

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

REVIEW OF STRATEGIC AIR AND SEA LINKS INFRASTRUCTURE

The States are asked to decide:-

Whether, after consideration of the policy letter entitled 'Review of strategic air and sea links infrastructure' dated 12 March 2019 they are of the opinion:-

- 1 (a) To agree that no further work is carried out to assess the business case for extending the airport runway outside its current boundaries given the other options available for meeting Guernsey's air links objectives including the work of the States' Trading Supervisory Board investigation to examine the possibility of commissioning 107 metres of starter strip/paved runway end safety area ("RESA") to increase the current available runway length from 1463 metres to 1570 for take-off and landing on RW09 and landing on RW27;

or

- 1 (b) To direct the Policy & Resources Committee to open a capital vote of up to £700,000 to commission further work on the technical, regulatory, environmental and economic business case for the extension of the airport runway beyond the current boundaries to 1,700-1,800m, as set out in paragraph 1.6 of this policy letter.
- 2 To endorse the Policy & Resources Committee using its delegated authority to approve funding of up to £400,000 charged to the Capital Reserve to commission and undertake work on contingency options relating to the Island's sea links, as set out in paragraph 7.20 of this policy letter.

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1) of the Rules of Procedure of the States of Deliberation and their Committees.

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REVIEW OF STRATEGIC AIR AND SEA LINK INFRASTRUCTURE

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

8 March 2019

Dear Sir

1. Executive Summary

- 1.1 Air and sea links connectivity is recognised as a priority in the Policy & Resource Plan agreed by the States of Deliberation. The Policy & Resources Committee is aware of the robust strength of feeling amongst the resident and business community in the Island that meaningful and sustainable change is required in order to secure and enhance the Bailiwick's transport links.
- 1.2 The Committee is under no illusion that effecting this change is critical for the future economic and social wellbeing of the Island, but is cognisant that a number of steps have been taken over the previous 15 months which have enhanced air links connectivity, catalysed by the review that has been undertaken by the Committee. Conversely it believes that in the longer-term, it is the duty of the Committee to ensure contingency options in relation to sea links are assessed given the potential sale of Condor Limited by its owners, the Macquarie Group, and that **it is in relation to sea links where there is the greatest potential risk.**
- 1.3 The Committee commissioned PricewaterhouseCoopers CI LLP ('PwC') to undertake a study of air and sea links infrastructure during 2018. The study provides the level of expertise and analysis that the Committee had identified as being useful to its decision-making, and is grateful for the high quality of the work undertaken. The study is divided into two reviews, one of air links infrastructure and one of sea links infrastructure. Both of the reviews have been shared with the Committee *for* Economic Development, the Committee *for the* Environment & Infrastructure and the States' Trading Supervisory Board, and it is the view of the Committee that the overall study is useful in a number of areas of transport connectivity policy development. The review of air links is appended to this policy letter. The review of sea links is not, as it contains information that is commercially sensitive to third parties and the States of Guernsey.

1.4 The Committee supports much of the analysis provided by PwC in relation to air links infrastructure:

- That enhancing Guernsey's air links in the short-term is most likely to be achieved through market-based rather than infrastructure options, given any extension of the Guernsey airport runway outside of the current airport boundaries is likely to take five years or more;
- That larger aircraft might lead to more affordable fares, but would also lead to reduced frequency;
- That a significant number of carriers and fleets can use the existing Guernsey airport runway infrastructure at the runway's current length, with PwC estimating that there are currently c.680 such aircraft in service in Western Europe, with a further 50 currently on order;
- That an extension of the runway to 1,570m would be within the current airport boundaries and may provide additional connectivity;
- That the critical requirements for the economy are maintaining and enhancing frequency and connectivity, and these are unlikely to be achieved through either the use of bigger aeroplanes flying to and from Guernsey less frequently; or through an increase in the number of point-to-point low cost carriers that can operate to and from Guernsey;
- That extending the Guernsey airport runway to 1,700-1,800m may make it more accessible to some carriers on some routes, but that does not mean that those carriers will want to come to Guernsey without additional potentially significant financial investment in route development support;
- That extending the runway to 2,000m plus is unfeasible for financial and environmental reasons and should not be considered as a viable option; and
- That Guernsey has excellent air connectivity, and indeed that Guernsey's air connectivity has improved since the study was commenced.

1.5 The Committee disagrees with PwC's recommendation of undertaking further work to explore the business case for the extension of the Guernsey airport runway to 1,700-1,800m. This is not because PwC's overall analysis is flawed, but because the Committee needs to take into account financial and environmental matters that PwC does not. The Committee's view is that the States of Deliberation and the community will not in the final analysis support the financial and environmental cost of extending the airport runway beyond its current boundaries. This would also lead to further capital expenditure and additional fixed costs associated with operating an airport scaled to service aircraft with a significantly larger payload. As the guardian of taxpayers' money, the Committee cannot recommend using taxpayers' money on a piece of work to explore a project that it strongly believes will not be progressed.

1.6 If the States of Deliberation disagrees with that assessment and approach set out in the policy letter, they can support proposition 1 (b). The Committee has ascertained through a recent tender process that the work required to consider the technical, regulatory, environmental and economic aspects of extending the airport runway beyond the current boundary to 1,700-1,800m would cost up to £700,000.

- 1.7 The Committee supports PwC’s analysis of market-based options for enhancing Guernsey’s air links connectivity, and agrees with the identified benefit of being able to use these options to target investment, to create flexibility in meeting specific challenges and opportunities, and to make expeditious improvements. The Committee notes that these options are already being progressed, and that the investment in these options demonstrates a commitment across the States of Guernsey to invest in Guernsey’s air links. Examples of this are:
- The Committee *for* Economic Development has used funding from the Future Guernsey Economic Fund, with the support of the Committee, to secure a pilot link from Guernsey to Heathrow from March to October 2019¹;
 - The application by Guernsey airport of a route development airport charges discount policy for new routes²;
 - The States of Deliberation has agreed to the use of Public Service Obligations on routes designated as lifeline³; and
 - The adoption by the States of Deliberation of a “quasi-open skies” approach from September 2018 has enabled the liberalisation of the licensing framework⁴.
- 1.8 The Committee supports PwC’s analysis of technology options, and welcomes the utilisation of ClearView technology by the newly ordered Aurigny fleet, which was approved by the States in December 2018.
- 1.9 The Committee’s view is that the success so far of the market-based options and the use of a technology solution as part of the new Aurigny fleet further reduces the need for a runway extension to 1,700-1,800m that would take a minimum of five years to put in place and would not guarantee greater frequency or resilience.
- 1.10 The Committee welcomes the States’ Trading Supervisory Board’s work in response to Deputy Kuttelwascher’s successful requête⁵ supported by the States of Deliberation in October 2018 to examine the possibility of commissioning 107 metres of starter strip/paved runway end safety area ("RESA") to increase the current available runway length from 1463 metres to 1570 for take-off and landing on RW09 and landing on RW27, and supports in principle the extension of the runway area in this way. The Committee will view with interest the outcome of that work and the proposed next steps when the States’ Trading Supervisory Board reports back to the States of Deliberation, which is anticipated in June 2019.
- 1.11 The Committee welcomes PwC’s confirmation of the importance of the Island’s sea links to its economic and social wellbeing. **PwC advocates that the Committee ensures that this critical connectivity is protected from disruption in the long-term through effective contingency planning** in the event that the potential sale of Condor Limited leads to a reduction or loss of sea link services.

