

States of Jersey
States Assembly



États de Jersey
Assemblée des États

Economic Affairs Scrutiny Panel



Aircraft Registry

Presented to the States on 14th September 2012

S.R.6/2012

CONTENTS

1. PANEL MEMBERSHIP AND TERMS OF REFERENCE 4

2. CHAIRMAN’S INTRODUCTION 5

3. EXECUTIVE SUMMARY 8

4. KEY FINDINGS..... 11

5. RECOMMENDATIONS..... 16

6. INTRODUCTION..... 18

7. JERSEY AIRCRAFT REGISTRY BACKGROUND AND OPTIONS 21

 7.1 Context21

 7.1.2 *What is an Aircraft Registry?*.....21

 7.1.7 *The Isle of Man*22

 7.1.12 *The scope of a Jersey/Channel Islands Aircraft Registry*23

 7.2 The Options24

 7.3 Background – Development of the Options.....26

 7.3.1 *Initial Proposals – 2005*.....26

 7.3.4 *Emergence of Political Interest in a Channel Islands Aircraft Registry – 2009/10*...27

 7.3.8 *A Separate Jersey Registry?*28

 7.3.11 *Faltering Negotiations – 2011*29

 7.3.17 *Guernsey Registry Strategic Partner Announcement – 2012*31

 7.3.23 *Criticism of Jersey’s handling of the project*33

8. WHAT NEXT: SHOULD JERSEY PURSUE A CI REGISTRY? 37

 8.1 Introduction37

 8.2 Joint Channel Islands Registry or Standalone?.....37

 8.3 Is There an Opportunity For Jersey Without Involvement in a Registry?42

 8.4 Scepticism of the Aircraft Registry Project43

9. PROJECT VIABILITY: EXAMINING THE KEY ELEMENTS..... 47

 9.1 Introduction:.....47

 9.2 Tax Issues – GST and VAT47

 9.2.1 *GST*47

 9.2.12 *VAT*52

 9.3 Business Case.....55

 9.3.2 *The costs*.....55

 9.3.6 *The potential economic value and establishing demand*56

 9.4 Unique Selling Point.....63

 9.5 Infrastructure.....68

 9.5.2 *Administration and Regulation opportunities*.....68

 9.5.10 *Opportunities for aircraft support services*.....70

9.6	Developing Legislation.....	72
9.6.1	<i>Changes to UK and Islands Legislation to allow a CI Aircraft Registry</i>	72
9.6.14	<i>Implications from the Cape Town Convention on International Interests?</i>	77
10.	CONCLUSION.....	80
11.	APPENDIX 1 – EVIDENCE CONSIDERED	81
12.	APPENDIX 2	82
C	Option costing.....	82
C.1	Overview.....	82
C.2	Option 1	82
C.3	Option 2	83
C.4	Registry cost build.....	84
D	Economic analysis inputs.....	86
D.1	Overview.....	86
D.2	Assumptions about world fleet	86
D.3	Benefits from aircraft registration	87
D.4	Benefits from aircraft purchase	88
D.5	Benefits from local aircraft registration	89
D.6	Results.....	89

1. PANEL MEMBERSHIP AND TERMS OF REFERENCE

1.1 The Economic Affairs Scrutiny Panel is comprised of the following members:

Deputy S.G. Luce, Chairman

Connétable S.W. Pallett, Vice-Chairman

Connétable M.J. Paddock

1.2 The following Terms of Reference were established for the Review:

1. To examine the potential value to the Island's economy for current proposals to establish either:
 - i. a Jersey Aircraft Registry or;
 - ii. a Channel Islands Aircraft Registry in partnership with Guernsey

2. To assess key structural elements of an Aircraft Registry involving Jersey, including:
 - i. safety standards/regulation
 - ii. the unique selling point
 - iii. the location of the Registry
 - iv. VAT and GST related issues
 - v. cost (development and administration) and strategic partnership

3. To establish whether the potential economic value and key structural elements of either current option for an Aircraft Registry are sufficiently robust to merit continued exploration by the Minister for Economic Development.

2. CHAIRMAN'S INTRODUCTION

- 2.1 The vast majority of us will use commercial aircraft for our holiday or business travel, but the aspiration of actually owning a small or medium sized plane is way beyond all but a very small number. Consequently, the subject of registering aeroplanes is not perhaps one that will excite many people. It was, however, something that was of immediate interest to the Economic Affairs Scrutiny Panel when it appeared on a list of subjects we might consider reviewing. In many ways, the concept of, and principles behind, opening an aircraft registry in the Channel Islands is not dissimilar to many other ideas that come forward as ways to genuinely diversify the economy here in Jersey. Our overpowering initial thought was.....why was it that Jersey didn't identify this opportunity to develop the economy and, more importantly, act many years ago?
- 2.2 During informal briefings before we started the Review, it became clear that the idea of an aircraft registry was not new, and indeed had been suggested by members of the local aviation industry as early as 2005. At that time, the rules concerning the registration of private planes inside the European Union were changing, and it was obvious to some that there were opportunities presenting themselves that could be beneficial. Here in Jersey we had the expertise, the experience and, most importantly, the enthusiasm within the private sector to make things happen. Another of our fellow Crown Dependencies, the Isle of Man, had acted very quickly and set up their own aircraft register, and with their success evident for all to see the Panel thought it appropriate to try to discover why this initiative had not been grasped here in Jersey.
- 2.3 It would be wrong to give the impression in this foreword that nothing has happened at all, and that the concept has not been looked at seriously. Reports have been written, investigations by independent third parties have been commissioned, and advice has been sought, however, there seems to have been a reluctance to make decisions, a reluctance to "see the project through". In truth, both Guernsey and Jersey identified the possibilities and benefits that an aircraft register could offer, and discussions took place as to whether the Channel Islands could support two individual registers, or indeed if we would all be better served by one overarching Channel Islands entity. It will be shown in this Review that, in our opinion, it is now the latter Channel Islands option that is the better alternative, but it is unfortunate that the necessity for inter-island discussion, and the deliberations as to whether to "go it alone" or work together, have without doubt slowed down the decision making process further.

- 2.4 To much of the outside world, Jersey and Guernsey are perceived as “the Channel Islands”. This means that working independently on subjects such as aircraft registry (where there is mutual interest) is most likely counter-productive. However, we are increasingly creating “pan-island positions”, and the Director of Civil Aviation for the Channel Islands is one such post, a post well suited to investigating, and deciding on, the feasibility, or otherwise, of this project. We found the Director’s experience and expertise invaluable to our discussions.
- 2.5 It is recognised by everyone that the aircraft register itself will not be a lucrative money making venture, but that it will be the “value added” business that derives from registering aircraft that sees the economic benefit for government. Certainly there will be commercial competition for this additional business, but it will be important to make sure that a level playing field is created the both Jersey and Guernsey to compete on. Once again, it will be the Director of Civil Aviation for the Channel Islands who will be crucial to creating an equal environment for both islands to work inside. While parallel “pan Channel Islands legislation” will be more complicated to write and more time consuming to draft, in the long run it will be the best alternative.
- 2.6 In closing this foreword I would just say that, despite an unnecessary amount of indecision over the last few years, an aircraft register here in the Channel Islands is still viable, and that the opportunity to create a well respected and well regulated offshoot of the global aviation industry is not lost. However, there is much to do, and “working together” could never be more important. The Minister for Economic Development needs to get to work “in house” to move this project forward. He also needs to work together with his fellow Ministers to resolve tax issues, and promote the training of Islanders with the appropriate skills as quickly as possible. Finally, Jersey needs to work together with Guernsey at best speed to identify and resolve any legislative difficulties.
- 2.7 The Panel has been pleased with what we have established in this, our first Review, and hope that our deliberations and investigations now lead to some swift and tangible progress in the setting up of an aircraft register here in the Channel Islands.



Deputy S.G. Luce
Chairman
Economic Affairs Scrutiny Panel

3. EXECUTIVE SUMMARY

- 3.1 The concept of establishing an Aircraft Registry in the Channel Islands is not new, having been championed to the States of Jersey by some private stakeholders since at least 2005. It has been proven elsewhere, in comparable jurisdictions to Jersey, that a successful Aircraft Registry project can lead to significant economic benefits, through the economic flow generated from the wealthy individuals and corporations registering their aircraft and then accessing a range of supporting services that can be sold to them. Indeed, we need look no further than the Isle of Man as a prime example of what can be achieved in a short space of time. It is with significant disappointment, therefore, that the Panel has found that since 2005, Jersey has failed at a number of key moments in the Aircraft Registry project to either recognise or seize the opportunity to deliver the momentum required to achieve significant progress.
- 3.2 The appointment of the joint Director of Civil Aviation in 2009 provided real impetus to the project, and having been appointed by the authorities in Guernsey to head the project on their behalf it is notable that the Aircraft Registry project in Guernsey has been successful in achieving significant progress, but Jersey's part in the project has been subject to criticism for quite the opposite. This is despite it being identified in January 2010 as a 'potential winner' by the Economic Development Department in Jersey and Commerce and Employment in Guernsey, as part of their project to identify areas of common interest which could deliver improvements in service or cost saving through the efficiency gains of joint working. The Panel has recommended that in order to establish an appropriate single point of responsibility for the cross-Departmental and cross-Island Aircraft Registry project, the Minister for Economic Development should, through the Chief Minister, engage with Director of Civil Aviation with a view to him assuming project management responsibility on behalf of the Economic Development Department.
- 3.3 There is little doubt that rather than try to establish its own or 'piggyback' on a Guernsey Registry, it is in Jersey's best interest to continue to pursue a joint Channel Islands Aircraft Registry, this being a conclusion reached overwhelming majority of the stakeholders that engaged with the Panel during the Review. The Panel urges the Minister for Economic Development without delay to seek to engage with the Minister for Commerce and Employment in Guernsey and its strategic partner SGI Aviation to formally secure Jersey's position in a joint Channel Islands Aircraft Registry.

- 3.4 Even if Jersey can secure its place in a Channel Islands Registry with Guernsey, there are issues to overcome, including legislative changes in the UK, Jersey and Guernsey, the Channel Islands VAT position, and perhaps most significant of all to Jersey, the GST issue. As Jersey has GST set at 5% and Guernsey has no comparable tax, it is clear that Jersey faces a significant competitive disadvantage to Guernsey which, unresolved, would appear to seriously undermine Jersey's chances of generating associated economic activity from an Aircraft Registry. The Panel was surprised and disappointed by an apparent lack of urgency and momentum on the part of the Minister for Economic Development to explore ways of resolving the GST issue, although there is some encouragement that the Minister for Treasury and Resources has, nevertheless, begun preliminary work on identifying the issues his Department faces and the possible solutions to be examined. The Panel has recommended that the Minister for Economic Development must engage at the earliest opportunity with the Minister for Treasury and Resources to achieve a solution that is satisfactory to both to overcome the GST issue. The issue of competitive disadvantage to the Isle of Man and other Registries presented by VAT is a challenge, but does not appear to be insurmountable. The CI Strategic Case report established that, due to the different VAT regimes, it was likely that different clients would be attracted to the Channel Islands Registry than those using the Isle of Man, depending upon their place of business and planned base of activity for their aircraft.
- 3.5 Concerns were raised about the reliance on business case figures from pre 2008 that may now be outdated given the recent nature of the local/global economy. It appears, however, that there remains a confidence amongst a number of stakeholders about the underlying business case and the health of markets relevant to a Channel Islands Aircraft Registry. Nevertheless, the Panel recommends that it will be necessary for the Minister for Economic Development to establish up-to-date figures relating to the target market(s) of the Channel Islands Aircraft Registry and the impact, if any, this may have on projected economic flow and the business case. Indeed, this may be required quickly to assist negotiations with the Minister for Treasury and Resources regarding a solution over the GST issue.
- 3.6 Further concern was raised about the lack of a unique selling point for a Channel Islands Aircraft Registry. It was suggested to the Panel that allowing the registration of aircraft under fractional ownership offers the potential for a genuine unique selling point of a Channel Islands Aircraft Registry, but the relevant work assessing the potential associated risk has yet to be undertaken. With the agreement of Guernsey, the Minister for Economic Development should request the Director for Civil Aviation to undertake the necessary work

to establish a recommendation on the issue of allowing fractional ownership within a Channel Islands Aircraft Registry.

- 3.7 Finally, on the important issue of potential liabilities to Jersey and Guernsey in the event of an accident, whilst the UK Air Accident Investigation Branch is likely to be the designated chief investigating authority in the event of an accident involving a Channel Islands registered aircraft, a clear position to mitigate against potential liability and cost implications to the States of Guernsey and Jersey has yet to be established, although initial consideration is being given to insurance. The Panel believes that it is particularly important that work is undertaken by the Aircraft Registry project team to establish an acceptable solution to both Islands, in mitigation against possible cost liabilities associated with an accident involving a Channel Islands registered aircraft. The potential to insure against such an eventuality should be given thorough consideration.

4. KEY FINDINGS

4.1 Key Finding 1:

It has been proven elsewhere, in comparable jurisdictions to Jersey, that a successful Aircraft Registry project can lead to significant economic benefits, through the economic flow generated from the wealthy individuals and corporations registering their aircraft and then accessing a range of supporting services that can be sold to them. (7.1.6)

4.2 Key Finding 2:

Launched in May 2007, the Isle of Man Aircraft Registry announced the achievement of registering its 500th aircraft by June 2012 and has generated significant amounts of revenue for locally based associated industry. (7.1.11)

4.3 Key Finding 3:

The concept of establishing an Aircraft Registry in the Channel Islands has been championed to the States of Jersey by some private stakeholders since at least 2005. (7.3.3)

4.4 Key Finding 4:

By January 2010, the Aircraft Registry had been identified as a 'potential winner' by the Economic Development Department in Jersey and Commerce and Employment in Guernsey, as part of their project to identify areas of common interest which could deliver improvements in service or cost saving through the efficiency gains of joint working. (7.3.5)

4.5 Key Finding 5:

It is clear that the Aircraft Registry project in Guernsey has been successful in achieving significant progress, but Jersey's part in the project has been subject to criticism for quite the opposite. (7.3.28)

4.6 Key Finding 6:

Since 2005, Jersey has failed at a number of key moments in the Aircraft Registry project to either recognise or seize the opportunity to deliver the momentum required to achieve significant progress. (7.3.30)

4.7 Key Finding 7:

The announcement of the new partnership agreement between SGI Aviation and the States of Guernsey in May 2012 marked a significant point in the Aircraft Registry project, and the context of Jersey's role within it. (8.1.2)

4.8 Key Finding 8:

The desire to see Jersey continue to pursue a joint Channel Islands Aircraft Registry was a conclusion of the overwhelming majority of the stakeholders that engaged with the Panel during the Review. (8.2.6)

4.9 Key Finding 9:

Given the initiative established by Guernsey, it is likely that a Channel Islands Aircraft Registry would be administered from Guernsey. As an administrative function however, whether it is located in Guernsey or Jersey is relatively immaterial. It is the potential to access the associated business flowing from the establishment of a Channel Islands branded and marketed Registry which is most important. (8.2.6)

4.10 Key Finding 10:

During negotiations with Guernsey, the Minister for Economic Development linked the development of a joint Channel Islands Aircraft Registry based in Guernsey to a joint Channel Islands Category 1 Shipping Registry based in Jersey. (8.2.10)

4.11 Key Finding 11:

The Panel understands that the States of Guernsey do not presently intend to pursue the development of a joint Channel Islands Category 1 Shipping Registry, requiring a change of approach from the Minister for Economic Development to this and the Aircraft Registry projects. (8.2.10)

4.12 Key Finding 12:

Whilst accepted that in principle it may be possible, there is little enthusiasm for Jersey to 'piggyback' on a Guernsey Aircraft Registry, whereby Jersey would play no active role in the Registry but would seek to take advantage of proximity and attract associated business and economic flow. (8.3.4)

4.13 Key Finding 13:

Administrative costs, liabilities in the event of an accident, tax, and the lack of a unique selling point were all highlighted to the Panel as issues that would need to be addressed for an Aircraft Registry to be a success. (8.4.6)

4.14 Key Finding 14:

Whilst the UK Air Accident Investigation Branch is likely to be the designated chief investigating authority in the event of an accident involving a Channel Islands registered aircraft, a clear position to mitigate potential liability and cost implications to the States of Guernsey and Jersey has yet to be established, with consideration being given to insurance. (8.4.6)

4.15 Key Finding 15:

As Jersey has GST set at 5% and Guernsey has no comparable tax, it is clear that Jersey faces a significant competitive disadvantage to Guernsey which, unresolved, would appear to seriously undermine Jersey's chances of generating associated economic activity from an Aircraft Registry. (9.2.4)

4.16 Key Finding 16:

There appears to have been a lack of urgency and momentum generated by the Minister for Economic Development to explore ways of resolving the GST issues. There is some encouragement that the Minister for Treasury and Resources has, nevertheless, begun preliminary work on identifying the issues his Department faces and the possible solutions to be examined. (9.2.10)

4.17 Key Finding 17:

The issue of competitive disadvantage to the Isle of Man and other Registries presented by VAT is a challenge, but does not appear to be insurmountable. The CI Strategic Case report established that, due to the different VAT regimes, it was likely that different clients would be attracted to the Channel Islands Registry than those using the Isle of Man, depending upon their place of business and planned base of activity for their aircraft. (9.2.17)

4.18 Key Finding 18:

There is some concern about the reliance on business case figures from pre 2008 that may now be outdated given the recent nature of the local/global economy. However, there remains a confidence amongst a number of stakeholders about the underlying business case and the health of markets relevant to a Channel Islands Aircraft Registry. (9.3.25)

4.19 Key Finding 19:

Allowing the registration of aircraft under fractional ownership offers the potential for a genuine unique selling point of a Channel Islands Aircraft Registry, but the relevant work assessing the potential associated risk has yet to be undertaken. (9.4.7)

4.20 Key Finding 20:

It is envisaged that, initially, a limited amount of technical expertise both directly and indirectly associated with an Aircraft Registry would be required to be brought in from outside the Island. However, in addition to some immediate job opportunities for local people, others could be created through training and apprenticeships. (9.5.13)

4.21 Key Finding 21:

The Panel acknowledges and welcomes the expansion opportunities at the airport that have been identified as part of the development of proposals to incorporate Jersey's harbours and airport, including additional hangar facilities. (9.5.13)

4.22 Key Finding 22:

From an aviation safety regulatory perspective, it would be highly desirable that the required aviation regulations are developed as a single, coherent and consistent code applicable throughout the Channel Islands. (9.6.7)

4.23 Key Finding 23:

A Channel Islands Aircraft Registry requires new primary and secondary legislation to enable the delegation of the performance of State responsibilities for running and regulating aircraft registration from the UK to the DCA. The need for legislative changes applies not only to Jersey and Guernsey, but also the UK. (9.6.13)

4.24 Key Finding 24:

There appears to be confidence that the necessary law drafting can be delivered. The Economic Development Department has secured the required law drafting time and budget, and Guernsey law drafters have undertaken an initial review and scoping of the legislative changes, estimating that the process to draft, consult and enact the necessary legislation will take around 18 months from the start of the project. (9.6.13)

4.25 Key Finding 25:

Although there is a greater potential for delay in implementation and a higher draw on legal resources costs, the most appropriate solution to establish the required legislative framework for a Channel Islands Aircraft Registry is for parallel legislation that is as identical as is practical to be passed in both Islands. (9.6.13)

4.26 Key Finding 26:

Both Guernsey and Jersey have work outstanding to establish suitably developed Securities Interest legislation providing the necessary safeguards around lending to stimulate confidence in investing through a Channel Islands Aircraft Registry. (9.6.20)

4.27 Key Finding 27:

While it may not be practical for Jersey to sign up to the Cape Town Convention, the Panel acknowledges the Minister for Treasury and Resources sentiment that there should be no activity associated with the Aircraft Registry that detracts from Jersey's reputation as a quality financial services jurisdiction. (9.6.21)

5. RECOMMENDATIONS

5.1 Recommendation 1:

To establish an appropriate single point of responsibility for the cross-Departmental and cross-Island Aircraft Registry project, the Minister for Economic Development should, through the Chief Minister, engage with Director of Civil Aviation with a view to him assuming project management responsibility on behalf of the Economic Development Department. (7.3.30)

