

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

## Facts and Figures to consider when debating the introduction of duty on marine fuel

### 1. Background

The matter of duty free petrol for marine use was first considered by a Fiscal Review Working Group in 1998 but, following strong representations, it was decided to postpone indefinitely the removal of duty relief on marine petrol. In 2001 the introduction of a petrol duty refund scheme for commercial marine operators such as shore-based water sport centres was further approved. Applying duty to marine diesel, as well as marine petrol, was not considered by the Working Group back in 1998.

The issue was revisited in 2006, when 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. Again, following strong arguments against the introduction of duty on marine fuel, the States decided not to add duty in the 2007 budget with the Treasury Minister commenting:

*"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. The business plans for these large investments were made on the basis of forecast growth in the volume and value of marine fuel sales, with a payback period over many years.

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 currently 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.

Combined with Jersey's well developed infrastructure, its ideal geographical position and outstanding coastal surroundings, relatively cheaper fuel prices have helped Jersey to achieve a vibrant marine leisure industry. With several marina developments planned for the nearby French coast, as well as newly proposed marinas for both Guernsey and Jersey, the opportunities for further growing Jersey's marine leisure industry are very positive and have been recognised by Jersey Harbours in both their Strategic and Business Plans.

It is understood that, despite verbal commitments made in 2006, the Council of Ministers is again considering the introduction of duty on marine fuel in the States budget for 2009, but this time without allowing States members the benefit of being informed on the merits and drawbacks through a public consultation process. While the economic, fiscal and competitive environments have obviously changed since 2006, the fundamental arguments against the introduction of duty on marine fuel remain the same.

The Jersey Boat Owners and Marine Trade Working Party on Fuel Duty is therefore submitting this updated document, first issued in 2006, to inform States members of the potential impacts of applying duty to marine fuel.

## 2. The arguments for and against

At first glance, it may seem a reasonable and fair measure to withdraw fuel duty relief on both petrol and diesel and there are, indeed, some strong arguments in favour of this. These might include:

- An additional States revenue, on top of the GST already earned on fuel sales
- No discrimination between pleasure boat users and users of other vehicles (apart from private aircraft owners who still benefit from relief on duty on aircraft fuel)
- No discrimination between pleasure craft with diesel or petrol engines
- No change for the local fishing or tourism industries as commercial marine operators will presumably continue to benefit from relief on duty
- A positive environmental impact through reduced use of marine fuel
- Less fraudulent diversion of duty free fuel for road use

If the 2009 full rate of duty for both diesel and petrol of 40.92p per litre were to be applied to the total volume of marine fuel sales in 2008, this would result in estimated additional revenues of £583,100, on top of the revenue generated through GST and Jersey Harbour's rental commission. However, application of the full rate of duty would render pump prices in Jersey significantly more expensive than in Guernsey and would also make petrol station forecourt prices cheaper than filling up at the quayside marine fuel concessions. Boat usage is certainly not essential and is very price-sensitive – particularly in the current economic climate. Having experienced a large fall in the volume of marine fuel sales in summer 2008, when prices rose significantly, it is very unlikely that volume sales would remain constant if prices increased as a result of duty being applied.

While there are some perceived advantages, it must at the same time be recognised that there are also potential adverse effects on boat owners and the economy surrounding the marine leisure industry. These might include:

- A reduction in local boat ownership (impacting Jersey Harbours and the marine trade primarily)
- Quayside availability of fuel due to commercial viability (particularly at Gorey)
- The environment and safety due to increased fuel being transported by cans from petrol stations
- Administration of fuel duty relief if commercial operators require drawback facilities
- The number of visiting craft and their associated expenditure within Jersey
- Resultant overall States revenue due to competition from other jurisdictions

**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 would be far outweighed by the negative impacts on the marine leisure and other associated industries in Jersey.**

The introduction of any fuel duty would undoubtedly inhibit the continuing growth of Jersey's marine leisure industry, at a time when growing and diversifying the local economy are set out as key priorities in the overall strategic aims of Jersey's Strategic and Economic Development Plans. Moreover, Jersey's marine leisure industry, although going through the difficulties of the current economic climate, is set to benefit in the longer term from the growth in the marine leisure industry as a whole, but in particular from the current and future growth around Jersey's surrounding coastlines.

This document sets the context within which marine fuel duty is being considered and goes on to argue the points against removal of duty relief.

