

CONDOR FERRIES

Response to the joint consultation document ('Green Paper') issued by the States of Jersey and Guernsey on competition, licensing and regulation of the car and passenger ferry market

1. Introduction

The States of Jersey and Guernsey have launched a consultation on the Channel Island car and passenger ferry market. In particular, views are being sought as to:

- The current level, quality and prices of services being provided
- The levels and quality of services required in today's circumstances and whether or not it would be acceptable to reduce these in order to achieve lower prices
- The security of services desired and how this may best be achieved through competition and/or licensing
- The possible benefits and costs of increasing the degree of regulation of services involving the Jersey Competition Regulatory Authority (JCRA), the Guernsey Office of Utility Regulation (OUR) or other similar body

As a Channel Island company providing year-round ferry services, Condor Ferries welcomes the opportunity to participate in this debate and address these issues.

2. Service levels

The Green Paper sets out that sea transport links are of strategic significance to the Islands. Island sea transport policy therefore has ambitious aims – to achieve long term, robust, reliable, year round and reasonably priced services of sufficient quality and frequency to meet the travel needs of Island residents, the business community and tourists. It must be noted that these aims are not always necessarily mutually compatible.

Condor Ferries has been in existence providing the Islands with ferry services since 1964. It is dedicated to serving the routes from the Islands to both the UK and France and does not operate on any other sectors. Its interests are therefore very much aligned to meeting the needs of its customers locally and it is not distracted by other operations. The company changed ownership towards the end of 2008 giving the business the ability to plan and invest for the longer term. It has also seen a change in a number of its senior managers who have put much more emphasis on customer service and being part of the Channel Islands' community. This was highlighted during the volcanic ash disruption when Condor Ferries helped many Islanders reach their final destination by providing extra sailings and its staff working extremely hard to minimise the impact of the flight cancellations on its core customers.

Condor Ferries holds non-exclusive licences to provide services on both the northern and southern routes. It operates approximately 3,200 passenger sailings every year carrying some 1 million passengers, 200,000 passenger vehicles and 100,000 freight vehicles. The life-line supply is provided by a fleet comprising three high speed

catamarans (Condor Express, Condor Vitesse and Condor Rapide) and two conventional ships (Commodore Clipper and Commodore Goodwill). This combination of fleet ensures a very high degree of reliability to safeguard the delivery of both freight and passengers to their final destination. Overall in 2009, Condor Ferries operated over 97% of its scheduled services, with the remainder being affected by either weather or technical cancellation.

Condor Ferries saw a 10% increase in the number of passengers it carried in 2009 compared to the previous year. This is a trend it aims to repeat in 2010. Although it is the only operator of car ferries to the Channel Islands, the company competes directly against the airlines and two foot passenger ferry services operating between the Islands and France.

To achieve its goals, Condor Ferries therefore recognises that it must provide services that customers want. In July 2009, it recruited the services of a professional, independent market research agency to monitor customer satisfaction and understand areas for improvement. The survey is conducted every week, gathering feedback from passengers who have recently travelled onboard. In the past year, the survey has gathered the views of more than 3,600 respondents, the great majority of whom are resident in the Islands. Results for the most recent quarter to June 2010 show a 17% increase in the number of passengers giving Condor Ferries 9 or 10 out of 10 for overall satisfaction, with nearly one in four passengers now highly satisfied.

Over the last 18 months Condor Ferries has developed a series of initiatives aimed at improving service to the local community:

- Pricing initiatives
 - Removal of the fuel surcharge giving greater transparency in the pricing structure and less price volatility
 - Development of new short break fares offering lower prices for trips of between 2 and 10 days
 - Revised pricing for motorhomes and caravans on off-peak sailings
 - Revised pricing for sailings on Commodore Clipper with prices for passengers and cars decreased significantly
 - Increased promotional activity such as travel for harbour dues only and the Condor Rapide launch offers
- Operational improvement
 - Additional sailings from Jersey to France to meet the peak summer demand
 - Additional sailings to support the fish export business in the run up to Christmas
 - Multi million investment in Condor Rapide, an 86m sister ship to Condor Express and Condor Rapide, to operate between the Islands and France offering three times the vehicle capacity of Condor 10
 - Improvement to the seating and cabin areas onboard Condor Express and Condor Vitesse
- Local commitment