5.2 Recommendation 2:

The Minister for Economic Development must, without delay, seek to engage with the Minister for Commerce and Employment in Guernsey and its strategic partner SGI Aviation to formally secure Jersey's position in a joint Channel Islands Aircraft Registry. (8.2.6)

5.3 Recommendation 3:

Through the project manager, the Minister for Economic Development will need to ensure that wherever the Registry is based for administrative purposes, the marketing of the associated industry opportunities available to clients is impartial and equitable to both Islands. There must also be active communication with relevant industries in Jersey to promote the opportunities available to them to engage with and benefit from the Aircraft Registry project. (8.2.6)

5.4 Recommendation 4:

The work being undertaken by the Minister for Economic Development to develop a Category 1 Shipping Registry is welcomed, but should no longer be linked to negotiations with Guernsey on Jersey's role within a possible Channel Islands Aircraft Registry. (8.2.10)

5.5 Recommendation 5:

It is particularly important that work is undertaken by the Aircraft Registry project team to establish an acceptable solution to both Islands in mitigation against possible cost liabilities associated with an accident involving a Channel Islands registered aircraft. The potential to insure against such an eventuality should be given thorough consideration. (8.4.6)

5.6 Recommendation 6:

The Minister for Economic Development must engage at the earliest opportunity with the Minister for Treasury and Resources to achieve a solution, satisfactory to both, to overcome

the clear competitive disadvantage undermining Jersey's position in a Channel Islands Aircraft Registry. (9.2.10)

5.7 Recommendation 7:

It will be necessary for the Minister for Economic Development to establish up to date figures relating to the target market(s) of the Channel Islands Aircraft Registry and the impact, if any, this may have on projected economic flow and the business case. Indeed, this may be required quickly to assist negotiations with the Minister for Treasury and Resources regarding a solution over the GST issue. (9.3.25)

5.8 Recommendation 8:

With the agreement of Guernsey, the Minister for Economic Development should request the Director for Civil Aviation to undertake the necessary work to establish a recommendation on the issue of allowing fractional ownership within a Channel Islands Aircraft Registry. (9.4.7)

5.9 Recommendation 9:

Limited inward migration for certain key technical positions may be necessary and acceptable in the short term as the Aircraft Registry project develops. However, the Minister for Economic Development must develop a longer term plan in conjunction with relevant industry representatives and States Departments that is consistent with Strategic Plan priorities to manage inward migration and encourage employment opportunities for the locally qualified. (9.5.13)

5.10 Recommendation 10:

In setting up the legislative framework for a Channel Islands Aircraft Registry, the Minister for Economic Development should ensure a collaborative approach, through the Aircraft Registry project leadership, to develop parallel legislation that is as identical as is practical to be passed in both Islands. (9.6.13)

5.11 Recommendation 11:

In the event that Jersey cannot be a signatory, the Minister for Economic Development must ensure that the updated Securities Interest legislation is at the very least compatible with the principles established by the Cape Town Convention on International Interests. (9.6.21)

6. INTRODUCTION

- 6.1 As it established its 2012 Work Programme, the Economic Affairs Scrutiny Panel ('the Panel') received a detailed briefing from the Economic Development Department ('EDD') regarding proposals for the establishment of a Jersey or joint Channel Islands Aircraft Registry ('CI Registry'). It was clear to the Panel that this was a potential opportunity, if it could be proven to be merited, for genuine economic diversification, but one that may be passing the Island by given the limited progress that appeared to have been made and the establishment of potential competitor Registries in places such as the Isle of Man ('IoM'). The Panel gathered further information, and after consideration agreed that an objective Review could assist the decision making of the Minister for Economic Development ('the Minister') on whether to pursue or draw a line under the project, through the impetus provided by an objective, impartial assessment of the underlying business case and the options on the table.
- 6.2 The Panel began its Review in April 2012, and set about gathering the views of stakeholders and the public, starting with an advertising campaign in the Jersey Evening Post. The Panel also wrote directly to key stakeholders for their views. Public Hearings were held with the Minister on two occasions, as well as with the Minister for Treasury and Resources (T&R), Director of Civil Aviation for Guernsey and Jersey (DCA), the Aircraft Owners and Pilots Association (AOPA) CI Region and representatives from Executive Jet Charter Ltd (EJC). The Panel would like to thank everybody who contributed information and evidence to the Review.
- 6.3 The introduction of an IoM Registry, and work being developed in other jurisdictions in Europe including Malta, saw the idea to develop a Jersey Aircraft Registry raised again, after its initial emergence around 2005. Nevertheless, Jersey is not yet in a position to implement a Registry. As the Panel launched its Review there were a number of key issues that had yet to be resolved, not least issues around GST and competitive disadvantage with Guernsey in particular, or the specific details of whether the Registry would be a joint project with Guernsey or a standalone Jersey Aircraft Registry. Other elements vital to any potential success of Registry also required further work, including robustness of the business case, infrastructure demands for the associated industry growth, unique selling point and legislative changes.
- 6.4 The Panel begins the body of its report in Section 7 by examining the progression of the Aircraft Registry project in Jersey, establishing what options were/are being considered and why an opportunity first raised in 2005 appears to stand some way from fruition today. In

Section 8 the Panel moves on to present its examination of a simple but key question, and one of the main points of rationale behind its Review – what next? With the project in Guernsey gathering momentum, the Panel presents its findings on whether the opportunity for a joint Registry has passed Jersey by, or whether this and/or any other options remain on the table.

- 6.5 In Section 9 the Panel examines key challenges to the viability of the project to establish whether these have or can be overcome. Issues covered in this section include the competitive disadvantage of Jersey's Goods and Services Tax (GST) - particularly pertinent to comparison with Guernsey, the business case, unique selling point and legislative demands.
- 6.6 All of the evidence that the Panel has gathered and considered through public hearing and written submissions, that have led to its findings and conclusions presented in this report, can be viewed on the Scrutiny website at www.scrutiny.gov.je or by contacting the Scrutiny Office.

Glossary of Terms

- C&E: Commerce and Employment Department, Guernsey
- Cape Town Treaty: Cape Town Convention on International Interests
- Chicago Convention: Convention on International Civil Aviation
- 'the Chief Officer': Chief Officer, Economic Development Department
- CAA: Civil Aviation Authority, UK
- CI Registry: Channel Islands Aircraft Registry
- CI Strategic Case report: Strategic Case for a Channel Islands Aircraft Registry
- DCA: Director of Civil Aviation, Jersey and Guernsey
- DfT: Department for Transport, UK
- EASA: European Aviation Safety Agency
- EDD: Economic Development Department, Jersey
- EU: European Union
- FAA: Federal Aviation Administration (US)

- GST: Goods and Services Tax
- 'the Minister': Minister for Economic Development
- T&R: Treasury and Resources, Jersey
- UK: United Kingdom
- US/USA: United States of America
- VAT: Value Added Tax

7. JERSEY AIRCRAFT REGISTRY BACKGROUND AND OPTIONS

7.1 Context

7.1.2 *What is an Aircraft Registry?*

7.1.3 Under the Convention on International Civil Aviation all aircraft must be registered with a national aviation authority. The Register carries with it certain safety and regulatory responsibilities, including ensuring that the aircraft are airworthy, that the crew are suitably qualified to fly them and that in the event of an accident anywhere in the world there is clear responsibility for conducting investigations. On registering, a unique identification number is issued for all civil aircraft, similar to a car registration, with each Registry having its own distinguishing prefix. Registries will also provide a Certificate of Registration as proof of each aircraft's registration.¹

7.1.4 A number of registries based in Caribbean States that were overseas territories of the UK and Netherlands, and who would have been served by the registry of the parent State, emerged during the 1980's. Well known examples of such Registries within the industry are Aruba and the Cayman Islands. These registries were established as an opportunity for the smaller States to benefit through generating associated economic activity and industry, much as has been seen in the IOM and much as the Channel Islands plan to achieve.²

7.1.5 There is no overarching CI Aircraft Registry at the present time, and neither are there separate registries in any of the individual Channel Islands. The registration of aircraft belonging to residents typically takes place in either the UK or the US.

7.1.6 The Registry itself is a largely administrative function that would not be expected to generate significant, if any, income. However, it is believed, and has been proven elsewhere, that a successful Registry project could lead to significant economic benefits, through the economic flow generated from the wealthy individuals and corporations registering their aircraft and then accessing a range of supporting services that can be sold to them. This could include Trust services for ownership arrangements, providing purchase finance, insurance and legal services. It might also be possible to grow a local aircraft maintenance industry.³

¹ http://en.wikipedia.org/wiki/Aircraft_registration

² Strategic Case for a CI Aircraft Registry, March 2011

³ Strategic Case for a CI Aircraft Registry, March 2011

Key Finding 1:

It has been proven elsewhere, in comparable jurisdictions to Jersey, that a successful Aircraft Registry project can lead to significant economic benefits, through the economic flow generated from the wealthy individuals and corporations registering their aircraft and then accessing a range of supporting services that can be sold to them.

7.1.7 The Isle of Man

7.1.8 There have been a number of successful registries developed in places that are comparable to Jersey/Channel Islands and which offer a useful insight into the potential opportunity and challenges that come with the project. Notable examples include Aruba and Malta, however the most obvious and logical comparison can be made with the IoM. The IoM launched its Registry (effectively a Sub-Registry of the UK Civil Aviation Authority's Aircraft Register, as a Channel Island/Jersey Registry would be) in May 2007, and by June 2012 had announced the achievement of a significant milestone with the registration of its 500th aircraft, a Bombardier Global 5000.

7.1.9 The IoM specialises in the registration of private and corporate owned business jets, as well as high quality twin turbine-engine helicopters. It cannot register fixed-wing aircraft below 5,700 kgs for non-residents of the island. Aircraft registered through the IoM are not allowed to be used for commercial air transport. The Registry has sixteen specialist surveyors, who are resident in Switzerland, USA, UK and the IoM. According to Flightglobal, the IoM is currently the fastest growing offshore aircraft register in the world and the 7th largest business jet register.⁴

7.1.10 The Registry claims that as well as being the only dedicated corporate aircraft register in Europe, it offers high international standards and a competitive scheme of charges.⁵ It outlines the benefits of registering an aircraft in the IoM as:

- *High regulatory standards*
- *High service levels and quality international reputation*
- *Neutral Nationality registration prefix*
- *Secure mortgage register*
- *No insurance premium tax (6% in UK)*
- *European time zone*

⁴ www.isleofman.com

⁵ www.gov.im/ded/Aircraft

- *Professional infrastructure with experience in aviation finance*
- *Clear and simple taxation regime*
- *Stable legal and political environment*

7.1.11 In his 2012 budget speech, Hon Allan Bell MHK, Minister for Treasury highlighted the economic benefit associated with the Registry, which at the time was less than half the size it is now:

*'The Isle of Man register is now in its third year and has been an internationally recognised success. To date, around 200 high-quality corporate and private aircraft have been attracted to the Island's register. To put this in perspective, one of our major competitors, the Cayman Islands, has added 50 aircraft in the last 10 years. The growth of the Isle of Man aircraft register has generated millions of pounds of new revenues for local banks, advocates, CSPs and others. The future of the aircraft register looks extremely promising, with increasing numbers of new customers from Russia and the Middle East.'*⁶

Key Finding 2:

Launched in May 2007, the Isle of Man Aircraft Registry announced the achievement of registering its 500th aircraft by June 2012 and has generated significant amounts of revenue for locally based associated industry.

7.1.12 *The scope of a Jersey/Channel Islands Aircraft Registry*

7.1.13 As with the IoM, any CI/Jersey Aircraft Registry would be a Sub-Registry of the UK Civil Aviation Authority's Aircraft Register. This comes about through the requirement of the extension of the Chicago Convention (Convention on International Civil Aviation) to Jersey/Guernsey, via the UK's signature. As a result of this status, Jersey/Guernsey require the consent of the Department for Transport (DfT) in the UK to establish an Aircraft Registry and to use one of the registration letters or numbers that it has been allocated for the purpose of registering aircraft.⁷

7.1.14 The CI Strategic Case report sets out clear vision for the CI Registry project as being low cost and low commercial risk, with a manageable reputational impact and the potential for significant benefits to local businesses. It is intended to be a high quality, professional

⁶ www.gov.im/treasury/budget

⁷ Written submission, Chief Minister/DCA

registry operated to the highest international safety standards. It will be aimed at owners of new or nearly new business aircraft seeking high service standards in a cost effective, tax efficient jurisdiction. To this end the CI Aircraft Registry is envisaged as being more exclusive than traditional all encompassing bigger Registries, with a focus on attracting larger modern, new or nearly-new private or corporately owned aircraft (e.g. business jets, turbine helicopters, etc.) that hold a type certificate from EASA, the FAA or possibly from Transport Canada.⁸

7.1.15 The CI Strategic Case report also outlines the intention for local aircraft registrations:

It will also be open to residents of the Channel Islands for the registration of locally based aircraft, whatever their type.

7.1.16 It adds:

As the Registry becomes larger and experience is gained then it may be possible for locally based airlines such as Aurigny and Blue Islands to also move onto the Register, but this is not expected to occur initially.

7.2 The Options

7.2.1 The Minister has been considering three principle options for the delivery of the Aircraft Registry project; a Jersey Aircraft Registry, a Joint CI Registry based in either Jersey or Guernsey, a CI branded Aircraft Registry managed by Guernsey with the Channel Islands Shipping Registry managed by Jersey.⁹ These were described in an 'Options' paper that was sent to the Panel by EDD, setting out the potential benefits and challenges associated with each:

A. Jersey Aircraft Registry

Benefits:

- *Raise Jersey's profile on international scene – unique Jersey prefix registration – 'Nice to have' for enthusiasts. 'J' prefix not available from UK authorities*

⁸ Strategic Case for a CI Aircraft Registry, March 2011

⁹ EDD Options Paper, February 2012

- *Form part of suite for promoting Jersey offering including the shipping registry, which is well established and highly regarded.*
- *Diversifying the economy and potentially bringing in money to finance, legal, insurance and fiduciary sectors and possibly aviation support sector including landing fees and hanger space.*
- *Ownership of aircrafts becoming more popular, particularly for young individuals.*
- *Possibly set up a training school for servicing of aircraft*

Challenges:

- *Confusion if Guernsey set up a registry at the same time*
- *GST disadvantage, particularly if Guernsey has a registry as well.*
- *Developing a delivery model which is acceptable by the UK authorities and potentially be different to Guernsey's offering – confusion in the stakeholder*

B. Joint CI Registry based in Guernsey or Jersey

- *An option made by ED to C&E host the joint CI Registry in Jersey was rebuffed on the basis that Guernsey has taken the lead on this initiative.*

If it was hosted in Guernsey the following benefits and challenges would be:

Benefits:

- *Cost of developing registry and ongoing cost.*
- *Branded as Channel Islands Registry – potentially greater impact.*
- *Reduces duplication in terms of drawing up legislation and dealing with UK authorities.*

Challenges:

- *Both Islands agreeing to the right delivery model*
- *Registry apportioning business between both Islands – right balance, particularly if one Island is having lion's share of business (sharing costs of registry)*

- *Registry in Guernsey – staffing – benefits to Guernsey*
- *Agreeing on a prefix for the registrations*
- *Jersey's GST*

C. Guernsey manage the CI Aircraft Registry and Jersey the CI Shipping Registry

Benefits:

- *Seen as co-operative working between both Islands – outwardly this is seen to be positive – CI branding more powerful than individual Islands*
- *Clear distinction as to which Island is doing what*
- *Less of a risk for Jersey as registry is well established and highly regarded*
- *Potentially more registered vessels owing to maximum tonnage allowance in Jersey*

Challenges:

- *Guernsey Authorities agreeing to proposal. Jersey's registry is over 200 years old – 2,120 vessels. Guernsey's, just over 100 years old – 1,838 vessels. Tonnage maximums different Jersey 400, Guernsey 150*
- *Jersey Shipping Registry having the resources to take on Guernsey registrations*
- *Ensuring customers are not disadvantaged – GST issues for Guernsey registered vessels*

7.2.2 The Panel also learnt of another 'hybrid' option that had been considered that would have established Registration offices in both Islands, with Registry in between the Islands 'in the cloud'. However the Panel understands that this was considered too complicated, potentially confusing for clients and, in any case, unacceptable to the UK authorities.¹⁰

7.3 Background – Development of the Options

7.3.1 Initial Proposals – 2005

7.3.2 The Panel heard from industry stakeholders EJC that the idea that Jersey could see economic benefit from the development of an Aircraft Registry was first raised as far back as

¹⁰ EDD Options Paper, February 2012

2005. They explained to the Panel that they have been researching and lobbying for the setting up of a registry for a number of years and brought this issue to the attention of the then Industries Committee in 2004/5. They had highlighted to the Committee that at that time the IoM was proposing to set up a Register, and that Jersey could be about to miss out on a potential economic opportunity.¹¹ Speaking at a Public Hearing, Captain L. McConnell representing EJC elaborated:

*'Going back to 2005 I mentioned the aircraft registry to the Jersey Government and I used to work for a company in Farnborough called Tag Aviation which was also a very big corporate jet operator and I got the Minister for Economic Development (sic), the Jersey Airport management team to come across to Farnborough. It was in 2007, on an education ... to educate them on potential business aviation in Jersey, creating a niche market. So we have been at it a long time...'*¹²

- 7.3.3 The DCA confirmed that the concept of establishing a feasible Aircraft Registry in the Channel Islands had been worked on by interested stakeholders for a number of years before the establishment of the post of DCA in both Bailiwicks in 2009.¹³

Key Finding 3:

The concept of establishing an Aircraft Registry in the Channel Islands has been championed to the States of Jersey by some private stakeholders since at least 2005.

7.3.4 Emergence of Political Interest in a Channel Islands Aircraft Registry – 2009/10

- 7.3.5 The DCA advised the Panel that soon after his appointment in 2009, he held discussions with those stakeholders at their invitation which ultimately led to the matter being brought to the attention of the C&E in Guernsey and its counterpart EDD in Jersey. In late 2009 C&E commissioned a survey of Channel Islands aviation and financial sector stakeholders to establish local interest levels in a Guernsey/Jersey/Joint Aircraft Registry. There was a positive response to the broad idea, and the joint project was favoured. The findings were shared by C&E with EDD in January 2010:

¹¹ Written Submission, EJC

¹² Public Hearing, EJC, June 2012

¹³ Written Submission, Chief Minister/DCA

...as part of their project to identify areas of common interest which could deliver improvements in service or cost saving through the efficiency gains of joint working. "The Aircraft Registry" was quickly added as a potential winner to the EDD/C&E joint working agenda.¹⁴

Key Finding 4:

By January 2010, the Aircraft Registry had been identified as a 'potential winner' by the Economic Development Department in Jersey and Commerce and Employment in Guernsey, as part of their project to identify areas of common interest which could deliver improvements in service or cost saving through the efficiency gains of joint working.