### 3. Setting the Scene

#### 3.1 The Marine Leisure Industry in Jersey

Jersey has a strong maritime heritage and has benefitted from a vibrant and expanding marine leisure industry which is indigenous to Jersey and is enjoyed by a wide variety of Island residents. For many, boating is a main leisure pursuit and is by no means the domain of the affluent. As in the UK, the majority of boat owners are not wealthy individuals with large yachts but ordinary, middle-income earners who save hard to pursue their hobby.

One of the action points in the States Strategic Plan 2005-2010 is to increase participation rates in cultural and leisure activities, and with Jersey being an Island, there are many leisure activities that are based around the sea. With such a large and free natural resource surrounding Jersey, policies should therefore aim to develop rather than inhibit growth in marine leisure pursuits.

Although not all registered craft are in regular use, there are nearly 5,600 water craft registered in Jersey, over 5,000 of which are estimated to require either petrol or diesel to some extent. The majority of boats are less than 8 metres in length, many of which are small speedboats. The table below illustrates the relatively minor number of large motor cruisers compared to boats of less than 8 metres in length.

#### Breakdown of registered boats, excluding rowing boats, surf craft and sail boards.

Type of boat	< 6 metre	6-8 metre	8-10 metre	10-12 metre	> 12 metre	Total
Fast fish	68	15	8			91
Motor boat	834	171	240	187	289	1,721
Sail/Motor sail	750	183	200	161	138	1,432
Speedboat/Rigid inflatable	1,413	502	109	9	5	2,038
Scooter	306	4				310
<b>Total</b>	<b>3,371</b>	<b>875</b>	<b>557</b>	<b>357</b>	<b>432</b>	<b>5,592</b>

#### Source: Jersey Harbours

Participation in boating ranges from youngsters enjoying their first experience of boating, to working families who use their boats to visit the other islands and the nearby French coast, to people who enjoy fishing and keep a few lobster pots, to large motor cruisers, to water and jet skiers, to recreational and competitive sailors. The majority of water craft are small and are used predominantly around Jersey's immediate coastal waters, whereas the larger yachts and motor cruisers, which use more fuel, are more likely to make passages across to the other islands and the French coast.

A survey of boat owners undertaken in 2005 showed that 63% of boats are in commission or in use year-round, with an average use of 48 days throughout the year. The same survey showed that 57% of boat owners make passages across to the other islands, France or further afield, with motor cruisers and larger boats being more likely to do so. While the 2005 Survey represented a random sample of all boat owners, including those who keep their boats out of the water, a further survey of marina berth and mooring holders in 2008 showed that 80% of boats on moorings or in marinas are in use year-round. These results would indicate a keen and enthusiastic local boating community, whose participation rates would potentially be under threat if running costs were to increase significantly.

**Those who would suffer most from increased fuel costs would be those who do not have large fuel tanks enabling them to fuel up at duty free and cheaper ports such as Guernsey.** For some, the costs of maintaining a boat are a major leisure expenditure, and significant increases in this cost would inevitably lead to a number having to give up their hobby of boating. When the RYA conducted a survey of recreational boat owners in 2003/4 to gauge their likely reaction to price increases in marine diesel, over half agreed that they 'would or may' give up boating altogether. Although some may indeed leave boating altogether, the more likely scenario is a curtailment of boating activity, resulting in reduced volume sales of marine fuel. It is too early to assess the actual impact on the UK's marine leisure industry as a result of the EU's imposition of full duty on marine diesel.

A significant business sector has developed to serve the needs of boat users, and a proportion of Jersey Harbours' revenue is generated from the continuing success of the marine leisure industry; either direct from boat owners and visiting craft, or from the businesses that rely upon harbour facilities and assets. Jersey Harbours is actively supporting the continued development of the marine leisure industry, from which it stands to gain increasing revenue.

Jersey currently has 3 marinas which provide berthing for circ. 800 local craft, of which circ. 50 craft are owned by non-residents. The marinas also play host to circ. 5,300 visiting craft per year. Additionally, around 1,200 boats are moored in the various harbours around Jersey's coast and many of the smaller speedboats are transported by trailer for launching.

