the RoPax vessels which can carry freight will stop at Orkney en-route. Of the 10 freight-only sailings per week, seven are direct to Shetland and three call at Orkney. There have been calls for Shetland to have more direct sailings to/from Aberdeen, and for more sailings by freight vessels. However, there appears to be limited understanding of the demand for the link to Orkney, and the economic needs it is serving.

Some stakeholders report that the system works to a degree, but there is little or no capacity for growth. Apparently, the ferry services are constraining some business investment, for example, the Shetland fish markets are not operating at full capacity because some fishing boats will not land their catch there in case the fish cannot leave the Island the same day. It is also considered that tourism numbers are being suppressed because the level of freight movements made using the RoPax vessels is displacing passenger cars. Extra tonnage is seen as the solution, and it has been suggested that the MV Arrow could be deployed for Orkney and Shetland between September and April.

### **Freight logistics services companies**

The comparators have lower concentration in freight transport than Jersey. The Isle of Man and Shetland both have four substantial operators and at least six others. In the Isle of Wight and Menorca,

there are at least six companies providing freight logistics services and five in Bornholm. These appear to be separate companies rather than, for example, Ferryspeed and Profreight. It is difficult to identify whether these companies are focused on the comparator location, as many operate on a nationwide basis, but we have not included companies that happen to advertise that they will deliver to these locations, but do not have a depot or address there.

We do not have information on the market shares of these companies and, as with Jersey, it could be that a small number handle most of the freight. In Shetland, each of the big three or four companies tends to have a specialism such as fisheries exports, higher volume/lower value goods like agricultural and building products. Also, in the last six years, Shetland Transport and JBT have been taken over by DFDS and Menzies respectively.

## A2.2 COMPETITION ISSUES COMPARISONS

### Space in the port

Regarding landside space in the ports, the situation is mixed, but none of the other locations have the same restrictions on the roads as Jersey, so they have the flexibility to deliver goods straight to customer sites or to inland warehouses/depots, and to hold goods at site until they are sent to the port for loading.

- **Isle of Man:** The Port of Douglas is constrained:
  - There are issues with space in the marshalling area being very tight, with no clearly defined separation of freight and passenger traffic. However, for most of the year, the situation is satisfactory, and it is only during the TT Races in June/July when space is at a premium that the movement of freight is slowed down.
  - There is no space in the port for warehousing/depots. However, freight operators are able to locate their facilities around 10-15 minutes away from the port and they do not see this as a problem.
- **Shetland:** Lerwick Harbour can be constrained for space when there is a backlog of trailers to clear, as this then impinges on the space available for vehicle marshalling. However, it is not a problem most of the time. Warehousing space is generally not an issue in Shetland.
- **Menorca:** Although there is limited parking around the RoRo berths, there is enough space around the freight terminal. There is 60,000 m<sup>2</sup> of open storage at the Cos Nou Quay which is used by RoRo, bulk freight and container traffic. The port operator has no covered storage.
- **Isle of Wight:**
  - There have been complaints by local residents about congestion outside some of the ports. When marshalling yards fill up at peak times, car and HGV traffic backs up on local roads. This seems to be more of a traffic management issue, as Wightlink has made changes to its terminal to increase the number of lanes so that cars and HGVs can be separated, plus it installed an upper level linkspan in one port to speed up loading.
  - The Isle of Wight has very frequent ferry services (25-45 per day with crossing times up to an hour) which means it is practical to have the warehousing in Southampton rather than on the island.

## Access to a RoRo ramp

The users of the comparator ports do not report any issues with availability of berths.

- **Isle of Wight:** The ferry operators have their own berths/terminals.
- **Bornholm:** There are two quays dedicated to ferry traffic plus a third quay for overflow use by the high-speed craft.
- **Menorca:** The Port of Mahon has two RoRo berths plus a freight berth.
- **Isle of Man:** The Isle of Man Steam Packet Company (IOMSPC) has a Sea Services Agreement with the Isle of Man Government which prevents the use of Douglas Harbour linkspans by any other ferry operator, if they propose to serve some or all of the ports that are served by IOMSPC, unless IOMSPC is in breach of the Sea Services Agreement at that time.

