

The Jersey Boat Owners and Marine Trade Working Party on Fuel Duty

The potential introduction of duty on marine fuel

Briefing notes

1. Background

As a result of maintaining the duty-free status of marine fuel, boat owners in Jersey, as well as visiting craft, currently benefit from marine fuel duty relief on both petrol and diesel, making Jersey one of the most competitive destinations in Europe to fuel up, and providing a strong marketing message for attracting high-value visitors to the island.

Marine petrol prices in Jersey are currently significantly cheaper than in France and the UK, where a full rate of duty is applied, and are still cheaper than in Guernsey and Alderney (where a reduced rate of petrol duty is applied).

Marine diesel prices in Jersey, which constitutes circ. 70% of marine fuel sales, are again significantly cheaper than in France and the UK, but are **already more expensive than in Guernsey and Alderney where duty is not applied**. The diesel price differential is mainly due to a Jersey Harbours commission rate being applied to every litre of marine fuel sold, but also due to higher port offloading costs as well as the introduction of GST in Jersey in 2008.

In 2006, the States of Jersey Customs and Immigration Service went out to public consultation on proposals to introduce impôts duty to marine fuel used by marine pleasure craft. The public, as well as a wide range of people involved in the marine industry, were asked to comment on these proposals in order to determine the likely impacts and the practicalities of applying such a duty. Following strong arguments against, the States decided not to add duty in the 2007 budget with the Treasury Minister commenting at the time:

"It is clear that there are wider economic implications when considering the potential impact of introducing duty on marine fuel. If our marine leisure industry is to achieve the growth potential identified by Jersey Harbours, together with the economic benefits that this would deliver for the Island, then it must remain competitive."

Although the competitive environment may have changed, the above quote is just as applicable now as it was back in 2006.

A verbal commitment was also given at the time that **the issue would not be looked at again for at least 5 years**. Following this commitment, several marine fuel suppliers made significant private investments in infrastructure (new fuelling pontoons at Victoria and South Pier) amounting to **over £700,000** in order to take advantage of Jersey's competitive situation. Such investments were made based upon business plans of expected volume sales, with a long term pay back for the initial expenditure.

The working party on fuel duty which represents the Marine Traders Association, together with other marine clubs and associations, is firmly of the opinion that any potential income benefits to the States of Jersey by the introduction of marine fuel duty would be far outweighed by the negative impacts on the marine leisure and other associated industries in Jersey.

N.b. Please refer to the full document for more detail to support the following points.

2. Reasons not to levy duty on marine fuel

2.1 Economic Impact

- If the full rate of duty of 40.92p is applied to both diesel and petrol for both leisure and commercial users this would result in duty revenue of £583,100 + £17,500 GST based upon the volume of fuel sold remaining constant at 2008 levels (1,425,000 litres). However, a negative correlation exists between volumes of fuel sold and fuel price increases and, due to the higher costs that already exist, Jersey is already less competitive than Guernsey and Alderney for diesel, which comprises 70% of marine fuel sales. Levying the full rate would make Jersey by far the most expensive place to refuel in the Channel Islands and there would be little reason for visiting craft to visit Jersey to refuel (estimated at 430,000 litres in 2008). If fuel duty is levied **at any level**, the impact is likely to cause a further drop in sales, with the largest users of marine fuel being those most likely to buy elsewhere; primarily in Guernsey.
- Many of the 5,270 craft that visited St. Helier in 2008 could cease visiting Jersey altogether in preference for Guernsey where diesel fuel would remain free of duty. There is no measure of the number of visiting craft to Gorey, but the fuel concessionaire for Gorey believes that a significant proportion of his business currently comes from French vessels, for whom refuelling at duty free prices is a major motivation behind their decision to visit Gorey. If 1,000 of Jersey's current 5,270 visiting yachts are discouraged from visiting Jersey, which is entirely feasible, then based upon the average on-Island spend per visiting yacht of £377, **this would result in a fall of some £377,000 in export earnings from visiting yachtsmen, and the associated revenue gained directly from GST on this expenditure.** In reality, the decline in visiting craft is likely to be from the larger motor cruisers who spend more on fuel and other purchases, so the fall in export earnings would be higher.
- The large majority of Jersey's leisure craft are small, representing a diversity of Jersey's boating public from youngsters, to working families, to those who enjoy fishing, to recreational and competitive sailors, to water and jet skiers, to large motor cruisers. **Any** further increases in the cost of fuel are likely to further curtail boat usage by those middle-income earners who already find their leisure pursuit increasingly difficult to sustain in the current economic climate. It is likely that many residents would choose to leave the boating market altogether. If a rate of 40.92p was levied, the volume of fuel sold to local residents who were unable to refuel in other jurisdictions would be likely to fall by at least 20%. **Those who would suffer most from increased fuel costs would be the great majority who do not have sufficiently large fuel tanks to enable them to fuel up at cheaper ports such as Guernsey.**
- With a reduction in the local boating market and visiting craft, increased purchases from Guernsey by those who use the most fuel, and potential reductions in quayside availability, it would not be surprising to see **the volume of marine fuel sales fall by as much as 50%, thus producing impôts revenue of nearer £290,000 plus GST if the full rate of duty is applied to both petrol and diesel.**
- Apart from the direct loss of fuel sales, there would be additional knock-on impacts for the marine trade, as well as other industry sectors that depend to some extent on revenue from resident boat owners and visiting craft. The marine leisure industry in Jersey already has high operating costs associated with wages and land rental, and is susceptible to small changes in demand and cost. A fall in profits and employee levels for these businesses would result in lower tax take for the Treasury.
- With a fall in the volume of marine fuel sold, **Jersey Harbours** would lose revenue directly from fuel landing dues and fuel sales, but also potentially from fewer local boat owners, fewer visiting craft and less usage of Jersey Harbours' facilities such as the hoists and the boat park at La Collette. If fuel sales are halved and 1,000 fewer boats visit Jersey, **this alone would result in an estimated revenue loss for Jersey Harbours of over £70,000 from fuel revenue and marina fees alone.** Furthermore, the non-resident boats currently moored in St. Helier marinas may choose to berth elsewhere, as well as other local boat owners, resulting in a significant fall in permanent marina dues.
- There would also be **extra costs to the States in terms of duty collection, policing and administration.** The distinction between duty free fuel for commercial boats and duty-paid fuel for leisure use (if commercial craft remain exempt) would be difficult and costly to administer and police. Fuel concessions would not be likely to install separate fuel tanks for dyed fuel and duty-paid fuel due to the reduced profitability and viability of the fuel operations. Rather than relying on coloured fuel for commercial craft, a drawback scheme similar to that operated for water-based petrol craft, would have to be administered and checked, **thus incurring a cost to the States in administration.** With the introduction of a reduced rate of duty in Guernsey, marine petrol is now dyed. Random checks are now necessary on land to ensure that the cheaper marine petrol is not being used in other vehicles.

