

Deputy Moz Scott
Chair
Economic and International Affairs Scrutiny Panel

29 August 2023

Dear Deputy Scott

Supply Chain Resilience Review

Thank you for your letter dated 14 July 2023 on behalf of the Economic and International Affairs Scrutiny Panel. Please find below our response to the questions you raised.

1. In your view, what are the key elements of Jersey's supply chain?

- i. **Critical infrastructure** (in Jersey, the UK and France): includes port terminals, road and rail networks and warehousing (that may not be on the actual port estate): all essential for the transportation, loading, unloading, cross-docking and temporary storage of goods. Whilst sea transport infrastructure is core to Jersey's supply chains, the airport and associated infrastructure also plays an important role.
- ii. **Shipping lines**: the shipping companies that operate vessels and provide sea transportation services for goods. These include "roll-on roll-off" ferry services (RoRo), "load-on load-off" containerised ferries (LoLo), bulk cargo and bulk fuel supplies.
- iii. **Airlines / air freight companies**: this includes scheduled commercial airlines that carry small quantities of air freight and specific air freight aircraft operations.
- iv. **Freight forwarders**: facilitate the movement of cargo, handling documentation, customs clearance, and coordinating logistics.
- v. **Harbour stevedores**: responsible for the dockside management of RoRo and LoLo vessels and the loading and offloading of goods.
- vi. **Customs and Regulatory Authorities**: responsible for inspecting and clearing cargo at ports and border checkpoints.
- vii. **Customers**: each customer (ranging from the largest supermarket to individual islanders) will have specific requirements (and challenges) that need to be met by the supply chain.
- viii. **Freight**: the actual goods being transported, ranging from raw materials to finished products, each with individual transport challenges that need to be met.
- ix. **Containers**: standardized units used for packaging and transporting cargo efficiently.
- x. **Road network and freight corridors**: to facilitate the efficient movement of freight and supplies away from the ports.

You have asked us who we would identify as the key operators in Jersey's supply chain. Given the highly integrated nature of the supply chain, we regard all each of the above as key links in the supply chain eco-system.

2. ***What are the key opportunities and threats to Jersey's supply chain. For example, how might any of its processes be improved?***

Key opportunities for Jersey's supply chain:

- i. **Investment in critical infrastructure:** the current harbour infrastructure is in urgent need of investment to ensure its resilience and to provide capacity and flexibility to meet the islands requirements over the coming decades. The investment will also help support competition in the sector and act as a lever to enable enhanced productivity of the islands economy.
- ii. **Southern supply chain:** opening-up consumer and market choice through the southern supply route. This could increase resilience to market shocks and or potential supply chain constrictions affecting the existing northern supply route.
- iii. **Future ferry services operating agreement:** provides the opportunity to provide a framework to enhance the overall service provision and enable investment in future ferry vessels.
- iv. **Increased competition** between modes of shipping. Growth and investment in LoLo capacity and services could provide a meaningful alternative to RoRo services (and may provide more environmentally sustainable services).
- v. **Freight corridors:** ensuring greater access to warehousing and improving the efficient movement of goods.
- vi. **Efficiency improvements:** adopting integrated technologies and best practices to streamline processes and reduce lead times ("smart" ports).
- vii. **Collaboration:** building strong, integrated partnerships and collaborations with suppliers, logistics providers, and other stakeholders to enhance the overall supply chain performance.
- viii. **Data analytics:** utilizing data-driven insights to make informed decisions, optimize inventory levels, and anticipate demand fluctuations.
- ix. **Sustainability:** embracing sustainable practices to meet growing consumer demands for eco-friendly products and reduce environmental impact, as well as the aspirations of Government's "decarbonisation roadmap". This could include choice of transport mode (LoLo vs RoRo).
- x. **Trade growth:** tapping into international markets and accessing a diverse range of suppliers and customers.