- Appointment of a Channel Island based advertising and PR agency to support enhanced communication activities
- Very significant investment in the marketing of the Channel Islands to both the UK and Continental markets to encourage visitors, thereby boosting the local tourist industry and related sectors of the economy
- Extra sailings scheduled and many hours of overtime worked by staff to help travellers reach their destination during the volcanic ash crisis
- Wide ranging sponsorship of events and organisations to boost quality of life and opportunities for Island based residents

Further initiatives are also in hand including an improvement to Condor Ferries' web booking site to allow best fare comparisons and substantial additional investment to the fleet during the forthcoming refit season.

3. Pricing

In addition, and despite these improvements, Condor Ferries has worked hard to maintain or reduce its fares to grow the market and compete effectively against the airlines. The pricing for any particular sailing will always be the same no matter where the booking is made or if the passenger is resident in the Islands, the UK or France.

The table below shows how tariffs have been reducing since 2005:

Maximum Fares to/from UK (£)

	2005	2006	2007	2008	2009	Current*
Car (up to 4.5m)	148.00	155.50	107.50	117.50	120.00	125.00
Adult car passenger	55.50	59.50	52.50	62.50	51.00	44.50
Adult foot passenger	55.50	59.50	47.50	58.50	51.00	57.50
Car plus 2	259.00	274.50	212.50	242.50	222.00	214.00

Minimum Fares to/from UK (£)

	2005	2006	2007	2008	2009	Current*
Car (up to 4.5m)	84.50	85.50	58.50	68.50	49.50	55.00
Adult car passenger	26.50	39.00	32.50	42.50	38.00	30.50
Adult foot passenger	33.00	39.00	40.50	55.50	38.00	30.00
Car plus 2	137.50	163.50	123.50	153.50	125.50	116.00

Maximum Fares to/from St Malo (£)

	2005	2006	2007	2008	2009
Car (up to 4.5m)	100.25	91.25	100.75	105.75	126.00
Adult car passenger	26.25	28.75	25.75	30.75	12.00
Adult foot passenger	26.25	28.75	23.75	30.75	26.00
Car plus 2	152.75	148.75	152.25	167.25	150.00

Minimum Fares to/from St Malo (£)

	2005	2006	2007	2008	2009
Car (up to 4.5m)	100.25	33.75	51.75	39.75	47.00
Adult car passenger	26.25	18.75	23.75	23.75	15.75
Adult foot passenger	26.25	18.75	23.75	18.75	19.75
Car plus 2	152.75	71.25	99.25	67.25	78.50

* Condor Ferries consolidated the fuel surcharge into the total fare in January 2009 for the St Malo route and in May 2009 for the UK routes.

In addition to these standard tariffs, Condor Ferries has introduced short durational products that are designed to incentivise travel either to or from the Islands. Fares for a car and two passengers to the UK for a trip of up to two and a half days start from £80 on Commodore Clipper and £90 on one of the high speed ferries each way. Similarly, Superbreak fares from the Islands to France for a car and two passengers start from £65 each way. Fares for trips to the UK for up to five days start at £105 for a car and two passengers each way travelling on a high speed ferry. Examples of recent advertisements for these types of fares are attached in Appendix 1.

Condor Ferries' Frequent Traveller Club offers another way for regular passengers to save on their ticket prices. For the annual fee of £80, a member is entitled to 15% off each fare. Concessions on the annual fee are also available to couples, families and those aged over 60.

Condor Ferries does use a form of revenue management but variations in price should generally be less than seen in the airline sector. Sailings are priced dependent on forecast demand, with the less busy sailings such as outside the peak summer period or weekends offering lower fares. It is also generally advantageous to book well in advance of the date of travel. The use of revenue management is widespread in the travel industry and UK Office of Fair Trading (OFT) in its recent review of the Cross Solent ferry market said that the use of such systems "is not of itself suggestive of competition problems".

Condor Ferries does not apply any transaction or credit card booking fees.

The Green Paper refers to a fare comparison prepared by Napier University in 2004 and updated in 2009 which shows a mixed picture of how Condor Ferries compares with other operators but such studies, as the paper mentions, can be flawed. Fare comparisons may often be very noisy and misleading as benchmark measures used are not necessarily comparable.

