

States of Jersey Economic Affairs Scrutiny Panel Retail Policy Review Submission

Condor Ferries thanks the States of Jersey Scrutiny Panel for inviting a submission to its above study. Condor Ferries is relevant to the above study in 2 broad contexts:

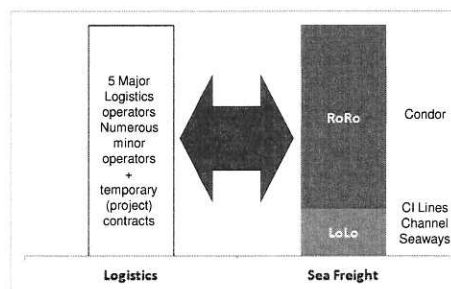
1. To provide a full service reliable high capacity all year round weather capable roll-on roll-off sea freight connection between Jersey and its principal freight supply partner the UK via Portsmouth (as well as additional freight trading links to St Malo and to the Dorset ports).
2. To provide inbound tourism as a customer base for the Island’s retail offering, in the context of retailing as a leisure activity.

1. Full Service Freight Capability

Depending on how you measure it, Condor delivers between 75% and 85% of the non-fuel and non-bulk goods to the Island, and, within this, a higher percentage of both foods and high value manufactured imports. Much of this traffic works on the ‘just in time’ supply chain process and requires twice daily deliveries to the Island. Condor is also the principal route for the export of potato and other produce off Island.

The logistics market to both Islands has two distinct elements of the supply chain

- Multiple logistics operators compete in the overall supply chain
- Sea Freight element can be seen as a ‘floating freight toll bridge’
- RoRo/LoLo split about 80:20 (Excludes bulk/oil and specialist loads)
 - higher if measure in lane metres, lower if measure in tonnes
 - Condor price in lane metres so customers have incentive to consolidate density
 - Virtually all LoLo traffic can be taken on RoRo, but many types of RoRo traffic not suitable for LoLo
 - (shelf-life, speed, value/working capital, fewer intermodal shifts)
 - LoLo tends to be denser, lower value traffic
 - LoLo is slower both in vessel speed and portside modal shift



To achieve this it deploys 2 purpose built vessels sailing a 'rotation' once per 24 hours with the Commodore Goodwill leaving Portsmouth in the early evening to arrive in Guernsey at 0300 and Jersey around 0700 and the Commodore Clipper leaving Portsmouth in the morning and arriving in Guernsey at 1630 and Jersey at 2000. This pattern is maintained 6 days a week, excepting Sundays which are used for a call to St Malo.

These vessels need to be purpose built to achieve the triple constraints of:

1. *speed* to complete a rotation (including working each port),
2. *draught* to meet tidal limits in Jersey
3. *length* to meet the significant length restrictions (130m) of the Channel Islands ports but still sufficient size to provide capacity.

This makes for an unusual type of vessel (as most vessels achieving these speeds would be far longer and larger) – hence the fleet deployed is purpose built, asset specific with limited alternate use.

In 2012 as a result of significant business decline following the ending of Low Value Consignment Relief(LVCR) traffic, Condor closed its own logistics arm (Condor Logistics). It now works with its 5 competing major logistics partners who provide a service from their own clients' UK distribution centres via the UK port (including warehousing and trans-shipping/consolidation if necessary (often called groupage)) to freight vessel, and the reverse on-Island including delivery to the retail store. Since the end of LVCR the route has been in more pronounced imbalance between imports and exports with the vast majority of northbound traffic now being these same articulated lorry 'trailers' returning empty to the distribution centre to pick up the next load. These logistics partners are required to invest in specific and, in the case of chilled and frozen goods, complex trailer assets.

The sea route is 125 miles and the trailers used on the UK and European network are not suitable for Island use, requiring again specific non-standard on-Island rolling stock.

Condor recognises the need to provide value in the delivery of this lifeline service. The service must meet the needs of reliability, dependability and sufficient capacity. The current capacity of the above schedule is some 1.4m lane metres per annum of which about 0.85m metres is currently utilised. Both ships are capable of carrying approximately 1,100 lane metres (roughly 80 x 13.6m trailers). The company needs continually to reinvest to ensure it can meet these service objectives, and continue to raise the bar on safety and environmental performance above and beyond industry standards. The 3 current European directives on: transfer to low Sulphur marine fuel, Nitrous Oxide restrictions, and Ballast Water Treatment are just 3 relevant examples of the bar rising requiring significant investment.

For the reasons above, an Island supply chain is always going to be more complex, and more costly to supply, than a continental single-mode road system. From its previous experience with Condor Logistics and its current experience on the 'sea freight' element within the supply chain provided by Condor Ferries it can estimate the costs of providing this service.