## Pricing

### Isle of Man:

- The structure and level of freight rates/rate structures are set out in the Sea Services Agreement<sup>31</sup>. Fares are capped at the Standard Freight Fares (150% of this for high trailers). There are discounts for customers using more than 300,000 HGV freight lane metres per year, related to volume shipped in the previous year. However, the discounts “must not be primarily designed to adversely impact the continuing operation of any business on the Isle of Man whose main business is the transportation of third-party freight by sea”.
- Time- sensitive goods (notably destined for supermarkets) and other retail goods pay full rate. Most other goods are charged at a cheaper commodity rate on the understanding that they are not guaranteed to be moved on a desired day, especially during times of higher vehicle demand such as during the TT Races.
- Rates are cheaper out of the Isle of Man than to the island, reflecting that most freight is imported rather than exported, with most trailers leaving the island empty. Empty flatbed trailers are stacked on the ferry.

**Shetland:** Fares are set by the Scottish Government (see Table 6 below). Advanced booking rates are available for bookings more than three days in advance of scheduled sailing, and these amount to 10% discount for self-propelled and 16% for unaccompanied trailers. Empty rates are available, booked in advance, for articulated trailers subject to space availability and where a corresponding journey has taken place at the drop trailer rate. There are no volume-related discounts.

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<sup>31</sup> <https://www.gov.im/about-the-government/departments/infrastructure/strategic-sea-services/>

**Table 6: Northlink Ferries' commercial rates 2022**

Lerwick to Aberdeen (£ per lane metre, excluding VAT)					
Advanced Booked			Three Day Premium		Bulk Bag (per bag)
Self-Propelled	Drop Trailer	Empty Drop	Self-Propelled	Drop Trailer	
43.53	44.25	17.65	48.16	52.78	11.06

Source: Northlink Ferries

**Bornholm:** For subsidised lifeline service, there is a maximum limit on average prices which allows the ferry company to use peak pricing.

**Isle of Wight:** There is free market pricing here, but there are calls from local politicians and residents for public service obligations to be applied.

### Temperature-controlled freight facilities

In the comparators, there are no restrictions on the road network, which means that refrigerated goods do not need to be split for distribution in the port, so there is not the same pressure for freight operators to have cold chain facilities on the port estate.

**Shetland:** there is a choice of freight transport companies who can carry refrigerated goods. There are two main carriers of seafood, but others have refrigerated capability. If one of these specialists were to go out of business, then it is expected that another company would step in and that the multi-national companies that produce and sell Shetland seafood would move quickly to ensure that the supply chain was maintained.

## A2.3 MARKET RESILIENCE COMPARISONS

### Resilience of RoRo services

Resilience issues have been identified on most islands, mainly due to having only one or two ferry operators, limited berths and few vessels.

The ending of LoLo operations to Orkney and Shetland in 2017 meant a transfer of freight traffic to the Northlink RoRo services. While all the former LoLo traffic was accommodated, it could be argued that this has constrained capacity to accommodate growth in freight traffic to/from Shetland. However, Transport Scotland are developing plans to replace the two current Northlink freight vessels in 2026 and these will have greater capacity than the two current freighters.

It is acknowledged that replacement vessels usually provide a poorer quality of service. Resilience is strongest where the Island has more than one port and operator (Menorca), and availability of back-up vessels is better on the islands that are served by larger fleets (Isle of Wight and Menorca), or have ferry operators with access to large regional fleets (Menorca).

Recent experience, however, showed that certainly in the Isle of Man and Shetland, services held up well during the Covid-19 pandemic. At the start of the first Covid-19 lockdown in March/April 2020,

freight traffic fell sharply to the Isle of Man and Shetland, but quickly recovered and it is considered that the Isle of Man Steam Packet Company (IOMSPC) and Northlink Ferries both provided good services throughout.

As with Jersey, there have been issues with very low passenger numbers during the Covid-19 pandemic. Northlink Ferries were allowed to withdraw a RoPax ferry for a period and were given additional subsidy to provide a reduced timetable, but there remained enough capacity for freight because passenger car carryings were much lower.

The IOMSPC has the MV Arrow on long term charter as back-up for the main vessel. Although they charter it out to other operators, including Condor, to defray their costs, they can recall it straight away if needed. A small number of freight vehicles can also be accommodated on the high-speed craft to/from Liverpool. The IOMSPC has ordered a replacement for its main vessel, the 23-year-old Ben-my-Chree, which will come into service in 2023. It is then intended to retain the Ben-my-Chree as a back-up and to provide additional capacity at peak times such as during the TT Races and Manx Grand Prix.

## A2.3 MARKET OBSERVATIONS COMPARISONS

### Performance targets and monitoring

Where the relevant government provides monopoly use of the port and/or service subsidies, the contracts come with service conditions, covering:

- Routes operated.
- Frequency of service.
- Capacity.
- Maximum price.
- Average fare.
- Customer satisfaction.

