4.9 Deputy M. Tadier of St. Brelade of the Minister for Sustainable Economic Development regarding the addition of a 'flat-rate card' for freight to the tender process for ferry freight (OQ.237/2025):

Will the Minister state at what point the condition for a flat-rate card for freight was added to the tender process? What risk assessment of this policy, if any, was carried out, whether its introduction was supported by other members of the Council of Ministers?

Deputy K.F. Morel of St. John, St. Lawrence and Trinity (The Minister for Sustainable Economic Development):

The aspiration, as distinct from the word "condition", used in the Deputy's question, for a flat-rate card in any new concession agreement was set out in a joint Jersey/Guernsey invitation to tender and followed through in the Jersey-only invitation to tender. This was not a policy. However, as previously explained to the Deputy in a panel hearing, there is no economic logic for an exclusive operator of the most important part of the supply chain, the ferry service, to offer discounted rates in favour of any one freight-forwarding firm and thereby endangering the most important part of the supply chain through development of an uninvestable situation. The inclusion of a flat-rate card within the final DFDS bid was welcomed by the Council of Ministers and approved as part of the selection of DFDS as the preferred bidder; that approval by the Council of Ministers.

4.9.1 Deputy M. Tadier:

We have heard that nobody asked for the flat-rate card that DFDS now have in place. Could the Minister confirm whether or not DFDS would have been granted the tender if they had not included a flat rate within their bid?

Deputy K.F. Morel:

That is not a question I can answer because it is an entirely hypothetical question. DFDS did include a flat rate in their bid and they were chosen for many reasons, other than the flat rate. It is not possible because they did not supply one that did not have the flat rate.

4.9.2 Deputy J. Renouf of St. Brelade:

The Minister has defended the flat-rate card on many occasions by saying that it encourages competition in the freight market. Has the department conducted any analysis to determine whether the size of Jersey's market is big enough to support competition in the freight market?

Deputy K.F. Morel:

I do not think such analysis is likely to be a very easy analysis to undertake. What I will say is that of the cost of delivering goods to the shelves in your shops and the supermarkets in Jersey, first of all, that cost is just 7 per cent of the cost of goods on your shelf. A £10 item that you buy today, 70 pence is the cost of distribution. Of that 70 pence, 60 per cent is the freight-forwarder's cost; 35 per cent is the ferry cost. Of that £10 just 24 pence is the cost of the ferry, 3.5 pence or thereabouts is Port's dues and the vast majority of that 70 pence is the freight-forwarder's cost. As I have just stated, the ferry service is the single most important part of the supply chain and cost pressures and the pressure to reduce costs were being pushed by the freight-forwarders who take the majority of the money from distribution. Their desire to reduce costs were being pushed on to Condor, the previous ferry service provider. As a result, we were provided with a ferry service that could not invest in new ferries, and I am sad to say that reporting recently has also suggested that there is a lack of safety as a result of that as well. That is why by removing the pressure to reduce costs from the ferry service and putting that pressure via competition into the largest part, the 60 per cent of the cost of distribution, which is where the freight forwarders are, that is the appropriate place to have competition and to have cost reductions. It is not appropriate to have cost reduction being placed on to the ferry provider because then we end up with the situation we had, which was a ferry service that could not be invested in and the ferry service that may well have been operating in ways that were unsafe.

4.9.3 Deputy J. Renouf:

I am grateful to the Minister for his answer, which is very interesting. However, it still leaves unanswered the question of whether or not Jersey's freight market can support multiple operators. The Minister said he did not think it was possible to analyse this. But surely given that the flat-rate card has become such an integral part of the contract, this would be a very important objective. Otherwise there is a risk that in trying to encourage competition in the freight-delivery market, which the Minister says is important, is chasing an impossible dream.

Deputy K.F. Morel:

I find it fascinating that Deputies in this Assembly and others in this Assembly are very, very interested in protecting the freight-forwarding part of the market, which takes the vast majority of the cost of distribution and is not an area of potential failure and injury to the supply chain, in the same way that the ferry service is a single point of failure and potential injury to the supply chain. It is vital that Jersey protects its ferry services. It is not so vital that Jersey protects any one company in the freight-forwarding market.

