STATES OF JERSEY

PRICE CONTROL: INVESTIGATION

Lodged au Greffe on 3rd October 2011
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to request the Minister for Economic Development –

(a) to investigate the potential for controlling, through regulation, either directly or through the Jersey Competition Regulatory Authority or otherwise, the price of goods and services in the Island; and

(b) to report the findings to the States no later than September 2012.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

This proposition has been prompted, largely but not exclusively, by the findings of the investigation into the price of petrol recently conducted by the Jersey Competition Regulatory Authority (JCRA).

Despite the often repeated mantra that we hear from the Ministers for Economic Development and Treasury and Resources that competition is the best (and only) tool in our armoury for driving down prices and thus reducing inflation, this report gives a clear indication that this is not so. Furthermore, I believe that the example of the failure of competition to drive down prices in the road fuel market is widely applicable to other sectors, hence this proposition.

Despite the fact that –

> *"Jersey is still over-supplied with retail forecourts, with 2.6 times the number of forecourts per person compared to the UK and half as many again as the Isle of Man."*

The report, "Review of the Jersey market for road fuels", goes on to state –

> *"When taxes are removed, the UK has some of the cheapest prices in Europe, while Jersey has some of the highest compared to other European countries. This has long been the case.*"

The report suggests that this was worse in the past –

> *"While it is positive news that today people in Jersey pay less above average UK prices than they once did, it is still the case that, taxes aside, but including discounts, the average Jersey price for a litre of unleaded petrol is about 13p higher than the average UK price."*

This message is reinforced in the main findings in greater detail –

> "***Main Findings***
>
> *Removing taxes and duties, Jersey consumers pay, on average, about 14 pence per litre* ***(ppl)*** *more than UK consumers on undiscounted unleaded pump prices; and about 13 ppl more when discounts are taken into account. The cheapest price of the major forecourts in Jersey, represented by Motor Mall, is about 6 ppl more expensive than the average UK undiscounted price, or 8 ppl – 9 ppl more if UK retail discounts worth 2 ppl – 3 ppl are taken into account.*"

The report then points out what can only be described as market failure, as follows –

> "*Many of the forecourts in Jersey sell very small volumes. If competition is effective in driving down prices and retail margins, retailers with higher overheads per litre would tend to struggle to remain competitive, lose business, volumes drop further, and so, due to their relative inefficiency compared to larger retail sites, would become economically unviable and exit the market. The presence of many low volume forecourts in Jersey, compared to other markets, is an indicator that competitive forces could be stronger.*"

This is a very clear and straightforward message. Jersey motorists are paying between 8 and 14 pence per litre more than their UK counterparts. This is clearly not justified by local trading conditions. As the report states –

> *“If…. the average price reduced by just 1 ppl, this would be equivalent to a direct £430,000 per year saving to Jersey consumers.*”

Put another way, every time the Jersey motorist goes to fill up his or her tank it is costing at least an extra £5. That is a lot of money.

What can be done?

The report then goes on to address the issue of what action could be taken to remedy this situation. The answer seems to be “very little”.

A new entrant in the wholesale market is correctly ruled out –

> “*New entry at the wholesale level seems unlikely, as the small size of the Jersey market is unlikely to be attractive to a new entrant facing two – three with Total – existing suppliers*.”

However, taking action through price control regulation is also dismissed out of hand in a brief sentence or two, as follows –

> “*Regulatory price control at the wholesale level would impose significant costs, not only in the direct cost of regulation itself but costs on the firms, costs of imperfections in regulation, and costs in terms of reducing the attractiveness of Jersey both to any potential new entrants and existing suppliers.*
>
> *Regulatory intervention at the retail level also does not appear to be either practical, or justified given the positive indicators for the future.*”

The solution proposed by the JCRA is to increase competitive pressure in this market by encouraging customers to shop around, by obliging retailers to display prices which are clearly visible from the roadside. This seems to me a rather pusillanimous action to propose, especially in the context of the problems with Planning that have to be taken into consideration, as the JCRA, itself, admits –

> “*While we acknowledge that installation of signs that display the price to passing motorists, like all street furniture, must take account of planning considerations, such as the character of the surrounding area, the level of illumination and the impact on road safety, we believe it is possible to find a balance which may result in real benefits to Jersey consumers.*”

What powers does the JCRA have?

The JCRA is the utilities regulator and can set prices and pricing structures in this limited sector of the economy. It can stop price rises where it considers that they are not justified in the light of profit levels.

In the rest of the economy its powers are much more limited, and in the Competition (Jersey) Law 2005 are largely defined by –

- Article 8, Prohibition on hindering competition, and
- Article 16, Abuse of dominant market position.

In this case there is no suggestion or evidence of any cartel arrangement hindering price competition, nor of any abuse of market position: in fact, the market leader is the most aggressive price-cutter, Motor Mart, with 24% of the market. And yet, we are paying far too much for our fuel, and the government appears powerless to control this.

Given the inexorable price rises on a wide range of commodities driving up the Jersey cost of living, I believe the time has come to accept that in such a small jurisdiction, reliance on competition alone to drive the market will not work. This proposition asks the Minister for Economic Development to direct the JCRA to investigate the adoption of price control through wider regulatory powers.

Financial and manpower implications

The Minister for Economic Development has the power to request the JCRA to conduct reviews of any aspect of the Jersey market. In these cases the cost of the review is usually met from the JCRA's own resources.