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9th August 2010

Dear Madam,
Dear Sir,

Re: Ferry Fare Regulation

I have read the Green Paper and completed the survey which is enclosed herewith. However, I also have a few comments under section 6 of that survey. As these comments run to 6 pages I have typed them separately, but they should be attached to the enclosed survey.

Yours faithfully,


Phil Dupré

My Observations on The Green Paper : Competition, Licensing and Regulation in the Car and Passenger Ferry Market

To be attached to my completed survey /

6. Comments

I am a frequent - twice monthly - traveller on the southern route, so my comments will necessarily apply to my experience as a foot passenger to St-Malo.

My comments follow no particular pattern; I have simply followed the presentation of the Green Paper. All quotations taken from the Green Paper are reproduced here below in *italics*.

The Channel Island policy "*expects operators to offer a robust, reliable service which is sustained year round*". This was no doubt also the intention in previous years when licensing other operators, and they have all failed. The Harbour Master in Jersey had an obligation "*to ensure that persons engaged in commercial activities connected with port and shipping services have sufficient expertise and financial and other resources to conduct the activities*". This did not prevent - on two occasions - the second operator from pulling out before losing money on the winter service to which it had committed itself. So a different approach must be adopted in future, and perhaps the advance payment of a performance bond (referred to on page iv of the Green Paper) may dissuade those potential operators who have not done their homework, yet believe they may simply pull out - without penalty - after completing one financially rewarding summer service. This performance bond, managed under the existing Channel Island policy (no regulator is needed there), should cover a twelve month period, being one summer and one winter service. An operator could only pull out at the end of the winter service, on completion of the twelve month period, without losing his performance bond. Should an operator leave before completing the winter service, his performance bond should be automatically forfeited and paid over to the remaining operator in compensation for having had to operate the summer service at too low margins (because of the competition), and thus having to operate at a greater loss during the winter months.

I did not take part in any of Condor's customer satisfaction surveys, but I wish to add my name to the list of Channel Island residents satisfied with the quality of service. I consider the service very good, and I only wish that a passenger service was provided during the winter months from Guernsey to St-Malo (via Jersey), and return, without having to overnight in Jersey on the return journey.

Viability surveys have been carried out before in relation to competition and fare comparisons, and when it is stated that "*External advice has concluded that winter competition does not appear to be financially viable and that summer competition may also not be viable*", such conclusions should be heeded when re-examining this subject.

I am therefore surprised to read OXERA's statement that "*However, competition cannot be ruled out, particularly on the southern route*". If that possibility is envisaged on the Jersey - St-Malo route, it is certainly impossible on the Guernsey - St-Malo route; otherwise the existing sole operator would be providing a winter service on the Guernsey - St-Malo route similar to the Jersey - St-Malo route, which is not the case. Section 3.3 Current Carrying: shows that there are insufficient passenger numbers for Condor to offer a financially viable regular winter service between Guernsey and St-Malo, even as sole operator. If Condor is requested and agrees to improve its level of services by providing such a winter service between Guernsey and St-Malo, it must be recognised that they could only introduce that service if they remain the sole year-round operator, since that service - considered separately - is not viable and cannot be justified on a commercial basis (and would still remain non-subsidised).

I do not agree to any proposal which would result in an increase in cost (whether to the ferry operator, to the island administration, or to the Guernsey taxpayers) or which would result in an increase in manpower. Furthermore, if the introduction of competition on the route or if the appointment of an independent regulator is likely to result in a possible increase in fares, this should be the main reason for refusing such consideration. We are all affected - our government, trading companies and individual households - by the current economic and financial crisis. Everybody has to revise their budget and find new way of doing things at a lower cost. At government level, taxation income is reducing, and so economies must be realized through reduced services and reduced staffing; this is imperative in order to reduce our public debt. Any increase in operational cost - in island administration or for Condor Ferries - cannot be justified in the current economic climate which is likely to remain uncertain until 2013/14.

Your conclusions on page 2 indicate that a direct like for like comparison with other jurisdictions is not possible, either because of different service levels, requirements and backup, or subsidies. This fact points to the doubtful "value for money" of any further costly investigations, which would more than likely come to the same conclusions (again).