¹ <https://www.gov.gg/article/170451/Flybe-announces-daily-airlink-to-Heathrow-from-Guernsey>

² <https://www.airport.gg/airport-fees-charges>

³ Billet D’État XIX, approved by the States of Deliberation on 18 July 2018

⁴ Billet D’État XIX, approved by the States of Deliberation on 18 July 2018

⁵ <https://www.gov.gg/article/165966/Requete---Deputy-Kuttelwascher-and-6-other-Members>

- 1.12 The Committee believes that only two of the four contingency options considered by PwC merit further analysis at this stage: on assessing the capacity and appetite of other ferry operators to operate a ferry service to Guernsey should Condor Limited not be in a position to provide the required services in the future; and on examining the cost and feasibility of establishing a stand-alone ferry service should it be required in the future. This will ensure that the States of Guernsey is prepared for any eventuality as the sale process of Condor Limited progresses.
- 1.13 Whilst those two contingency options would not mitigate any short-term risk, it may be that the further work undertaken on assessing the capability and capacity of other ferry operators to operate a service demonstrates that there is not sufficient capability or capacity in the event that it is required. On that basis, the only other option would be for the States of Guernsey to establish a stand-alone service. This would be a complex and medium-term process, so in the event that it could be required in the future, it would be useful for some initial preparatory groundwork to be undertaken. The Committee is not suggesting that either contingency option is a preferred or likely option; but it does note PwC's view that contingency planning in this area is important, just as it is on other significant matters of public service delivery.
- 1.14 The Committee is seeking the States of Deliberation's support to use its delegated authority to spend up to £400,000 on that work, which is what the most recent tendering exercise indicated that it might cost.
- 1.15 The Committee also welcomes and supports PwC's analysis that the States of Guernsey should work closely with Condor Limited and its owner in order to be fully appraised of developments in relation to any future change of ownership, and to negotiate the best possible service. The Committee has met with Condor Limited's owners in relation to the former, and the Committee *for* Economic Development has the mandate to undertake the latter, which the Committee understands that the current Committee *for* Economic Development is actively undertaking.

2. The study undertaken by PwC

- 2.1 In the June 2017 States' debate on the Medium-Term Financial Plan, the Policy & Resources Committee tabled a successful amendment⁶:

The island's strategic air and sea links are of vital importance to achieving the outcomes agreed in phase one of the Policy & Resource Plan, and should be considered in their totality. The potential extension of the Guernsey airport runway is only one component of this. As such, the Policy & Resources Committee are recommending that a review of strategic air and sea links, including the associated infrastructure, be included in the portfolio of pipeline projects. This review would provide the information required for the States Assembly to make evidence based decisions on the future of the island's strategic air and sea links.

⁶ <https://www.gov.gg/article/160174/Policy--Resource-Plan---Phase-Two> - amendment 32 to Billet D'État X11, June 2018

The Policy & Resources Committee would commission an independent external expert to complete the review. This is consistent with the processes of the capital prioritisation process that were agreed by the States of Deliberation.

Therefore the Review of Strategic Air and Sea Links Infrastructure was added to the list of pipeline projects in the States' capital portfolio.

2.2 During the second half of 2017, the then Committee for Economic Development led on the review, co-ordinating the terms of reference, engaging in a market testing dialogue with external experts, and producing a 'long list' of potential external experts who were invited to discuss the review and its scope in December 2017. This then led to a procurement process using a revised terms of reference during Q1 of 2018, which was led by the Policy & Resources Committee. In May 2018, PwC was appointed as the consultant to carry out the study on Guernsey air and sea links infrastructure.

2.3 The scope of the study was to:

- Review all relevant and available studies, agreements or other literature that the States of Guernsey and/or key stakeholders have access to. Identify any areas where there are gaps, and any areas where lack of quality means there is not sufficient confidence in the conclusions;
- Conduct an initial round of stakeholder engagement to seek out different opinions, perspectives and any other information that would be relevant;
- Conclude, based on the work available and the initial stakeholder engagement, on the list of feasible options and give a preliminary evaluation of their relative pros and cons;
- Provide a report outlining findings, conclusions and recommendations; and
- Co-develop, with the States of Guernsey, a more detailed, focused and efficient programme of work and stakeholder engagement that would enable the States of Guernsey to determine the most suitable option(s).

2.4 The sea links review focused on a first phase of providing a high level examination of possible contingency options for the future service provision for Guernsey's ferry services. These options were assessed in the context of the States of Guernsey being informed that the owners of Condor would be seeking a buyer for that business.

3. Strategic context

3.1 The Policy & Resource Plan identifies air and sea links as one of the States priorities and sets out:

"This priority will provide support to the maintenance and investigation of options for the expansion of air and sea links so that Guernsey is well connected with the UK and Europe. It is essential that the island has robust, sustainable, reliable and affordable air and sea links in order to deliver a dynamic and growing economy. This incorporates business travel to/from the island, visitor and local travel to/from the island, and the import/export of freight.

“Connectivity to major UK and international airport hubs is also a key requirement for both business and leisure travellers, and a reliable schedule and frequency of air and sea services is vital if Guernsey is to facilitate and develop its economic development opportunities.”

3.2 Air and sea links are vital to achieve and enable economic growth, to meet the demands of business users, residents and leisure visitors and to enable social and cultural exchange. Despite the significant changes across the air and sea transport sectors in recent decades, broadly speaking the principle remains that business travellers will predominantly use air transport and tourism visitors will predominantly use sea transport. The Committee is determined to address the concerns that air and sea link connectivity appears to be under-performing in a number of areas; and to do so in a way that provides long-term certainty rather than short-term fixes.

4. The work undertaken by PwC – context

4.1 During September and October 2018, the Committee considered the two reviews provided by PwC as part of its study. Subsequent to those considerations, the Committee directed officers to prepare an update for the December 2018 States meeting which set out the preferred options and costs for the next phase of the review.

4.2 Following that, there were three developments of relevance:

- The States’ Trading Supervisory Board was finalising a policy letter on the purchase of the three new ATR aircraft, which was approved by the States at its December 2018 meeting. The propositions in the policy letter were supported by the Policy & Resources Committee;
- The Committee *for* Economic Development was finalising a policy letter on the policy and investment objectives for air and sea links which was approved by the States at its December 2018 meeting. The propositions in the policy letter were supported by the Policy & Resources Committee; and
- The States of Deliberation approved Deputy Kuttelwascher’s requête, directing the States’ Trading Supervisory Board to report back to the States during the first quarter of 2019 on the potential 107m RESA.

