



The Jersey Chamber of Commerce

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Deputy J. Le Fondré Esq.
Chairman,
Corporate Services Scrutiny Panel,
Scrutiny Office,
States Greffe,
Morier House,
St. Helier.
Jersey. JE1 1DD.

5th January 2015.

Dear Deputy Le Fondré,

REVIEW INTO DRAFT BUDGET (2015) AND MEDIUM-TERM FINANCIAL PLAN (2016 – 2019.)

Thank you for your letter dated 12th December, 2014, setting out the objectives of the Corporate Services Scrutiny Panel in relation to its review of the Medium-Term Financial Plan.

In your letter, you state that you are seeking “views or information relating to how you view your industry’s growth on the Island in the next 5 years.” In light of the fact that the Chamber of Commerce is a representative organisation, the members of which are engaged in a diverse range of industry sectors, I have endeavoured to solicit views from the Chairpersons of our various Sub-Committees, since these cover most of the major industry sectors that comprise Jersey’s economy.

I note also that you are working to an extremely limited time frame, and that you have requested a response by the end of the first week in January. Consequently, given the extended holiday break across the Christmas and New Year period, I have not been able to obtain comprehensive responses from all of Chamber’s representative Committees, but from the comments and observations that I have canvassed, I can advise that the thoughts and views on the overall prospects over the forthcoming five years in certain key sectors are as set out below.

Financial Services Sector.

As you will appreciate, the Island’s Financial Services sector has three key components, namely Banking, Funds and Trust business.

As the analysis provided by the States of Jersey Statistics Unit confirms, Banking is by far the largest and most important category in terms of the impact on Jersey’s economy and financial well-being, and unfortunately, it is the one component of the three that carries the least positive outlook.

The future prospects for the Banking sector remain uncertain, since the debate regarding the proposed ring fencing of retail and investment banking activities has yet to be crystallised, and therefore, the impact that such a move might have on those Banks operating in Jersey remains unclear. Furthermore, the political fallout from the financial crisis of 2007–2008 has dictated that Banks are increasingly being required to operate simpler and more transparent tax structures, whilst ever-increasing regulatory constraints on the capital adequacy ratios of Banks are likely to have a detrimental impact on the value of capital that is held in offshore jurisdictions.

It also seems apparent that the low interest rate environment is likely to continue for the foreseeable future and whilst this may be a positive factor across the wider business community, it effectively diminishes the earnings ability and thus the attractiveness of the Banks’ offshore treasury operations.



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The outlook for the Funds and Trust business sectors looks somewhat brighter, albeit that there are significant regulatory and reputational aspects that the Island will need to address and manage in order to safeguard and optimise on these sectors.

Actions arising from the G20 Base Erosion and Profit Sharing ('B.E.P.S.') initiative may serve to drive opportunities for growth in the Funds sector. The initiative may put some of the smaller players under pressure in terms of resourcing, but conversely, it might also provide an opportunity for the more well-established operators in the Island.

The Alternative Investment Fund Managers Directive ('A.I.F.M.D.') is likely to have a marked effect on the industry in Europe and further afield. If Jersey is to optimise on potential opportunities arising from this initiative, it will be particularly important for the Island to satisfy the EU regarding its suitability as an effective and regulated offshore financial services operator.

There is increasing political pressure in certain circles for organisations to maintain funds onshore, or to place them in EU centres (such as Luxembourg.) Consequently, the maintenance of effectively regulated passporting measures will be essential to combat the inherent threat to the Island's business activities, and it is likely that hybrid management structures will need to emerge if the Island is to be successful in maintaining business volumes.

As you may be aware, Jersey is to be the subject of a MONEYVAL review (in relation to Anti-Money Laundering and Financing of Terrorism prevention measures and policies) during the initial weeks of 2015. Lord Eatwell, Chairman of the Jersey Financial Services Commission, has commented that the review is likely to be more stringent than previous audits that have been undertaken; any shortcomings will inevitably generate criticism from the Island's political detractors, and consequently, the output from the review will require careful reputational management.

In summary therefore, it seems unlikely that the Banking sector will return to the pre-2007–2008 volumes and profitability values in the near future, but the outlook seems more positive for the Funds and Trust sectors, albeit that it will become ever more essential for the Island and those operating in these sectors to continue to maintain the highest regulatory standards in order to safeguard and preserve the Island's reputation.

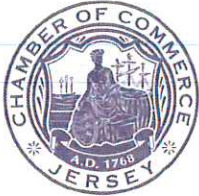
Tourism Sector.

As you will know, the Tourism sector has been the subject of much media scrutiny and public comment in recent months, particularly in light of the establishment of the 'Visit Jersey' Board and the recent appointment of Keith Beecham as its new C.E.O.

Whilst it would be wholly unrealistic to expect immediate returns from the Visit Jersey team, the hosting of the Island Games later this year provides a useful platform for promoting the Island as a destination. In the longer-term, it is to be hoped that the initiatives to be promulgated by the new Board will not only serve to arrest the decline experienced across the sector over recent years, but will begin to attract new visitors, for the ultimate benefit not only of the tourism sector, but also those operating in other sectors which work alongside the tourism sector and which benefit from a buoyant tourism market.

Retail Sector.

It is notoriously difficult to make accurate longer-term predictions regarding the health of the retail sector, since it is highly dependent on various factors which lie largely outside of the control of local retailers.



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Inevitably, when the overall economy of the Island is faring well, then the retail sector benefits. It is to be hoped that in the shorter-term, the sector might benefit from the significant level of investment into construction projects, whilst the recent fall in oil prices could also serve to increase the amount of money available for discretionary expenditure.

Possibly the greatest challenge that the Island's retailers face lies in off-island competition, specifically from the on-line retail industry, which drives Island-based operators to continuously review their cost bases, and thus minimises their opportunity for investment.

Whilst there are signs that the sector is beginning to stabilise after some very difficult years, it remains likely that more local retailers might close during 2015.

Other Sectors.

In view of the Island's considerable dependence on the well-being of the financial services sector, it is self-evident that the success of most, if not all other sectors, is inextricably linked to the success of the financial services industry.

However, whilst there is some fragility across all sectors of the Island's economy, there does seem to be a reasonable level of optimism within the smaller business sector, and initiatives such as the recent change to legislation regarding unfair dismissal procedures can only serve to enhance the level of confidence across the sector, and whilst confidence is a difficult quality to measure, it is undoubtedly a vital component in driving investment decisions. Consequently, the recent legislative changes are to be warmly applauded and any further similar such measures would undoubtedly be very much welcomed by the business leaders and entrepreneurs on which the Island's economy depends.

In summary therefore, there is some evidence across certain sectors that the economy is showing signs of gradual improvement, and consequently, a degree of optimism exists for the years ahead, as exemplified by the recent modest but welcome improvements in the Island's employment statistics.

I hope that this overview might prove of assistance to you and your colleagues on the Panel, but if you require any further information or clarification on any particular aspect, please do not hesitate to contact me.

Wishing you a highly successful and prosperous New Year.

Yours sincerely

JAMES MORRIS
CHIEF EXECUTIVE OFFICER

c.c. James Filleul, President. Jersey Chamber of Commerce.
c.c. Kristina Le Feuvre, Vice-President, Jersey Chamber of Commerce.