You state that "*Fare levels might be lowered in the long term by reducing the minimum level of services required from operators if this was acceptable to the community*". I would be in favour of reducing the frequency of crossings to St-Malo with a resulting lowering of fares (see also page 5 below). I have never encountered a 100% seat occupancy during my crossings (and I have made 15 return crossings to St-Malo so far this year).

As for the existing regulatory arrangements, there is no indication in the Green Paper that these arrangements are inadequate or insufficient. One should resist therefore the temptation to want to fix something that isn't broken... and, certainly, no independent regulator should even be considered until the existing arrangements and the additional forthcoming competition legislation prove to be unworkable - and that is not the case, since it is recognized that "*The existing regulatory arrangements, appropriately enhanced, may provide adequate tools to regulate fares at a low administrative cost*". So let's carry on along that route before considering any drastic (and costly) change.

* The paragraph titled "Winter services and back-up vessels" of section 2.3 Condor Fare Statistics: gives further confirmation that the Channel Islands routes are not comparable with other similar routes.

In section 2.4 Reliability, it is stated "*The current arrangements give reliable and robust services, which are frequent and year-round.*"

Section Exec 3. Customer Views: confirms "*Condor's customer satisfaction surveys show that Channel Island residents who took part are mostly satisfied with the quality of service*".

Section Exec 4. Fare comparisons with other routes: states "*Nevertheless, this research shows whilst some Channel Island fares were high in comparison with other similar services, there is also evidence of good value for money*".

All these positive statements indicate that there is very little to complain about concerning the service provided by Condor Ferries.

In addition to the warning from The United Kingdom's Office of Fair Trading that fare comparisons are extremely difficult, I would add that the high level of salaries and property prices in the Channel Islands - possibly without similarities in other jurisdictions - may also have a bearing on the Condor fare structure. Condor have to purchase and/or rent premises to operate from in the Channel Islands, and they have to pay local staff at CI rates.

There are five policy options suggested, but the option chosen should be based on facts alone, not on mere unfounded assumptions such as "*more competition or further regulation could assist*", or "*Further work might be worthwhile to see if what is achieved there could work here*". In view of the established facts referred to above (customer satisfaction, year-round service and backup, fair price level) - all positive facts - and in view of other comments/conclusions by the UK Office of Fair Trading and by OXERA, as contained in the Green Paper, I believe that the only right option is "*Option 3: maintain status quo*".

The existing joint Channel Island Policy should continue to oversee the current agreement - and renew it in 2013 - subject to the provision of any additional data it may deem necessary to request from Condor. Indeed, that is already happening, as section 3.6 Other Fares: states "*Guernsey and Jersey have agreed with Condor that average fare information will in future be provided on an annual basis as part of the current regulatory arrangements*". The Memorandum of Understanding should therefore be renewed, with perhaps some minor amendments. Furthermore, with Guernsey's forthcoming general competition legislation due late 2010 the island has (and will have) all the necessary powers and tools to control the level of services and fares without introducing a new and costly administrative layer which would have to be funded by the Guernsey taxpayers, and which would probably also result in higher fares, or reduced investments by Condor, or both!

I am really surprised that the appointment of an independent regulator should be considered at this stage, even before Guernsey has been able to exercise its new (and therefore untested) additional powers conferred on it by the forthcoming competition legislation just referred to.

On page 4 of section 2. Background History: you state "*Having a sole operator providing the service does not provide that comfort (regarding service standards and prices being influenced by the existence of a second operator) and concerns have been expressed in both islands about the levels of fares for car and passenger services*". I personally do not share those concerns, which may be due to a lack of information from Condor to the public. Condor could no doubt alleviate those concerns with more price transparency and by publishing details of their price bands (despite my frequent travels I was not made aware of these price bands until last month, and now my travel costs are even lower). Also, few members of the public may realize the level of investment required in the introduction of a new ship or in the maintenance costs of a fleet of ships. Those concerns are furthermore contradicted by the current level of fares (on the southern route), which has remained at the same level as 2009, and is even lower than the 2007 and 2005 fares. The recent introduction of the new ship Condor Rapide is also a further sign of Condor's commitment to the northern and southern routes serving the Channel Islands, and of their continued aim to provide the highest service standards. Thus, the perceived disadvantages of not having a second operator do not stand up to the facts.