### **3.2 The Marine Leisure Industry within Jersey's Economy**

The States Strategic Plan aims to achieve real economic growth across the breadth of the economy and specifically mentions promoting the tourism industry and providing diverse employment opportunities for local people. While Jersey's spiralling costs have almost certainly contributed to the decline in Jersey's tourism industry, the marine leisure industry, albeit on a relatively small scale, has been one of Jersey's economic success stories.

A study undertaken by the States Statistics Unit showed that turnover within the marine leisure industry had increased by 68% from £14.134m in 1998 to £23.808m in 2001, and staff numbers had increased from 327 to 371. Many of the jobs within the marine leisure industry are skilled and highly trained, providing apprenticeships for young local people to join the marine trade. These skills are not directly transferable to other industry sectors.

Beyond those businesses directly involved in the marine trade, many more businesses are reliant to some extent as secondary suppliers and also benefit from the expenditure of visiting craft.

Since 2001, employment and turnover are likely to have further increased. A large number of resident livelihoods are therefore dependent upon the marine leisure industry, and a significant reduction in the number of local boat owners and visiting craft would have a negative impact on the profitability of businesses involved either directly or indirectly in the marine trade. This would inevitably lead to job losses, fewer apprentices being taken on and some businesses leaving the industry.

The local businesses that provide quayside fuel for marine craft also provide a range of additional marine services such as marine chandlery, boat brokerage and boat maintenance. If the profits from fuel sales are reduced due to a fall in volume sales then this will not only directly impact on the fuelling element of the business, but also across the whole scope of their business activities.

### **3.3 The Marine Leisure Industry and Jersey Harbours**

The growing popularity of boating as a major leisure activity has provided Jersey Harbours with one of its main areas of growth, with revenue from this sector doubling over the past 10 years (Jersey Harbours Business Plan 2006 – 2008).

Jersey Harbours derives revenue from providing berths and moorings for both local and visiting craft, as well as other facilities for boat owners and marine trade businesses. It has invested heavily in providing the necessary infrastructure to support the growing marine leisure industry, with many of these assets being paid back over a long term period. It also gains revenue from land rental charges to marine trade businesses.

Jersey Harbours gains revenue directly from marine fuel sales by charging for the discharge of fuel tankers, as well as levying a current charge in 2009 of 4.5p per litre to fuel concessionaires. The landing costs for fuel are based upon tonnage and are significantly more expensive than in other ports. The additional 4.3p per litre charged to concessionaires in 2008 generated revenue of £61,300.

Any downturn in fuel sales, the ownership and use of local craft and the number of visiting craft will have a major impact on Jersey Harbours' revenue streams, which could result in higher charges for those using facilities or a scaling down of service provision, therefore further impacting upon the remaining boat owners and marine traders.

## 4. Visiting Craft and Future Potential

### 4.1 Visiting Craft

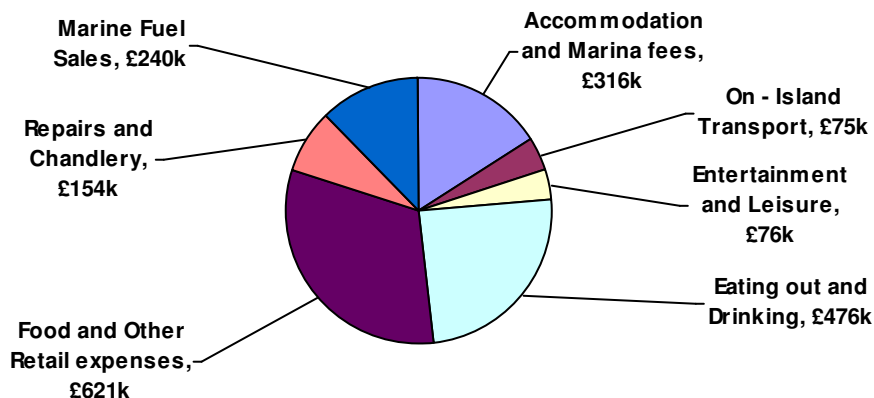
Jersey attracted 5,270 visiting craft staying in the St Helier marinas in 2008. 2,993 of these were French, 1,465 were from the UK, 458 were from Guernsey and 354 were from other, mainly European, countries.

In 2008, there were 19,920 visiting yachtsmen staying overnight in Jersey's marinas for an average of 2.4 days. Their associated on-Island expenditure, including fuel purchases, was £1.96 million. Based upon a Visiting Yachts Survey undertaken in 2007, the average on-Island spend per visiting yachtsman in 2008 was estimated at £98.27. The marine leisure industry therefore provides a significant export earning for Jersey and GST income alone from the direct expenditure of visiting yachtsmen contributes in excess of £50,000.