Whilst all traffic is different, for indicative purposes we have shown 4 different generic types of traffic:

Commodity (cement)	This is the lowest value highest mass/volume type of consignment. Given that it is not often required on a <i>just-in-time</i> basis and it can be carried either on RoRo 'curtain' trailers or on Lift-On Lift-Off (LoLo) vessels in containers. Pricing is competitive between the 2 types of ship.
Grocery (dry goods)	This category is the largest category in volumes and whilst called 'grocery dry goods', the numbers are not dissimilar for many types of non-food consumer goods, as well as general cargo and, potentially, mail. Given modern retailer supply chain management, much of this traffic is <i>just-in-time</i> time sensitive cargo and majority is carried in 'curtain' or 'tautliner' trailers.
Grocery (chilled)	This is by definition all <i>just-in-time</i> and shelf-life driven. Shipped in complex high value chilled and/or refrigerated trailers. Almost all of this traffic comes in by RoRo and requires these specific capability RoRo vessels.
Premium manufactures	This sector consists of general capital equipment or high-end consumer goods, some of which is suitable for air freight, but for working capital reasons, are time sensitive and most suitable for RoRo

From recent press articles it seems clear that the overall cost structure is not well understood and we may find it helpful to illustrate the cost structures of the examples above. From our previous experience in logistics we have estimated both the total supply chain costs (distribution centre to Island retailer) and then, within that, the ferry costs of the sea element – these estimates are tabulated below:

Estimates of Channel Island Freight Supply Chain costs as a percentage of retail selling price				
	Commodity (cement)	Grocery Dry	Grocery Chilled	Premium manufactures
Total Charge	32%	7%	2%	1.4%
<i>analysed as:</i>				
ferry charges	17%	4%	1%	0.7%
logistics/port/overland charges	15%	3%	1%	0.7%
Retail Value	100%	100%	100%	100%

We estimate the total transport element of goods ranges from 32p in the £ down to 1.4p (for example, one of the major CI supermarket multiples believes they average 4p), and, within this range, the sea element ranges from 17p to less than 1p. The reason for such variation is that whilst the retail value of the trailer contents differs dramatically, the trailer takes up similar space on the ferry and uses up a similar amount of activity in the port – (this is the whole point of the RoRo system!). Whilst some help is given to this low value traffic (commodity rates) it would be wrong to carry it below cost. Clearly, as mentioned above, the complexity of the land element of, for example, full-load cement is very different from specialist manufactures groupage or specialist temperature-controlled both of which require significant rolling stock and warehouse complexity and investment.

Another way of looking at the supply chain is to analyse a simple *known value item* like a loaf of bread. In a well known supermarket in Jersey today there are two brands of white sliced loaf – one

retailing at £1.25 and one at £1.49. The total supply chain transport costs of these are estimated at 9p of which the ferry price is estimated to be 5p.

Barring exceptional/uncontrollable circumstances ferry freight charges go up by a maximum of RPI.

Condor believes that this supply chain structure is good value to Island retailers and allows Condor to deploy a contingency of significant surplus capacity on high quality, reliable and (virtually!) all-weather capable, route specific (size, draught, speed) RoRo vessels providing a high frequency twice daily dependable service. A by-product benefit of this service is the provision of a lifeline passenger and private vehicle all weather back-up connection to the UK via the 500 passenger 250 car capable RoPax vessel Commodore Clipper. Condor believes the EDD is well aware of these positive attributes and the need to safeguard this level of capability.

2. Inbound Tourism

Condor brings some 175k visitors to Jersey each year roughly 50% from St Malo and 35% from the UK and 15% from Guernsey. Whilst these visitors combine *visiting friends and relatives* (VFR) and tourism, the vast majority will have an element of leisure tourism as the purpose of at least part of their stay. Condor invests some £1.5m pa in marketing to these visitors to persuade them to come to the Island.

Like most tourism destinations, retail/shopping is likely to form a significant element of the Jersey tourism proposition albeit we have not seen recent 'purpose of visit' tourism data. Central St Helier is likely to form a vital part of this retail proposition particularly for French tourists being a relatively easily/quickly accessible English-language town destination. A suitable high quality (not necessarily high price) retail proposition orientated to the tourist's needs (souvenirs, local provenance produce and merchandise and national and international brands) is very important especially if delivered in a high quality vibrant and attractive retail precinct. St Helier fits this aspiration on 4 of the main inbound tourism days of the week (Thurs, Fri, Sat, Mon). Tourists who arrive on Sundays however are often back in the ferry terminal several hours before their departure, citing an absence of venues open in St Helier as a reason for cutting short their stay.

We hope these insights are of interest and value to the study.

Yours sincerely

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Jersey 10.01.14