Key threats to Jersey's supply chain:

- i. **Expiry of the current Condor Operating Agreement:** uncertainty regarding the future provision of ferry services beyond the Operating Agreement expiry date.
- ii. **Reliance on private ownership of critical supply chain infrastructure:** as we import 98% of everything consumed on the Island, each element of our supply chain is vital. Whilst the Island owns its port infrastructure (through Ports of Jersey), it is reliant on privately-owned ferry companies that own the ferries on which the Island depends. This is in contrast with other similar-sized jurisdictions (e.g. Isle of Man).

- iii. **Geo-political disruptions:** events like natural disasters, political unrest, or health crises (pandemics) can disrupt transportation and production, leading to delays and shortages.
- iv. **Joint Channel Island approach:** Jersey is a comparatively small market that shares strong supply chain cross-over and cross-reliance with Guernsey. Together, the Islands have greater economies of scale and supply chain synergies. A loss of this cross-Island working and shared supply-chain is a threat to each Islands' respective supply chain.
- v. **Climate change:** increasing occurrences of adverse weather events are a threat to our supply chain. The number and severity of weather-related disruptions are likely to increase including throughout summer months.
- vi. **Supplier resilience:** dependence on a single or limited number of suppliers can pose risks if they face financial or operational issues.
- vii. **Trade barriers and changing regulations:** tariffs, sanctions, or trade disputes can lead to supply chain disruptions and increased costs. Similarly, evolving regulations or uncertainty over regulations and compliance requirements can impact supply chain operations and add complexity and costs.
- viii. **Current "volume-based" ferry rate card:** whilst differentiated pricing (based on volumes) may be the 'norm' for most trade routes where competition exists, Jersey has extremely limited competition for the shipping of freight. A volume-based rate card favours those freight businesses already transporting higher volumes of goods and can act as a barrier to new participants entering the market or growing market share.
- ix. **Future fuel technology:** there is uncertainty regarding the future propulsion technologies for ferry vessels. It will be important to ensure the ports in the Channel Islands, the UK and France are able to support the future technologies.
- x. **Cybersecurity risks:** the increasing reliance on digital technologies makes supply chains vulnerable to cyberattacks, data breaches, and ransomware.
- xi. **Inventory management:** poor inventory control can lead to excess stock or stockouts, affecting profitability and customer satisfaction.

3. What are the impacts of competition and diversification in the Island's supply chain? What threats and benefits do single market operators present?

Competition and diversification in the Island's supply chain can act as economic levers for improving economic productivity, improving livelihoods, and driving down the cost of conducting business and the cost of living.

However, in a market the size of Jersey's (or the wider Channel Islands), there may be insufficient market scale to enable competition in each link of the supply chain. Regulatory oversight and where appropriate intervention may be required in these circumstances to ensure similar outcomes as would be provided in a competitive market.

Competition and diversification may result in changes to the supply chain that have not yet been foreseen, that require other parts of the supply chain to react to and potentially assist – e.g. modal changes in how freight arrives in Jersey, or the compatibility of systems or infrastructure.

The threats of single market operators include:

- Barriers to entry can exist for new market entrants.
- Fees and charges can be set above market levels, or operator can make “super-normal” returns that are not representative of the commercial risks taken.
- Customers may receive poor value for money.
- There may not be an incentive to improve quality of service.
- Best practice or market innovation may not be adopted.
- Workers’ rights and wages may be detrimentally impacted by the lack of alternative employers within the sector.
- Failure of a dominant or single market operator may put at risk the entire supply chain, a significant risk for an Island-nation.
- There may be a lack of transparency in service provision or cost bases.

Conversely, the possible benefits of a single market operator may include:

- Scale may bring synergies / economies of scale with resultant lower costs to customers.
- Scale may increase the ability to invest in new technologies and infrastructure that would be out of reach for smaller operators.
- Where the position has been achieved through market consolidation or a competitive environment, the single market operator may have achieved that position by being best in class – i.e. self-selected by the market.
- Larger operators may be able to provide greater scope of training and work-place opportunities for its employees to build successful careers.
- Reduced (lack of) competition may help ensure the financial sustainability of a single operator ensuring continuity of service – critical for an Island nation.

