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Deputy Kirsten Morel
Economic Affairs Scrutiny Panel
Scrutiny Office
Morier House
Halkett Place
St Helier
JE1 1DD

**Submission to the Economic Affairs Scrutiny Panel Retail Review**

Dear Deputy Morel

We set out below our comments and observations on Jersey's retail industry and aspects that are affecting it. We have included background information to help the Panel understand how the retail sector is comprised and therefore better understand how States decisions can and will impact upon the consumer and industry sector.

**1. Background**

The retail sector in Jersey comprises of two sub-sectors being Food and Non-Food. Whilst both are Retail they face different challenges and complexities, for example the Food sub-sector has a significant challenge in its supply chain to bring perishable goods to the Island and then distribute them to local stores. This logistical issue is also extremely expensive and is part of the reason why food costs are more expensive in Jersey than in the UK. Both the Food and Non-Food sub-sectors are made up of locally owned businesses and non-locally owned businesses. The industry depends on the UK for most of the retail offer in St Helier where nearly all of the larger retail businesses are non-locally owned and in the wholesale and retail sector across the Island, less than 2% of businesses comprise of more than 50 employees and 80% are micro businesses comprising of 1-5 employees. It should be understood that there are no businesses or branches of non-locally owned businesses that would qualify as a large business in the United Kingdom, all the business units that operate here are small or medium sized.

The industry sector has not performed well over the past decade and the 2016 report issued by the States of Jersey Statistics Unit entitled "Measuring Jersey's Economy GVA and GDP 2016" reported that the industry sector had shrunk by 3% in real terms. This is a continuation of a 10 year trend that has seen the industry decline by 14% since 2006, which suggests that there is clearly a problem with the health of this industry sector in Jersey. Furthermore, employment has shrunk by 8% over the same period. It is recommended that the Scrutiny Panel look carefully at the latest reports that the Statistics unit are due to publish on 3rd October and 7th November 2018.

The industry sector makes a significant tax contribution to the States of Jersey and this has been overlooked especially in the recent debate on the level of taxation to be applied to the industry. The retail sector contributes over half of all GST receipts (£38 million pounds per annum): Significant tax is paid on property rental paid by the industry: a significant value of

Social Security Contributions is made by the industry as the second largest employer in the Island: significant amounts of personal tax is made by employees of the industry and a substantial value is paid to the Parishes and the Treasury through Rates. The Scrutiny Panel are strongly urged to obtain facts relating to the total tax contribution mentioned above to enable a more thorough understanding of the value of the industry sector to the Island and inform the general debate on the Retail sector.

**2. Understanding the changes to the UK retail landscape**

This section is included in our submission because the state of the retail industry in the United Kingdom has a material impact on Jersey's own retail sector, for example the bankruptcies of Woolworths and BHS were greeted with great sadness by Island consumers and these stores are still missed by Islanders.

There is a common misunderstanding that online retail is causing serious disruption to the retail industry and in particular to the traditional "bricks and mortar" sector. This view ignores the fact that many traditional retailers have embraced online selling which now forms an important part of their business, John Lewis, Dixons Carphone Warehouse, Next and Tesco are good examples of companies that have made significant investment to re-engineer their business to provide a seamless shopping experience for customers, allowing them to shop online and instore.

The cause of the UK retail industry's demise in the past 12 months is not simply about online retail but a new breed of retail business that does not need to make short term or even medium term profits. These businesses are owned and funded by private equity companies or wealthy individuals, they access the market of hundreds of millions of people relatively easily through the Internet in the expectation of making large profits in the very long term, but if these businesses were expected to provide a return to shareholders within say a 5 year period then the UK retail landscape would look very different today. The battle is between the more traditional businesses that make a profit and are expected make a return to shareholders (and keep their share price trading at an acceptable level) against the new breed of company that is being funded by private equity, is focused on grabbing market share and sales growth with no necessity or desire to pay a share holder dividend and no interest in making a profit until the business is sold probably ten years after it was established. The drive to grab market share and to build sales has helped to drive online sales to an estimated 20% of total consumer expenditure, which means that there is now too much retail space in the UK and a corresponding adjustment is necessary, which is what is happening today. The new breed of company is grabbing market share by undercutting their competitors' prices, offering free delivery often same day delivery and free returns, this business model is unaffordable. The best example of this new breed of business is Amazon.

Founded in 1994 Amazon did not make an annual profit until 2014. During this 20 year period Amazon drove down prices (starting with books) and provided customers with great service, fast often free delivery, free returns, quickly refunding unwanted goods and accepting the customer's word on suspected faulty goods with a no quibble refund policy. There is no doubt that the consumer has benefited from this and Amazon has set the standard of customer service on the Internet. Upon the announcement of their 2013 results this lack of profit prompted columnist Matthew Yglesais to describe Amazon as "a charitable organisation being run by elements of the investment community for the benefit of the consumer". The Scrutiny Panel ask if online retail is putting local stores under pressure and the resounding answer is 'yes'. The Internet has opened up local retailers to competition as never before, competition based in a warehouse in Leicester is just as relevant as another retailer just down the road in Jersey. As Amazon has pushed down prices and pushed up customer expectations on service and the cost they are charged for this, so other businesses have had no choice but to respond, benefitting the consumer as Matthew

Yglesais comments again "the shareholders put up the equity and instead of owning a claim on a steady stream of profits they get a claim on a mighty engine of consumer surplus. Amazon sells things to people at prices that seem impossible because it actually is impossible to make money that way. And the competitive pressure of needing to square off against Amazon cuts profit margins of other companies, thus benefitting people that don't even buy anything from Amazon."