7.3.6 Further joint work on the project took place in the final Quarter of 2010. In September, C&E in Guernsey, with the DCA leading the project for C&E, sought expressions of interest to undertake a strategic outline case for a CI Aircraft Registry. On becoming aware of the developments, EDD contacted C&E and, following discussions with the DCA, it was agreed that a representative from EDD should sit on the C&E Project Board to be involved in the short listing of the expressions of interest, take part in the tendering exercise and assist in the development of the report.¹⁵

7.3.7 The work, part paid by EDD's £15,000 contribution, was undertaken by aviation consultants Helios, who had been appointed in December 2010 through the short listing/tendering process. Its comprehensive report (the basis of the 'CI Strategic Case' report) was presented to the C&E Project Board in March 2011, significantly concluding that:

...the establishment of an aircraft registry in the Channel Islands was a sound financial proposition offering potential as an economic enabler for the economy while also providing diversity and the opportunity to enhance the reputation of Jersey and Guernsey.¹⁶

7.3.8 A Separate Jersey Registry?

7.3.9 Whilst work was taking place with Guernsey on the development of a joint Registry project, the Minister commissioned a report by a local stakeholder consortium into a single Jersey registry option, reporting to the Minister in April 2011. Although containing broadly similar conclusions to the Helios/CI Strategic Case report, it contained a notable difference in its forecast for economic value. It suggested that the potential yield to the Island from a single

¹⁴ Written Submission, Chief Minister/DCA

¹⁵ EDD Aircraft Registry update, February 2012

¹⁶ Written Submission, Chief Minister/DCA

Jersey registry could equate to more than 60% than that of a joint venture.¹⁷ The Minister explained how the background to this work:

*'We also funded some work looking at a Jersey registry in its own right. There was a strong lobby locally that suggested that that, indeed, was something that was worthy of consideration so we felt it was incumbent upon us to look at it, which we did.'*¹⁸

7.3.10 Following this initial report, the Minister asked the consortium to draft up a proposal for the work required to develop a business plan for a Jersey Registry, and a proposal was presented to the EDD that summer. However, due to the value of the work contained within that proposal, it was agreed that in line with States Financial Directions it would not be possible to proceed without going out to a formal tender for the work.¹⁹

7.3.11 *Faltering Negotiations – 2011*

7.3.12 In evidence provided by the DCA, he explained that it was around this time that the joint project began to noticeably falter. During the 'hiatus' he told the Panel that C&E had agreed to:

*'...forge ahead with the concept on their own, commissioning a States Report into the subject, which was approved in September 2011.'*²⁰

7.3.13 The approved Billet d'Etat Number XV set out Guernsey's plans for the Aircraft Registry:

AIRCRAFT REGISTRY

XVI.- After consideration of the Report dated 12th July, 2011, of the Commerce and Employment Department:-

- 1. To approve in principle the establishment of:-*
 - a) a Channel Islands aircraft registry, subject to agreement with the relevant authorities in Jersey; or*
 - b) in default of such agreement within such time frame as the Department considers reasonable, a Guernsey aircraft registry on the basis set out in this States Report.*

¹⁷ EDD Aircraft Registry update, February 2012

¹⁸ Public Hearing, Minister for Economic Development, June 2012

¹⁹ EDD Aircraft Registry update, February 2012

²⁰ Written Submission, Chief Minister/DCA

2. *To direct the Department to work with the Law Officers to identify the necessary legislative requirements for the establishment of a Registry and to report back to the States outlining the necessary legislation.*
3. *To direct the Department to appoint a commercial partner for the proposed Registry.*
4. *To delegate authority to the Treasury and Resources Department to approve the Full Business Case for the establishment of a Guernsey Aircraft Registry.*

7.3.14 From its perspective, EDD outlined to the Panel that in the last quarter of 2011 there had been political correspondence on the matter that had ‘flown’ between both Islands.²¹ The Panel was told:

C&E offered Jersey the opportunity to work together on a CI Registry, ED responded by stating that they would be minded to consider a joint registry subject to it being in Jersey, which was subsequently rebuffed by C&E.

The most recent correspondence was from C&E to ED advising that the States of Guernsey had given C&E flexibility for ensuring that the registry could proceed on a joint basis between the two Bailiwicks. The offer was for the Aircraft Registry to be based in Guernsey, but for eligibility criteria to be expanded to include Jersey residents and companies. The Minister for ED has responded stating that he is minded to agree to this proposal but to be fair and equitable, that there should be a joint Shipping Registry and that this should be based in Jersey – currently there are two separate shipping registries in both Islands.²²

7.3.15 By the time of submitting a project update to the Panel in February 2012, the EDD position was that it was awaiting a response from C&E on that proposal.²³

7.3.16 In a response to the Panel’s request in April 2012 for an update on the project from Guernsey’s perspective, the outgoing Minister for C&E informed the Panel:

‘...I note that the opening paragraph of your letter does not appear to consider an alternative scenario in terms of the Channel Islands: that is the establishment of an Aircraft Registry in Guernsey. Such a Registry could be established either in collaboration with the States of Jersey or separately...our view is that there is room for only one aircraft Registry in the Channel Islands. Throughout our development process we have offered full participation in the project to Jersey...However, around May of 2011 after the publication of the Helios

²¹ EDD Aircraft Registry update, February 2012

²² EDD Aircraft Registry update, February 2012

²³ EDD Aircraft Registry update, February 2012

Report, Jersey EDD appeared to withdraw somewhat from the collaborative approach and indicated an intention to proceed alone with its own project..Guernsey, in the meantime, has proceeded at full speed to engage with a suitable strategic partner...the possibility remains for Jersey to be involved to an extent with the project...²⁴

7.3.17 Guernsey Registry Strategic Partner Announcement – 2012

7.3.18 Since the approval of the Billet, C&E have sought to keep momentum up on the project. The Helios Report had recommended that the Registry might be best established under a public/private partnership, and C&E therefore undertook an Expressions of Interest process to source a suitable strategic partner organisation with whom to develop and run the registry. A formal tendering process was undertaken in January 2012 and a decision made on which partner to engage further with in February.²⁵ Contract negotiations were completed on 30 April 2012, and the new partnership agreement with SGI Aviation was announced in a Press Release on 10th May that set out the rationale, ambitions and timeframe of the partnership:

....The agreement establishes a unique public-private partnership, whereby the responsibility for the operational aspects of the public service of an aircraft registry will be outsourced to SGI Aviation as a private provider.

The Director of Civil Aviation of the Bailiwick of Guernsey, Fergus Woods, comments: “This is a great opportunity for Guernsey. It is not just about offering this one service; the presence of an aircraft registry will create an attractive environment for private enterprise to flourish and thereby contribute to the local economy.” The project is expected to result in significant financial benefits for the Guernsey community with potential revenue opportunities for the aviation and financial services sectors, with the associated positive impact on private sector employment.

Mr Woods explained “We have envisaged the project as a long term strategic partnership between the States of Guernsey and SGI Aviation with an established strong commitment on both sides.” The initial development phase is expected to take approximately 14 – 18 months, after which the registry will become fully operational, with a launch date set for mid-2013. The day to day operation of the registry will be managed by SGI Guernsey, a

²⁴ Written Submission, Minister for C&E Guernsey

²⁵ Written Submission, Chief Minister/DCA

*subsidiary of SGI Aviation which will be incorporated in Guernsey specifically for this purpose early in 2013.*²⁶

7.3.19 Further details about the SGI/Guernsey partnership project include:

...The aircraft registry is expected to achieve 150 Guernsey registered aircraft by 2015. Resident aircraft owners and operators from the Channel Islands will form the initial primary group of users.

The Guernsey registry will differentiate itself from competitors through its unique tax advantages, quality of service, operational flexibility and targeted marketing. SGI Aviation intends to draw on its international network of inspectors and unique expertise to add value to the proposition.

*The Registry activities include safety oversight of all aircraft, applying safety standards that are on a par with the highest in the world, which are those of the European Union and the United States of America. The registration prefix is anticipated to be the number '2', followed by four letters (e.g. '2-ABCD'), allowing unique and attractive letter combinations.*²⁷

7.3.20 Upon publication of the partnership announcement, several key stakeholders expressed their concern to the Panel about where this left Jersey's plans to be involved in the development of an Aircraft Registry. The Panel addressed the issue with the Minister, who informed us that there appeared to be some misinformation in through media giving the impression that Guernsey had decided to proceed alone without Jersey:

*'That is not the position as I understand it. Since the end of 2010, we have been in discussions with Guernsey, both at officer level and politically, in order to progress an aircraft registry. The Islands have considered the options of independent registries and they have also had discussions about a joint Channel Island registry...we entered into and contributed financially to a piece of work that was carried out and commissioned by Guernsey looking at a joint Channel Island registry.... We have maintained the dialogue with Guernsey all along.'*²⁸

²⁶ Press Release, Guernsey partnership with SGI, May 2012

²⁷ Press Release, Guernsey partnership with SGI, May 2012

²⁸ Public Hearing, Minister for Economic Development, June 2012

7.3.21 The Minister further explained at a Public Hearing on 14th June that the situation had not been helped by elections in Guernsey in March and the appointment of a new Minister for C&E on 8th May, which he suggested had given little opportunity to meet at a political level to progress the matter and identify the position of the new Minister for and his Board on it. However, a meeting was planned in the coming weeks and the Aircraft Registry would be discussed. Additionally, the Minister had spoken to his opposite number at C&E twice, in one conversation raising the aircraft registry and making it clear that Jersey is interested in a joint CI registry.²⁹

7.3.22 The Chief Officer for EDD confirmed the position on 14th June:

*'...as recently as this morning, we made it very clear both to the D.C.A. who is running the project for Guernsey and, indeed, to my equivalent ... who is the acting Chief Officer with the C&E (Commerce and Employment Department) that the Minister's position was that there should be a joint registry. We have both funding in 2012 budget and ... law drafting resource available to deliver that, and it was suggested that what we do is we move to that as quickly as possible. We had communicated our position to them some time ago and linked the development of a joint aircraft registry based in Guernsey to a joint category 1 shipping registry based in Jersey. We have also, as of yesterday ... contacted the third party who are working for the Guernsey authorities who have confirmed that there is absolutely no impediment whatsoever to them working for us jointly on a Channel Islands registry.'*³⁰

7.3.23 Criticism of Jersey's handling of the project

7.3.24 Whilst EDD has explained (see above) its commitment to the project and outlined its understanding that communication has remained open throughout with counterparts in Guernsey, the Panel has received a number of critical comments with regard to the handling of the Aircraft Registry by the States of Jersey, and in particular the slow speed of progress. EJC outlined to the Panel the basis of their frustrations with a perceived lack of political decision making:

Our main concern is that Jersey missed an opportunity in 2005, we had another opportunity in 2011 but it seems that Guernsey are stealing a march whilst we continue to consult and consult again. At some point the Minister needs to make a decision and decide to go ahead with a Registry or not. We hope that this Scrutiny Review will force this issue to the fore once

²⁹ Public Hearing, Minister for Economic Development, June 2012

³⁰ Public Hearing, Minister for Economic Development, June 2012

more and that a definitive answer will be given.³¹

- 7.3.25 The criticism levelled at the political decision making in Jersey was echoed by others who contacted the Panel:

'What is most disappointing is that the idea of a registry in the Channel Islands was raised over 3 years ago and little / no progress has been made. In the mean time all involved in European aviation have watched as the IOM makes considerable progress and revenue from a relatively simple plan and modest investment on their behalf. Much of this delay is due to the lack of political willingness to share revenue between the two islands and commit to a joint venture.'³²

- 7.3.26 The Chairman of AOPA, CI Region explained that he understood that it was originally the intention of both Islands to research the possibility of an aircraft register to compete with the existing one in the IoM, and that in Guernsey this task had been given to the D.C.A. who then reported separately to the relevant Minister in each Bailiwick. He continued:

'...It appears that somewhere along this process Jersey procrastinated whereas Guernsey decided to go ahead with further development. Ultimately this led to their decision to go ahead with a register based on a public private model requiring no additional civil servants and no cost other than the already expended research and development costs of finding a suitable operator and drawing up and getting approval for a register.'³³

- 7.3.27 The Minister for T&R, whilst very supportive of exploring the economic potential of the Aircraft Registry project, also expressed some concern about the speed of progress, raising questions about the structure of the project management:

'You need to have a single point of responsibility cross- departmental with the appropriate departments engaged. Otherwise, these things, we talk about for a long time but they never happen and off the top of my head, there are certainly 5 departments that need to be involved in this; 2 are sub ones within E.D. So if we are serious about itYou need a project manager in government that drives change. I am not criticising the public sector but the public sector needs managing in terms of getting things done and you need a single point of responsibility with accountability to do it and that is what I would do.'³⁴

³¹ Written Submission, EJC

³² Written Submission, Mr P Lightbody

³³ Public Hearing, AOPA CI Region, June 2012

³⁴ Public Hearing, Minister for Treasury and Resources, June 2012

7.3.28 This led the Panel to consider the role of the DCA in the project, who whilst having overall responsibility for ensuring the safety of civil aviation in Jersey and Guernsey airspace, reports to the C&E Minister in Guernsey, but the Chief Minister in Jersey. The DCA has played a prominent part in the project in Guernsey, having been asked to lead it on behalf of C&E, whereas in Jersey representatives from within EDD have undertaken the relevant project management. It is clear that the project in Guernsey has been a success in achieving significant progress, but Jersey's part in the project has been subject to criticism for the opposite. Speaking to the Panel about the project's progress in Jersey, the DCA commented:

*'It is about focus, because I have been directed to do certain things in Guernsey with regards to this project and, to be fair, they have been done. What we need to see is the same level of clear direction and focal point for responsibility for getting these things done here as well, for it to move on. That, I think, has been the drag on the project, overall.'*³⁵

Key Finding 5:

It is clear that the Aircraft Registry project in Guernsey has been successful in achieving significant progress, but Jersey's part in the project has been subject to criticism for quite the opposite.

7.3.29 He continued to explain that as a major outcome from the project is the delivery of the law changes, which he would be using on a day- to-day basis, he is required to be involved and can advise with technical expertise. There would therefore certainly be a role for him:

*'...but not necessarily as project manager, I hasten to add...I work from the Commerce and Employment Department in Guernsey, which is roughly the equivalent of the Economic Development over here. So, Economic Development is, because of the drivers for this project, the right place for it, but I work for a Chief Minister here. But, the Chief Minister, I am sure, would be more than happy to provide his resources in the form of me to that project, as much as I could help.'*³⁶

7.3.30 The DCA was asked whether, as DCA. for both Islands, he sometimes – such as during this project - found both hats uncomfortable to wear and whether there were any conflicts that arose from that situation. He explained:

³⁵ Public Hearing, Joint CI Director of Civil Aviation, June 2012

³⁶ Public Hearing, Joint CI Director of Civil Aviation, June 2012

...my prime task as the D.C.A. is set out in the Civil Aviation Law (Jersey) 2008 and the equivalent aviation law for Guernsey 2008. They are the same responsibility. It is primarily the safety regulatory oversight for the airport and the airspace. That is my prime responsibility. This is a project in addition. It is not a statutory responsibility I have, but it is clearly in my area of expertise and therefore that is why I am involved. When it comes to co-operation between the Islands on matters where there is competition - you heard the Minister for Treasury and Resources mention this - it is not always easy to find a smooth path through when there are competing interests in that respect. I would say that is where the difficulty is. In terms of my statutory function, there is no difficulty.³⁷

Key Finding 6:

Since 2005, Jersey has failed at a number of key moments in the Aircraft Registry project to either recognise or seize the opportunity to deliver the momentum required to achieve significant progress.

Recommendation 1:

To establish an appropriate single point of responsibility for the cross- Departmental and cross-Island Aircraft Registry project, the Minister for Economic Development should, through the Chief Minister, engage with Director of Civil Aviation with a view to him assuming project management responsibility on behalf of the Economic Development Department.

³⁷ Public Hearing, Joint CI Director of Civil Aviation, June 2012

8. WHAT NEXT: SHOULD JERSEY PURSUE A CI REGISTRY?

8.1 Introduction

- 8.1.1 The Panel has previously established the options that the Minister has been considering for the delivery of the Aircraft Registry project (see 7.2); a Jersey Aircraft Registry, a Joint CI Registry based in either Jersey or Guernsey, a Channel Islands branded Aircraft Registry managed by Guernsey with the Channel Islands Shipping Registry managed by Jersey. The Panel sought to establish what key stakeholders determined to be the most appropriate involvement for Jersey in an Aircraft Registry.
- 8.1.2 The signing of the new partnership agreement between SGI Aviation and the States of Guernsey marked a significant point in the Aircraft Registry project and Jersey's role in it. In that context, the Panel also examined whether Jersey might be able to essentially 'piggyback' and develop economic activity on the back of a Guernsey Registry should it proceed to establish a standalone Guernsey Registry, without the need for Jersey involvement in a Registry.

Key Finding 7:

The announcement of the new partnership agreement between SGI Aviation and the States of Guernsey in May 2012 marked a significant point in the Aircraft Registry project, and the context of Jersey's role within it.

8.2 Joint Channel Islands Registry or Standalone?

- 8.2.1 It is clear from the evidence that the Panel has taken that there was and remains a belief from almost all parties that Jersey's interests would be best served through a joint CI Registry in partnership with Guernsey, with a number of reasons given as to why this would be the case. Although some acknowledged that a Jersey standalone Registry was a genuine option, and still might be, developments in Guernsey have reduced its feasibility.
- 8.2.2 The Chairman of AOPA, CI Region was unequivocal that the joint option should be pursued, and explained why this was the case:

'There are...in our opinion, just 3 alternatives now open to Jersey. One, acknowledge the research and development so far done by the D.C.A. (Director of Civil Aviation) on behalf of and at the behest of the States of Guernsey and accept their offer of extending all the

arrangements made by them for a Guernsey register to a Channel Island one. This would then give equal access to the Jersey Financial Service industry to participate.

Option 2: start the whole lengthy, costly process of creating a separate and competing Jersey register. Option 3: do nothing. Only option 1, which offers an excellent ready-made solution makes any sense to A.O.P.A. from an aviation perspective. However, from a taxpayer and benefit to a potentially involved finance service industry also, only option 1 makes any sense.³⁸

- 8.2.3 The desire to continue to pursue a joint Registry was a conclusion reached in the majority of the written submissions that we received from industry stakeholders, including current pilots. One of those pilots explained:

Regardless of whether the islands have two registers, one for Guernsey and one for Jersey using individual registration prefixes, what is clear is that a single body / organization should administer the register / registers. The argument against running two independent registers, with individual units of administration is clear both on grounds of cost and competition. Within the present financial climate it would simply be unacceptable to public, and should clearly be unacceptable to politicians of both islands to duplicate expenditure when it is clearly not required.

If this argument in itself is not sufficient to avoid duplication, then that of direct completion between two judiciaries that have almost identical climates would also support a single joint venture.³⁹

- 8.2.4 Another written submission received during the Review outlined to the Panel further reasons in support of the joint Registry option:

'...Jersey should go with Guernsey for a Channel Islands Aircraft Register as we have a joint Director of Civil Aviation. If Jersey do go alone with this we will have to set up a new unit and will most definitely lose out to Guernsey due to GST. This has already shown up with delivery aircraft routing to the south coast of England rather than Jersey. Aircraft for re registration are using Guernsey rather than Jersey since the increase in GST last year.

³⁸ Public Hearing, AOPA CI Region, June 2012

³⁹ Mr P Lightbody, written submission

*There may also be the possibility that ICAO will not allow separate Registers for both Islands as no other group of Islands have a separate register at the moment.*⁴⁰

- 8.2.5 EJC told the Panel that it was crucial for the Registry project to be a joint one, preferably located in Jersey, and with the option for separate prefixes to satisfy varying demands for those wanting to place their business in either Guernsey or Jersey:

*'...I think it must be a Channel Islands registry because otherwise it sends a mixed signal. We are dealing with world business leaders or C.E.O.s of companies and I think if there is a Jersey and a Guernsey registry it sends out the signal that 2 islands, 24 miles apart cannot get on...I know the Islands' legislations are very different in many respects but fundamentally there is one Channel Islands Director of Civil Aviation. I do not know why you cannot perhaps split the registry so that people who have business interests in Jersey, for instance, will decide: "Okay, I am going to go to the Channel Islands registry but I want my business dealings through Jersey or my business dealings through Guernsey." I think that would be an interesting angle to pursue. I know we have not really looked at it from a legal point of view but I think it would be worth looking at because you have the Channel Islands registry, you would approach a common board or department and then according to what that aircraft donor wants or where his business affairs or loyalties lie, you would have: "Okay I will have a J reg or I will have a Guernsey reg."*⁴¹

- 8.2.6 The opportunity to work in conjunction with Guernsey was welcomed by the Minister for T&R⁴², and remains the option strongly favoured by the Minister (for ED), as described previously (see 7.3.21). There was no clear consensus amongst stakeholders about the physical location of the Registry, some being ambivalent, some preferring Jersey. The Minister outlined to us the position that he has taken in relation to where a joint Registry should be administered from, explaining that the registry itself would not be a big revenue generator, rather a catalyst to generate associated revenue. He said:

'...whether it is located in Guernsey or whether it is located in Jersey is largely immaterial, it is the function that has to be carried out. There was one suggestion that was put forward a while ago of a hybrid, a cloud solution where a registry, effectively, sits in either on a small basis, and it is operated between the 2 Islands. So it does not really matter where it is we

⁴⁰ Mr G Hocquard, written submission

⁴¹ Public Hearing, EJC, June 2012

⁴² Public Hearing, Minister for Treasury and Resources, June 2012

*believe. It is a cost and that is why we believe sharing it with Guernsey makes sense; it is the business flows that come from having a Channel Island registry.*⁴³

Key Finding 8:

The desire to see Jersey continue to pursue a joint Channel Islands Aircraft Registry was a conclusion of the overwhelming majority of the stakeholders that engaged with the Panel during the Review.