The price per mile ("ppm") comparison, used in the Napier study may incorporate the following bias:

- o Ticket prices will reflect harbour dues which vary significantly across different geographies. Condor Ferries' view is that harbour dues in the Islands are particularly high as the market is too small for harbours to achieve significant economies of scale. For example, a car and two passengers travelling on a

round trip between Jersey and Guernsey currently attracts total harbour dues of £60.64

- A comparison of different routes will also not reflect where a route, such as that between the Channel Islands and the UK, is subject to minimum service requirements involving sailings for example during the winter period that would otherwise be less commercially attractive
- A number of services in the Napier University study are subsidised which is not the case with Condor Ferries
- Ppm is a “once in time” measure and may not reflect seasonality of the businesses (winter/summer) or the daily peaks in capacity
- Ppm may not reflect the actual cost of the journey as the study looks at just the cost of a passenger or just a car rather than the combined price
- Ppm does not allow for consideration of discounted fares for frequent travellers or packages
- Ppm excludes considerations on the capacity of the vessel and its utilisation rate
- Variation in exchange rates used to compare prices in different countries will have a dramatic difference
- The type of vessel on a route will influence prices as fast ferries have much higher fuel consumption and annual maintenance costs than conventional vessels
- The data used in the Napier Study in 2009 does not reflect the more recent pricing actions taken by Condor Ferries in introducing lower priced fares such as the shortbreak fares¹
- The paper states that “All distances are an approximation and no allowance has been made for local navigational deviations”. The waters around the Channel Islands experience some of the greatest tidal variations, with large reefs and strong tidal flows which mean that the straight line distance is not necessarily a fair comparison.

Overall Condor Ferries’ view this it is very difficult to draw conclusions based on studies of this nature. This view is supported by the OFT, as mentioned in the Green Paper. The OFT concluded that “Fare comparisons are extremely difficult, with a large number of factors affecting the cost of a crossing including crossing length, the type of water and the frequency of the service and the average utilisation. Absolute costs do not reflect the length of journey, yet per-mile costs may also be misleading, since on a short crossing the cost of port facilities and the time taken to load and unload is a significant part of the overall cost.”

4. Competition

Condor Ferries is the major supplier of ferry services but is a relatively small supplier of transport to the Channel Islands overall. In 2009, 72% of traffic to the Islands arrived via air – 2.2m people, with the ferry operators combined carrying 845,000 passengers, or just 28%. In the same year, Condor Ferries’ share of passengers travelling between the UK mainland and Jersey was just 13.0% and between the UK and Guernsey only 17.5%. Although the proportion of travellers going by sea was up in 2009, in both Jersey and Guernsey more than eight in ten people travelled by air.

¹ The Napier study is dated 28th September 2009, confusingly it states that the data used is sourced from early October before Condor Ferries introduced shortbreak fares on the route from Jersey to St Malo.

The OXERA report suggests that a significant proportion of ferry users consider air transport options as a viable alternative. This is also supported by the results from the Jersey Annual Society Survey. In 2008 1,900 Jersey households responded to questions about ferry services to the UK. Around half of those who had taken their car to the UK in the previous 12 months said that they had considered taking the plane and hiring a car instead. For those who hadn't travelled by ferry in that period, over 40% hadn't travelled to the UK at all and over a third said they preferred to go by plane and hire a car.

This view is supported by the fact that many airlines and tour operators offer cheap car hire on their web sites. Examples of this are included in Appendix 2.

Condor Ferries is not the only ferry operator on the southern route, where it competes with the foot passenger services offered by Corsaire and Manche Iles. Of the 220,000 passenger arrivals into Jersey from France in 2009, it is estimated that approximately 15% were carried by these operators.

The Channel Islands operate an 'open seas' policy and Condor Ferries does not have an exclusive position. Barriers to entry are not that high and licences can be granted to other operators as long as they are able to demonstrate the financial and operational capability to operate an all year round schedule. This has been borne out by new operators on the southern route in recent years.