The number of visiting craft to other ports around Jersey, as well as boats visiting for the day, is not known, so the true value of the visiting yacht market is an underestimate. The Gorey fuel concessionaire indicates that a large number of motor and speed boats visit Gorey, primarily from France, many of which specifically visit to benefit from Jersey's low fuel costs.

Jersey Harbours benefits from marina charges and fuel sales, but apart from the direct expenditure on berthing and refuelling their boats, visiting yachtsmen also spend money with the marine chandlers, often have equipment fitted or serviced, and also spend significant amounts on other industry sectors as part of their stay in Jersey. The highest per person spend is on retail and eating out and drinking; another export earning and economic benefit to Jersey.

#### Breakdown of visiting yacht expenditure 2008



Source: 2007 Visiting Yachts Survey, reflatd to 2008 prices

From the survey, over 40% of visiting craft purchased marine fuel whilst in Jersey. Based upon the survey results, the estimated volume of fuel sales (excluding Gorey) to visiting craft in 2008 was 330,000 litres. This represents 27% of the total volume of marine fuel sales in St. Helier, demonstrating the significant attraction to visiting craft of refuelling in Jersey.

In addition, it is estimated that over 50% of fuel sales at Gorey are to visiting craft, and most of these are to motor/speed boats who would probably not visit Gorey without the attraction of cheaper fuel prices. Marine petrol sales are particularly important at Gorey, where the price is more competitive than in Guernsey now that a reduced rate of duty has been added to Guernsey's marine petrol.

It is therefore estimated that, in total, 430,000 litres of fuel in 2008 could be accounted for from sales to visiting craft (30% of total fuel sales).

**Jersey's current low fuel prices are a strong selling point when marketing the Island to foreign yachtsmen, and this message has been strongly promoted in national boating magazines and at Boat Shows. Furthermore, Jersey generates free publicity in major boating magazines as a result of its current duty-free status. Motor boat rallies are already confirmed and are being promoted nationally for this summer, with Jersey being specifically chosen due to its duty-free fuel status. In the current recession, and with the strength of the Euro, Jersey's comparatively low rates for fuel could represent a rare opportunity to actually gain some market share of the region's boating market.**

## 4.2 Expansion of Marina Facilities around Jersey's Surrounding Coastlines

Realising the growth potential of the marine leisure industry and seeking to capitalise on this to boost their local economies, new marina facilities are being planned or built at Carteret, Portbail, Granville and Guernsey. Jersey, and Gorey in particular, is potentially set to benefit from a rise in visiting craft unless it loses its competitive appeal to other jurisdictions such as Guernsey.

Jersey also has early development plans at a consultative stage for new marinas, but a loss of competitive advantage that may stifle demand from local and visiting craft would make these developments less attractive to private investors, and potentially unviable.

## 4. Fuel Prices and Competition

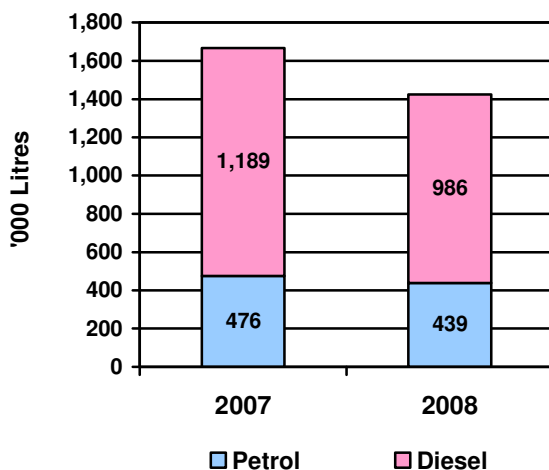
### 4.1 The Relationship between Fuel Prices and Sales

It is estimated that if the full rate of duty (40.92p in 2009) had been applied to the total 2008 volume of fuel sales (1,425,000 Litres) this would have resulted in £583,100 of duty revenue. £403,400 would have come from sales of diesel and £179,700 from sales of petrol. However, these estimates do not take into account sales to the circ. 150 commercial craft that would presumably be exempt from any proposed impôts duty and who currently buy fuel from the quayside concessions, so the actual amount would be less than £583,100 at constant volumes.