[11:00]

We have seen over the past few years how the freight-forwarding market has pushed other operators out and a dominant supplier has come through. I do not know what the subjects are but we do know that there is currently an investigation into practices in the freight-forwarding market, I believe, by the J.C.R.A. (Jersey Competition Regulatory Authority). It will be interesting to see what that comes out with. But I would say to the Deputy that the companies that take the majority of the cost of distribution, the 60 per cent of the cost of distribution, which goes to those companies or that main company in the freight-forwarding market, is not as important as the 35 per cent that is used for the ferry service. The ferry service is vital. Any one freight-forwarding company is not vital in the same way that the ferry service is. Jersey needs to protect its ferry service and it needs to make sure that its ferry service can be invested in to get new ferries. The previous ferry service could not invest in new ferries. We know this because twice we asked for propositions from the previous provider of ferry services to Jersey that included investment in new ferries. Twice we received propositions that did not include investment in new ferries because it was not possible for that ferry provider to invest in new ferries. I, and I believe this Assembly, should be very, very clear; the ferry service needs to be protected. Competition and cost reduction is appropriate in the 60 per cent of the cost of distribution which is used by the freight-forwarders and taken by the freight-forwarders. It is not appropriate in the 35 per cent that is used and pays for the ferry service, which is the single point of failure in our supply chain. This Assembly and any Government needs to protect that ferry service.

4.9.4 Deputy M. Tadier:

Can I put for my final supplementary the statement given to our panel by the chief executive of Sandpiper? He said that: "The people who bring most product to the Island are the food retailers. In the past we have benefited from volume discounts as a result of that. That is absolutely common business practice; it works in every single business across the world. The reality is that one single measure of the flat-rate card has created additional costs on food in Jersey. That was completely unnecessary and I reject the idea that we need a flat-rate card to make a competitive market." Could the Minister state, first of all, did he consult with any of the retailers about the economics of this and the potential impact it would have on them? Could he tell us why he thinks the chief executive in his statement there is wrong?

The Deputy Bailiff:

The second part of your question is not in order because under Standing Order 10: "A question shall not ask whether any statement in the media or made by any individual who is not a Member of the States is accurate." But the first part is in order.

Deputy M. Tadier:

Could I rephrase …

The Deputy Bailiff:

You can rephrase it, certainly.

Deputy M. Tadier:

It was not in the media, Sir. It was a statement that was made to our panel.

The Deputy Bailiff:

Yes.

Deputy M. Tadier:

But I will simply ask: does he agree that it is common business practice across the world for volume discounts to be applied? It is basic economics and that this one single measure may have had the unintended consequence of pushing up food prices in Jersey.

The Deputy Bailiff:

Yes.

Deputy K.F. Morel:

The chief executive of Sandpiper and indeed the chief executive of any supermarket in Jersey, their job is to protect the profits of their business. Those profits in the past were perhaps indirectly and perhaps unintentionally being protected by the beating down of the cost of the ferry service. That beating down of the cost of the ferry service resulted in what now appears to be, potentially, an unsafe service but definitely an uninvestable service. It is not my job to protect the profits of the supermarkets. We know that supermarkets in Jersey are very profitable. We do not get the benefit of seeing their books. We do not get the benefit of seeing what profit they make. But what we do see now with the new situation with the concession agreement, is we know exactly how much money is being made by the ferry service and we know exactly how much money needs to be made in order for that ferry service to invest in new ferries. That is the situation we now have. We have competition taking place in the freight-forwarding market. The dominant player in that market, I have no doubt, is very upset that their domination is open to competition now. But that is the appropriate place for competition. The appropriate place for competition is not in the ferry providers' part of it because we end up with an unsafe and an uninvestable ferry service. That is why there is a flat-rate card; it is to protect the ferry service. The supermarkets need to compete among themselves. We know that supermarket business models rely on reducing supplier costs. The ferry service is one of their suppliers but they cannot reduce the cost of the ferry service because we need a safe and investable ferry service.