4.3 Those developments meant that on 20 November 2018 the Committee considered again its response to the recommendations of the two PwC reports. The Vice-President of the Committee set out the views and recommendations of the Committee in an update statement to the States of Deliberation on 12 December 2018⁷, and those views and recommendations are reflected in this policy letter.

⁷ <https://www.gov.gg/article/169576/Statement-by-the-Vice-President-of-the-Policy--Resources-Committee>

- 4.4 The two PwC reviews were shared with the Committee *for* Economic Development and the States' Trading Supervisory Board in September 2018 and the Committee *for the* Environment & Infrastructure in October 2018. The air links review was also shared with the Scrutiny Management Committee in January 2019.
- 4.5 The two reviews provided by PwC have been of value for a number of areas of work on air and sea links and the Committee very much welcomes the input and expertise provided, and the constructive and comprehensive approach taken by PwC. However the Policy & Resources Committee has also brought its political judgement to bear on the findings and recommendations put forward by PwC, as well as considering other developments in 2018 such as the move to 'quasi-open skies'; the airport's new more competitive route development charge discount policy; the work of the States' Trading Supervisory Board on extending the RESA area; and those set out in 4.2 above. In addition, in January 2019 the Committee was made aware of the potential establishment of a pilot service from Guernsey to Heathrow, which was confirmed publicly by the Committee *for* Economic Development on 21 February 2019.
- 4.6 The review of air links is attached as appendix one to this policy letter. The review of sea links is not attached and at this stage will not be published in full. This is because it contains commercially confidential information relating to the States of Guernsey and third parties.
- 4.7 In December 2018 the States Assembly agreed the following **core strategic objectives** for air and sea links and connectivity:
- Meet the majority, if not all, of the current and future requirements of the residents of the Bailiwick;
 - Enable economic growth; and
 - Increase visitor numbers.
- 4.8 In order to achieve the core strategic objectives, **critical success factors** were identified. These are what need to be done well in order to achieve the core strategic objectives. The critical success factors agreed by the States Assembly for air and sea links are that they must:
- Act as an economic enabler;
 - Act as a social/cultural enabler;
 - Be affordable;
 - Be sustainable;
 - Optimise choice and flexibility of connections;
 - Provide reliability and continuity of service; and
 - Deliver the identified air and sea link connection priorities, including frequency.

5. Air links

- 5.1 PwC summarised the States of Guernsey's objectives for maintaining and improving air links to and from the Island as:

- To maintain and expand its air links so that Guernsey is well connected with the UK, other Channel Islands and Europe;
- To ensure that these air links are reliable, sustainable and affordable to all parts of the Island's population and the visitor market; and
- To ensure that air links enable existing business to function appropriately and support the expansion of all types of economic activity.

5.2 PwC recognised that determining the most cost-effective way to achieve these goals is complex, not least because it requires the consideration of a number of inter-related factors including:

- The airport and its infrastructure;
- Route licensing and connectivity;
- The role and objectives of Aurigny;
- Interplay between other modes of transport (in particular sea links); and
- Underlying demand for travel, including the different requirements and expectations of residents, tourists and business travellers.

Scope

5.3 PwC was asked to undertake an initial study focused on understanding the current and perceived performance of Guernsey's air transport links, reviewing a long list of potential infrastructure options and making initial recommendations as to which options should be shortlisted for further analysis. PwC was not asked to review Aurigny's strategy or operating model, nor the current air licensing framework. However a number of points were made in its findings and recommendations which reflected on Aurigny's operations, and the Committee's view in relation to these points is set out in 5.19 and in section 6 below.

Current and perceived performance of Guernsey's air links

5.4 PwC recognised that air links are critical to the economic and social wellbeing of Island communities. It also recognised that the States of Guernsey faces the challenge of maintaining and growing their air links to support economic development as well as providing essential transport services to the community.

5.5 The total number of passengers flying to/from Guernsey has been declining at 1.3% per annum from c.900,000 in 2008 to c.808,000 in 2018. This represents a 1.0% decline per annum over the last decade. Guernsey's leisure and business travel has been declining most strongly. This is in contrast to growth in total EU air transport of c.1.2% per annum, and growth in Jersey passenger movements of 2.3% per annum. The Committee welcomes Guernsey airport's new business plan and specifically its objectives to increase passenger numbers to 855,000 passengers per annum.

- 5.6 **PwC found recognition among stakeholders that the decline in passenger numbers is not solely due to factors relating to the air transport service.** For example, the States of Guernsey's consideration of its tourism strategy highlighted a need to invest in Guernsey's product offering (hotels, attractions and marketing) in order to compete with other holiday destinations.
- 5.7 The Committee's view is that the comparison with Jersey is not an apt one, particularly from a critical mass perspective. Jersey has 70% more residents (44,000 more people) and if it is taken that on average people will make 10-12 journeys each year then a rough but cautious estimate would be that Jersey has somewhere between 400-500,000 passenger movements per year. Jersey has had a different licensing framework in place for a number of years, has a different approach to route development support, and does not have ownership of slots into Gatwick Airport through a government-owned airline.
- 5.8 In evaluating the quality of Guernsey's air links, PwC considered three main attributes: connectivity, reliability and affordability.
- **Connectivity** represents how easy it is to get to the destination of your choice. It includes:
 - the number of destinations served directly;
 - the quality of those destinations in terms of their onward connections; and
 - the frequency and convenience of flight schedules.
 - **Reliability** represents how often flights leave/arrive on time. It includes:
 - resilience to bad weather conditions;
 - maintenance of the existing fleet; and
 - availability of contingency aircraft if needed.
 - **Affordability** refers to the cost of tickets, both in absolute terms and relative to similar routes from comparable destinations.
- 5.9 PwC noted that it is difficult to maximise all three attributes at the same time. Making policy decisions requires a trade-off on the relative importance of each attribute. Moreover, different passenger segments (businesses, tourists and residents) attach different priorities to each attribute. PwC therefore engaged with representatives of all three groups to understand their views with respect to each of these attributes.

Connectivity

- 5.10 Guernsey is currently served by 16 routes but did not at the time of the review have direct access to a global connecting hub. However the Committee *for* Economic Development, with the support of the Policy & Resources Committee and the airport, has now established a seven-month initial pilot link between Guernsey and Heathrow, with an ambition to that continuing on a longer-term basis if the route and service is judged a success, in terms of passenger numbers and economic benefits.