A significant proportion of Condor Ferries' customers are tourist visitors to the Islands. For example, research indicates that 45% of UK resident customers travelling to either Guernsey or Jersey are on holiday. These tourists have a choice between a wide multitude of destinations and Condor Ferries, along with other members of the Islands' tourism industry, have to compete to win this business. Condor Ferries spends many hundreds of thousands of pounds each year to attract visitors to the Islands. Examples of recent advertisements are attached in Appendix 3.

The combined effect of the above is that competition and the threat of competition are sufficiently strong for operators to adopt behaviours that are in line with those of a competitive market. This level of competition or potential competition must therefore be considered when assessing the necessity or form of any regulation.

5. Regulation

It is not the place of Condor Ferries to dictate the requirements in terms of frequency of service in relation to a lifeline operation such as that to and from the Channel Islands. That is up to the States of Jersey and Guernsey in consultation with the Islands' residents. But the security of supply in the provision of those services is important. The Green Paper does indicate that unrestrained competition in the Channel Island market does not seem to be viable and can serve to destabilise the service. This is primarily due to the size of the market and the need for an operator to provide winter sailings and a back up service.

The 2009 OXERA report referred to in the Green Paper suggested that five policy options may be utilised in addressing potential market imbalances. Each option has a

different degree of regulatory cost associated with it, as well as various degrees of ease of implementation. The Green Paper points to two preferred options out of the OXERA five policy options, referred to in the paper as Option 1 and Option 3 (see below table) as being most appropriate for the Channel Island market. The key differences between the two relate to the method by which service standards / pricing objectives are best met.

Option no.	Description	Impact
1	Non-exclusive licences, subject to universal service obligations (USOs)	All operators wishing to provide ferry services to Jersey would be required, as now, to obtain permits which would not be exclusive—the number of permits for each route would be driven by market considerations. Their critical function would be to ensure that any operators providing ferry services to the Islands met minimum standards. These might include features designed to ensure a level playing field, either requiring minimum winter service backed by a performance bond, or a payment to cover a proportion of winter services.
3	Status quo is maintained	Permits would be non-exclusive and continue to be awarded on the basis of demonstration of financial and operational capability to operate a year-round timetable with a predefined level of frequency on each route. This is similar to option 1, although in option 1 much more specific mechanisms would be adopted to ensure that the winter service is sustainable.

Condor Ferries agrees that regulatory solutions must be proportionate and avoid adverse impacts on fares and future levels of investment. It recommends that the status quo is maintained on the grounds that:

- the market is competitive
- a form of regulation already exists (Ramp Permit agreement)
- additional regulation suggested in Option 1 will be costly and result in end users having to incur additional costs
- enhanced regulation is likely to lead to less flexibility for it to react swiftly to market conditions and to take opportunities that require capital investment

Condor Ferries is de-facto already regulated, as it operates under a Ramp Permit from the States of Jersey and a Memorandum of Understanding with the States of Guernsey. Key obligations include:

- Tariff increases (maximum price) require approval by the authorities

- Minimum frequencies of service are established throughout the year
- Stipulation of the vessels to be used, including the requirement for a conventional vessel backup
- Reasonable notice is required for any variation in service and/or vessel type
- Following year schedule is to be submitted in advance
- Provision of passenger facilities
- Condor is required to maintain £10m liability insurance
- SLAs exist to provide standards to passengers (i.e. non-origin discrimination for passengers whether they originate in the CI or the UK).

Status-quo regulation is enforced through non-exclusive licensing – i.e. Condor Ferries does not have an exclusive position in the car and passenger market and competitors are able to enter subject to certain operational requirements. The key issue here is that any new entrant on either the northern or southern routes is obliged to provide the same level of service year round and provide appropriate back-up.

Calculating the sum a new summer season operator would have to contribute to the costs of the winter services would be extremely difficult and in itself would generate a lot of extra costs as well as distracting management from their key task of running a high service operation. There is furthermore, a risk that a new entrant might make commitments to provide such funds to cover winter services but that their business might fail before such funds are passed to the regulating body and onward to the lifeline service provider – equally requiring “prepayment” may be deemed to be a new barrier to entry/competition.