You then state "*Rather than merely extending the remit of either or both of these bodies to cover car and passenger services the opportunity could be taken to introduce a unified pan Channel Island regulatory regime*". Such a unified regulatory regime would only be of advantage to Guernsey if it resulted in lower administrative costs to the island and to Condor, and also if it resulted in lower fares for the Guernsey residents. If that cannot be guaranteed, the status quo must be retained.

I further believe that Guernsey's and Jersey's situations are not similar enough to justify a unified pan Channel Island policy, mainly because of their geographical situation. This is clear when comparing the huge difference in the respective islands' sea arrivals from France. At present Jersey is provided with a weekly winter passenger service to and from St-Malo (three return journeys per week), but this is not the case for Guernsey during January and February when there is not one weekly return journey! (That is indeed one improved service which I would like to see Condor introduce for this winter 2010/11, as mentioned elsewhere in these comments.) Apart from Jersey's proximity to St-Malo I believe that the very big difference in sea arrivals is also due to the heavy and constant Jersey advertising in the St-Malo area, where leaflets on Jersey are available in every tourist office and in many public buildings of the

area. There is also a very noticeable red double-decker bus frequently circulating around St-Malo, advertising Jersey only. Yet there is no literature at all available on Guernsey (other than at the tourist information bureau close to the main entrance to St-Malo Intra Muros, and to a lesser extent at the Condor Ferries desk in the Naye ferry terminal)! Not surprisingly, you state on page 9 "So, a difference can perhaps be expected in the way the two islands see the route network as a whole". I agree with that statement, and this "difference" is borne out by the absence of winter service from and to Guernsey. Guernsey is very much the forgotten relation in the Channel Islands context, and when I mention my home in Guernsey, 8 times out of 10 I have to explain where Guernsey is situated (which I can only do by mentioning Jersey!), whereas the public (French residents and visitors to the St-Malo area) always know about Jersey.

In section 5. Fare Comparisons with other Routes: Napier University and Pedersen's updated research establishes yet again that Condor's existing fare structure is "correct and fair". This is despite the fact that "Condor considers the level of harbour dues paid to the Jersey and Guernsey harbour authorities higher than at other comparable ports". As the cost of port facilities and the loading/unloading time is an important part of the overall cost on short crossings, three questions come to mind and need to be answered :

- why are Guernsey harbour dues higher?
- how can these harbour dues be reduced?
- if these harbour dues were reduced, would Condor be able to pass on these savings onto Guernsey customers by lowering fares?

Notwithstanding the matter of higher harbour dues, the present conclusion of "correct and fair" prices is a further confirmation of Condor's probity and reputation.

Section 6. Operator Efficiency and Profitability: is contemplating some (costly) review of Condor's operation in their de facto monopolistic position. What will such new review achieve? There is plenty existing statistical information, by reliable bodies, and used as a basis for the facts and summaries contained in the Green Paper, which confirm that Condor act responsibly, to the satisfaction of the travelling public, with prices roughly in line with operators on other routes, and with the financial resources to carry out the necessary investments. You state that "If the results (of the investigative work) show that the current situation is reasonable and beneficial then there would be no need to change". I have to ask : how many more independent studies do you require (in addition to those provided by the UK Office of Fair Trading, OXERA, Napier University and Pedersen) before accepting that Condor are not abusing their position? All the evidence is there :

- fares are at an acceptable level, and roughly in line with those of similar operators elsewhere
- the efficiency achieved by Condor enables them to keep a tight control over their operating costs, and this is reflected in price increases at or below RIP levels
- the profitability, essential for any commercial company to stay in business, is adequate to allow Condor to make the necessary long-term investments, without which increased productivity and efficiency, and lower running costs, could not be achieved
- in addition to the above best practices Condor are still able to offer additional services such as backup and winter services, despite these services not being commercially viable when considered separately, and all without subsidy.

In conclusion, I summarize below my views regarding your consultation on these specific points :

The current level, quality and prices of services being provided

Condor are to be commended on their quality of service and on maintaining their current prices at 2009 levels.