Irrespective of duty, although prices have recently come down significantly since summer 2008, the longer term trend is upward and fuel prices have increased significantly over recent years. A negative correlation already exists between the volume of fuel sold and the increases in price seen in recent years. Between 2007 and 2008, the average price of marine fuel rose by 50% from 48p per litre to 73p per litre. The volume of fuel sales fell by over 14% over the same period. The volume of marine fuel sales has actually fallen by 24% over the past 2 years, having already fallen prior to 2006 in line with price increases. The revenue generated through sales has remained relatively constant due to the increased prices, but revenue to Jersey Harbours, which is based on volume, has fallen.

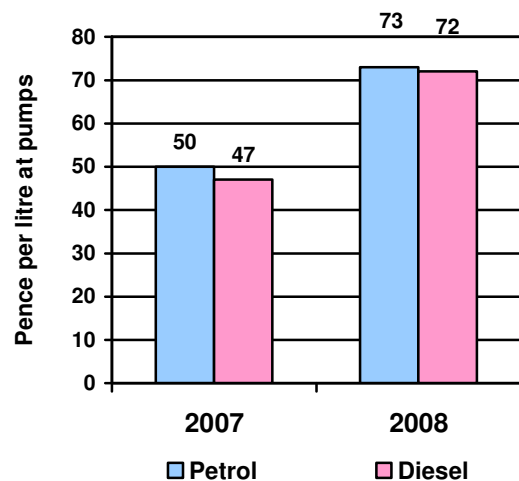
The introduction of GST in 2008 already accounts for additional direct States revenue from marine fuel sales of over £30,000.

**Volumes of marine fuel sold 2007 vs. 2008**



Source: Fuel Suppliers

**Price per litre of marine fuel 2007 vs. 2008**



Source: Jersey Harbours and Fuel Suppliers

**N.b.** Figures represent a weighted average of Jersey's marine fuel supplier prices over the year

Applying a rate of duty of 40.92p per litre to marine fuel would further increase the current prices of marine petrol and diesel by over 70% to circ. 96p per litre. GST would be further charged on top of the duty, raising retail pump prices even higher. These prices would represent a premium of over 20% higher than the peak of the fuel prices in summer 2008. As a negative correlation already exists, the volume of sales would almost certainly fall from current levels **by at least 30%**, even if competition did not exist from other jurisdictions.

However, if Jersey did apply a rate of duty of 40.92p, it would also become very uncompetitive with Guernsey and Alderney, and nearly on a par with the UK and France (France currently being so expensive due to the strength of the Euro). The fall in volume sales is therefore likely to be exacerbated and far in excess of the 30% mentioned above. Discussions with the fuel concessionaires suggest an estimated fall of 50% in sales, although it is far from certain that all concessions would remain, or provide the same level of year-round service as at present. There would certainly be little attraction to refuel in Jersey for visiting craft, which are estimated to have accounted for 430,000 litres of fuel sold in 2008.

Many boat owners who run their boats on a limited budget have already found that their usage has been curtailed and this trend would be likely to continue with increased usage cost.

While the overall value of sales may increase due to the price increases, the volume sold to which impôts duty would be applied would decrease, thus generating significantly less revenue than applying a duty figure to the previous year's volume. If the total volume of fuel sold reduced by 50% on 2008 levels, then the anticipated revenue from duty would be more likely to be around the £285k level, also bearing in mind a proportion of fuel sales to commercial operators.

## 4.2 Competing Jurisdictions and Source Markets

It may not necessarily be referring to the marine leisure industry, but another action point within the States Strategic Plan is to sustain a competitive low tax environment. Applying fuel duty would certainly not do anything to improve Jersey's competitiveness in the marine leisure industry.

### Jersey

In Jersey, diesel in January 2009 was selling for an average of 55.5 per litre at the quayside pumps and petrol was selling for 55p per litre. Applying the full rate of duty, and including GST, would result in diesel and petrol prices of circ. 97p per litre, thus rendering quayside pump prices more expensive than Jersey's petrol station forecourt prices. The main reason for the incremental cost above petrol station costs is the current 4.5p per litre charge to Jersey Harbours.