Threat of competition under the status-quo guarantees non monopolistic behaviours and ensures that customers enjoy services provided by Condor. The most significant benefits of current regulation are that:

- it grants sufficient schedule flexibility (see volcanic ash emergency and additional sailings to support local initiatives)
- it allows for return on capital investment (see Rapide investment)

The reduction in fares since 2005 combined with the service initiatives and extensive capital investment serve to underline this point.

The OXERA research and the view of Condor Ferries suggest that current Ramp Permit regulation addresses existing issues and that additional regulation may be unnecessarily expensive. These costs would most likely be reflected in an increase in fares and therefore not be beneficial to the final user.

Furthermore, it must be borne in mind that Condor Ferries, like any business operating in Jersey, is subject to the local competition law overseen by the JCRA to prevent any potential abuse of a dominant position. Indeed Condor Ferries has ongoing dialogue with the JCRA on an informal basis covering issues such as pricing and returns on capital.

Many assets undergo efficiency reviews prompted by the regulator. Marine operating costs (and Condor Ferries is consistent with this) are predominantly fixed costs determined by the market and various regulations such as fuel, harbour dues, crew levels on vessels, overhaul requirements. In order to operate a given level of service a small minority of costs are 'discretionary' and as such an efficiency review in any

meaningful sense would be limited to this small proportion of costs and may result in an increase thereof. Within the constraints of the operating requirements set by the States, it is in Condor Ferries' interest that the company is run as efficiently as possible. An efficiency review in this context would merely add cost and time - ergo inefficiency - to the market process which Condor currently operates in.

Other costs associated to regulation are typically:

- Reduced operational flexibility (in a market which is already semi-regulated)
 - Condor Ferries might be restricted in its ability to react to changes in the markets in which it operates. As previously stated, it does compete with other forms of transport and other tourist destinations. It has to be able to react swiftly to market conditions

- Management and Government time and resource
 - JCRA estimates are that its costs are expected to be £250k per annum
 - Condor Ferries would also incur substantial costs.
 - These costs would ultimately have to be recovered from the user
 - Costs for compliance, information production and regulatory reviews, as well as the potential long term threat to stability in the market have also to be accounted for

- Potential constraint to Condor Ferries' ability to support Island initiatives outside regulated agreements or to deploy capital to increase capacity

The Green Paper also refers to the regulatory environment in the Isle of Man. The incumbent ferry operator has a long-term exclusive agreement with the Manx government. Care therefore has to be taken when drawing any conclusions from that model. It is understandable that in the case of an exclusive operator, more regulation is required to safeguard the interests of the consumer but Condor Ferries has a relatively short term, non-exclusive permit to operate ferry services to the Channel Islands and it does not propose that this form of licensing is changed in any material way.

6. Conclusions

Condor Ferries welcomes the Green Paper and is happy to work with the authorities to discuss its contents further.

Condor Ferries believes that the concept of an efficiency review is well intentioned but misplaced.

Condor has worked with the JCRA and other interest groups in the Channel Islands over the last year to demonstrate its commitment to the Islands, to develop new service initiatives, bring stability to pricing, encourage short duration journeys, engage with the local communities and to demonstrate that it does not abuse its position.

Barriers to entry in the Channel Island market are not substantial as has been seen historically, particularly on the routes to France. Condor also actively competes with numerous airlines.

The current services run on a commercial basis, without subsidy unlike many cited in the Napier Study demonstrating that Condor Ferries is able to meet passenger requirements in a competitive market. Indeed through the harbour dues paid to both Islands by Condor Ferries, it is a major contributor to States' revenues.

Condor Ferries is already subject to regulation which works to the benefit of all parties. Possible alternatives are fraught with risk / additional costs and it is not clear that any improvement would be forthcoming. Condor provides a strong, viable service which is in line with common interest.

Condor Ferries therefore believes that the existing safeguards to control ferry fares are adequate. The current system allows Condor Ferries to offer long term, robust reliable, year round and reasonably priced services of sufficient quality and frequency to meet the travel needs of Island residents, the business community and tourists.

Based on all of the above considerations, Condor Ferries supports Option 3 proposed by OXERA, i.e. that the status quo prevails. Condor Ferries does not seek an exclusive position to serve the Channel Islands.

Condor is happy to continue to work with Channel Island stakeholders and the community to provide further improvements to its services.

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