4. *Are there any barriers to entry regarding the arrangement of the Island’s supply chain?*

There are clear barriers to entry within the Islands supply chain. Supply chain infrastructure is typically capital intensive with significant investment required to operate and compete.

Commercial arrangements, such as the current “volume based” rate card for moving freight by ferry, favours those with the greatest market share in the freight supply sector, providing a significant competitive advantage. Smaller freight forwarders may be unable to seek or access competitive pricing between alternative shipping providers (or shipping routes) to enable effective competition or to challenge an incumbent service provider.

Access to warehouse space, either in the UK or Jersey, including access to refrigerated containers and cold storage, impacts the ability to compete and effectively tender for lucrative contracts.

Access to “in-port” freight distribution space (in Jersey) is limited. Freight distribution space can be procured outside of the harbour, however, current rules over transport of large freight vehicles on Jersey roads can preclude such arrangements.

5. *What are your experiences of supply chain disruptions and how have they impacted upon the provision of Ports of Jersey’s services? In your view what contingencies are required in order to continue provision of products to businesses and are these needs currently met?*

- Weather related disruptions
 - E.g., ships unable to dock in high seas or strong winds, or planes unable to land in fog or extreme weather.
 - These are typically short term, and whilst inconvenient for consumers, do not generally present any serious consequences on an Island-wide basis.
 - Greater impact at the harbour due to the volume of goods.
 - Due to the nature of the disruption, it is difficult to develop or implement contingencies.

- Mechanical failure of infrastructure
 - Such events have included technical issues with ferries and the failure of harbour infrastructure (e.g. RoRo ramp outage).
 - Impacts have typically been short lived.
 - The risk of more major failures can be mitigated by planned preventive maintenance and timely repairs.
 - Contingencies for major harbour infrastructure are hard to plan for and may require work arounds in the event of major disruption. There is typically limited scope to lease large scale harbour equipment at short notice. However, when vessels incur technical issues, it is possible to charter alternative or standby vessels, Condor already have such arrangements in place.

- Business failures
 - Jersey has experienced a number of supply chain “business-failures” over the past couple of decades. This has included shipping companies and freight forwarders.
 - These events have resulted in immediate short-term disruptions to supply chains that have resulted in varying degrees of inconvenience and loss to customers / Islanders. However, supply chain competitors have invariably stepped-in and absorbed or replaced the services previously provided by the failed businesses.

- With increased consolidation / reduced competition in the supply chain, the failure of a dominant operator could cause material problems to the resilience of the Islands supply chain.
 - Government may need to implement emergency measures to ensure the continued supply of goods to the Island in such an event, ranging from provision of financial support to seeking assistance from His Majesty's Government or the acquisition of key businesses.
- **Pandemic**
 - The Covid-19 pandemic had the potential to cause significant disruption to our supply chains, however, through excellent collaboration between Government, Ports of Jersey, Condor and other key supply chain participants, disruption was minimised, and life-line services maintained.
 - Government should be prepared to implement similar supply chain resilience measures in the event of a future pandemic, learning from past experience.

6. *What difficulties do you have in performing your role within the supply chain?*

The lack of capacity at the harbour, coupled with ageing port infrastructure are the greatest challenges to Ports of Jersey performing its role in the supply chain. It is imperative that these challenges are addressed through the delivery of the Harbour Master Plan and the Airport Master Plan, ensuring both the resilience of critical port infrastructure and the capacity to meet future freight and passenger volumes.

There is a significant opportunity to develop and introduce (in collaboration with stakeholders) operational practices and digital solutions to deliver improved efficiency in the supply chain.

As well as implementing its sustainability strategy to decarbonise Ports of Jersey's operations, Ports of Jersey will assist our partners to transition to decarbonised transport and travel. There is uncertainty in the transport sector as to what will be the dominant future propulsion technology(ies).