The most recent RPI figures in December 2008 showed average diesel prices of 97.5p per litre at Jersey's forecourts. The average price for marine diesel in December 2008 was 64p per litre, 4.3p of which was a contribution to Jersey Harbours. This shows that with duty added, marine diesel sells for just 2.5p more than diesel sold at Jersey's forecourts. The average price for unleaded petrol at Jersey's forecourts in December 2008 was 85p per litre, compared to a price for marine petrol of 57.5p. Taking away the Jersey Harbours contribution and adding duty shows that marine petrol sells for approximately 8.5p more than petrol sold at Jersey's forecourts. When comparing prices between Jersey's forecourts and the marine fuel concessions, this should be considered in the context of volumes sold, operating costs, constant, year-round business and infrastructure investment. Bearing this in mind, **there would not appear to be evidence of excessive profiteering from the marine fuel retailers.**

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. In particular, Jersey Harbours' dues for landed cargoes of petroleum products were considerably higher than comparable rates in the UK. The current offloading dues are £8.06 per tonne in Jersey, which equates to 0.597p per litre of petrol and 0.683p per litre of diesel. Guernsey's offloading dues are currently £4.05 per tonne, which equates to 0.3p per litre for petrol and 0.343p per litre for diesel. From a fuel supplier's view point, Jersey already starts at a competitive disadvantage, and the Milne report concluded that there was "**no evidence of oil company profiteering at Islanders' expense**".

### Guernsey and Alderney

In January 2009, the retail price of diesel at the quayside in St Peter Port was 56p per litre, at Beaucette marina it was 46p per litre and by road tanker at St. Sampson it was 42.4p per litre (based upon at least 450L). The marine petrol retail price at St. Peter Port in December 2008 (to which a reduced rate of duty of 17p per litre is applied) was 66p per litre. The price of marine petrol is currently 63p per litre at St. Peter Port, although again marine petrol can be purchased at a cheaper rate of 41p per litre direct from the road tanker at St. Sampson.

From January 2008, duty has been applied to petrol for marine use at a rate of 14p less than the rate applicable for all other uses. The Guernsey & Alderney Excise Rate for petrol from 7<sup>th</sup> November 2008 is 31p, so duty on marine petrol is currently 17p per litre. **Guernsey does not currently apply any duty to marine diesel.**

In Guernsey, it is possible to purchase diesel direct from fuel tankers if ordered in advance, and if taking at least 450L, at St Sampson for a much reduced cost. **Jersey already finds itself at a competitive disadvantage to Guernsey with regard to marine diesel prices** and a number of local boats with large tanks already find it worthwhile to make the trip to Guernsey to refuel.

Guernsey also offers a more competitive option for visiting craft and hence enjoys a thriving marine industry with a larger number of visiting craft. Increasing the differential in fuel price would inevitably lead to more local boat owners travelling to Guernsey to refuel and Guernsey would also attract a growing proportion of visiting craft that currently choose to visit Jersey.

In February 2009, Alderney offered duty-free marine diesel at 46p per litre and petrol at 49.6p per litre; again much more competitive prices than in Jersey.

## **France**

Marine pleasure craft in France can only buy duty paid fuel and, as at January 2009, diesel was selling at €1.217 per litre with duty included (£1.09 using the January exchange rate of 1.12). The average price per litre for petrol is currently €1.21 or £1.08. From being significantly cheaper, adding 40.92p per litre would make Jersey nearly as expensive as France. This would almost certainly result in a significant withdrawal from refuelling in Jersey unless absolutely necessary and would encourage many more French boats to visit Guernsey as a cheaper alternative.

## **UK**

As of November 2008, the UK lost its derogation (exemption) from EU regulations that allowed marine diesel to be supplied to pleasure craft at a large discount rate for excise duty. Marine petrol was already sold with full duty applied. In January 2009, the average price per litre of diesel available to private pleasure craft along the South Coast of England was £1.00 and the average price per litre of petrol was £1.10. With full duty applied, Jersey would become similarly priced as the UK for both fuels and Guernsey and Alderney would benefit from increased visits from larger diesel and petrol motor boats crossing the Channel, who would almost certainly choose to visit and refuel in those Islands rather than stop over in Jersey.