The level of service, however, should be improved by providing - during January and February one weekly return journey Guernsey - St-Malo - Guernsey (via Jersey if necessary), but without requiring an obligatory overnight stay in Jersey before returning to Guernsey. This winter service should preferably be provided with the conventional ferry to avoid or reduce delays and cancellations (unavoidable when using fast ferries in rough seas).

Condor could also improve their PR by publishing their price bands and explaining to the public how lower travel costs may be achieved.

Whether or not it would be acceptable to reduce the level or quality of services in order to achieve lower fares

A reduced frequency of crossings to St-Malo would be acceptable to me (particularly where there are two crossings a day, or where four crossings a week may be adequate rather than the current six or seven crossings a week in the high season). Condor could be asked if and how they could achieve lower fares, in terms of reduced services, and the travelling public could then indicate their acceptance or otherwise of the proposed reduced services.

The security of services desired and how this may best be achieved through competition or licensing or a combination of both

Condor have shown their commitment to and ability in providing a secure and reliable year-round service with the back-up necessary which only a substantial company can provide. They have built up an experience and expertise which no past operator has matched. This status quo is to our benefit and should be maintained.

The option to make a formal request to the JCRA to carry out an operator efficiency review using existing powers

Such review is not necessary as there is already a wealth of information gathered by reputable independent bodies and available to the Guernsey authorities. Even the limited amount of information made available in the Green Paper should lead to the conclusion that the current operator is efficient and financially able to make the necessary investments whilst keeping price increases at or below RPI, even keeping them at the same level as 2009.

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 explained on page 3 of my comments, no amount of regulation by the JCRA, the OUR or any other body will achieve a better result than the existing regulatory arrangements which Guernsey has in place. The island has all the necessary powers to monitor and control the level of services and prices. Your comments in Section Exec 5. Operator Efficiency and Profitability: "An efficiency review may therefore be a disproportionate measure at this stage", and at the end of section 8.1 "It is important that we do not head down a path that could be costly, bureaucratic and ultimately perhaps no more effective" should be your guiding principles when considering the options.

The publication of the Green Paper does not mean that changes must be made. Yet, some parts of that consultative paper could be interpreted as seeking justification for upsetting the status quo, introducing competition at all cost, and, worse still, appointing a regulator at a total cost of more than £250,000.

Why such a heavy handed approach? The Green Paper has not identified a single problem such as abuse of position by Condor, or inadequate service, or exorbitant prices. Quite the contrary.

The review seeks to determine, essentially, our views regarding the present level of service offered by Condor, the correctness of their fare structure in light of other near comparable operators, and the eventual need for greater fare regulation. I found the Green Paper to be very thorough in its gathering and analysis of information on the pros and cons of various aspects such as competition, monopoly, length of route, market size, subsidies, year round operation, backup, etc. The conclusions are clear :

1. The Channel Islands' situation cannot be found anywhere else to the extent where a direct comparison is possible. Not only are the northern and southern routes different, catering for different markets, but even the markets served by Guernsey and Jersey are different. So how can a joint or pan Channel Island policy be to the best advantage of Guernsey and Jersey at the same time?

2. The price factor is probably the most important. With a finite island population, Condor relies on repeat business, and in order to get it, Condor must (and do) exercise tight control over their costs. But, since part of their costs is represented by harbour dues and port costs, the onus is also on the harbour authorities to limit their costs, or even reduce them through efficiency, increased productivity and improved practices.

3. Openness and cooperation between the Guernsey authorities and Condor is the right policy to achieve the best service for the island and the best conditions for Condor's continued long-term investments. Forced competition or increased regulation could be counterproductive on both counts, and also result in higher prices. As the OFT warns "*We note also the risk that this kind of intervention could have an adverse impact on future levels of investment by the ferry operators*".

4. The case for additional regulation through an independent regulator has not been made; in fact, quite the opposite, because all the surveys, data and information available to you confirm that there is no guarantee that additional regulation will result in lasting fare reduction, improved services and continued investments on the routes served by Condor. Indeed, Condor have achieved very high marks in all these areas - and under existing regulatory arrangements. This is proof that the present system works. QED.

All considered, the Green Paper is so complete that it provides its own conclusion and justification for it : leave alone (status quo), and keep monitoring and reviewing fares and services within the existing legal framework and additional competition legislation to be introduced in Guernsey at the end of 2010.


Phil Dupré

03/08/10