- 5.11 PwC was clear in its view that at the time of the review Guernsey is relatively well connected for an Island of its size. Since the completion of the PwC study, new routes are being operated between Guernsey and Edinburgh, Glasgow, Liverpool, Southend, Bournemouth, Newquay, Groningen as well as Heathrow, and it is the clear view of the Committee that Guernsey's connectivity is, relatively speaking, very good for a community of its size.
- 5.12 PwC reported that business and tourism stakeholders hold the view that a lack of connectivity will harm Guernsey's competitiveness as a destination, both in the eyes of travelling executives and the recruitment of employees. Business travellers value connectivity and frequency highly, and in particular value reliable early morning/late evening flights to enable day trips and efficient use of time. Business stakeholders highlighted the shortcomings of reliance on Gatwick as a connecting hub, and the Committee notes that the operation of the Heathrow route has had strong support from many businesses in enhancing the connectivity into London as well as through an international hub.
- 5.13 The Committee strongly concurs with the view of PwC that connectivity and frequency are critical for businesses and the economy. Its view is that one of the benefits of a runway extension extolled by those who support it is that it will bring in low cost carriers who will seek to reduce cost, and larger carriers with larger planes who will fly in and out less frequently. **This combination would be at odds with the stated requirements of the business community and the economy as set out in PwC's report.**

Reliability

- 5.14 PwC noted that bad weather delays have been more frequent since 2015. Delays often occur in the morning, disproportionately affecting business travellers and impacting through the rest of the day. Both businesses and residents are incurring additional costs from disruption e.g. travelling the day before critical meetings or flight connections to ensure punctuality. Stakeholders were more accepting of weather delays than delays due to maintenance or aircraft availability issues.
- 5.15 The Committee notes the comments of PwC and stakeholders in this respect. It agrees with PwC that the airport management should consider what measures can be put in place to reduce delays, including through the use of technology. However the Committee also acknowledges that the airport does not have in its gift the removal of all of the causes of delays. It also notes that the airport management and the States' Trading Supervisory Board have demonstrated a desire to look at the use of technology to support reliability where it is appropriate.

Affordability

- 5.16 PwC noted that fares from Guernsey to Gatwick are typically more expensive than fares from Jersey, and have risen since Flybe ceased its service in 2014. Respondents noted that self-connecting flights were subject to 'double Air Passenger Duty' as single-ticket options were limited.⁸
- 5.17 PwC noted that air fares are a particular concern for residents, for whom they pose a barrier to social inclusion and essential services. There is a fear that the high cost of air travel to and from Guernsey is deterring new business and tourism.
- 5.18 PwC also engaged with a number of airlines in order to understand our positions and requirements; and used their knowledge of aircraft in service and on order in Western Europe to frame their analysis.
- 5.19 The Committee offered Aurigny the opportunity to respond to the points in relation to fares in 5.15 above. The PwC report includes a graph illustrating the difference in air fares on London routes from Guernsey and Jersey. It suggests that there has been a substantial increase in fares on the Gatwick Guernsey route since Flybe withdrew from this market in 2014 and that the average one-way fare on the route in 2017 was c. US\$170 according to PwC's report. This data is not recognised by Aurigny and is rejected as being wholly inaccurate for the following reasons:
- If the average fare on the Gatwick route had been US\$170 per passenger, then Aurigny's passenger revenues on that single service alone in 2017 would have been US\$56m (or £43m) and, as such, more than the airline actually earned across all its routes. The Aurigny Group's published accounts show that its total passenger revenues across its entire network in 2017 amounted to only £41.6m;
 - The data ignores the fares target placed on Aurigny by the States of Guernsey since 2014 when it became the sole operator on the Gatwick route. Aurigny's compliance with this (and other) targets were reported to the States by the Committee *for* Economic Development in its policy letter to the States on air transport licensing in 2018. This noted that, initially, Aurigny was required to ensure that 60% of its fares should be available at £65 or less. By 2017, this had been updated to 63% at £69.50 or less. The policy letter noted that Aurigny consistently met or exceeded this target; and
 - The source data for this graph excluded fare information on tickets purchased directly with Aurigny through its website, which accounts for the vast majority of its bookings. Based on an analysis of all its bookings, rather than the more limited sample used by PwC, Aurigny has confirmed that its average one-way fare on the Gatwick service in 2014 was £63, increasing to £70 by 2017 (excluding UK Airport Departure Tax). It should also be noted that, at the time, Aurigny's fares were inclusive of baggage charges, whereas British Airways' and easyJet's were not.

⁸ Given Aurigny is not a member of any alliance or code-shares, passengers pay Air Passenger Duty multiple times, e.g. on connecting flights from Gatwick.

Aviation industry context

- 5.20 The existing runway at the airport is 1,463m long. This means that some aircraft cannot land on it, or would require payload restrictions. These primarily include the Airbus A320 family of jet aircraft (operated by airlines including British Airways, easyJet and many others) and the Boeing B737 family of jet aircraft (operated by Ryanair, among others).
- 5.21 However, PwC confirmed that there are many other aircraft that **can** land on the current runway. These include regional jet aircraft such those made by Embraer (operated by Flybe, Aurigny and others), regional turboprop aircraft such as those made by ATR (operated by Aurigny and others) and Bombardier (operated by Flybe, Eurowings and others).
- 5.22 PwC confirmed that this means there is no shortage of aircraft operating in Europe that can use the current runway. PwC estimates that there are currently c.680 such aircraft in service in Western Europe, with a further 50 currently on order. Regional aviation is a recognised segment of the aviation industry, with regional airlines playing a key role in connecting communities and feeding major hubs. In recognition, regional jets and turboprops are a key market segment for manufacturers such as Embraer, Bombardier and Airbus, all of whom are investing in their portfolio and introducing new aircraft (for example see Airbus' partnership with Bombardier on the CS100/A220 aircraft). In addition the Committee notes that Boeing has entered into a strategic partnership with Embraer that will establish a joint venture made up of Embraer's commercial aircraft and services operations. Boeing will hold 80% of the new company and Embraer 20%. Embraer has also recently started deliveries of its Next Generation E-Jet (new version of the Embraers operated by Flybe and Aurigny) as part of its investment in its product line.
- 5.23 The majority of these aircraft are flown by regional carriers. If Guernsey wants to attract low cost airlines on the widest possible range of routes it will need a longer runway. For example, easyJet has the fleet and scale to expand quickly and develop new markets and routes, and the potential to deliver lower average fares than regional airlines.
- 5.24 However, PwC's review emphasises that it is important to acknowledge the differences in the business models between low cost airlines and traditional airlines. Low cost airlines typically:
- Are not 'connecting' airlines, in that they fly point-to-point, do not normally serve hub airports, and do not typically sell connecting flight tickets;
 - Are more likely to adapt capacity to seasonal demand, adding in extra capacity during peak summer months but reducing capacity during winter;
 - Price dynamically - headline pricing may be attractive but last-minute prices can be as (or more) expensive as traditional airlines;

- May operate a lower frequency on any given route due to the larger size of their average aircraft; scheduling of flights is often a function of aircraft availability rather than traveller requirements;
- Manage their route network actively, meaning that they can shut down routes at short notice if they do not meet the required commercial thresholds; and
- Expect significant market support in order to base aircraft and grow route networks.