Recommendation 2:

The Minister for Economic Development must, without delay, seek to engage with the Minister for Commerce and Employment in Guernsey and its strategic partner SGI Aviation to formally secure Jersey's position in a joint Channel Islands Aircraft Registry.

Key Finding 9:

Given the initiative established by Guernsey, it is likely that a Channel Islands Aircraft Registry would be administered from Guernsey. As an administrative function however, whether it is located in Guernsey or Jersey is relatively immaterial. It is the potential to access the associated business flowing from the establishment of a Channel Islands branded and marketed Registry which is most important.

Recommendation 3:

Through the project manager, the Minister for Economic Development will need to ensure that wherever the Registry is based for administrative purposes, the marketing of the associated industry opportunities available to clients is impartial and equitable to both Islands. There must also be active communication with relevant industries in Jersey to promote the opportunities available to them to engage with and benefit from the Aircraft Registry project.

8.2.7 It is in this context that the Minister has been negotiating with Guernsey about the opportunity to establish the administration of a CI Aircraft Registry from Guernsey and a CI Shipping Register from Jersey (see Section 7.3.14). The Chief Officer explained to the Panel what the CI Shipping Registry entailed, and how it was comparable to the Aircraft Registry:

⁴³ Public Hearing, Minister for Economic Development, June 2012

*'...what we are talking about as far as the shipping registry is concerned is if both Islands move to a category 1 register (which, of course, we do not have at the moment) that would be the joint register. The existing shipping registers would remain as they are because I think they are there and there are differences...The cat 1 registry, which almost exclusively would be vessels that are not based in Jersey or Guernsey waters for that matter, could be done jointly. It is more of an administrative function that has more similarity to the aircraft registry.'*⁴⁴

8.2.8 The Minister added:

*'...the shipping registry interestingly is very similar to an aircraft registry: it is what flows from it from a commercial economic point of view is where the real interest is. What we have sought to do with the existing shipping registry is to grow it. It is category 2 and ... we are looking to make slightly larger super yachts applicable for our category 2. Again, it feeds into our aims of inward investment and high net worth individuals, economically active people that stimulate the local economy.'*⁴⁵

8.2.9 Indeed it was announced at the end of June 2012 that at the Annual Red Ensign Conference held in the IoM, there had been endorsement for a new Categorisation Order from the UK DfT allowing smaller registries to take on all ship types up to 400 gross tons, rather than solely pleasure craft. This agreement replaces the current limit of just 150 gt for commercial ships and should enable the Jersey registry to administer larger craft from January 2013.⁴⁶

8.2.10 Having linked the development of a joint aircraft registry based in Guernsey to a joint Category 1 Shipping Registry based in Jersey, the Panel sought to establish with EDD what stage negotiations were now at on the creation of the CI Shipping Registry. The Chief Officer explained that there had been some initial discussions with the relevant Department in Guernsey (Public Services), and was presently awaiting a response. He also explained that the joint Shipping Registry was not something that could be achieved before 2014.⁴⁷ The Panel understands that in July 2012, EDD was informed by the Guernsey authorities that it does not intend to pursue a Category 1 Shipping Registry.

⁴⁴ Public Hearing, Minister for Economic Development, June 2012

⁴⁵ Public Hearing, Minister for Economic Development, June 2012

⁴⁶ Press Release, Communications Unit, June 2012

⁴⁷ Public Hearing, Minister for Economic Development, June 2012

Key Finding 10:

During negotiations with Guernsey, the Minister for Economic Development linked the development of a joint Channel Islands Aircraft Registry based in Guernsey to a joint Channel Islands Category 1 Shipping Registry based in Jersey.

Key Finding 11:

The Panel understands that the States of Guernsey do not presently intend to pursue the development of a joint Channel Islands Category 1 Shipping Registry, requiring a change of approach from the Minister for Economic Development to this and the Aircraft Registry projects.

Recommendation 4:

The work being undertaken by the Minister for Economic Development to develop a Category 1 Shipping Registry is welcomed, but should no longer be linked to negotiations with Guernsey on Jersey's role within a possible Channel Islands Aircraft Registry.

8.3 Is There an Opportunity For Jersey Without Involvement in a Registry?

8.3.1 Given the developments made in Guernsey and the possible ramifications of the project continuing without Jersey, the Panel examined with witnesses attending the Public Hearings whether there may be an opportunity for Jersey to effectively 'piggyback' on a Guernsey Registry. This would see Jersey have no active role in any Registry but attract associated business and economic flow through the promotion of the opportunities presented by relevant financial services and industry opportunities at the Airport (eg hangarage and servicing).

8.3.2 The Minister accepted that it was not unfeasible to generate business in Jersey from a Guernsey Registry. However, it would not be an option that he would favour pursuing ahead of working together on a joint Registry. He explained:

I think that is something we would need to look at very closely. There is a train of thought that if they had a registry that we could capitalise upon that. There are some difficulties, I suspect, associated with that...From our point of view, it is part of our portfolio when we are looking at inward investment businesses, perhaps individuals of high net worth who, for business purposes, want an aircraft; 1(1)(k)s coming to the Island, high net worth individuals again for

*practical uses would need an aircraft. It is something else to sell as a package so if the aircraft was then registered in Guernsey but we have the flow of business in Jersey, there are still some measurables that one could argue we are getting. So Guernsey having one and us not having one would not necessarily be a major deterrent but I think it is much more constructive and effective if we work jointly with them.*⁴⁸

- 8.3.3 It was a sentiment echoed by other witnesses, whilst some were clear that they could not see the feasibility in such an approach. For instance, the Chairman of AOPA, CI Region was clear that he didn't see the piggyback option as attractive to potential Registry clients:

*'...if he has everything done in Guernsey why should he suddenly decide to come here instead.'*⁴⁹

- 8.3.4 However, as reflected in Section 8.2, the overwhelming consensus was that a joint Aircraft Registry should continue to be the option pursued with the benefits associated with that approach far outweighing those attributable to the 'go it alone' or 'piggyback' alternatives.

Key Finding 12:

Whilst accepted that in principle it may be possible, there is little enthusiasm for Jersey to 'piggyback' on a Guernsey Aircraft Registry, whereby Jersey would play no active role in the Registry but would seek to take advantage of proximity and attract associated business and economic flow.

8.4 Scepticism of the Aircraft Registry Project

- 8.4.1 During its evidence gathering, the Panel did become aware of some scepticism about the benefits of Jersey pursuing a role in an Aircraft Registry project. EDD informed us that in early January 2012, senior officers had held a meeting with a representative from an organisation based in Jersey involved with aircraft registrations. EDD explained that this individual had provided a number of sound business reasons as to why Jersey should not proceed with the expense of either being part of a pan Island initiative or have a sole Jersey aircraft registry. These included, amongst others:

⁴⁸ Public Hearing, Minister for Economic Development, June 2012

⁴⁹ Public Hearing, AOPA CI Region, June 2012

*'...a lack of a unique selling point, the VAT issue - particularly in the current economic climate as most registrations would be from European owned aircraft and the issue of GST.'*⁵⁰

- 8.4.2 The Panel also heard from Aviation Beauport, who told the Panel that they had discussed the idea of an Aircraft Registry a number of years ago with a previous Airport Director who had been opposed to the idea on the grounds of the cost of administration and potential cost of an incident involving a Jersey registered aircraft. They believed that the issues of cost remained valid today, and that the project was further compromised by the establishment of the IoM Aircraft Registry and the possible economic lessons that could be learnt from it:

*The reasons are still very relevant today but the most important factor is that the Isle of Man has already introduced a register. Whilst this has been very successful in terms of number of aircraft and whilst of course we do not have any financial information in this regard, our view is that even with the current number of aircraft registered in the Isle of Man, the undertaking may not be generating a substantial profit. Crucially, there is no reason to believe that there are many more aircraft prepared to register in the Channel Islands in preference to the Isle of Man. Therefore there is a very high risk that the costs of setting up and maintaining a local register could outweigh the potential income.'*⁵¹

- 8.4.3 The CI Strategic Case report recognises a number of important areas of risk to the project and establishes actions to be taken to mitigate against them (for example, cost implications of a low take up of registrations covered in Section 9.3). On the significant safety/regulatory issue of a possible accident involving a CI registered aircraft, the report explains:

*One of the primary risks that arises is that the DCA would be required to be involved in accident investigations for Channel Islands registered aircraft wherever in the world an accident could occur. Currently the UK Air Accident Investigation Branch (AAIB) acts for accidents that occur within the Channel Islands and worldwide where that accident relates to a UK registered aircraft. They also currently act on behalf of aircraft registered in the Isle of Man. It would be beholden upon the States to secure an equivalent arrangement to the Isle of Man for aircraft registered here. The possibility could arise that the UK may seek part funding for investigations relating to the Channel Islands and this could pose a financial risk.'*⁵²

⁵⁰ EDD Aircraft Registry update, February 2012

⁵¹ Written Submission, Aviation Beauport

⁵² Strategic Case for a CI Aircraft Registry, March 2011

8.4.4 The DCA explained that Jersey and Guernsey may also seek to insure against this eventuality, informing the Panel:

*'...most States who are responsible for the registries do not insure their liabilities or their responsibilities and obligations in that case. We are talking primarily about accident investigation costs, probably as the main contingent cost that could arise. Most do not insure, because the states, as you know, do not insure everything. They self-insure...there is one state...that does insure and that is Ireland...because they feel they are quite exposed with a large Atlantic seaboard for the potential for expensive aircraft accident investigation costs, which they would be responsible for as the territory or the location of the accident. Insurance is not a big feature in this regard, but it is a solution that I think the Channel Islands would look towards.'*⁵³

8.4.5 He further explained:

*'Unless there was a change to the law specific to that, then I would expect the U.K. Air Accident Investigation Branch still to be designated as the chief investigator of accidents for the Channel Islands. I do not see any push for that to change from the U.K. That individual body is designated as such for all overseas territories, for the Isle of Man, for Gibraltar. I do not see any push to change that. What there is a push towards is to, if you like, ring fence the activity such that there is no financial liability on the U.K. Government for the cost of that activity. That is going back to the insurance point. We would have to find a solution for that.'*⁵⁴

8.4.6 The submission from Aviation Beauport also suggested that whilst there may be an opportunity to pursue a register of commercial aircraft, this was likely to be a very limited market. They explained:

*As you are no doubt aware the Isle of Man register is only applicable to private aircraft and, we believe, only in certain weight bands. Aviation Beauport's aircraft owning subsidiary, Gator Aviation, is unable to register on the Isle of Man register since the aircraft are operated on Aviation Beauport's Air Operator's Certificate. There may be an argument for a Jersey register of commercial aircraft such as ours, but this would likely be a very limited market.'*⁵⁵

⁵³ Public Hearing, Joint CI Director of Civil Aviation, June 2012

⁵⁴ Public Hearing, Joint CI Director of Civil Aviation, June 2012

⁵⁵ Written Submission, Aviation Beauport

Key Finding 13:

Administrative costs, liabilities in the event of an accident, tax, and the lack of a unique selling point were all highlighted to the Panel as issues that would need to be addressed for an Aircraft Registry to be a success.

Key Finding 14:

Whilst the UK Air Accident Investigation Branch is likely to be the designated chief investigating authority in the event of an accident involving a Channel Islands registered aircraft, a clear position to mitigate potential liability and cost implications to the States of Guernsey and Jersey has yet to be established, with consideration being given to insurance.

Recommendation 5:

It is particularly important that work is undertaken by the Aircraft Registry project team to establish an acceptable solution to both Islands in mitigation against possible cost liabilities associated with an accident involving a Channel Islands registered aircraft. The potential to insure against such an eventuality should be given thorough consideration.

9. PROJECT VIABILITY: EXAMINING THE KEY ELEMENTS

9.1 Introduction:

9.1.1 A number of challenges were identified by EDD and other stakeholders regarding certain key elements that underpin the viability of succeeding in delivering the Aircraft Registry project and the potential economic benefits. The Panel sought to establish the progress made on overcoming those challenges and to identify what issues, if any, remained outstanding. Having established, in Section 8, that if Jersey is going to proceed with involvement in an Aircraft Registry project it should do so in conjunction with Guernsey, the Panel presents its evidence and findings within that context.

9.1.2 Within that section the Panel has also already covered one of the key elements facing a significant challenge, establishing where the Registry should be administered from. We therefore draw the reader's attention to Section 8.2 to avoid repetition here.

9.2 Tax Issues – GST and VAT

9.2.1 GST

9.2.2 It was clear to the Panel from the outset of the Review that Jersey faces a significant competitive disadvantage to Guernsey which, unresolved, would appear to seriously jeopardise the Minister's plans to develop an Aircraft Registry and the associated potential economic activity. The issue is simple; whilst Jersey has a GST set at 5 %, Guernsey has no such tax and an immediate competitive advantage. The implications of the situation were acknowledged by the Minister for Economic Development:

*'That is one of the issues that would need to be addressed...That is a barrier at the moment. It would be a barrier that would not be satisfactory.'*⁵⁶

9.2.3 It was a view expressed throughout the evidence that we received, with a number of stakeholders agreeing that unless the competitive disadvantage was removed, the project in Jersey did not appear to have any chance of success and was fundamentally flawed. AOPA illustrated the scale of the problem to the Panel:

⁵⁶ Public Hearing, Minister for Economic Development, June 2012

Since 1 January 2012 a GST threshold of 8000kg for an aircraft, above which no GST is payable, has a significant deterrent effect on anyone importing aircraft into Jersey as this includes 'light' to bottom end 'mid-sized' jets which retail (used) up to US\$9 million. In the circumstances it is difficult to see why any potential owner, given the choices presently available, would wish to locate their aircraft on a Jersey Register paying up to £300,000 in GST for the privilege when they can use other Registries with no such payment. This issue requires to be dealt with before the establishment of a register.⁵⁷

- 9.2.4 EJC also concurred that the GST issue was a major problem, and reflected most stakeholders opinion that the relevant exemptions from GST need to be sought as the only viable solution, and that comparable exemptions existed:

*'Well, it is, it is a huge competitive disadvantage for Jersey, a huge competitive disadvantage, and why would anybody use Jersey over Guernsey if they can save that G.S.T.? I know yachts in Jersey have G.S.T. exemptions so why not aircraft?'*⁵⁸

Key Finding 15:

As Jersey has GST set at 5% and Guernsey has no comparable tax, it is clear that Jersey faces a significant competitive disadvantage to Guernsey which, unresolved, would appear to seriously undermine Jersey's chances of generating associated economic activity from an Aircraft Registry.

- 9.2.5 The Panel sought to establish what steps the Minister had taken to try to resolve this fundamental issue. The Minister informed us that there had been some initial discussions with the Treasury to explore potential exemptions. He explained that there has been a precedent with regard to shipping and G.S.T. and that his Department would need to establish a position with Treasury on the matter relating to aircraft in order to overcome it.⁵⁹
- 9.2.6 Given the importance of the matter to the viability of the project in Jersey, the Panel took evidence from the Minister for T&R at a Hearing on 14th June 2012, arranged at very short notice and for which the Panel was grateful to the Minister for making time available on what it appreciated was a particularly busy day. The current position regarding relevant GST taxation was confirmed to the Panel in a briefing note drawn up by Tax Policy Unit and provided by the Minister for T&R:

⁵⁷ Written Submission, AOPA CI Region

⁵⁸ Public Hearing, EJC, June 2012

⁵⁹ Public Hearing, Minister for Economic Development, June 2012

Jersey GST treatment of airplanes

Commercial aircraft are zero-rated for GST purposes and no GST applies to them or to many of the services supplied in connection with them. Private aircraft are subject to GST at the standard rate of 5%. A plane is considered to be “private” if:

- *It is designed or adapted for recreational purposes; or*
- *It has a weight of less than 8,000 kilos; and*
- *It is not operated by an airline for reward on international routes*

This definition was changed in the 2012 budget, extending the scope of GST to smaller aircraft.

The provision of a private plane to an individual or company not resident in Jersey would not be subject to GST. GST would however be chargeable on supplies made in connection with the plane, such as hangar space, fuel and maintenance. The provision of private planes to Jersey residents is subject to GST, as are any services provided in connection with the plane.

An individual relocating to Jersey may import his personal belongings, including private aircraft, free of GST provided he has owned the items for at least six months before coming to the Island.

GST revenues

In the last 18 months Jersey has collected approximately £10,000 of GST from the importation of private aircraft. This may suggest that the GST treatment is deterring Jersey residents from importing planes. However, it is also possible that the GST collected is low because Jersey residents do not buy many planes.⁶⁰

- 9.2.7 It should be emphasised that there is no GST liability on a plane itself if the plane is not imported. This remains the case even when importation is only temporary, and could be a significant factor to the operation of the registry, although as highlighted above, associated services would currently attract a GST charge.
- 9.2.8 It was clear to the Panel that the Minister for T&R is, in principle, extremely enthusiastic about the potential economic opportunities offered by the Aircraft Registry and is open to

⁶⁰ Tax Policy Unit GST/Aircraft Registry Briefing Note, 18 June 2012

exploring what taxation adjustments could be made, despite the underlying policy to keep GST as simple as possible with minimal exemptions.

Obviously, we are aware that there is a difference between Jersey and Guernsey in terms of G.S.T. We would need to maintain competitiveness. You will know the hard line that we have taken on G.S.T. that there are no exemptions and we keep it simple. I think there can be if there is an economic compelling case to do some further review about G.S.T. applicability to aircraft but we need to know the analysis that this is economically beneficial and we will basically fall in behind... We will always look at these issues. They are politically sensitive but we will always look at them but we have obviously got to maintain the integrity of our duty and G.S.T. systems here.⁶¹

- 9.2.9 The Panel examined the details of the work that was being undertaken with EDD, and was concerned to hear that there appears to have been very little progress on this crucial issue. The Treasury Department is not yet clear about whether there is a requirement to physically import a plane for it to be on the registry or the extent to which the registry relies on those aircraft purchasing services from Jersey, and hence the extent of the GST issue. The Minister for T&R told us:

'...we want to know what the economic benefit is and we need the analysis to be done. I do not understand - because I have not been close to it - why this issue of aircraft registry has not moved faster. I am not criticising. I just genuinely do not know. We have a huge agenda of work to do in the Treasury, as I am sure you know. We will respond when a conclusion is made but we need that conclusion to be made. If the analysis has been made, if you agree with that, then we will respond and we will respond as quickly as we possibly can and we will give the most careful consideration...'⁶²

- 9.2.10 Asked about how long the Treasury had been looking at the issue given that it is one of the major stumbling blocks to moving forward, the Director of Tax Policy replied:

'...It has only been a matter of days and weeks and we have not started drilling down in to the issues. We have identified what the issues might be but we have not got full information on what the registry is likely to provide. What service are we likely to be providing and ...

⁶¹ Public Hearing, Minister for Treasury and Resources, June 2012

⁶² Public Hearing, Minister for Treasury and Resources, June 2012

The Deputy of St. Martin:

Would it be fair to say, Minister, that your department has not been approached for any detailed advice as to whether this idea was going to run or not?

The Minister for Treasury and Resources:

Well, politically, that is the case and, officially, that is the same thing.⁶³

- 9.2.11 Despite what appeared to be a lack of momentum generated by EDD to explore ways of resolving the GST disadvantage with Guernsey, there is some encouragement that the Treasury has nevertheless begun preliminary work on identifying the issues it faces and possible solutions to be examined further. The Tax Policy Unit's briefing paper on the matter explains that work:

GST and an aircraft registry

It is understood that one of the aims of creating an aircraft registry in Jersey is to encourage the ownership and – possibly more importantly – the storage of aircraft in the Island.

With that in mind, the Taxes Office and Tax Policy Unit are considering whether the current GST treatment of private aircraft and services provided in connection with them would act as a deterrent. This is particularly important given that Guernsey, which has recently announced its own aircraft registry, does not charge GST and its businesses could therefore be at an advantage. However, it is currently not clear that the GST treatment would be a barrier, as the Isle of Man appears to have a successful aircraft registry despite charging VAT at 20%.