2.2 Impact on Supply

- Following the verbal commitment in 2006 that the issue of duty on marine fuel would not be reviewed for at least 5 years, the main marine fuel companies have invested significant amounts of money (**over £700,000**) to provide improved services and competitively priced fuel to both local boat owners and visiting craft. Introducing any fuel duty will impact significantly on the long term business plans that made these significant infrastructure developments viable and the pay back period would be increased. The expected fall in demand as a result of increasing duty on marine fuel would make the current year-round provision of quayside fuelling facilities less viable and may result in more limited opening hours in St. Helier, particularly during the less busy and less profitable winter months. Pleasure boat owners may look to fill up cans from petrol forecourts if there is a price differential. While this may have the same result in terms of revenue for the States, it represents an environmental hazard.
- The fuel concession at Gorey is particularly vulnerable to a downturn in visiting craft and would be threatened by closure. There would be an associated impact on other businesses and resident boat owners in Gorey if this concession were to close.

2.3 Impact on Health and Safety and the Environment

- With a potential reduction in supply, together with petrol station forecourt prices being cheaper, it is likely that there would be an increase in carriage of fuel in cans to decant into boats' fuel tanks. **This holds serious health and safety implications**, with cans being filled from forecourts, transported to harbours and marinas, transported down steep ramps, or rowed across to boats at anchor or on moorings.
- Beyond the safety risks, there is also **an increased possibility of fuel leakage into the marinas and harbours** during the filling process, thus increasing the pollution risk.

2.4 Social Impact

- As recognised by the UK Government in their decision to apply for an extension of derogation on fuel duty relief, applying the full rate of marine diesel duty would result in a disproportionate decline in boat usage amongst the less affluent sector of the boating community. **Many local residents who enjoy boating as their main leisure pursuit would be forced to reconsider this activity as an affordable hobby.**
- The local marine trade consists of a wide range of skilled, local workers, many of whom would have their jobs threatened by a reduction in resident boat usage and the number of visiting craft. Working with Jersey Harbours, many initiatives have been introduced by the Marine Leisure Growth Group to allow the marine leisure industry to grow over the medium to long term, and the introduction of duty on marine fuel could have the potential to negate the impact of any positive initiatives undertaken so far. Without growth it would be less likely that Jersey's marine industry could justify taking on additional local employees and apprenticeships.