5.25 Low cost carriers' performance can be managed through commercial agreements but requires clear goals and objectives in order to maintain a long term relationship. Examples of the possible fragility can be seen with Ryanair's relationships with, for example, Stansted Airport and Glasgow Airport. Additionally, the Isle of Man is an example of an airport where the introduction of a low cost airline, in this case easyJet, has had negative impacts on scheduling.

5.26 The Committee's view is that given the new routes now in operation in Guernsey and the establishment of a quasi-open skies policy which liberalises the aviation market, it is clear that there are limited barriers to entry for operators wanting to set up new routes. **Given PwC's analysis on the number of potential operators who can take off and land on the current runway, there is likely to be a limited return for the community on a hugely significant investment of taxpayer funds, likely to be in the order of tens of millions of pounds.**

Infrastructure options

5.27 PwC noted that all of the infrastructure options have significant upfront costs. These options would require long-term business case analysis and accurate construction costings so that the 'best' option for Guernsey can be identified. The costs of infrastructure projects are not simply financial, but also environmental and social, and PwC noted that these options are likely to be highly sensitive to the community and impact both direct users and other stakeholder groups, in particular residents near the airport. For example, PwC noted that any option that extends the runway beyond the current airport boundary may entail land purchases and building and community relocations.

5.28 Infrastructure options considered by PwC included:

- Runway extension to 1,570m (this is the maximum length possible within the current airport perimeter);
- Runway extension to 1,700m (this is the same length as Jersey);
- Runway extension to 1,800m (this was the length likely to encourage low cost carriers such as easyJet to consider operating in Guernsey);
- Runway extension to 2,000m (this would allow B737 aircraft to operate, for example by Ryanair); and
- Investment in landing systems.

- 5.29 PwC noted that each incrementally longer runway extension could bring additional optionality to Guernsey in terms of the aircraft it would enable to land, and hence the number and type of airlines that could (in theory) operate into Guernsey.
- 5.30 However PwC also noted that whilst the provision of a longer runway will provide sufficient infrastructure for expanded airline operations, **there is no guarantee that airlines will provide any additional capacity without further financial and commercial support.** Airline fleets are finite, and airports and communities compete for routes. Airlines select routes based on perceived profitability and commercial risk considerations, not simply on their ability to land.
- 5.31 Instrument landing systems (ILS) are aids that enable landing in poorer visibility. The airport currently has Category 1 ILS, the most basic system. Upgrading the airport to Category 2 or 3 could reduce the number of flights that cannot land due to fog. PwC's review pointed out that an extension beyond the current airport boundary is also necessary for the implementation of a Category 3 solution. PwC noted that there are also aircraft-based solutions to reduce bad weather delays, such as Aurigny's new fleet that is being supplied with Clear Vision systems.
- 5.32 The Committee recognises PwC's analysis that extending the length of the runway does not automatically bring new operators or routes to Guernsey; and that encouraging operators to do so may require significant route development support in addition to the investment in the airport and runway infrastructure. The Committee also notes that there are many operators and fleets that could operate with the current existing infrastructure, who are being encouraged to do so through the market-based initiatives the States has undertaken.
- 5.33 Any extension of the airport boundary will lead to further capital expenditure, for example: terminal building alterations; emergency tenders; fuel storage capacity; and capacity of the site for vehicle parking for travellers and operational staff would need to be considered. Fixed costs associated with operating an airport scaled to service aircraft with a significantly larger payload may also increase and there may be training requirements. Of course these can be quantified and the Committee would require such extra considerations to be explored in any business case if the Assembly is minded to investigate extending the boundary of the airport to accommodate a longer runway.
- 5.34 In addition, the Committee does not believe that the size of Guernsey's population could appeal economically to a significant number of low cost carriers; nor that the operation of a significant number of point-to-point low cost carriers would improve Guernsey's overall connectivity. Low cost carriers price dynamically as they have different business models, and often last minute prices on low cost carriers are more expensive than on network carriers.

Market-based options

- 5.35 PwC noted that market-based options do not involve large upfront capital expenditure. Instead, these options require ongoing and targeted expenditure to support particular routes or airlines. This expenditure profile makes these options lower risk, as they can be stopped if they do not provide the desired result, though it also means that the expenditure is ongoing.
- 5.36 The aim of market-based options is to bring increased connectivity by changing the basis of investment decisions by airlines. These options can target particular outcomes, but need to be carefully considered in order to provide lasting legacy.
- 5.37 PwC's report looked at market-based options including:
- Route support and development to acquire a new connecting hub e.g. Heathrow;
 - Route development support and incentivisation for both existing and future operators to provide improved connectivity and destination range;
 - Potential use of Public Service Obligations (PSO) structures; and
 - Liberalisation of the Guernsey aviation market.
- 5.38 The Committee notes that these options can still be costly, but are targeted and carry less risk. Moreover, during 2018 and the first part of 2019 significant steps have been taken in respect of each:
- Route support and development to acquire a new connecting hub was put in place by the Committee *for* Economic Development, with the support of the Committee and the airport in February 2019, at an overall cost of £825,000 to secure a seven-month pilot service to Heathrow;
 - Route development support and incentivisation is in place, through the airport's route development charge discount policy, which has been of assistance and is in place for any operator putting in place a new route. The Future Guernsey Economic Fund has also been used to support the investment objectives agreed by the States in December 2018. However of the eight new routes put in place since September 2018, only one – Heathrow – has required support from the Future Guernsey Economic Fund;
 - PSOs are being established for lifeline routes; and
 - Liberalisation of the Guernsey aviation market is the outcomes of the changes to the transport licensing framework following the adoption in September 2018 of the quasi-open skies approach.

Recommended next steps – infrastructure options

- 5.39 PwC's recommendation is that the 1,570m extension appears to be the best runway option if it is feasible from a commercial and operational perspective for more than one airline.