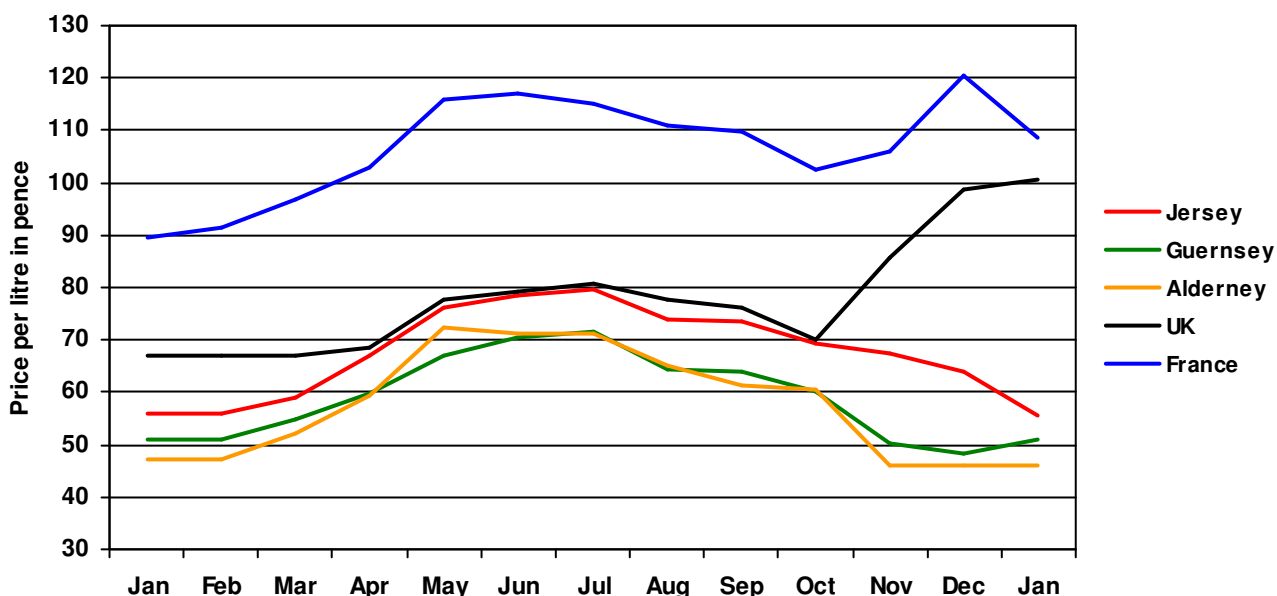
Since the loss of its derogation, the UK has introduced a complicated process whereby a proportion of diesel purchased is defined as being for vessel propulsion and a proportion for domestic purposes such as heating, lighting and running navigational aids and other equipment. The nominal ratio for the split is 60:40. Fuel used for propulsion is subject to the full rate of duty of 50.35p per litre but a reduced rate of VAT of 5%. Fuel used for domestic purposes continues to receive the rebated rate of duty of 10.07p per litre. When recreational boaters buy diesel, they now have to declare what percentage of the fuel will be used for propulsion. The administration of such a complicated system is not unsubstantial and incurs administrative costs by both the suppliers and the authorities!

The UK Government fought hard against the loss of the derogation arguing that with the costs of compliance and the negative environmental, social and market effects, it would be counter-productive to introduce an increased rate of duty on marine diesel. Having lost the case to Brussels, it is too early to determine the impact on the UK's marine leisure industry but, as part of their findings, the UK Government argued that adding duty to the cost of marine diesel would push the cost of boating out of the reach of a significant proportion of boat owners. The reasons set forward in their market analysis are just as appropriate to Jersey as the UK.

**Rather than the Channel Islands falling into line and following suit, competitive marine fuel prices would offer a fantastic opportunity to attract additional visitor expenditure from the UK.**



### Comparative marine diesel prices by month – January 2008 to January 2009



Source: Jersey Harbours (an average taken over several suppliers for each destination)

N.b. French prices have been converted to sterling using the exchange rate relevant to each month

N.b. The average prices for Guernsey are lower by the inclusion of the lower costs of filling up direct from the St. Sampson's tanker in the average figure.

For marine diesel, the above illustrates how Jersey has been less competitive throughout 2008 than both Guernsey and Alderney, mainly due to the 4.3p commission charge and GST, but has been much more competitive than France. Jersey diesel prices were at a similar rate to the UK in the summer of 2008, but have become significantly more competitive since the UK lost its derogation on marine diesel duty in November.