3. Fuel Prices and the Competitive Environment

- For marine **petrol**, Jersey currently has the lowest marine fuel prices in the region (Brittany, Normandy, South Coast UK and other Channel Islands) and has benefitted from this competitive advantage in 2008. The UK and France apply the full rate of duty to marine petrol, whereas Guernsey applies a reduced rate of duty to marine petrol of 14p less than the full rate of duty, which is currently 31p. For direct comparison, in January marine petrol at St. Peter Port sold for 63p per litre compared to 55p per litre in Jersey. Taking away the duty charge for Guernsey shows a price of 46p per litre and taking away Jersey Harbour's concession charge of 4.5p, GST of 1.65p and 0.3p per litre for the incremental cost of offloading dues in Jersey shows a price of 48.55p per litre (2.55p more than the untaxed cost at St. Peter Port). The small difference between the Islands can be accounted for by the large infrastructure and ongoing cost of the Jersey operation. Taking into account the current extra charges and taxes that exist in Jersey, fuel duty could be applied to marine petrol at 10.55p per litre to create a level amount of duty/taxation to Guernsey's 17p per litre. **This would only result in duty revenue of £46,300 based upon 2008 levels of marine petrol remaining constant.**
- For marine **diesel**, Jersey now enjoys significantly cheaper prices than in France or the UK, but is already at a competitive disadvantage compared to Guernsey and Alderney where duty is not applied. In January, marine diesel at St. Peter Port sold for 56p per litre compared to 55.5p per litre in Jersey. However, diesel at St. Peter Port was generally sold for 3.8p per litre cheaper than in Jersey throughout 2008. This 3.8p differential is easily accounted for by the additional current charges in Jersey of 4.5p per litre to Jersey Harbours, GST and the incremental cost of offloading. **For Jersey to remain competitive with Guernsey and Alderney, no duty should be applied to marine diesel**, which constituted 70% of the volume of marine fuel sold in 2008.
- The above would indicate that Jersey, at the retail level, sells marine fuel at competitive prices bearing in mind infrastructure and ongoing costs, as well as the very seasonal and unpredictable nature of marine fuel sales. At the wholesale level, a report written for the States of Jersey in 2004 by James Milne to review arrangements for the importation, storage and supply of petroleum products in Jersey highlighted the higher supply costs of providing fuel services in Jersey and concluded that there was **"no evidence of oil company profiteering at Islanders' expense"**.

Conclusion

Jersey's marine leisure industry has been one of Jersey's economic success stories, providing many residents with their livelihood and serving a traditional passion for the sea that Jersey has enjoyed over the centuries. The current economic climate makes trading conditions very difficult and, as with most industries, there is a fragile barrier between success and failure. **At a difficult time when States policies should be helping to support local businesses and employment as much as possible**, any policies that impact upon Jersey's competitiveness could easily turn around the success story of Jersey marine leisure industry to the detriment of local and visiting boat owners.

Jersey's status as a tax-free Island has been almost completely eroded for the Tourism industry, but the continuing tax-free status of marine fuel has provided Jersey with a unique selling point when marketing the Island to foreign boat owners. If anything, **in order to diversify the economy and stimulate overall economic growth and employment opportunities, Jersey should be taking advantage of this selling point and looking at ways of reducing the cost of fuel to further encourage and stimulate the marine leisure industry.** There would appear to be a contradiction in policy when the States of Jersey is investing itself, as well as encouraging private investment, in new marina facilities and Boat Shows to take advantage of the future growth of the boating leisure market, while at the same time considering a very damaging policy that would negate the work undertaken in other areas to promote the leisure boating market.

The extra business that might be generated through actively developing and promoting Jersey's marine leisure industry may provide direct and indirect revenues far in excess of the perceived amount gained by applying fuel duty. If Jersey is to remain competitive within the region, then no duty should be applied to marine diesel and a maximum of 10.55p per litre could be added to marine petrol, which would not generate significant amounts of additional revenue.

It is our strong belief that applying fuel duty **at any level** would have a negative impact on the level of boat ownership and usage and the number of visiting craft. This would have a negative knock-on impact on the volume of fuel sales as well as on marine traders directly and other associated industries as a whole.

These negative impacts would far outweigh any financial benefits to the Treasury and there would also be associated compliance, safety and environmental issues to consider.

References

- States of Jersey Draft Budget Statement 2009
- States of Jersey Strategic Plan 2005 to 2010
- Jersey Harbours Business Plan 2006 - 2008
- Harbours and Airport Committee Strategic Report 2006 – 2015
- Jersey Harbours Boat Users Survey 2005
- Jersey Harbours Visiting Yachts Survey 2007
- Jersey Harbours Berth Holders Survey 2008
- The Marine Industry in Jersey's Economy – States Statistics Unit 2002
- Seeing Red – Campaign for the retention of the current derogation on red diesel – The RYA July 2005
- Review of the Current Arrangements for the Importation, Storage and Supply of Petroleum Products to the Distribution and Retail System in Jersey – James Milne 2004
- Partial Regulatory Impact Assessment for hydrocarbon oils duty – Expiry of Derogation – HM Revenue and Customs

This document represents the views of, and is endorsed by, the following Marine Traders, Clubs and Associations:

Bonne Nuit Boat Owners Association
Bouley Bay Boat Owners Association
Greve de Lecq Boat Owners Association
La Rocque Boat Owners Association
Gorey Boat Owners Association
St. Helier Boat Owners Association
St. Aubin Boat Owners Association
St. Helier Yacht Club
Royal Channel Islands Yacht Club

CI Boat Sales
CI Marine
Fairline CI
Freeport Marine
Gorey Marine Fuel Supplies
Premier Service Marine
Rosden Glassfibre
South Pier Marine
Jersey Marine Traders Federation