- 5.40 **The Committee agrees with PwC's view that as the 1,570m runway does not break the boundary of the airport, and if it allows an A319 aircraft to land, then it would represent a relatively low cost and potentially beneficial solution that should be relatively quick to deliver. The Committee does not believe any further work from an independent consultant is required given the work that the States' Trading Supervisory Board is already undertaking an assessment of the potential for extending the RESA. The Committee notes that in due course the States' Trading Supervisory Board will report back to the States of Deliberation.**
- 5.41 PwC's recommendation is that the primary alternative to the 1,570m option would be an extension of the airport runway to 1,700-1,800m. Their view is that there are potential additional benefits and it is lower risk in the longer term, although there may be a substantial cost difference.
- 5.42 **The Committee notes that PwC says that a 1,700-1,800m runway could provide benefits in terms of opening up Guernsey to a wider range of fleet and airline options, including British Airways and European charter operations. However PwC has also noted that there is no guarantee that this could be the case, and that there are many current options for operators and fleets with the existing runway structure.**
- 5.43 **The Committee notes that a 1,700-1,800m runway breaks the existing airport boundary and therefore increases substantially the financial, environmental and political hurdles and the time needed to deliver it. The Committee's view is that overall the States Assembly and the community is unlikely to be persuaded that the highly significant financial and environmental costs are worth paying for what may be a limited return on investment, and for increases in connectivity that can be delivered through one or more of the options of extending the airport runway RESA, the use of ILS technology, and market-based options.**
- 5.44 **The Committee takes its role as the guardians of taxpayers' money very seriously. It cannot support undertaking further work on an option that it does not believe will have the support of the States or the community. However, if the States Assembly believes differently the Committee will commission that work.**
- 5.45 PwC say that it does not believe that the additional benefit of a 2,000m+ runway would justify the extra cost and time required. Its initial observation is that there are more than enough A320 family operators (low cost and network carriers) to provide airline optionality on a 1,700-1,800m runway. The additional marginal benefit of being able to attract B737-800 operators as well (specifically Ryanair) is, in the view of PwC, unlikely to outweigh the additional cost of this option. On that basis PwC does not recommend this option being taken forward at this point.
- 5.46 **The Committee agrees with PwC's recommendation not to undertake any further work in relation to a 2,000m+ runway.**

Recommended next steps - technology options

- 5.47 PwC's report demonstrates that there are land-based and on-aircraft solutions for mitigating the impact of bad weather in Guernsey.
- 5.48 The Committee favours actively exploring the use of other technologies. PwC's report sets out that it is possible to have future aircraft equipped with on-aircraft technology, such as Aurigny's ATR600s with Clear Vision. However, not all aircraft are suitably equipped. It will take time for aircraft equipage to catch up to allow tangible improvements for Guernsey.
- 5.49 **The Committee concurs with PwC's recommendation that on-aircraft solutions should be considered. Following the States' approval of the December 2018 policy letter, Aurigny has now placed an order for the purchase of three new ATR72-600 aircraft, which will be equipped with the 'ClearVision' system to reduce flight delays and cancellations arising from poor visibility. Approximately one-half of Aurigny's capacity between Guernsey and the UK is provided using the ATR aircraft and, as such, the system offers a good opportunity to reduce weather related disruption for passengers on some flights.**

Recommended next steps - market-based options

- 5.50 PwC's report recommends that market-based options should be taken forward and developed as part of a holistic response strategy that is not solely dependent on runway extensions. PwC points out that these options are lower risk because they do not involve up-front capital cost and can be terminated or modified if they are not working. They also offer a more immediate response than runway extensions, which may take five years or more before they are operational. They can be developed as part of a holistic air links strategy that involves infrastructure, operational and regulatory improvements.
- 5.51 **The Committee concurs with PwC's recommendation in relation to market-based options and is working with other Committees of the States to ensure that this approach is undertaken in an effective, targeted and consistent way.**
- 5.52 PwC's report states that there are significant connectivity benefits to Guernsey that would arise through connecting to a base carrier hub. Of these, Heathrow is by far the most beneficial and all Heathrow options should be strongly considered. **The Committee supported the Committee for Economic Development in establishing a seven-month pilot Guernsey to Heathrow route from 31 March 2019.**
- 5.53 PwC's report recommends that PSO routes to Gatwick and Alderney should be considered as a non-runway method of improving affordability.
- 5.54 **The Committee concurs with PwC that a PSO would allow the States to focus on Guernsey's lifeline routes and dictate the exact service levels provided. The Committee for Economic Development is currently co-ordinating this work.**

6. Aurigny

- 6.1 While outside the scope of its study, PwC noted that the States of Guernsey has the ability to utilise Aurigny to provide fleet and capacity on any of the routes discussed. It added that any infrastructure and market-based solutions should be considered with Aurigny's future strategy in mind.

Fleet optimisation

- 6.2 With regard to fleet optimisation, the PwC report notes that a review of the current Aurigny fleet would help to determine how the fleet could be optimised and should include consideration of the relative merits of leasing or purchasing aircraft.
- 6.3 In accordance with the 2017 recommendations of the Policy & Resources Committee following its Strategic Review of Aurigny, the airline has already undertaken a review of its fleet. This was completed in 2018. Subsequently, the States' Trading Supervisory Board (STSB) commissioned an independent review and verification of its findings. The results of this exercise were presented to the States by the States' Trading Supervisory Board in 2018 in its policy letter on Aurigny's ATR 72-600 aircraft acquisitions and concluded that the optimum fleet mix for its Gatwick and other UK services remained the single Embraer jet and three ATR72 aircraft. No reduction in fleet complexity was envisaged for good reasons, given the requirement for Aurigny to provide sufficient capacity to meet the Island's needs on the Gatwick route. The policy letter also included a detailed assessment of the pros and cons of either purchasing or leasing aircraft within the context of Aurigny's fleet requirements.

Interlining and codeshares

- 6.4 The PwC report suggests that an IATA Operational Safety Audit (IOSA) may be required to enable Aurigny to interline or codeshare with other airlines. Following the 2017 recommendations of the Policy & Resources Committee after its Strategic Review of Aurigny, the airline has undertaken an assessment of the pros and cons of undertaking the IOSA. Aurigny has advised that:
- The typical initial costs for enrolling in the IOSA programme would be at least £100,000 and, thereafter, maintaining the registration would likely to cost £50,000 per annum, with a biennial audit fee of between £50,000 and £70,000;
 - From its initial discussions with other potential partner airlines, the indications have been that IOSA accreditation would not be required; and
 - Many other airlines in the UK have chosen not to join the IOSA programme, including easyJet, Ryanair, Norwegian, Loganair, Blue Islands and Eastern Airways. Despite this, Blue Islands is a codeshare and franchise partner of Flybe, whilst Loganair has an interline agreement with British Airways.
- 6.5 Aurigny's view is that IOSA accreditation does not represent good value for money and neither is it a prerequisite to entering into interline or codeshare arrangements. The States' Trading Supervisory Board has previously accepted this assessment, albeit

it has asked Aurigny to keep the matter under review as part of any ongoing discussions it has with potential airline partners.