Consideration is being given to zero rating all aircraft from GST to facilitate the registry, provided it is considered to be a commercially viable business. The Taxes Office and Tax Policy Unit agreed last week to review this with the potential to lodge an amendment to the GST Law with the 2013 Budget. Work is ongoing to identify and consider all the potential issues.

GST issues to consider

Issues to consider include:

⁶³ Public Hearing, Minister for Treasury and Resources, June 2012

- *Whether the GST treatment of private aircraft in Jersey would be a deterrent to the creation of a successful aircraft registry in the Island*
- *Whether the zero-rating of all aircraft would be sufficient to remove this barrier, if it does exist, or whether it would be necessary to extend this treatment to services supplied in connection with private aircraft in the same way as currently exists for commercial planes*
- *Whether the zero-rating should apply equally to the importation and onward supply of private aircraft within the Island*
- *If private aircraft were to be zero-rated for GST purposes, should the same treatment apply to pleasure boats or certain motor vehicles*
- *The potential GST revenues foregone from the above measures, compared with the potential for growth in Jersey businesses*
- *How the Isle of Man's VAT regime affects its aircraft registry⁶⁴*

Key Finding 16:

There appears to have been a lack of urgency and momentum generated by the Minister for Economic Development to explore ways of resolving the GST issues. There is some encouragement that the Minister for Treasury and Resources has, nevertheless, begun preliminary work on identifying the issues his Department faces and the possible solutions to be examined.

Recommendation 6:

The Minister for Economic Development must engage at the earliest opportunity with the Minister for Treasury and Resources to achieve a solution, satisfactory to both, to overcome the clear competitive disadvantage undermining Jersey's position in a Channel Islands Aircraft Registry.

9.2.12 VAT

9.2.13 There are also tax issues relating to Jersey and Guernsey's position outside the European Union (E.U.), with questions raised about the ability to guarantee the free circulation of CI registered aircraft within the EU. The Treasury was able to confirm to the Panel the current position regarding relevant EU VAT taxation rules relevant to the Aircraft Registry:

⁶⁴ Tax Policy Unit GST/Aircraft Registry Briefing Note, 18 June 2012

EU VAT treatment of private planes

VAT is chargeable on the importation of a private aircraft into the EU. Where a plane has been registered for VAT in one Member State, no further VAT is payable when the plane is taken to another state.

In theory all EU Member States operate a so-called “temporary import” scheme, which allows aircraft to be flown into their territory without triggering a VAT liability provided they are removed from the country after a short time. In practice, however the scheme is not applied consistently across the EU. As a result, in some countries, planes may be impounded or VAT charged up-front on the value of the plane, and the pilot must obtain a refund when the plane has left the country. This can take a considerable amount of time to achieve.

In order to avoid this cost and difficulty, some non-EU plane owners prefer to register their planes for VAT in an EU Member State, even though technically there is no obligation to do so. In addition, some private planes may spend so much time in the EU that they cannot avail of the temporary import exemption and therefore are required to pay VAT.

This can mean that some owners of private planes in Jersey have paid both VAT and GST on their plane. In practice, the Taxes Office is aware of at least one case where the owner has opted instead to hangar the plane in the UK, in order to avoid this double taxation. As a result, Jersey businesses do not benefit from the provision of ancillary services such as storage and maintenance facilities.⁶⁵

- 9.2.14 The issue of VAT is a particularly pertinent one given the likely direct competition that a CI Registry would face/enter into with the Registry in the IoM. The position of the IoM on VAT and how this relates to the Aircraft Registry is outlined below:

The Isle of Man is not part of the United Kingdom or European Union (EU) however it has a special relationship with the EU whereby it is part of the customs territory of the Union which allows zero rate tax companies to operate with the EU Value Added Tax system and trade freely within the EU.⁶⁶

- 9.2.15 As a result of this position, for commercial purposes, an IoM company is able to take advantage of the following:

⁶⁵ Tax Policy Unit GST/Aircraft Registry Briefing Note, 18 June 2012

⁶⁶ www.corporateoptions.co.im/services/aircraft_registration.html

- *Reclaim VAT on aircraft acquisition, import or purchase*
- *Non disclosure of beneficial owner to the Isle of Man Authorities*
- *Reclaim VAT on Isle of Man or United Kingdom expenses*
- *Import or acquisition of aircraft without flying to the Isle of Man or United Kingdom*
- *VAT paid certificate issued by Isle of Man Customs and Excise to be retained by the aircraft*
- *Reclaim VAT on aviation fuel*⁶⁷

9.2.16 Several written submissions expressed concern about the ways in which a CI registry faced significant disadvantages when compared with the IoM on the VAT issue, as well as others such as Malta. The Minister has also acknowledged the challenge that the VAT issue presents.

9.2.17 However, with Guernsey pressing on with the Aircraft Registry project, it appears to believe that the situation is not insurmountable. The CI Strategic Case report outlined how its research had established that due to the different VAT regimes it was likely that different clients would be attracted to the CI Registry than those using the IoM, depending upon their place of business and planned base of activity for their aircraft. Additionally, some clients may value the neutral registration code, particularly, for example, if operating in parts of the world where US registration may bring with it negative connotations. It further explains:

*The VAT situation suggests therefore that the market for the Channel Islands Registry is perhaps likely to be based outside of the EU. As such the registry should consider focussing its marketing activities on the Middle East, Asian and Chinese markets.*⁶⁸

9.2.18 It also states:

*One advantage of registering a business jet on the Channel Islands register is related to the absence of VAT if the aircraft is also being purchased through the Islands. Although it should be noted that Jersey Sales Tax could be levied. However, if the aircraft is being operated on intra-EU flights VAT will still be levied on services, fuel, etc. purchased within the EU and there is an expectation that VAT would have to be paid for services rendered within the EU (for example for intra-EU charter operations). If an aircraft's primary operating base is to be within the EU and the owner is a business not an individual it may be more advantageous for the aircraft to be imported through an EU State in order to allow VAT to be recovered correctly and to have the correct chain of paperwork for operators.*⁶⁹

⁶⁷ www.corporateoptions.co.im/services/aircraft_registration.html

⁶⁸ Strategic Case for a CI Aircraft Registry, March 2011

⁶⁹ Strategic Case for a CI Aircraft Registry, March 2011

Key Finding 17:

The issue of competitive disadvantage to the Isle of Man and other Registries presented by VAT is a challenge, but does not appear to be insurmountable. The CI Strategic Case report established that, due to the different VAT regimes, it was likely that different clients would be attracted to the Channel Islands Registry than those using the Isle of Man, depending upon their place of business and planned base of activity for their aircraft.

9.3 Business Case

9.3.1 It is claimed that businesses across the Channel Islands would stand to benefit from the economic activity that can be generated by the establishment of an Aircraft Registry, to the tune of an estimated £18M over the first three years of its operation. The Panel sought to establish the work that has been undertaken to develop the Aircraft Registry business case, and explore how robust that information was in the face of the current difficult economic situation.

9.3.2 The costs

9.3.3 With Guernsey having entered into a Strategic Partnership with the SGI Aviation, there is some clarity regarding the costs associated with the establishment and administration of a CI Registry. To date EDD has contributed £15,000 to the approximately £45,000 spent in partnership with C&E in Guernsey on consultancy services in the development of the registry strategic case.⁷⁰

9.3.4 The CI Strategic Case report itself sets out the costs associated with moving ahead with a Strategic Partner, which in this Model would be the liability of the Strategic Partner, not the respective States:

The preferred option...would see the Channel Islands enter into a long-term partnership with a strategic partner. The partner would invest to establish the register and it would be at no cost to the States in the expectation that this investment would be recouped over the following years. In return the partner will take full responsibility for delivering the registry services and billing clients.

If however the partner's activities were not being performed to the satisfaction of the DCA or if he had reason to believe that the relationship was not developing sufficiently then it would

⁷⁰ Public Hearing, Minister for Economic Development, June 2012, p.3

be possible to exercise a breakpoint at 6 months after contract award. In this event it may be necessary to reimburse the partner for work undertaken. A budgetary estimate of £100K is expected to cover such a reimbursement that could occur in 2013. It should be clear that this is a contingent liability and not an explicit funding requirement.

During the lifetime of the registry the DCA will also contract with an independent company to audit the performance of the strategic partner. It is anticipated that this would be a bi-annual event and a budgetary estimate of £50K per audit is anticipated.⁷¹

9.3.5 A detailed profiling of the costs associated with the Strategic Partnership was included in the CI Strategic Case report, and is included in this report in **Appendix 2**. Other potential costs identified through risk analysis are contained with the CI Strategic Case report, and covered at relevant points in this report (For potential costs associated with accident investigation, please see Section 8.4.).

9.3.6 The potential economic value and establishing demand

9.3.7 The main work undertaken to establish the business case for a CI Aircraft Registry is contained within the CI Strategic Case report, itself resulting from the 2011 Helios report that had been commissioned by C&E in Guernsey and part funded by EDD in Jersey. The CI Strategic Case paper identified that those benefits could be seen by stakeholders across the following sectors:

- the aircraft registrants,
- the Governments,
- the service industries offering finance and accounting services for aircraft purchase,
- aviation insurance brokers,
- fiduciaries, legal and trust companies,
- aircraft engineering businesses,
- aircraft hangarage businesses,
- aircraft operation businesses.⁷²

9.3.8 It concluded that in addition to the opportunity created through aircraft purchase and registration, high net worth individuals and corporations could, through a positive aircraft registration experience, be encouraged to move more of their financial activity to the Channel Islands.

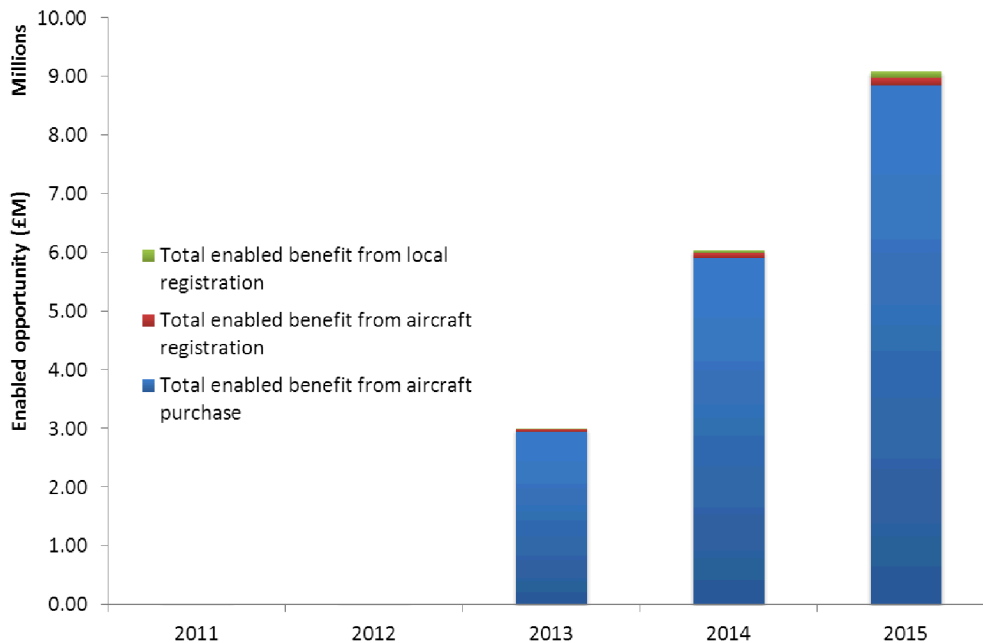
⁷¹ Strategic Case for a CI Aircraft Registry, March 2011

⁷² Strategic Case for a CI Aircraft Registry, March 2011

9.3.9 It identifies three sources providing the economic benefits from the aircraft registry:

- *The fees payable to the DCAs office for regulatory activities in relation to the registry,*
- *The licence fees payable to the Channel Islands in return for the right to operate the registry,*
- *The additional revenues created for local business as a consequence of the aircraft registry.*

9.3.10 The assessment that it contains about the economic opportunity to the Channel Islands being about £18 million over the first three years assumes a medium level of registry take up amongst domestic and international fleets. The tables below contained within the paper demonstrate that the majority of the benefit is determined to be obtained where aircraft are purchased through Channel Islands companies whilst initially bringing them onto the register.⁷³

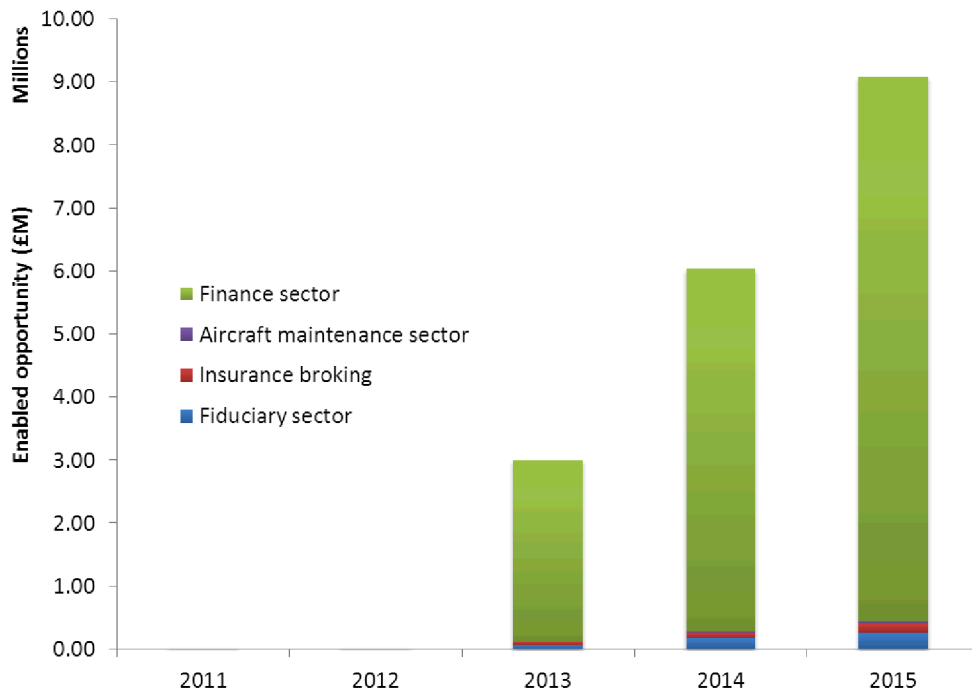


▪ **Figure 1: Total economic opportunity available to the Channel Islands⁷⁴**

9.3.11 The benefits outlined do not make any assumptions about the profits resulting to the various potential stakeholder companies, and are maximum obtainable revenues and

⁷³ Strategic Case for a CI Aircraft Registry, March 2011

⁷⁴ Strategic Case for a CI Aircraft Registry, March 2011



▪ **Figure 2: Summary opportunity enabled by the registry from fee source⁷⁵**

9.3.12 The report does, however, also outline a key risk to the success of the Registry project associated with realising the potential economic value, outlining that

...it relies upon local business seeking to service those clients attracted by the presence of the registry in order for it to be realised. There will be the need for good internal marketing to businesses within the States to ensure the opportunity is maximised.⁷⁶

9.3.13 A detailed account of the inputs into the economic analysis behind the business case was provided in the CI Strategic Paper, and is attached to this report as **Appendix 2**. It includes assumptions about the world fleet (existing and growth) and forecasts of economic returns based on different scenarios of registration levels.

9.3.14 As we established in Section 7.3, in addition to the CI Strategic Paper the Minister commissioned a study focusing specifically on the economic benefit to Jersey pursuing a standalone Jersey Registry. The report, *Jersey Aircraft Registry: Commercial Report* dated May 2011, was compiled a consortium of three individuals with considerable local aviation/business experience. It explored issues covering competition, value to Jersey, VAT issues, the Business jet market present and future and proposed principles of a Jersey Registry.

⁷⁵ Strategic Case for a CI Aircraft Registry, March 2011

⁷⁶ Strategic Case for a CI Aircraft Registry, March 2011

9.3.15 As with the CI Strategic Case report, it identified a range of potential sectors that could be beneficiaries from the successful establishment of Registry, including:

- Banking
- Legal
- Accountancy
- Trust Companies

9.3.16 It also identified that the Registry could be considered as an important milestone towards what it termed an 'aviation cluster', this being the associated aviation industries which include:

- Aircraft mortgage register
- Crew management
- Aircraft maintenance
- Aircraft insurance
- Repossessions Registry
- Aircraft engine and spare parts Registry

9.3.17 As previously established, although it drew broadly similar conclusions to the CI Strategic Case/Helios Report, a notable difference between was the forecast it made regarding the economic value. It suggested that the potential yield to the Island from a single Jersey registry could be over 60% greater than that of a joint venture.⁷⁷

9.3.18 The Panel has received very little evidence to dispute the information provided and conclusions drawn in the reports. Indeed, a number of the stakeholders that we received submissions from have concurred with the information contained within them, or have made similar points about the positive potential economic return.

9.3.19 The Panel was concerned however about the reliance on figures that may now be outdated given the recent nature of the local/global economy. The Panel raised the matter with the Minister and his Officers at a Public Hearing on 14th June. The Strategic Policy Manager commented:

'I think it is fair to say that the numbers were based on pre-economic downturns of 2007 and some of the figures were related to 2008 before the actual full effects were seen. I think

⁷⁷ Jersey Aircraft Registry: Commercial Report, May 2011

people are looking at various ways of purchasing aircraft rather than buying them outright...joint ventures with people. So there is still a demand for that but to say we are receiving up-to-date figures, no, we are not. But the fact that we see more registrations, and it is new aircraft which are going on the Isle of Man registry, does...indicate that there is the demand for it.⁷⁸

9.3.20 When the Panel asked the representatives from EJC about how they saw the marketplace for the relevant type of aircraft, they had a positive outlook:

'The worldwide business and aviation market is, especially with the larger aircraft, is very buoyant because the money is there.'

The Deputy of St. Martin:

When you say larger could you be a little bit more specific.

Mr. P. Stott:

I am talking about Far East, Middle East, America; the markets are good.

Mr. L. McConnell:

Larger as in aircraft size.

Mr. P. Stott:

Also in aircraft sales...presently within Europe the figures are down on aircraft sales and this is mainly due to the implementation of new V.A.T. (Value Added Tax) regulations. However, that problem is being addressed, certainly by certain legal companies within the U.K. finding better ways of doing business for some of the operators and certainly increasing probably the better way they can avoid V.A.T. on some of that by different set-ups. Some people are going down the lines of saying: "Okay, then they are going to pay the V.A.T. and operate like that and build that into the cost of the aircraft" but that is a major issue that is holding the European market down. The European market, I would say, is probably one of the smallest in aviation in the world but it does not affect the registration because you can have aircraft all over the world, as we have stated, on different registrations. So that would not necessarily directly affect the potential of a Jersey aircraft registry. You asked about the markets, we think the European is probably just stagnant a bit at the moment but the rest of the world is doing very well because at that sort of business jet level the money is still around.⁷⁹

⁷⁸ Public Hearing, Minister for Economic Development, June 2012

⁷⁹ Public Hearing, EJC, June 2012

9.3.21 The challenges faced by a CI Registry in establishing itself in light of existing competition were identified by the EDD:

- *Isle of Man has stolen a march owing to it being a VAT registered jurisdiction and therefore can tap into European ownership - 'unique selling point'. Through process individuals can purchase, register and lease out aircraft for private use without paying VAT leading to a significant saving.*
- *IOM Registry commenced in 2007 and now has c.400 aircraft on its list. Where will extra aircraft registrations come from?*
- *Both Cyprus and Malta are promoting their new aircraft registries as they are now part of the EU.⁸⁰*

9.3.22 However, as we have established in Section 9.2, the CI Strategic Case report explains that a CI Registry would also be aiming to attract clients who were not requiring to operate within the EU. In addition the Minister told us:

'We have missed first mover advantage which the Isle of Man have clearly snaffled up for themselves with something like 400 registered aircraft, and that is disappointing. We should have been in the position to have progressed this sooner. Nevertheless, that does not mean that there is not still opportunity. It is not a reason for not doing it just because they have got out there and established themselves. There are certain advantages to the Channel Islands that would appeal to people and certainly we have a key driver. It is contained within our economic growth and diversification strategy to bring inward investment. These are the types of people that do have aircraft. They want to get into Europe. They want to fly direct. We can build associated businesses like hangarage, insurance, mortgaging business and so on, fiduciary business, on the back of having this extra tool to our portfolio. I think it is important in that respect that we have it.'⁸¹

9.3.23 The Chief Officer added:

'I think the important thing...is that, in the first instance, it is either the flow of capital or the structuring through Jersey structures that brings the aircraft, not the other way round. Then the aircraft brings the associated benefits through mortgages, insurance, so this is something that will aid the broader economic conditions that exist.'⁸²

⁸⁰ EDD Options Paper, February 2012

⁸¹ Public Hearing, Minister for Economic Development, June 2012

⁸² Public Hearing, Minister for Economic Development, June 2012

- 9.3.24 With the combination of possible concerns about the impact of the global economic situation on demand and the existence of competitive Registries that have established a presence ahead of the Channel Islands, the Panel sought to explore further the issue of demand with key stakeholders. The majority of the responses on the matter would seem to point to there being a genuine opportunity for the CI Registry to establish itself. For example, EJC explained that, in addition to the positive state of relevant aircraft markets targeted by a CI Registry and despite competition, they had indications from existing and potential clients about demand that were worth pursuing:

'I think you have to fight for business now and even if you are on the late boat there are still people with enough business acumen on the Island that can capitalise, push market, develop the registry and still create a name for the registry...We already have clients interested in the registry, big organisations. They have links with all of the manufacturers of aircraft, Dassault, Embraer, Bombardier, who show an interest in the Jersey registry, we have the people there already.

