



PLAY.COM
MOVIES MUSIC GAMES

31st March 2006

Dear Deputy Southern

I write following your Panel's call for evidence to help establish the impact of the 'Fulfilment Industry' within the Island.

1) To review the structure and scale of the local fulfilment industry.

It is important to draw the distinction between 'Fulfilment Companies' and 'Mail Order Companies'. A fulfilment Company solely exists to distribute products for another company. In Jersey Fulfilment Companies are expressly used by UK based companies to take advantage of the Low Consignment Goods Relief that they achieve on products under £18. The goods are shipped into the Island where they are then repacked and often shipped out the same day. The Fulfilment Company charges the UK company a small fee for each item it sends out.

Play.com is not a Fulfilment Company. It is a Mail Order Company and has its management, finance department, IT base and its own warehouses in the Island. As the founding Directors are from the Island it was not set up as a 'vat avoidance scheme'. Play ships out many items which have been purchased for more than £18 from the Island and accounts to HM Revenue and Customs for the VAT applicable to these items. Obviously there is no reason for UK companies to use Fulfilment Companies for items in excess of £18. To put this into perspective out of the £8,000,000 paid to the UK HM Revenue and Customs (via a Jersey pre-paid VAT scheme) in 2005 over £7,500,000 was paid by Play. As a Mail Order Company, it is Play.com which actually sells the products its revenue is derived from the margin which it achieves over its cost price. This revenue is received in Jersey and is therefore subject to Jersey tax.

Recent reports produced by the States of Jersey Statistics Department show that Mail Order companies like Play.com are second only to companies operating in the finance industry in revenue achieved per employee. The fulfilment industry in contrast returns less than tourism and contributes only marginally more than agriculture per employee.

2) To examine the labour and infrastructure demands of the industry and its impact on tax revenues.

The fulfilment industry is using up a considerable amount of the unskilled/ low skilled labour pool and is returning virtually no financial/social benefit to the Island. The revenue which the States receives for every unskilled worker employed by a Jersey based Mail Order Company is much greater.

Due to the demands of the fulfilment industry, the cost of labour and warehousing in the Island has risen and is now much higher than in the UK. If costs increase further it may not be viable to operate Mail Order Companies within the Island.



P.O. BOX 192
JERSEY
JE4 8RP



+44 (0)1534 728401



+44 (0)1534 737214



WWW.PLAY.COM

As a Jersey company we pay corporate tax at the rate of 20% whereas not all UK based companies pay tax locally.

3) To consider the role of Jersey Post in the development of the industry.

We understand that Jersey Post was originally given permission to build a fulfilment centre to facilitate the needs of small mail order companies. Once built, instead of following this strategy they instead established a high profile fulfilment facility for a number of large UK corporations.

Their strategy seems to have been to grow revenue at any cost, regardless of the damage to local business or the negative publicity attracted. We did alert Jersey Post to the risks associated with providing tax avoidance schemes to such high profile UK corporations and explained that it would damage legitimate local mail order companies.

It is difficult to quantify the damage done to the Island's reputation by inviting UK Mail Order Companies to use Jersey for fulfilment purposes, but inevitably it has resulted in a great deal of negative publicity in the UK and international media. Examples of this are included.

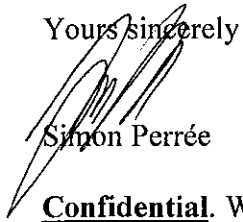
Most recently the activity has resulted in the UK Treasury commissioning a report by the National Audit Office to look at UK companies using Jersey fulfilment companies as a 'VAT Avoidance Scheme'. It is also worth noting that Gordon Brown pledged in this year's Budget that if UK businesses continue to exploit offshore jurisdictions such as Jersey to avoid VAT he will take measures to prevent this activity.

4) To examine the legal and economic aspects of current and previous policies on the fulfilment industry.

Jersey based companies have always had to apply to Regulation of Undertakings for a licence to establish and undertaking. For some reason UK companies exporting products out of the Islands did not seek to obtain licences. Without all trading companies being required to register and therefore some form of regulation being maintained, we are concerned that the Island could easily be used by traders to mail out dangerous, illegal or defective products.

If you have any questions in relation to this evidence please do not hesitate to contact me directly.

Yours sincerely



Simon Perrée

Confidential. We do have further evidence of a confidential nature which we can provide and would like to enter into a confidentiality agreement in relation to this.