Aurigny as a “virtual” airline

- 6.6 PwC’s study suggests that consideration should be given to the operation of Aurigny as a “virtual” airline, whereby its operations are outsourced to a third party.
- 6.7 One of the Committee’s recommendations arising from the Strategic Review of Aurigny was that the company must retain its Air Operating Certificate (AOC). An AOC can only be held by the actual operator of at least one aircraft and, in the event that Aurigny did not operate any aircraft it could not hold an AOC. Legal advice provided to the States has consistently confirmed that airport slots can only be held by airlines holding an AOC. Without an AOC, Aurigny would be unable to hold its current slot portfolio at Gatwick Airport and, as such, the States would lose control of the Island’s access to that Airport.
- 6.8 Whilst it is essential that Aurigny retains an AOC and the ability to operate the critical slots, this does not preclude it from sub-contracting parts of its flying operations to other operators. However, the fleet review carried out by Aurigny in response to the aforementioned Strategic Review concluded that sub-contracting out the operation of its Embraer jet to another operator was unlikely to result in any significant benefits. In presenting the results of this fleet review to the States, the STSB accepted that this would not be an attractive option in the current market environment. It was concerned that this would entail ceding too much control of the operation of the key strategic link to Gatwick Airport. It would also leave the Island exposed to changes in the business model of the partner airline concerned, which would not necessarily remain aligned to the Island’s own future interests.
- 6.9 It should be noted that, under the “use it or lose it” slot allocation rules, airlines only have a right to keep their slots from one season to the next if they are used for at least 80% of the time. In the event that Aurigny did contract out the operation of some of its Gatwick services and that operator subsequently ceased trading, it would be essential that Aurigny retained its AOC so that it could quickly resume the operation of those services so that the associated slots are not lost and returned to the slot coordinator.

7. Sea links

- 7.1 PwC’s report confirms that the great majority of ferry passengers, vehicles and freight transported between Guernsey, Jersey, the UK and France travel on services provided by Condor Limited.

- 7.2 The Committee *for* Economic Development’s policy letter on air and sea links policy and investment objectives⁹ stated that “stakeholder feedback during the PwC air and sea links work has indicated that travel by sea has in the past been viewed as a cheaper alternative to air travel, although the experience in Jersey indicates that modal shift away from sea to air can occur if price incentives to travel by air exist. To ensure the continued viability of sea link services, operators will need to remain competitive with airline operators and/or provide a differentiated service”.
- 7.3 The Committee *for* Economic Development’s policy letter on air and sea links policy and investment objectives also referred to studies conducted by Oxera and Frontier Economics¹⁰ which concluded that the scale of the ferry market in the Channel Islands is unlikely to sustain any competition across routes by multiple operators. In addition a single operator will need to have the funds necessary to sustain continued investment in new fleet and operations. A balance will therefore need to be struck between allowing an operator a reasonable economic return on investment and the cost of providing the services.
- 7.4 In December 2018 the States of Deliberation approved the Committee *for* Economic Development’s investment objective for sea links:
- **Affordability** to enable sustainable competitive fares (passengers, vehicle and freight) reflective of the cost of the service;
 - **Connectivity** to enable a frequency of service, the capacity and the schedule that meets the critical lifeline needs of freight users and the needs of Islanders (businesses and residents) and visitors to the Island; the use of the most suitable ports to enable flexibility and connectivity across all route sectors; and to maximise opportunity for travel between the Islands (Guernsey-Jersey and Guernsey-Alderney); and
 - **Reliability** of the provision of a year round ‘lifeline’ service for freight and passengers, and sufficient contingency to allow robust continuity of service in the event of maintenance or technical issues.
- 7.5 Condor Limited’s scope of services and performance regime are defined in an Operating Agreement, signed between Condor Limited and the Harbour Master of Jersey on 15 August 2014. The term of the Agreement is seven years operation plus a three years exit and wind-down period. This means that the Agreement expires on 15 August 2024. Before the seventh anniversary of the Agreement, i.e. 15 August 2021, the Parties must agree whether to extend the Agreement beyond 15 August 2024. In the event that agreement is not reached, the Parties must agree an Exit and Wind Down Plan to be implemented over a period of three years. Engagement between the Parties on whether to extend the Agreement must happen no less than twelve months before August 2021.

⁹ Billet D’État XXVII, approved by the States of Deliberation on 12 December 2018

¹⁰ See Billet d’État XIV, 29th July, 2015: p. 1647 – Commerce and Employment Department and Public Services Department – Strategic Roll on/Roll off Ferry Services

- 7.6 Guernsey did not sign the Agreement in 2014 because there is no equivalent to the Harbours (Administration) (Jersey) Law 1961 which enables Jersey to enter into a long-term agreement with a ferry operator. A Projet de Loi entitled “The Roro Sea-links (Guernsey) Law, 2016” has been drafted but not yet brought before the States. If passed, this law will give the States of Guernsey the ability to enter into a long-term contract with and legally bind a ferry operator. **In January 2019 the Policy & Resources Committee confirmed that this legislation was now accorded high priority, agreed formally by the Prioritisation of Legislation Working Group. This means it will be completed expeditiously when it is required.**
- 7.4 Condor Limited is owned by the Macquarie European Infrastructure Fund 2, an investment fund managed by Macquarie Infrastructure and Real Assets (Europe) Limited, which is wholly owned by Macquarie Group.
- 7.5 The Committee identified a need to understand the risks to the integrity of Guernsey’s ferry services occasioned by the expiry of the Agreement in August 2024 and the potential sale of Condor Limited by Macquarie Group. The potential sale of Condor Limited could present a risk of reduction or even loss of sea link services to Guernsey. On that basis it is prudent to investigate a number of contingency options.
- 7.6 The Committee identified four contingency options as having the potential to protect the integrity of Guernsey’s sea links, including:
- Contingency Option 1: the States of Guernsey to consider purchasing Condor Limited on a sole basis;
 - Contingency Option 2: the States of Guernsey understand the capacity and appetite of other ferry operators to operate a ferry service to Guernsey/ the Channel Islands;
 - Contingency Option 3: the States of Guernsey to consider purchasing Condor Limited jointly with the Government of Jersey; and
 - Contingency Option 4: the States of Guernsey to examine the cost and feasibility of establishing a stand-alone ferry service.
- 7.7 PwC was asked to review underlying documentation and engage with key stakeholders to understand the risks to Guernsey; and to consider the potential benefits and risks of each Contingency Option and the extent to which each mitigates risks occasioned by the sale of Condor Limited and/or termination of the Agreement in 2024.
- 7.8 The Agreement specifies Minimum Service Requirements to and from Guernsey which Condor Limited is legally obliged to provide; this provides a level of protection to Guernsey’s services, however the fact that Guernsey is not a signatory means that it is reliant on the Harbour Master of Jersey to enforce the Agreement should Condor Limited not meet its obligations.

7.9 A Ferry Services Steering Group (FSSG) comprising two representatives of the Government of Jersey, two representatives of States of Guernsey and up to three directors of Condor Limited has a governance role but no power to bind the Parties or to require any action to be taken or ceased in connection with the Agreement.

7.10 Passenger and freight numbers to Guernsey are broadly flat and the picture is similar in Jersey; taken in aggregate available information indicates that Guernsey and Jersey have not experienced a consistent upward trend in passenger numbers and freight volumes over an extended period.