The focus of price controls is generally on passenger services, rather than freight, with both benefiting from capacity and frequency conditions. The exception is the Isle of Man.

There has been a general difficulty in developing service agreements with KPIs that cannot be 'gamed', that remain relevant as the market develops, and/or do not lead to unforeseen consequences.

### Bornholm

- Bornholm had maximum tariffs on initial contracts which resulted in capacity issues during peak demand periods. This was resolved in a later contract through setting the maximum on average fares.
- The Bornholm ferry service has missed a range of KPIs as the penalty was lower than cost of remediation, so there was no incentive to provide the level of service expected.
- A decline in service quality is often seen as support contracts near their end.

## Shetland

- It was reported to us that the ferry services are resilient, there is general satisfaction with vessels' recovery from weather-related disruptions, and very few mechanical problems arise. The RoPax services appear to have higher reliability (approaching 100%) than the freight-only RoRo vessels (high 80%), as the latter are apparently more impacted by adverse weather (this generally results in omitting a call at Orkney rather than Shetland). However, we understand that detailed performance data on this route are not made available by either the ferry operator or Transport Scotland, who manage the contract with Northlink.
- The overall Northlink Serco contract with the Scottish Government specifies sailing reliability and punctuality which has tighter windows for delay than in Jersey, as shown in Table 7. **Error! Reference source not found.** Performance monitoring is not adversely affected by "Relief events" such as sailings cancelled due to bad weather in line with safety procedures, and delays due to unavailability or operational restrictions of harbour facilities.

**Table 7: Serco Northlink punctuality definitions**

Performance measure	Passenger (over two hours scheduled journey time)	Freight
Level A lateness	30-60 minutes	45-60 minutes
Level B lateness	Over 60 minutes	Over 60 minutes

- There appear to be some capacity issues regarding movement of freight at the times required. The perception is that non-urgent freight gets delayed, as priority is given to urgent/ time-sensitive freight. The latter has guaranteed spaces on specific sailings, though the rate structure does not reflect this. In September and October, livestock exports from both Shetland and Orkney peak and this leads to delays in moving freight (unless additional capacity is brought in - the MV Arrow has been used in the past). No data are made available on how often freight is moved later than the customer desires.

## Isle of Man

The Sea Services Agreement between Isle of Man Government and IOMSPC does not include targets for punctuality or reliability of sailings.

### Information technology

In the **Isle of Man**, the Harbours have been investing in IT. They have digital check-in and out of the weighbridge, and share the data with IOMSPC. For example, the Harbours know the traffic that is being carried on the inbound sailing from Heysham before it leaves that port. They also track movements in and out of the port area, and inside, particularly for the location of dangerous goods. Freight operators' drivers have passes to check in and out of the port. Some of the digital investments have been to meet certain standards/regulations.

Information on the other comparators regarding IT has not been available.

## Sharing information

There are some very good examples of institutional responses to aid this, more generally related to supporting the development and growth of sector clusters (for example Mersey Maritime), and more specifically to freight routes (such as the Shetland External Transport Forum – see below).

### Shetland External Transport Forum

This Forum is organised and chaired by ZetTrans (local transport partnership) and meets quarterly. Attendance is by invite and comprises:

- ZetTrans officers and Chair.
- Shetland Islands Council Councillors.
- Major island hauliers.
- Representatives of Shetland seafood sector.
- National Farmers Union.
- Lerwick Port Authority.
- VisitScotland-national tourism agency.
- Association of Shetland Community Councils.
- Scottish Youth Parliament MP.
- Voluntary Action Shetland.
- Highlands and Islands Enterprise (economic and social development agency).

At each meeting a presentation is made by the following organisations:

**Transport Scotland:** They subsidise Shetland external ferry services, specify fares and timetables, and provide the vessels that are operated. In the meetings, they tend to cover issues such as adequacy of available capacity; acquisition of existing or building of new vessels for the route; and the importance of local input into decisions being made by Transport Scotland.

Chief Executive of **NorthLink Ferries:** Typical issues include service punctuality and reliability, traffic volumes, forward bookings, deck capacity utilisation, and marketing activity. However, the slides used are not circulated to attendees after the meeting which is a source of frustration as they contain various facts and figures.

Chief Executive of **Loganair:** The sole provider of scheduled flights to Shetland. They tend to cover issues such as traffic volumes, punctuality and reliability, and changes to timetables and/or aircraft used.

Attendees also have the opportunity to raise any other issues. Overall, the Forum provides a welcome opportunity for local organisations to regularly ask questions of, and make suggestions to, top management of providers of Shetland's external transport services.