Ongoing stakeholder engagement will be critical as Ports of Jersey completes these significant investments in critical infrastructure, whilst ensuring the continuity of supply chain operations.

7. *What consultation have you undertaken with stakeholder representatives in establishing policies related to supply chain, contingency planning and competition in this area?*

Ports of Jersey consults regularly with its major stakeholders, including:

- Regular dialogue with the Jersey Competition Regulatory Authority (the JCRA) on matters of competition. This relates both to the regulation of Ports of Jersey as well as calls for information and consultations in the sector conducted by the JCRA, such as, their recent Freight Logistics Market Study.

- Government's Bridging Island Plan.
- Wide ranging consultation with all key stakeholders and the public in respect to Ports of Jersey's Harbour Master Plan.
- Engagement with key stakeholders in respect to the Airport Master Plan, which will continue as proposals are developed further.
- Quarterly meetings with the Elizabeth Harbour User Group.
- Quarterly meetings with Condor and Guernsey on the Ferry Services Steering Group, the oversight forum for the Ferry Services Operating Agreement.
- Liaison with the Future Places Ministerial Group.
- Liaison and consultation with the Ports Policy Ministerial Group.
- Regular meetings with Government of Jersey colleagues, and Guernsey counterparts in respect to the future provision of ferry services, after the expiry of the current Condor Operating Agreement.
- Liaison with key user groups to develop and review Standard Operating Procedures at the harbour.
- Meetings with Emergency Planning Team throughout the pandemic, in advance of Brexit and from time to time as individual risks are identified and discussed.
- Membership of the Jersey Resilience Forum.
- Liaison with the Chamber of Commerce (and its sub-committees).

8. *Do you have any views regarding volumes and economies of scale with respect to the provision of services within the Island's supply chain?*

Ports of Jersey has developed future capacity requirements as part of its Harbour and Airport Master Plans. It does not however hold a view regarding volumes and economies of scale with respect to the provision of services within the Island's supply chain. This is for Government to determine.

9. *What are the practical implications of the JCRA's Freight Logistics Market Study recommendations?*

Ports of Jersey accepts and supports the findings and recommendations of the Jersey Competition Regulatory Authority Freight Logistics Market Study.

The planning application submitted for the redevelopment of Elizabeth Harbour seeks to deliver against the recommendations contained in the Market Study by creating essential additional capacity for freight handling that can be utilised by operators more flexibly, significantly enhancing island resilience and improving the efficiency of day-to-day operations.

10. *How will the Elizabeth Harbour plans and Harbour Master Plan impact the island's supply chain?*

The plans submitted for the redevelopment of Elizabeth Harbour and the wider Harbour Master Plan will deliver the critical port infrastructure required to provide future capacity and resilience in the supply chain into the future. The current port infrastructure is operating well-beyond its capacity. The plans for the redevelopment of Elizabeth Harbour are essential to enable the islands supply chain to function efficiently.

The case for the incorporation of Ports of Jersey included managing the risks to public finances from a projected funding shortfall of more than £300m, mostly relating to the investment in critical infrastructure. This was required following a protracted period of under investment in the Airport and Harbour infrastructure prior to incorporation.

Investment in critical infrastructure is a core driver of economic productivity and performance, as recognised in Government's Outline Economic Framework.

The Elizabeth Harbour plan will collocate RoRo and LoLo ferry services in a single location. The proposals will increase harbour capacity (including in respect to warehousing and restricted zone storage/parking) to meet forecast demand and will improve resilience, efficiency and the agility of operations.

The proposals will provide greater flexibility to accommodate modal changes in the way freight is carried to the Island, allowing for increased competition in the sector and or modal changes to reflect Government's and Ports of Jersey's sustainability targets.

We trust the above is of assistance to your review and would be happy to provide further information on request.

Yours sincerely,



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