Mr. P. Stott:

...the Isle of Man are being extremely successful and they will continue to be so unless they have competition, and if we do not go ahead and do it then we are not going to get anything out of it. So being in the race is part of it.⁸³

- 9.3.25 The CI Strategic Case report outlines amongst key risks to the project, the scenario whereby the commercial viability is threatened if the registry does not attract as many registrants as desired, potentially becoming a cost burden to the respective States. The report establishes the actions required to mitigate this:

This is part of the reason why a commercial partner is preferred to provide the registry so that the resources can be closely matched to demand and so that marketing activities can be targeted by those with a strong insight as to where the demand actually exists.⁸⁴

⁸³ Public Hearing, EJC, June 2012

⁸⁴ Strategic Case for a CI Aircraft Registry, March 2011

Key Finding 18:

There is some concern about the reliance on business case figures from pre 2008 that may now be outdated given the recent nature of the local/global economy. However, there remains a confidence amongst a number of stakeholders about the underlying business case and the health of markets relevant to a Channel Islands Aircraft Registry.

Recommendation 7:

It will be necessary for the Minister for Economic Development to establish up to date figures relating to the target market(s) of the Channel Islands Aircraft Registry and the impact, if any, this may have on projected economic flow and the business case. Indeed, this may be required quickly to assist negotiations with the Minister for Treasury and Resources regarding a solution over the GST issue.

9.4 Unique Selling Point

- 9.4.1 Key to underpinning the broader issue of demand highlighted above is the detail of what sells the CI Registry to a potential client? What is the unique selling point, if indeed there is one? The identification of a USP was an issue identified as a challenge by the EDD in its 'Options' paper:

What are the Islands 'unique selling points' for aircraft registrations? Will it really bring in much revenue to finance, legal, insurance and fiduciary sectors?⁸⁵

- 9.4.2 The Panel did hear from some stakeholders who identified what they considered to be unique opportunities of a CI Registry. EJC highlighted to the Panel that the Channel Islands had an opportunity to learn from others and develop the Registry accordingly:

'I believe that the advantage that the Channel Islands have at this time is they are starting reasonably with a blank canvas so the legislation could be written in a way to make it attractive to a lot of the business jet or business aircraft operators, which would make the Islands competitive and therefore you could compete not only just with the Isle of Man going

⁸⁵ EDD Options Paper, February 2012

*forward but you could attract aircraft that are presently registered with the Isle and Man to us.*⁸⁶

9.4.3 One example that they proposed could be further explored was the idea of allowing the Registration of aircraft under fractional ownership. Broadly, the concept of fractional ownership can be related to the principles of timeshare. Customers (the "owners") buy a "share" of a plane, as opposed to a whole one, with the price pro-rated from the respective market price of a whole aircraft. Owners are guaranteed access, ranging from 50–400 hours annually or a certain number of days per year depending on share size, to that plane. This access can be given with as little as four hours' notice. The 'owners' pay a monthly maintenance fee and hourly operating fee usually charged when an owner or guest is on board, not when the plane is flying to a pick up point, or returning to base after completing a job.⁸⁷

9.4.4 As they are often run under collective programmes, such as NetJets, owners have access to a fleet of planes and are able to upgrade or downgrade for specific flights. At the end of the contract the owner can sell their share to the market, and this may be the 'host' company (eg NetJets) or another owner waiting for a position.⁸⁸ Whilst acknowledging that it may be a contentious move that they would welcome comments from the DCA on, EJC explained the opportunity and attraction for fractional owners:

'...They use the Portuguese register because the Portuguese register does not request them to be what we call public transport within a commercial operation. The aircraft can operate privately which makes them extremely more flexible. That is not allowed in any other state in Europe. So the Portuguese register has made themselves very attractive by doing that. There is no reason why a Channel Islands registry could not go down the same route and therefore attract certain fractional ownership companies to their register.

Mr. P. Stott:

There are quite a few companies that do it now. It is just that in America there is a difference between the American law and European law and the European law states that the responsibility of the aeroplane is of the operator and, therefore, because the operator is receiving money from a client or multiple clients then it is deemed to be a commercial operation, whereas in America it is deemed that the operated aircraft is the responsibility of the owner of the aircraft and they just employ a management or commercial operator to

⁸⁶ Public Hearing, EJC, June 2012

⁸⁷ www.en.wikipedia.org/wiki/Fractional_ownership_of_aircraft

⁸⁸ www.en.wikipedia.org/wiki/Fractional_ownership_of_aircraft

operate the aircraft on their behalf and therefore it is deemed a private operation. So there you can make yourself attractive by allowing that. That is just one area.'

9.4.5 Captain L. McConnell from EJC summed up the opportunity for the CI Registry:

*'NetJets, which is one of the biggest corporate jet operators in probably the world, uses fractional ownership as one of their biggest business pushes really and it is allowed under the Portuguese register. Because we have a blank canvas you can put that in the legislation, because obviously we need an aircraft registry act to do all of this and there is a blank canvas there, so at the early stages of drafting law, if you get the right consultation from the right people you can capitalise on a huge competitive advantage.'*⁸⁹

9.4.6 The Panel raised with the DCA the idea of allowing the registration of aircraft under fractional ownership. He told the Panel that it did offer the potential to be a unique selling point of a CI Registry, but that the relevant work assessing the risk had yet to be done, and would need to be before a conclusion could be reached. He explained why it was a difficult area:

*'It is a very difficult area. E.A.S.A. (European Aviation Safety Agency) has already decided that fractional ownership, where it is purely done on that basis, results in private flights, the flights being private not commercial. Despite the fact that the ownership link can be quite a tenuous one, you know, for the man on the street saying, you know, got 100th share in an aircraft and they are paying something to fly in it nevertheless. Even that is deemed to be a private flight, because legal there is an ownership through the share. But, there is no question that there is a general feeling that that mode of operating does need some additional oversight, because there is a certain presumed duty of care for the operator in that case, even though the operator is operating at the bequest of the owner. Most owners will know nothing about the aircraft other than how they sit in it. So, it is an interesting one. I think there is potential there, but I would be very wary of taking on responsibility for a large factual ownership operation, which you would routinely want to oversee properly, which demands big resources to do it properly. We have no policy on that.'*⁹⁰

9.4.7 The DCA was asked whether it might be possible to have a limit on the size of the fraction, to have regulations in place that limited allowable ownership of up to 'x or y' separate owners. He told the Panel

⁸⁹ Public Hearing, EJC, June 2012

⁹⁰ Public Hearing, Joint CI Director of Civil Aviation, June 2012

'Yes. That is one way of...you are moving from fractional ownership towards cost sharing and of course, the U.K. I think they use the figure of 4 or 5 as a sort of shared ownership, rather than fractional ownership.

The Deputy of St. Martin:

Would it be fair to say then that if we took a different view on shared ownership and said we would be prepared to accept shared ownership up to maybe 20 shares or something that would put us at an advantage?

Director of Civil Aviation:

It is possible. I have done no analysis on it, so I cannot really say. I think it comes down to risk.⁹¹

Key Finding 19:

Allowing the registration of aircraft under fractional ownership offers the potential for a genuine unique selling point of a Channel Islands Aircraft Registry, but the relevant work assessing the potential associated risk has yet to be undertaken.

Recommendation 8:

With the agreement of Guernsey, the Minister for Economic Development should request the Director for Civil Aviation to undertake the necessary work to establish a recommendation on the issue of allowing fractional ownership within a Channel Islands Aircraft Registry.

9.4.8 In addition to fractional ownership, the Panel also took evidence that suggested further unique selling points of a CI Registry, including opportunities around crew licensing. This idea was describes by a local pilot:

'One attraction of the Jersey Registry will be to allow validation of all US, EU, and other recognized ICAO state licenses for crew members of aircraft and helicopters. This will lead to a significant cost savings in many circumstances as it avoids costly retraining of crew. In addition certain maintenance organizations are approved by the FAA, UK CAA, JAA, and

⁹¹ Public Hearing, Joint CI Director of Civil Aviation, June 2012

EASA (which will encompass the JAA in the EU and the UK CAA) and this again will have a significant cost implication to many operators.⁹²

9.4.9 This submission went on further to outline a number of other potential advantages relating to the registry's offshore position.

'One important factor is that the purchase of an aircraft is an obvious use of offshore funds, allowing the use of an aircraft without the necessity of repatriating funds into an onshore jurisdiction, where they may suffer a tax liability. Similarity, there will be opportunities for offshore financing of aircraft with tax advantages and many banks will want to finance aircraft purchases on the traditional lines of any high value acquisition. An insurance mortgage registry will be established along with a repossession and temporary registry for the transfer of aircraft from one registry to another or from lessee to another. There is only one other offshore registry that provides these services. The projected market for this type of services range from 10 to 40% of all aircraft that are presently registered or will need to be registered.'⁹³

9.4.10 Most frequently, the Panel heard stakeholders outline similar strong selling points of a CI Registry, often indicating that it was the collective package of expertise and reputation that would be the attraction to potential clients. The Channel Islands were seen as being able to match the selling points of competitors, improve upon them and even offer more services and opportunities than those competitors. Strengths and benefits covered included:

- High regulatory standards
- Range and expertise of Financial Services
- Reputation of those Financial Services
- Simple tax regime
- Geographic location
- European time zone
- Stable political and legal environment
- Operational flexibility

⁹² Written Submission, Mr T Byron

⁹³ Written Submission, Mr T Byron

9.5 Infrastructure

9.5.1 In addition to the job and business creation opportunities presented through the administration and regulation of a CI Registry, albeit relatively small, it is hoped to encourage some owners (for example 1(1)(k) residents) to locate their aircraft in the Channel Islands, with associated support industry growing around that. The Panel examined the scope, requirements and implications of those opportunities.

9.5.2 Administration and Regulation opportunities

9.5.3 The CI Strategic Case report established that an aircraft registry amounted to more than an administrative process alone, and would require specialist engineering and technical skills to fulfil its function. It explained that a Registry would impose specific state responsibilities for aviation safety in the Channel Islands that are not currently within the remit of the DCA. It predicted that external assistance would be required to fulfil these new responsibilities, as although there would be opportunities for local administrative and quasi-technical roles there would undoubtedly be a strong dependence upon expert skills, such as aircraft surveyors and specialists in flight crew/engineer licensing.⁹⁴

9.5.4 This was confirmed to the Panel at a Public Hearing held with the Minister, during which the Strategic Policy Manager responded to the question of where the individuals with the relevant skills and qualifications to fulfil the regulatory and safety responsibilities would come from, saying:

*'I see that as coming from outside the Island but I think that part of the model that we would use would be to look at opportunities where we can train up locals. There is a world shortage of surveyors for aircraft and, as the market grows, the market is getting greater so there is a huge potential there.'*⁹⁵

9.5.5 It appears to be the case that, for two principle reasons, there may be little opportunity or impact in Jersey regarding technical staff; firstly the likelihood of the Registry being based in Guernsey, and secondly responsibility for its administration and associated operational obligations being the responsibility of the Strategic Partner, albeit under the safety and regulatory framework established through the DCA. On basing the Registry in Guernsey, the Minister confirmed:

⁹⁴ Strategic Case for a CI Aircraft Registry, March 2011

⁹⁵ Public Hearing, Minister for Economic Development, June 2012

*'There is one point probably worth making here, that if we go down the route of a joint Channel Island registry and it is based in Guernsey, of course the one advantage they would get would be the staffing element.'*⁹⁶

- 9.5.6 On the second matter, the CI Strategic Case report indicated that whilst a couple of administrative posts may be created, a Strategic Partner would not necessarily base all of its technical expertise within the Channel Islands, but would call it in as required.

*The strategic partner will be given the freedom to organise, manage and run the registry as they see fit so long as they meet certain service levels and obligations agreed with the DCA. The partner will interface with the customers, will undertake the necessary activities to approve aircraft, crew and engineers and will market the registry to clients worldwide. They will also invoice clients. In return they will pay a licence fee to the DCAs office.'*⁹⁷

- 9.5.7 It continues by explaining that there is:

- *No need (for) recruitment of significant numbers of non-locally qualified specialist staff'*⁹⁸

- 9.5.8 An indication of the scale of technical expertise is given by the IoM Registry, which has a total of 16 surveyors based not just in the Island but also in Switzerland, the USA and the UK.⁹⁹

- 9.5.9 The DCA was asked about the expertise that would be required for the various safety/regulatory purposes, and how much of that would have to be brought in from outside the Islands. He told the Panel:

'...a lot of it does not exist on Island at the moment. It is not always the most efficient way to have someone full-time doing that, because it would not necessarily be a full-time activity. So, the idea of outsourcing is to achieve the most efficient use of resources. In other words, apply them when and where they are needed and not be paying for them when they are not needed. That is the way that I will be seeking to resolve the resource requirement. The hope would be that we could find expertise on the Island who could take on more responsibilities and indeed conduct airworthiness activities and others oversight activities on the Island on

⁹⁶ Public Hearing, Minister for Economic Development, June 2012

⁹⁷ Strategic Case for a CI Aircraft Registry, March 2011

⁹⁸ Strategic Case for a CI Aircraft Registry, March 2011

⁹⁹ www.gov.im/ded/Aircraft/

*behalf of the operation. But, initially, I think that might not be the starting point. I think there is certainly an opportunity to develop that as a skill.*¹⁰⁰

9.5.10 Opportunities for aircraft support services

9.5.11 The Panel heard that there was confidence that the Infrastructure at Jersey Airport, both at present and in the future, could cope with the increased demand that could be placed upon it by growing aircraft support services. The Chairman of AOPA, CI Region told us that there would be no need to for an increase in the level of available infrastructure (hangars etc) at the airport to cope, although if required the potential for expansion was there.¹⁰¹

9.5.12 The Minister explained that work was already underway to seek to exploit opportunities that may exist, even without the Registry, to improve areas of infrastructure such as hangarage. He explained:

'We have already done a land planning exercise at the airport looking at the usage of the land, and one of the identified options is additional hangarage for demand that exists frankly at the moment and will continue to expand and, particularly if we get a registry, we believe further. It will take some time to go through the process of establishing a registry anyway. There are primary legislation requirements so I think if you start looking at the 2 streams of work, the legislation required in order to put a registry in place and, indeed, the work necessary for developing additional hangarage and other facilities, they probably broadly are going to run hand in hand I would imagine. So it is not necessarily going to be a hindrance.

Chief Officer:

*I think it is worth mentioning that there is an active tendering process, effectively, to establish a second fixed base operator up at the airport, and that is very well progressed.*¹⁰²

9.5.13 EJC agreed that demand for extra hangar space would not be exclusively driven, if at all, by the Registry. However there was already significant demand for that extra space and they understood, in line with the comments the Chief Officer of EDD that significant progress was being made on a related infrastructure improvement project. They also addressed the issue of the availability locally of the expertise to back up such business opportunities:

¹⁰⁰ Public Hearing, Joint CI Director of Civil Aviation, June 2012

¹⁰¹ Public Hearing, AOPA CI Region, June 2012

¹⁰² Public Hearing, Minister for Economic Development, June 2012

'The only expertise, I believe, we would need to import would be something we are looking at at the moment, which is the maintenance side of aircraft...basically the maintenance division would have to be originally driven by outside help...highly-experienced engineers, but the actual bottom line is and the way we are trying to push it forward, is to create an apprenticeship scheme for the youth and therefore develop the maintenance side of aircraft that way. So initially it would need outside but it would be grown within the Island and obviously creating jobs which obviously is the way where everyone is looking forward to at the moment.

The Connétable of St. Ouen:

Numbers. I know it depends on the size of the operation but numbers initially to get it off the ground; what would you envisage; 2, 3, 10 engineers coming to the Island?

Mr. P. Stott:

Oh no, not that many. Probably a handful, you could probably get away with 4 or 5 I would think and then build from there.¹⁰³

Key Finding 20:

It is envisaged that, initially, a limited amount of technical expertise both directly and indirectly associated with an Aircraft Registry would be required to be brought in from outside the Island. However, in addition to some immediate job opportunities for local people, others could be created through training and apprenticeships.

Recommendation 9:

Limited inward migration for certain key technical positions may be necessary and acceptable in the short term as the Aircraft Registry project develops. However, the Minister for Economic Development must develop a longer term plan in conjunction with relevant industry representatives and States Departments that is consistent with Strategic Plan priorities to manage inward migration and encourage employment opportunities for the locally qualified.

¹⁰³ Public Hearing, EJC, June 2012

Key Finding 21:

The Panel acknowledges and welcomes the expansion opportunities at the airport that have been identified as part of the development of proposals to incorporate Jersey's harbours and airport, including additional hangar facilities.

9.6 Developing Legislation**9.6.1 Changes to UK and Islands Legislation to allow a CI Aircraft Registry**

9.6.2 As a sub-Registry of the UK's CAA Registry (see 7.1.13), establishing a CI Aircraft Registry requires the consent and co-operation of the DfT in the UK. The DCA explained the work that he has undertaken with the UK authorities, informing the Panel that he had held a number of discussions with the DfT in 2011. As a Sub-Registry, the UK wants to retain a certain degree of control, and has insisted on a full safety assurance conducted by their CAA before the Registry could commence.¹⁰⁴

9.6.3 The DCA has reached agreement in principle that would enable Jersey/Guernsey to establish and operate an aircraft registry subject to their compliance with a set of policy principles that the DfT had established as UK Government policy regarding sub-registries of the UK. Those principles are summarised below.

The UK government will permit and support the establishment and running of aircraft registers in the OTs and CDs provided that:

- i. the full costs associated with the register, including providing safety regulation, is met by the territory concerned;*
- ii. the territory concerned makes provision to cover in full all liabilities which arise, or could arise, from the running of the register, both directly and indirectly; and*
- iii. the territory concerned establishes a safety regulatory body empowered to regulate against legislation and requirements designed to implement the requirements of the relevant Annexes to the Chicago Convention; and which:*
 - 1. has an appropriate and sustainable level of funding; and*

¹⁰⁴ Public Hearing, Joint CI Director of Civil Aviation, June 2012, p.11

2. *meets (in the view of the UK Department for Transport (DfT) and its technical advisors) the requirements and guidance laid down by the International Civil Aviation Organisation.*¹⁰⁵

9.6.4 A CI Registry also requires new primary and secondary legislation to enable the delegation of the performance of State responsibilities for running and regulating aircraft registration from the UK to the DCA. This will enable the registry to operate in either one or both States. The need for legislative changes relates to both the UK and the Islands.

