

CONSULTANCY SOLUTIONS | **OIL&GAS**

Advisors in Logistics, Supply chain and Marketing for the Oil and Gas Industries

Fuel Farm, La Collette, St Helier, Jersey



FINAL REPORT

Review of the Current Arrangements for the Importation, Storage and Supply of Petroleum Products to the Distribution and Retail System in Jersey

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Executive Summary

- **Jersey has a static market for petroleum products, worth only 0.2 % of the total UK market**
- **Consortium Agreement requires equity participation at percentage share of current market value of fuel farm – this provides a significant barrier of entry to market**
- **Introduction of another fuel competitor would accrue no further consumer benefits**
- **Additional costs of getting fuel to, and distributing on Jersey calculated to be in order of 3 pence per litre**
- **No evidence of oil company profiteering at islanders' expense**
- **Ten year length of contract on retail service stations hinders competition**
- **Too severe planning restrictions on development of new and disposal of old service stations**
- **Jersey retailers have maintained 20+ % gross margins on pump prices**
- **Retail petrol margins on Jersey c. 5 times higher in pence per litre terms than UK**
- **Discounting of pump prices to loyalty card holders and user-groups widespread on Jersey, but impossible to verify levels of issuance rates**
- **Lack of pump price transparency prevents informed consumer choice**
- **Fuel expenditure lower as % of Household Income on Jersey than UK**
- **Non renewal of La Collette lease a high risk strategy for Jersey as security of fuel supplies is put at undue risk through low barrier to exit market for oil companies**
- **No legal obligation in old lease for compulsory stockholding**

- **Our unreserved recommendation to the States is to renew the lease at La Collette, giving a clear 10-year term of occupancy from 2005 and incorporating new conditions on environmental protection and compulsory stock-cover. Exclusive rights granted in old lease to Consortium should be removed.**
- **Greater retail marketplace competition required through harnessing of consumer power, reduction of length of retail contracts and compulsory price transparency of pump prices**

Terms of Reference

To review the current arrangements for the importation of distillate to Jersey, its storage and supply to the distribution and retail system in Jersey and to make suggestions for improvements or alternatives to meet consumer and strategic interests. Relevant documents include: -

- the Lease issued to the Fuel Consortium for the Fuel Farm, which commenced on the 14th December 1979, and terminated on the 13th December 2000;
- the proposed Lease as put forward by the H&A Committee in Proposition P.60/2003;
- the OXERA Reports of 2001 and 2002 on the Price of Fuel in Jersey and all previous Committee of Inquiry reports;
- Reports from other comparable jurisdictions on the operation of fuel markets in small islands;
- Copy of the Competition (Jersey) Law 200-

Evaluate the access, safety, environmental and operational issues.

To review and clarify the ownership rights of the Fuel Farm installation and the re-instatement requirements on the Fuel Consortium.

Evaluate the advantages and disadvantages of the following three options, and alternatives if considered appropriate, and to advise as to the best way forward for the States of Jersey to ensure the best interests of consumers in Jersey and to secure the best interests of the States: -

Continue with the Fuel Consortium operating the Fuel Farm on a new Lease, with either the Lease or an Operating Licence setting out the conditions under which the Fuel Consortium would operate, including an agreement to the arrangement for linking the price of fuel downstream from the Fuel Farm.

Open the fuel market to competition via a tendering procedure such that the successful tendering company would have access to operate the current Fuel Farm but with appropriate arrangements to ensure competition upstream of the Fuel Farm, operation of the Fuel Farm in the best interests of Jersey, and an agreed pricing arrangement for fuel downstream of the Fuel Farm.

Open the fuel market to competition via an appropriate tendering procedure so that the successful tendering company would establish a new Fuel Farm on La Collette II Reclamation Site, overcoming the current Health and Safety issues at the current site, with appropriate arrangements to ensure competition upstream of the Fuel Farm, operation of the Fuel Farm in the best interests of Jersey, and an agreed pricing arrangement for fuel downstream of the Fuel Farm.

To provide alternative and or better options to those put forward.

The report should provide recommendations as to the best use of current land and also how the provision of a Fuel Farm can be arranged in the best interests of the Island.

Background

This investigative report was commissioned by the States of Jersey Economic Development Committee and the Finance and Economics Committee to review the leasing arrangement of public land to the Jersey Fuel Consortium for the importation, storage and distribution of fuel oils within the island of Jersey.

The original 21-year lease of the land at La Collette, on which the fuel storage tanks, equipment and offices are situated, terminated in December 2000. The proposal of the Harbours and Airport Committee to offer a new lease to the Fuel Consortium has met with resistance from some States Members and its approval has been delayed over the course of the last four years. In this time two other reports from Oxera Consulting Limited were commissioned to investigate the structure and pricing of Jersey's petroleum product markets. Despite the conclusions in the Oxera reports, States Members still felt that they did not receive sufficient information with which to approve the granting of a new lease. Most of the resistance amongst States Members comes from their concern over retail fuel prices and what is seen as the monopoly situation in respect of the importation, storage and distribution of fuel oils within the Island's situation.

The Fuel Consortium continues to occupy and use the site on the basis of the previous lease agreement.

In August 2004, Consultancy Solutions for the Oil Industry was given detailed information on which to make a presentation to the Sub Committee regarding its proposals to carry out this study and analysis and to reach conclusions and recommendations commensurate with the Terms of Reference.

Following a presentation to the Sub Committee on 20th September 2004, Consultancy Solutions for the Oil Industry were both pleased and honoured to receive the appointment as Consultants to deliver this report.

The investigatory work was carried out by interviews and visits with interested parties on Jersey, together with forensic analysis assisted by benchmarking with industry colleagues on mainland UK. The senior partner's own 30-years experience in the downstream UK petroleum market has enabled the issues pertaining to Jersey and its petrol prices to be readily identified. The subsequent financial analysis has therefore been both accurate and incisive.

We trust that the narrative and analysis of this report will assuage all desire for further understanding of the workings and costs of the Jersey market. The recommendations contained in this report are made with conviction and assurance.

Text highlighted and boxed in this manner throughout the report contains our recommendations and conclusions from the studies carried out in October and November 2004.