For marine petrol, Jersey has been more competitive than the UK and France for some years, but has only recently, since the start of 2008 when Guernsey introduced a reduced rate of duty on marine petrol, become more competitive than Guernsey. **The price differential is currently 8p per litre.** In 2008, while the volume of marine diesel sold fell by 17% the volume of marine petrol sold only fell by 8%. Due to the high fuel prices in summer 2008, the value of sales for marine diesel increased by 27%, while the value of sales of marine petrol increased by 34%. For Gorey specifically, although there was again a fall in the volume of marine diesel sold, the volume of marine petrol sold actually increased by 12% despite the price rises, with a resultant increase in the value of sales of 45%. This was largely due to an increase in the number of visiting French craft from nearby ports choosing to visit Jersey to refuel, rather than Guernsey which had become more expensive when the reduced rate of duty was added. While there may be other external factors affecting sales of marine petrol, there is some evidence here that by maintaining a competitive edge over other competing jurisdictions in the area, Jersey can actually increase sales and the volume of visiting craft.

If the duty of 17p is removed from the current price of marine petrol at St. Peter Port (63p), this would result in a price per litre of 46p. If the 4.5p currently charged per litre by Jersey Harbours as well as GST are removed from the current Jersey price of marine petrol (55p), this would result in a price per litre of 49p.

For Jersey to charge the same overall taxes, charges and duty as Guernsey on marine petrol, this would result in a rate of duty in Jersey of:

**17p (Guernsey rate of duty) - 4.5p (current Jersey Harbours charge to concessionaires) - 1.65p (GST) - 0.3p (difference in offloading dues) = circ. 10.55p per litre.**

Therefore, for Jersey to remain price competitive, **no duty** should be added to marine diesel (as Jersey already finds itself less competitive), and the **rate of duty applicable to marine petrol should not exceed 10.55p per litre.**

In the above scenario, based upon the volume of marine diesel and petrol sold in 2008 remaining constant, the total duty revenue to the States **would only be £46,300**, plus a small amount of additional GST on the duty increase. This would represent a relatively small amount for the administrative effort involved and the potential impacts on suppliers, boat owners and visiting craft.

## 5. The Impacts

### 5.1 Economic Impact

- Estimating duty revenues (a maximum of £583,100 if full duty is applied to both diesel and petrol for leisure and commercial users) based upon fuel sale volumes remaining constant at 2008 levels would be inaccurate. A negative correlation exists between volume sales and price increases, and Jersey is already less competitive than Guernsey and Alderney for diesel, which comprises 70% of marine fuel sales. 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.
- If Jersey levied a rate of 40.92p per litre, this would make it the most expensive place to refuel in the Channel Islands. There would be little reason for visiting craft to refuel in Jersey, so a large proportion of the estimated 430,000 litres sold to visiting craft would no longer be sold. Indeed, many visiting craft would cease visiting Jersey altogether in preference for Guernsey where diesel fuel would remain free of duty. For French boats, there would be little incentive to visit Jersey specifically to refuel.
- **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. 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%.
- Given such a significant fall in demand, the year-round supply of fuel would be likely to be affected and the concession at Gorey would almost certainly become unviable.
- Given 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 rather than the £583,100.**
- 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.
- 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.** 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.
- 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 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 dyed. Random checks are now necessary on land to ensure that the cheaper marine petrol is not being used in other vehicles.

## 5.2 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**. 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.
- The downturn in fuel sales may result in more limited opening hours in St. Helier, particularly during the less busy and less profitable winter months.
- As stated in the previous section, the fuel concessions would be very unlikely to install separate tanks for fuel sold to commercial craft and would probably concentrate on leisure craft only. Those commercial craft (circ. 150) that run on petrol would not be able to refuel at the fisherman's quay in La Collette which only supplies marine diesel and would not be able to benefit from duty-free fuel at other quayside fuelling points unless a drawback scheme was put in place and monitored.

## 5.3 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 and countering another Strategic Plan objective to reduce the number of pollution incidents and reduce the general level of pollution.
- For those boats not wishing to refuel in Jersey due to the cost, there would be an increased risk of boats setting out on passages with insufficient fuel for the journey, in the hope that they can completely refuel in a cheaper ports. While it is the responsibility of boat owners to make sure that they have sufficient fuel on board for a passage, the reality is that there are likely to be more incidences of boats being stranded, incurring a cost in rescue.

## 5.4 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.

## 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.**

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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