Overview of contingency options

7.11 PwC sets out the following summary on the perceived benefits and risks of each contingency option:

Contingency Option	Benefits	Risks
1. The States of Guernsey considers purchasing Condor Limited	<p>This option would have the benefit of giving the States of Guernsey direct management control over the scope of services, fares, performance levels and future investments.</p> <p>(However note that the owner is under no obligation to include the States of Guernsey in its sale process.)</p>	<p>Direct exposure to revenue, operational and cost risks currently managed by Condor.</p> <p>Significant ongoing investment required as current vessels reach the end of their useful lives.</p> <p>The States would become responsible for services to and from Jersey. This option may not be attractive to the Government of Jersey.</p>
2. Understand capacity/appetite of other operators	<p>Initial indications are that there would be capacity and appetite from alternative ferry operators to provide services to/from Guernsey should this be required.</p>	<p>Significant upfront investment and lead-in time would be required to:</p> <ul style="list-style-type: none"> • contract with an operator; • potentially support investment in vessels and/or infrastructure and/or systems.
3. Consider purchase of Condor Limited jointly with the Government of Jersey	<p>This option would have the benefit of bringing the States of Guernsey and the Government of Jersey direct joint management control over the scope of services, fares, performance levels and future investments.</p>	<p>Direct exposure to revenue, operational and cost risks currently managed by Condor Limited.</p> <p>Significant ongoing investment required as current vessels reach the end of their useful lives.</p>

	(However note that the owner is under no obligation to include the States of Guernsey and the Government of Jersey in its sale process).	Guernsey and Jersey have different economies and population sizes. It would be necessary to agree a mechanism for sharing costs and risks, and this would need to be capable of periodic revision.
4. Set up a stand-alone service	<p>Under this option Guernsey would specify, purchase and operate a fleet of vessels (either via a concession with an operator or directly through a state-owned company).</p> <p>As for Contingency Option 1 this would bring Guernsey direct control over the scope of services, fares, performance levels and future investments.</p> <p>Unlike Contingency Option 1, Guernsey would be acquiring new vessels.</p>	<p>Direct exposure to revenue, operational and cost risks currently managed by Condor Limited.</p> <p>Substantial upfront investment required.</p> <p>Long lead-in time to specify and commission vessels.</p>

Recommended next steps

- 7.12 PwC's review sets out that none of the contingency options is believed to offer a better outcome for Guernsey in the **short-term** than continuing to monitor and respond to the sale process currently underway. This includes exploring with the current and any potential new owner of Condor Limited the potential for securing an ongoing commitment for securing and investing in Guernsey's long-term ferry service model provision which also secures the agreed States investment objectives for sea links.
- 7.13 The Committee is in agreement with that position, and notes that the Committee *for* Economic Development is tasked in its mandate with taking forward this work. The Committee's view is that whilst progress has so far been slow during this political term, it notes that the current Committee *for* Economic Development is now actively engaged with Condor Limited and the States of Jersey on identifying options to improve current provision and secure the long-term future service provision and investment in ferry services.

- 7.14 Notwithstanding this current work, the Committee's primary area of concern is to ensure the medium and long-term provision of sea links to the Island. The current situation has been complicated by the potential sale of Condor by its current owner. The Committee's view is that given the importance of sea links, as set out clearly by PwC in its review, it is vital that Guernsey is prepared for any issue or eventuality. For that reason, having considered the detail of PwC's review, it will proceed with further work on two contingency options. Indeed, PwC's view is that while all of the contingency options pose practical challenges of implementation within available timescales, the States of Guernsey should continue to develop them in more detail.
- 7.15 The Committee will prioritise contingency options 2 and 4, after considering the potential risks relating to any future sale of Condor. This is because these are the two contingency options which do not undermine the priority of the Committee *for* Economic Development in engaging with Condor Limited and the Government of Jersey on current and future service provision and investment.
- 7.16 Whilst contingency option 2 does not mitigate any short-term risk, should there be any issue with the sale of Condor Limited by its current owners, it does ensure that the States of Guernsey would have undertaken some preparatory groundwork on the capacity and capability of other potential partners. For clarity, the Committee is not suggesting that this is a preferred or likely option; but it does believe that this is important contingency planning.
- 7.17 Whilst contingency option 4 does not mitigate any short-term risk, it may be that the further work undertaken on contingency option 2 demonstrates that there is not the sufficient capability or capacity that may be required. On that basis, the only other option would be for the States of Guernsey to establish a stand-alone service. This would be a complex process, so in the event that it could be required in the future, it would be useful for some initial preparatory groundwork to be in-hand. As with contingency option 2, the Committee is not suggesting that this is a preferred or likely option; but it does believe that this is important contingency planning.
- 7.18 The Committee's view is that the current levels of direct exposure to revenue, operational and cost risks currently managed by Condor Limited should not be transferred to the States of Guernsey and the taxpayer.
- 7.19 The Committee considers that contingency option 4 should be explored further as if such a contingency was ever required in the future, then the transfer of direct risk to the States of Guernsey would be offset by the potential for fuller control over the service, which would bring significant benefits. The Committee notes that this would be a different set of risks to those managed directly by Condor Limited.

- 7.20 **The Committee's recommendation is that work on contingency option 2 and contingency option 4 is undertaken during the second and third quarters of 2019 on assessing the capacity and appetite of other ferry operators to operate a ferry service to Guernsey should it ever be required in the future; and to examine the cost and feasibility establishing a stand-alone ferry service should it ever be required in the future. This will ensure that the States of Guernsey are prepared for any eventuality as the sale process of Condor Limited progresses.**
- 7.21 PwC's view is that there is a relatively low risk that the potential sale of Condor Limited will lead to a deterioration in service provision below the obligations set out in the Agreement. Given that much of the value of Condor Limited lies in the Agreement, it is unlikely that any new owner would risk being in breach of contract and therefore at risk of termination.
- 7.22 PwC says that an acquirer is likely to want to secure an extension to the existing Agreement beyond 2024 and therefore will be incentivised, in the short term, to demonstrate its ability to deliver the current services and to actively engage with Guernsey. Therefore the States of Guernsey should focus on determining how they would engage with an acquirer in terms of articulating both their short and long term service requirements; and on how they would protect the integrity of Guernsey's sea links in the event that services were to fall below the levels defined in the Agreement.
- 7.22 The Committee concurs with this. The Committee *for* Economic Development is actively engaging with the Condor Limited and the Government of Jersey, and the Committee has met recently with the Macquarie Group.

8. Compliance with Rule 4

- 8.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.
- 8.2 In accordance with Rule 4(1), the Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.
- 8.3 In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the propositions above have the unanimous support of the Committee.
- 8.4 In accordance with Rule 4(5), the Propositions relate to the direction of the Committee to carry out a review of the Island's strategic air and sea links infrastructure, and in so doing to further progress one of the priorities of the Policy & Resource Plan that was supported by the States of Deliberation. The reviews that are the basis of this policy letter have been shared with the Committee *for* Economic Development, the Committee *for the* Environment & Infrastructure and the States' Trading Supervisory Board. The Committee advised the States of Deliberation of its approach in a statement to the States of Deliberation on 12 December 2018.

Yours faithfully

G A St Pier
President

L S Trott
Vice-President

A H Brouard
J P Le Tocq
T J Stephens