9.6.5 The CI Strategic Case report establishes options with regard to how the legislation is developed and implemented between Guernsey and Jersey, with outstanding issues to be resolved.¹⁰⁶ The broad options were set out, as below:

	Single state	Enacted in one state with access provided to the other	Enacted in both states in parallel
Advantages	<ul style="list-style-type: none"> Potentially lower overhead associated with political and legal processes Reduced need for legal drafting Less complicated decision making 	<ul style="list-style-type: none"> Full equality of access in both States Reduction in level of legal support and drafting needed Potentially more expeditious Could allow the Registry to be in place and operating more quickly Provides full access to economic benefits 	<ul style="list-style-type: none"> Full equality of access in both States Harmonisation of ANOs has additional benefits to the DCA
Drawbacks	<ul style="list-style-type: none"> Would reduce economic benefits to non-participant Risk of two independent Registers competing with each other Limits incentives to subsidise DCA activities 	<ul style="list-style-type: none"> Still the risk that the second State does not participate Potentially leaves the host State with greater liabilities and political overheads relating to the Registry If there is a delay in participation businesses in the second State may lose out on the economic benefits 	<ul style="list-style-type: none"> Highest level of legal resource required Greatest potential for delays in implementation

9.6.6 In a briefing paper provided with the Chief Minister’s written submission to the Panel, the DCA outlined the nature of the required legislation for basing the Registry in Jersey:

Establishing an aircraft registry in Jersey would require that the appropriate primary legislation be developed and passed probably through the amendment of the Civil Aviation (Jersey) Law 2008 and the development of a full set of aviation safety regulations in an amended Air Navigation (Jersey) Order 2008.

¹⁰⁵ Written Submission, Chief Minister/DCA

¹⁰⁶ Strategic Case for a CI Aircraft Registry, March 2011

*From an aviation safety regulatory perspective it would be highly desirable that the aviation regulations are developed as a single, coherent and consistent code applicable throughout the Channel Islands.*¹⁰⁷

- 9.6.7 The DCA explained further to the Panel at a Public Hearing what improvements to the code would be of benefit, and why:

*'There are some detailed differences which are minor irritations to me rather than to anyone else. But to the aviation public, as it were, the people who have to negotiate the rules, it would make a lot of sense if they were identical...A bringing together or greater consistency between the 2 requirements, I will be working on. There are a couple of drivers for that. One of them is the registry, funnily enough, because there is a requirement to make some significant adjustments to the Air Navigation Order to enable the registry to take place. That would be the perfect opportunity to get rid of other inconsistencies at the same time.'*¹⁰⁸

Key Finding 22:

From an aviation safety regulatory perspective, it would be highly desirable that the required aviation regulations are developed as a single, coherent and consistent code applicable throughout the Channel Islands.

- 9.6.8 In Guernsey, it is estimated that the process to draft, consult and enact the necessary legislation will take around 18 months from the start of the project. This is based on the assumption of there being no major challenges from UK authorities. It is naturally seen as desirable for Jersey to fit its drafting timetable in with the planned timeframe in Guernsey.¹⁰⁹

- 9.6.9 The Chief Officer of EDD advised the Panel that his Department was in a position to move quickly on the law drafting requirements, and had confirmed this to his counterpart in Guernsey and the DCA:

*'We have both funding in 2012 budget and, indeed, we have law drafting resource available to deliver ... and it was suggested that what we do is we move to that as quickly as possible.'*¹¹⁰

- 9.6.10 In addition, Jersey is better placed than Guernsey with regards to Securities Interest legislation that will be required to satisfy the demands of the Cape Town Convention (see

¹⁰⁷ Written Submission, Chief Minister/DCA

¹⁰⁸ Public Hearing, Joint CI Director of Civil Aviation, June 2012, p.4

¹⁰⁹ Strategic Case for a CI Aircraft Registry, March 2011, p.27

¹¹⁰ Public Hearing, Minister for Economic Development, June 2012, p.3

Section 8.7.) surrounding mortgage arrangements and the security associated with the lending. The Minister informed the Panel:

*'...it is quite interesting, in Guernsey, they do not have the legislation, Security Interest Law, for example. We have taken the first step with part 1 of the Security Interest Law. We would need to bring in part 2 in order to allow us to facilitate that opportunity. So they may have taken the step, there is an awfully long way to go for them as well in this.'*¹¹¹

9.6.11 The Panel asked the DCA at its final Public Hearing on 20th June about the current law drafting position, and how the CAA safety audit might fit in. He explained:

*'I think they could be inspecting while we were waiting for the Ministry of Justice to do their business with the Privy Council. That is typically a 4 or 6 month period. So, there is quite a window of potential inactivity on the legislative side that could be used usefully to look at safety assurance, for example...ideally if we could start straight away we could have a draft legislation going through the States at the end of the year and then we are looking at a 6 month gap. In that 6 month gap, at the beginning of next year, further development of the technical requirements and the safety assurance of it. That is just the best timescale we could achieve, the middle of next year, but more likely end of next year.'*¹¹²

9.6.12 He informed the Panel that in addition to EDD in Jersey having established law drafting time, Guernsey law drafters had undertaken an initial review of the legislative changes and scoped what they think needs to be done. He also described how, if the Registry was to be enacted in both Bailiwicks in parallel, the required law drafting may be best achieved:

*'I think there would be a strong argument to align the rather unique Guernsey approach to the way it is done here. That is Civil Aviation Law setting out enabling and powers and so on and then the detailed technical regulations in the Air Navigation Order, which is how it is set out here and typically how it is done in the U.K. It is the model that has been used. So, there would be a strong case to align them that way. Thereby end up with certainly identical Air Navigation Orders except that they would probably be talking about Jersey here and Guernsey there. But otherwise they could be identical in all respects.'*¹¹³

9.6.13 He confirmed his concerns over that particular option however, which the CI Strategic Case report had highlighted as being the most complicated way of proceeding with the required

¹¹¹ Public Hearing, Minister for Economic Development, June 2012, p.6

¹¹² Public Hearing, Joint CI Director of Civil Aviation, June 2012, p.11

¹¹³ Public Hearing, Joint CI Director of Civil Aviation, June 2012, p.12

legislation changes. The DCA has himself concluded that the most straightforward solution, though not necessarily the most likely or politically satisfactory option, is for a CI Aircraft Registry to be established singularly under the jurisdiction and law of either Jersey or Guernsey (but not both), with provisions enabling residents/aircraft owners from either Island to participate equally in the registry. He explained:

*'I really think ... the way to do it, (is) to establish the registry in one Island and have an appropriate piece of legislation that commits the other one to be doing the right things in association with it. Because to try and do parallel work, I have not been able to work out how to do that. To build 2 parallel buildings and then join them at the top is what we are trying to do. Otherwise it does not seem a very easy thing to do. But I may be totally wrong. I cannot think of any other examples that are at the moment. There is no precedent.'*¹¹⁴

Key Finding 23:

A Channel Islands Aircraft Registry requires new primary and secondary legislation to enable the delegation of the performance of State responsibilities for running and regulating aircraft registration from the UK to the DCA. The need for legislative changes applies not only to Jersey and Guernsey, but also the UK.

Key Finding 24:

There appears to be confidence that the necessary law drafting can be delivered. The Economic Development Department has secured the required law drafting time and budget, and Guernsey law drafters have undertaken an initial review and scoping of the legislative changes, estimating that the process to draft, consult and enact the necessary legislation will take around 18 months from the start of the project.

Key Finding 25:

Although there is a greater potential for delay in implementation and a higher draw on legal resources costs, the most appropriate solution to establish the required legislative framework for a Channel Islands Aircraft Registry is for parallel legislation that is as identical as is practical to be passed in both Islands.

¹¹⁴ Public Hearing, Joint CI Director of Civil Aviation, June 2012, p.12

Recommendation 10:

In setting up the legislative framework for a Channel Islands Aircraft Registry, the Minister for Economic Development should ensure a collaborative approach, through the Aircraft Registry project leadership, to develop parallel legislation that is as identical as is practical to be passed in both Islands.

9.6.14 *Implications from the Cape Town Convention on International Interests?*

9.6.15 The Cape Town Convention on International Interests (the Cape Town Treaty) is intended to standardise transactions involving movable property, and creates international standards for registration of ownership (including dedicated registration agencies), security interests (liens), leases and conditional sales contracts, as well as various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws.

9.6.16 By creating the following mechanisms, it seeks to provide secure and readily enforceable rights in aircraft in order to reduce risks and uncertainties associated with leasing and financing aircraft:

- 1) *An 'international interest' which is recognised in all Contracting States*
- 2) *An electronic international register of interests; and*
- 3) *Standard rights for creditors on default.*

*It is hoped that, as a result, financiers and lessors will be able to reduce the interests they have to charge to cover those risks and uncertainties and increase the availability of financing on more attractive terms.*¹¹⁵

9.6.17 There are three protocols to the convention which are in turn specific to three types of movable equipment: Aircraft Equipment (aircraft and aircraft engines; signed in 2001), railway equipment (signed in 2007) and space assets (signed in 2012).¹¹⁶

9.6.18 The Panel asked the DCA whether it would be necessary for Jersey and, by implication in the joint project, Guernsey, to sign up to the Cape Town Treaty. The DCA said that whilst it would be good to do so, it wasn't a necessity. He explained that irrespective of Jersey/Guernsey signing up to the Convention, they would require the protection afforded by

¹¹⁵ Field Fisher Waterhouse, Cape Town Convention: A lender's perspective, June 2008

¹¹⁶ www.en.wikipedia.org/wiki/Cape_Town_Treaty

the principles of the Convention to be met through security laws being in place, securing deposits of people lending money on moveable assets. He told the Panel:

*'We definitely need to replicate the safety, if you like, or the security that Cape Town gives. The Cayman Islands have done that. They have an offshore registry, because they are an overseas territory and they thought they could ratify the convention, but they have sort of passed national laws to be equivalent. It is not quite the same, but the protection is there.'*¹¹⁷

9.6.19 He also explained the procedural difficulty that the Convention posed, in terms of the Islands signing up to it:

*'The trouble is it is a convention and, of course, Jersey or Guernsey cannot be signatories to conventions, the U.K. would be. The U.K., up until now, has not felt inclined to ratify the convention because they have national laws in place regarding security of movable assets which are well covered and replicated, if you like, by the security interests of people lending money to buy these things. So, they do not have the need. If there is no push from industry in the U.K. then there is not much likelihood of them bothering with this particular thing. I have asked the question of the Department of Transport, there is a clause in the convention which enables a signatory to make the convention applicable to sub-territories. I have asked them to investigate that and see ... if the Channel Islands were ... going ahead and wished to have the convention applicable here, could they help us with that. So, that is a possibility.'*¹¹⁸

9.6.20 The Minister for T&R had some familiarity with the issues due to their association with the Security Interest legislation (that the Minister for Economic Development outlined to us was currently being updated - see section 9.6.10) with which he was familiar. He told the Panel:

*'I am sighted on that...This is the reforms required in the security interest law and I know that from my period at E.D. where that needed to be progressed...it is very important. The whole basis of lending happens on the basis of the ability to get a secure and certain charge which is administratively capable of being properly done. Whilst we have got good security interest law, it is old and needs to be updated...the industry have not entirely been united about the reforms required into the security interest law but you have put your finger on something quite important that needs to be done.'*¹¹⁹

¹¹⁷ Public Hearing, Joint CI Director of Civil Aviation, June 2012, p.6

¹¹⁸ Public Hearing, Joint CI Director of Civil Aviation, June 2012, p.6

¹¹⁹ Public Hearing, Minister for Treasury and Resources, June 2012, p.9

Key Finding 26:

Both Guernsey and Jersey have work outstanding to establish suitably developed Securities Interest legislation providing the necessary safeguards around lending to stimulate confidence in investing through a Channel Islands Aircraft Registry.

9.6.21 The Minister for T&R also highlighted the need to maintain the integrity of Jersey's reputation. He commented:

*'We do not want activity in Jersey that is going to impair our reputation. Jersey made a choice to be a quality financial services jurisdiction...We do not want anything that would detract from Jersey's reputation so the default position is 'what is the Intentional Convention?', and we will match it. We do not want substandard treatment in any area. That is the default position but...the devil is in the detail.'*¹²⁰

Key Finding 27:

While it may not be practical for Jersey to sign up to the Cape Town Convention, the Panel acknowledges the Minister for Treasury and Resources sentiment that there should be no activity associated with the Aircraft Registry that detracts from Jersey's reputation as a quality financial services jurisdiction.

Recommendation 11:

In the event that Jersey cannot be a signatory, the Minister for Economic Development must ensure that the updated Securities Interest legislation is at the very least compatible with the principles established by the Cape Town Convention on International Interests.

¹²⁰ Public Hearing, Minister for Treasury and Resources, June 2012, p.8

10. CONCLUSION

- 10.1 It has been proven elsewhere that a successful Aircraft Registry project can lead to significant economic benefits, through the economic flow generated from the wealthy individuals and corporations registering their aircraft and then accessing a range of supporting services that can be sold to them. One needs look no further than the Isle of Man for an appropriate example of what Jersey might achieve. The concept of establishing an Aircraft Registry in the Channel Islands has been championed by some private stakeholders since at least 2005, but since that time Jersey has failed at a number of key moments to either recognise or seize the opportunity to deliver the momentum required to achieve significant progress.
- 10.2 Despite an unnecessary amount of indecision over the last few years, an Aircraft Registry in the Channel Islands is still viable, and the potential economic opportunities for Jersey are not lost. However, there is much to do, not least for the Minister for Economic Development. He will need to speedily secure a role for Jersey in a Channel Islands Registry by negotiating with Guernsey, who have made significant strides in developing an Aircraft Registry. If this can be achieved, the Minister and his Guernsey counterpart will have to overcome the challenge of developing appropriate parallel legislation to enable a joint Registry to be established. In addition, the Minister needs to work together with his fellow Ministers in Jersey to resolve significant tax issues, and to promote the training of Islanders with the appropriate skills to take advantage of the associated opportunities as quickly as possible.

11. APPENDIX 1 – EVIDENCE CONSIDERED

11.1 The following documents are available to read on the Scrutiny website (www.scrutiny.gov.je) unless received under confidential agreement.

Written Submissions:

- Aircraft Owners and Pilots Association CI Region (AOPA CI Region)
- Aviation Beauport Ltd
- BNP Paribas
- Chief Minister
- Executive Jet Charter Ltd
- Minister (former) for Commerce and Employment, Guernsey
- Mr C Bevan, BKS Family Office
- Mr G Hocquard
- Mr K Perryman
- Mr P Lightbody
- Mr T Byron
- Pilatus BIS Ltd

Public Hearings:

- 4th May 2012: Minister for Economic Development
- 11th June 2012: Chairman, AOPA CI Region
- 14th June 2012: Minister for Economic Development
- 20th June 2012: Executive Jet Charter Ltd
- 20th June 2012: Minister for Treasury and Resources
- 20th June 2012: Director of Civil Aviation for Jersey and Guernsey

12. APPENDIX 2

C Option costing

C.1 Overview

C.1.1 This section outlines the costs and revenues associated with each option. It provides further information, particularly on the nature of the revenue estimates that have been made. Finally, a cost estimate for the running of the registry, were it to be provided as a Governmental function, is provided.

C.2 Option 1

C.2.1 The preferred option, option 1 would see the Channel Islands enter into a long-term partnership with a strategic partner. The partner would invest to establish the register and it would be at no cost to the States in the expectation that this investment would be recouped over the following years. In return the partner will take full responsibility for delivering the registry services and billing clients.

C.2.2 If however the partner's activities were not being performed to the satisfaction of the DCA or if he had reason to believe that the relationship was not developing sufficiently then it would be possible to exercise a breakpoint at 6 months after contract award. In this event it may be necessary to reimburse the partner for work undertaken. A budgetary estimate of £100K is expected to cover such a reimbursement that could occur in 2013. It should be clear that this is a contingent liability and not an explicit funding requirement.

C.2.3 During the lifetime of the registry the DCA will also contract with an independent company to audit the performance of the strategic partner. It is anticipated that this would be a bi-annual event and a budgetary estimate of £50K per audit is anticipated.

Cost element	2011	2012	2013	2014	2015
Strategic partner	£ -	£ -	£ -	£ -	£ -
Audit fee	£ -	£ -	£ -	£50,000	£ -
TOTAL	£ -	£ -	£ -	£50,000	£ -

Table 1: Summary costs for option 1

C.2.4 In this model the DCAs office will be reimbursed for the regulatory activities that they undertake (signing certificates, etc.). We have assumed that the DCAs activities would compromise 5% of the cost of the registration, licencing and airworthiness fees.

C.2.5 In addition the DCAs office will receive a licence fee for the right to operate the registry. The level of this licence fee is to be agreed during discussions with the strategic partner however, for now it is considered that a licence fee of 5% of turnover could be a practical proposition. The revenues to the DCA would be as shown in the following table:

Income source	2011	2012	2013	2014	2015
Regulatory activities	£ -	£ -	£9,813	£15,525	£20,675
Licence fee	£ -	£ -	£28,063	£38,775	£44,925
TOTAL	£ -	£ -	£37,876	£54,300	£65,600

Table 2: Expected income under option 1

	2011	2012	2013	2014	2015
Costs	£ -	£ -	£ -	-£50,000	£ -
Income	£ -	£ -	£37,876	£54,300	£65,600
TOTAL	£ -	£ -	£37,876	£4,300	£65,600
CUMULATIVE TOTAL	£ -	£ -	£37,876	£42,176	£107,776

Table 3: Net costs for option 1

C.3 Option 2

- C.3.1 Within option 2 it is expected that a 6 month study by an organisation seeking to operate the registry would be necessary in order to define the regulations and procedures for the registry. A budgetary estimate of £100K is allocated in 2012. Following the launch of the registry it is expected that it will be self-financing through fees levied for regulatory activities, for inspections and audits.
- C.3.2 Within this option the DCA will also need to recruit two clerical support assistants prior to the start of the registry operation. It is anticipated that internal recruitment from within the civil service should provide staff; otherwise a small scale external campaign will take place to find local recruits to fill the roles. A budget of £2K has been allocated to support this task in 2013. It is expected that both staff members would be recruited by Q2 2013 and would work with the DCA and contractor to establish the registry. Salary costs including on-costs of £25,000 per staff member have been proposed.
- C.3.3 In this option the revenues from the registry will flow through the DCAs office. Most will be passed onto the partner organisation, but some relating to regulatory activities will be retained. It is assumed that an element of the revenues sufficient to cover the costs of the registry staff and to recover initial expenditure on the registry would be retained by the DCAs office.
- C.3.4

Cost element	2011	2012	2013	2014	2015
Contractor development of regulations	£ -	£100,000	£-	£-	£-
Recruitment campaign	£ -	£-	£2,000	£-	£-
Employment costs	£ -	£-	£25,000	£50,000	£50,000
IT and office costs	£ -	£-	£2,500	£500	£500
Strategic partner	£ -	£-	£482,500	£700,000	£822,000
TOTAL	£ -	£100,000	£512,000	£750,500	£872,500

Table 4: Summary costs for option 2

- C.3.5 Estimates of the revenues have been made under the low-medium-high uptake scenarios combined with a fee structure based upon that currently levied by the Isle of Man registry combined with knowledge of the likely duration of approval activities and is illustrated below.

Activity	Unit	Fee
Small aircraft registration fee	Per aircraft	£55
Large aircraft registration fee	Per aircraft	£110
MOA validation (initial)	Per MOA applicant p.a.	£1,000
MOA validation (on-going)	Per MOA applicant p.a.	£100
Flight crew licence validation (initial)	Per applicant p.a.	£70

Flight crew licence validation (on-going)	Per applicant p.a.	£40
Engineer licence validation (initial)	Per applicant p.a.	£70
Engineer licence validation (on-going)	Per applicant p.a.	£40
Ops Approval	Per approval p. 3yrs	£500
Ops Approval inspection	Per hour	£100
Certificate of Airworthiness (large - initial)	Per aircraft p.a.	£3,000
Certificate of Airworthiness (large - on-going)	Per aircraft p.a.	£1,600
Certificate of Airworthiness (small - initial)	Per aircraft p.a.	£150
Certificate of Airworthiness (small - on-going)	Per aircraft p.a.	£80
CofA inspection	Per hour	£100

Table 5: Summary of fees

C.3.6 The resulting revenues are illustrated in the following chart:

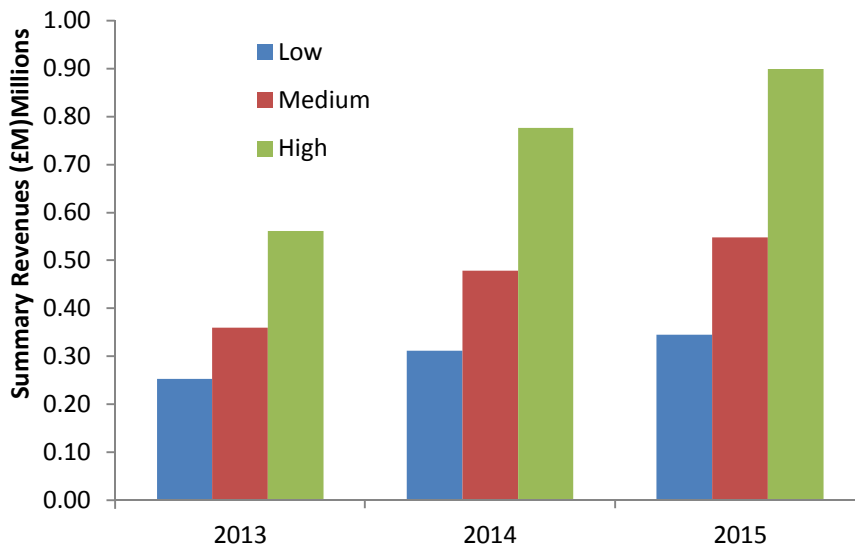


Figure 1: Summary of anticipated revenues per scenario

C.3.7 Clearly under each option the costs of providing the registry services will also vary with demand.

	2011	2012	2013	2014	2015
Costs	£ -	-£100,000	-£512,000	-£775,500	-£872,500
Income	£ -	0	£561,250	£775,500	£898,500
TOTAL	£ -	-£100,000	£49,250	£25,000	£26,000
CUMULATIVE TOTAL	£ -	-£100,000	-£50,750	-£25,750	£250

Table 6: Net costs for option 2

C.4 Registry cost build

C.4.1 A cost build for the registry has been produced under the conditions that it would be run entirely in house. The purpose of this is to give an indication of the level of investment that will be needed by the strategic partner and to allow the States to understand the size of the opportunity being handed to the partner. The cost build is summarised in Figure 2 below.

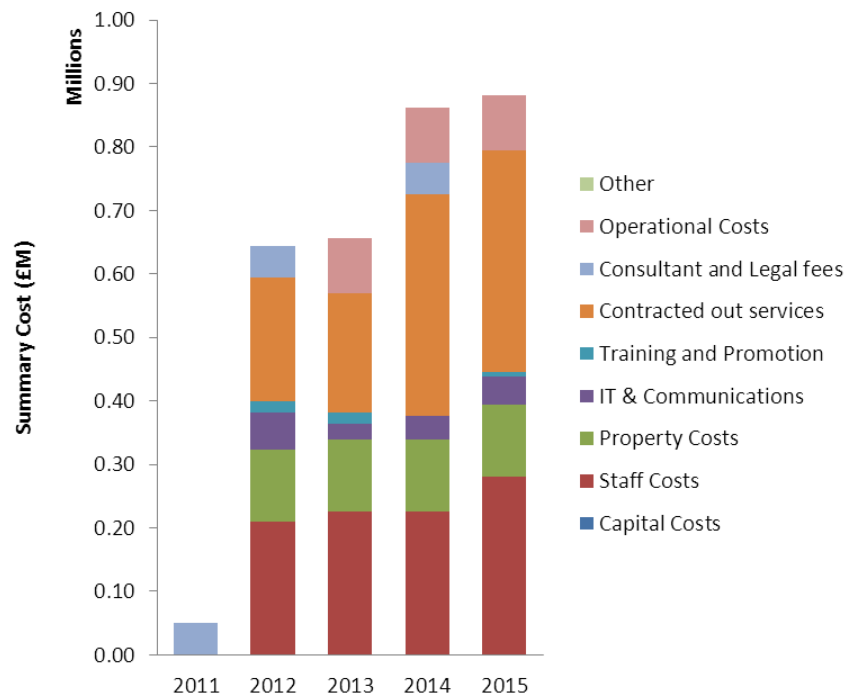


Figure 2: Example registry cost build

- C.4.2 Staff costs have been developed on the basis of market prices for expert staff and internal costs for administrative and quasi-technical staff. Full training costs are included to ensure that staff capabilities in aircraft certification, approval and licencing are developed and maintained at a high level.
- C.4.3 Costs are included for the development, hosting and back up of an electronic register. In addition the IT and communication costs associated with staff (particularly for mobile grades) are included too. Market rates for a 2,250 sq. ft. office to house the registry staff are also included. Finally costs associated with expert services to be bought in are also included.

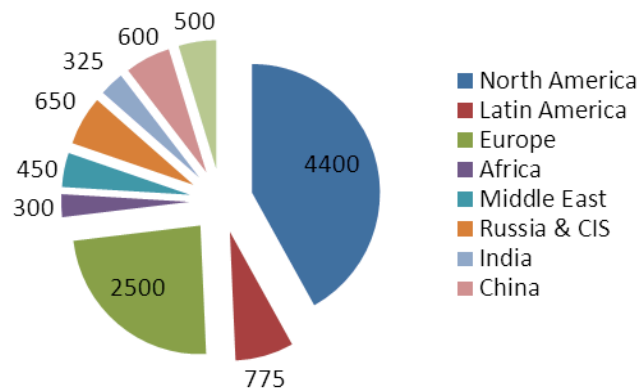
D Economic analysis inputs

D.1 Overview

- D.1.1 The economic benefits considered within this business case relate to those enabled in the local industry as a direct consequence of the registry. This is allied to the objective of this business case which is to demonstrate how the aircraft registry could contribute to a diversification of income streams to the economies of the Channel Islands and to help both economies to grow. Therefore, additional tax take by the Government or revenues to the States from additional company registrations are not considered.
- D.1.2 There are three activities that have the potential to produce economic benefits in the domestic industries, the registration of a foreign-based aircraft, the purchase of an aircraft through the Channel Islands and the registration of locally based aircraft. Each in turn results in a number of opportunities for revenue generation. Clearly, the potential size of the market is related directly to the number of aircraft who can be attracted onto the register.
- D.1.3 In the analysis we are considering revenues to be the relevant quanta of benefit. We have taken this assumption as we expect the additional volume of business generated by the aircraft registry to be additive, creating new revenue streams for Channel Island businesses.

D.2 Assumptions about world fleet

- D.2.1 A report prepared jointly by EUROCONTROL, the European Business Aviation Association (EBAA) and the International Aircraft Owners and Pilots Association (IAOPA) states that the business fleet worldwide in 2009 accounted for some 25,000 aircraft, including 14,000 jets and 10,500 turboprops. Of these, the majority operated in America while the European fleet was more than 3,000 strong. GAMA the General Aviation Manufacturers Association, has estimated that the worldwide turbine airplane fleet, consisting of business jets and turboprops (without any further detailed specification of types), in 2009 was 29,617.
- D.2.2 Bombardier, one of the major business jet manufacturers expects that “the long-term prospects for expansion and fleet replacement total 13,200 business jets, worth \$300Bn, over the next 10 years”. They forecast that business jet deliveries will reach 10,500 in the 2010-2019 period (see Figure 3 below) and 15,500 in the 2020-2029 period. The worldwide fleet size is estimated to reach 21,000 in 2019 and 29,000 in 2029. These estimates were produced following the recent worldwide economic problems and indicate the strong growth expected in the business aircraft industry.



Source: Bombardier

Figure 3: Forecast business jet deliveries by region 2010-19

- D.2.3 One advantage of registering a business jet on the Channel Islands register is related to the absence of VAT if the aircraft is also being purchased through the Islands. Although it should be noted that Jersey Sales Tax could be levied. However, if the aircraft is being operated on intra-EU flights VAT will still be levied on services, fuel, etc. purchased within the EU and there is an expectation that VAT would have to be paid for services rendered within the EU (for example for intra-EU charter operations). If an aircraft's primary operating base is to be within the EU and the owner is a business not an individual it may be more advantageous for the aircraft to be imported through an EU State in order to allow VAT to be recovered correctly and to have the correct chain of paperwork for operators.
- D.2.4 The VAT situation suggests therefore that the market for the Channel Islands Registry is perhaps likely to be based outside of the EU. As such the registry should consider focussing its marketing activities on the Middle East, Asian and Chinese markets, all growth markets.
- D.2.5 Decisions over where to register an aircraft are complex, especially when addressing the corporate and high net worth individuals market. Forecasting the expected level of demand is therefore difficult and should be an early activity of the strategic partner. Experience with similar registers such as the Isle of Man, combined with the burgeoning business jet market suggests that the level of applications could reach 50 aircraft per annum were the registry to be suitably attractive and promoted accordingly.
- D.2.6 It is also expected that the majority of the domestic fleet would transition onto the Channel Islands register during the first three years of its operation, provided it can be attractively priced and offer comparable licencing arrangements for pilots with FAA issued licences.
- D.2.7 In order to understand the impact of the uptake of the registry on the benefits a range of registrations have been considered. The ranges of potential uptake have been classed from high to low. The benefit assessment utilises these figures in order to establish the benefits from each scenario.

Activity	2013	2014	2015
Local fleet registrations (high) p.a.	50	100	100
Local fleet registrations (medium) p.a.	25	50	50
Local fleet registrations (low) p.a.	25	25	25
World fleet registrations (high) p.a.	50	50	50
World fleet registrations (medium) p.a.	25	25	25
World fleet registrations (low) p.a.	10	10	10

Table 7: Summary of registry uptake scenarios

D.3 Benefits from aircraft registration

- D.3.1 As planned, the act of aircraft registration for foreign-based aircraft will require the formation of a company in the Channel Islands. This will in turn create a demand for fiduciary services in order to establish and register the company and to appoint a commercial service provider to fulfil the legal responsibilities of the aircraft owner. Discussions with local businesses have indicated that the typical revenues related to the setup of a local company service provider to be of the magnitude of £3,000 with typical on-going annual fees up to £4,000. This results in net profits in the region of £500 for establishment with typical on-going annual profits of £500 to £1,000.
- D.3.2 In addition to the need for a fiduciary, those registering their aircraft locally may entrust the other aspects of their aircraft operation such as arranging insurance and organising

maintenance management to their local advisors. As such it could be expected that, if competitive, local businesses could also expect to act as insurance brokers and providers of on-going maintenance oversight (known as CAMO – continued airworthiness management organisation).

- D.3.3 There are few specialist aviation insurance companies and it is likely therefore that business in the Channel Islands could act as brokers. The typical insurance bills for a business jet are currently in the range of £12,000 - £18,000 per annum. On the assumption that a broker would make 5% on the purchase price, the typical income per insured aircraft would be in the region of £750 per aircraft insured per annum.
- D.3.4 The provision of CAMO services is a growth area of the aviation maintenance industry. CAMO relates to the on-going management and oversight of the maintenance of an aircraft and provides owners with information of what maintenance is needed when together with recommendations of where to have the work undertaken. It is also an essential activity in documenting the maintenance and repair history of a given aircraft for airworthiness purposes. It does not require physical access to an aircraft. It is a higher margin, low footprint aviation service business. We have spoken with organisations in the Channel Islands who already provide this service. Typical fees for CAMO are around £500 for initially taking responsibility for an aircraft, then £100 per annum with a higher fee around £300 per annum every third year when there is a need for review by EASA.
- D.3.5 Experience from other registers suggests that around 40% of aircraft coming on to the register do so as a transfer from another register. For the analysis of scenarios we have conservatively assumed that 25% of these aircraft are likely to be insured through Channel Islands brokers and further that 10% are likely to utilise Channel Islands CAMO services.
- D.3.6 The following table provides a summary of the expected benefits under each scenario as well as indicating the size of the potential opportunity available to local businesses. The opportunity figure illustrates the addressable market if local business were to serve 100% of clients under a medium level of uptake of the registry services.

Enabled benefit from aircraft registration	2013	2014	2015	TOTAL
Opportunity	£42,500	£91,667	£140,833	£275,000
High	£64,750	£148,833	£232,917	£446,500
Medium	£32,375	£74,417	£116,458	£223,250
Low	£12,950	£29,767	£46,583	£89,300

Table 8: Summary of benefits from aircraft registration

D.4 Benefits from aircraft purchase

- D.4.1 The purchase of an aircraft through the Channel Islands with an accompanying aircraft registration will clearly enable the same benefits as aircraft registration alone. In addition, further benefits will be obtained through the ability to finance the purchase through the Channel Islands.
- D.4.2 A typical 80% mortgage on a £10M business jet (an average value for the sort of aircraft expected on the register) paid at 4% (an average risk related rate) over 10 years (a typical payback period) would result in a monthly mortgage payment of £16,000.
- D.4.3 Experience from other aircraft registers suggests that around 60% of new registrants are purchasing their aircraft at the time of registration. This has therefore been used as the

starting point in assessing the addressable market for finance and related services. It has further been conservatively assumed that 25% of the addressable market chooses to finance their purchase through local companies, 25% of purchases choose to insure their aircraft through local companies and 10% choose to use local CAMO organisations.

- D.4.4 The following table provides a summary of the expected benefits under each scenario as well as indicating the size of the potential opportunity available to local businesses. The analysis has assumed that all aircraft purchases that come onto the Channel Islands are new business.

Enabled benefit from aircraft purchase	2013	2014	2015	TOTAL
Opportunity	£2,943,750	£5,897,500	£8,851,250	£17,692,500
High	£1,537,125	£4,640,375	£7,772,625	£13,950,125
Medium	£768,563	£1,551,625	£2,334,688	£4,654,876
Low	£307,425	£620,650	£933,875	£1,861,950

Table 9: Summary of benefits from aircraft purchase & registration

D.5 Benefits from local aircraft registration

- D.5.1 The benefits from local aircraft registration are similar to those of foreign aircraft registration with the exception that a local company will not need to be established to own the aircraft, unless desired for non-registration related reasons. In addition we have assumed a 25% rate of uptake of insurance through local brokers and that as most locally based aircraft are already serviced and maintained through businesses on the Islands that there would be no additional uptake of CAMO services.
- D.5.2 The following table provides a summary of the expected benefits under each scenario as well as indicating the size of the potential opportunity available to local businesses.

Enabled benefit from local registration	2013	2014	2015	TOTAL
Opportunity	£18,750	£56,250	£93,750	£168,750
High	£9,375	£28,125	£46,875	£84,375
Medium	£4,688	£14,063	£23,438	£42,189
Low	£4,688	£9,375	£14,063	£28,126

Table 10: Summary of benefits from local aircraft registration

D.6 Results

- D.6.1 The outcome of the analysis depends upon the rate of uptake of the registry particularly amongst foreign based aircraft owners. The benefits accrue most significantly to the financial services industry through the provision of aircraft mortgages. Fiduciary businesses also benefit significantly from the registry. The following figures and tables illustrate the breakdown of the net benefits resulting to the related industries within the Channel Islands.

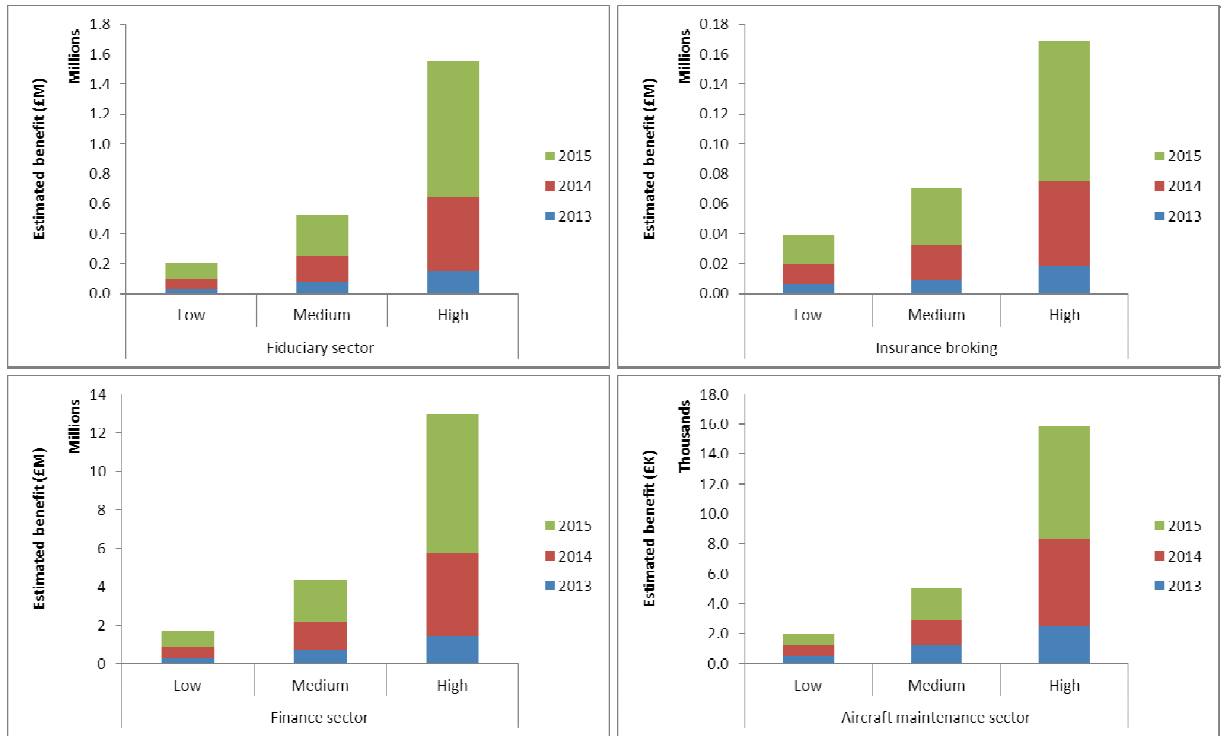


Figure 4: Summary of estimated benefits per industry per scenario

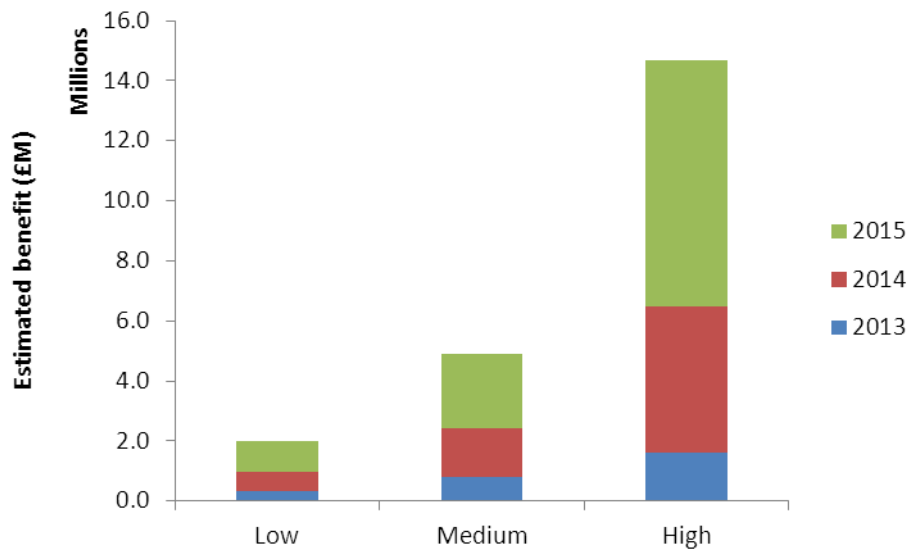


Figure 5: Total net economic benefits by scenario

		2013	2014	2015
Fiduciary sector	Low	£ 30,000	£ 70,000	£ 110,000
	Medium	£ 75,000	£ 175,000	£ 275,000
	High	£ 150,000	£ 500,000	£ 900,000
Insurance broking	Low	£ 6,563	£ 13,125	£ 19,688
	Medium	£ 9,375	£ 23,438	£ 37,500
	High	£ 18,750	£ 56,250	£ 93,750
Finance sector	Low	£ 288,000	£ 576,000	£ 864,000
	Medium	£ 720,000	£ 1,440,000	£ 2,160,000
	High	£ 1,440,000	£ 4,320,000	£ 7,200,000
Aircraft maintenance sector	Low	£ 500	£ 667	£ 833
	Medium	£ 1,250	£ 1,667	£ 2,083
	High	£ 2,500	£ 5,833	£ 7,500

Table 11: Summary net benefits by scenario