This business model of operating on unsustainably low margins for as long as shareholder patience lasts in order to grow sales volumes to enormous proportions has been taken up by many other new Internet businesses, a few examples being: ao.com, shopdirect.com, Zalando.com and boohoo.com. Even today Amazon does not make a profit on sales outside of the USA, profits are made from Amazon Web Services and commission paid by retailers using Amazon's platform and most other dot com companies either do not make a profit or provide a tiny return on the massive capital invested.

The new breed of business has created a highly competitive environment that has pushed margins down to wafer thin levels. This has coincided with a period of increased costs mainly imposed by the UK government through statutory increases in labour costs and business rates which traditional retailers are unable to pass onto the consumer and at the same time these businesses are unable to respond to the reducing level of sales made in "bricks and mortar" shops by reducing their estate because of long term leases. All these issues have conflated at a speed that have left many traditional retailers struggling. This is why House of Fraser went bankrupt, why Debenhams are under significant financial strain, John Lewis have announced a 99% fall in profit for the first half of this year, Kingfisher have recently reported a 30% drop in pre-tax profits and the Chairman of Marks and Spencer has warned shareholders that they should not expect the company to make a profit for the next two years. Against this background it is not surprising that weak companies are failing and stronger companies are responding by either investing in online services that complement their physical retail activities, or providing instore experiences that cannot be obtained through online shopping.

This period may be seen as a turning point for the UK retail industry and consumer choice because if the battle for the consumer is won by the new breed of Internet retailer which secures a dominant position in the market and puts physical retailers out of business, then the expectation is that these new Goliath companies will have unmatched pricing power because competition will be much reduced or eliminated altogether.

What does this all mean for Jersey retail? The impact of changes in the UK retail industry are being felt much more in the Non-Food subsector because of the difficulties in delivering fresh food to Island addresses, Tesco and Ocado don't deliver to Jersey and although some goods are delivered by post/courier, especially dry goods, the current situation is that Jersey customers buy most of their food from local shops, however this will quickly change upon the entry of a major disruptor to the market. In the Non-Food sector, there is no doubt that in the current environment UK based businesses are focusing on downsizing their physical estate and looking to exploit markets through technology and the Internet. In future businesses do not need to be located in Jersey to exploit the market here and we have already seen an example of this with Mothercare and Thomas Cook vacating their stores but maintaining a strong online presence. This process of change has certainly not finished and it is difficult to guess when this process will come to an end, however if the new breed of Internet based retailers wins the 'battle for the UK high street' then this will have very serious implications for Jersey's retail sector because UK retailers make up a very large proportion of the Island's retail offer.

**3. Retail strategy**

The Scrutiny Panel's terms of reference refer to "strategies" relating to the retail sector. The States Strategic plan 2015 to 2018 refers to Optimising Economic growth (section 4.3), which sets an area of focus as "Promote higher productivity in all economic strategies, including the new Tourism, Retail and Rural Economy Strategies" and at the section on Improving St Helier (section 5.10) "Develop a Retail Strategy to support a thriving and distinctive retail area appropriate to current and future demand."

Unfortunately, these are very bland statements with no strategic intent, we are not aware that there exists an overall strategy for retail in Jersey that informs decisions relating to the industry sector. It is our belief that the failure to have a strategy for the industry sector (for both food and non-food) is a very serious omission and one that urgently needs to be addressed. There is a common misunderstanding amongst many States Members that such a strategy is for the benefit of the industry, it is not, it is for the benefit of the States of Jersey. Such a strategy must set out what sort of industry the States of Jersey wish to see, how it is to provide the goods and services that consumers need and want, what size, how vibrant, what employment opportunities should there be for Islanders, what choice and competition should the consumer have access to, how is it to serve tourists, what encouragement is given to small retailers to grow, what level of GST is being collected and how will the States protect this important stream of revenue in the future?

A strategy with long-term strategic aims will co-ordinate and inform specific decisions on important areas like access to labour, planning decisions, applications for new businesses wanting to establish in Jersey, even the recent proposal for Sunday trading should be considered within an overarching strategy. The failure to have this strategy in place has resulted in decisions being taken that work against objectives in the States' own strategic plan.

The States of Jersey have recently provided funding for the Jersey Retail Association (JRA), which should be used to assist in the implementation of such a strategy. The JRA is the conduit to help implement strategic plans, facilitate two-way communication between government and the industry, which is not possible with the Chamber of Commerce due to its membership make up.

**4. Retail in Jersey**

Consumers are benefitting from a retail sector in Jersey that is currently highly competitive, especially in the Non-Food sector where the Internet has opened Island retailers to global competition. Not only is there healthy competition among Jersey based retailers but off-island retailers are helping to keep prices low, which is good for local consumers. Local Non-Food businesses are trying to compete not only on price where possible but also by offering services that their competitors are either unable to provide or provide at a sub-standard level.

Total retail sales (excluding the motor trade) were estimated at £720 million in 2015 as reported by the Jersey Retail Sales Report for that year published by the States Statistics Unit. This is the last time the report was published and shows that sales volumes (excluding the effects of inflation) had stagnated between 2007 and 2014 with total sales volumes in the Food sub-sector increasing by 3.2% and volumes in the Non-Food sub-sector declining by 2.4%.

Our business operates predominantly in the Non-Food sub sector and the following comments are based on our understanding and experience of this area. Key issues facing Non-Food are:

- The On-line phenomenon

- Tax
- Access to labour
- States of Jersey social legislation
- Access to St Helier

These can be explained in detail as follows:

i) The On-line Phenomenon.
As already described above, the Non-Food retail sub-sector is currently going through a period of significant change, with technology allowing customers to purchase goods on their computers, telephone or i-phone and islanders are purchasing from businesses based around Europe that are driving prices down. As already described, it is difficult for small local businesses to compete against these retailers and this competition has caused the retail expenditure of Islanders to fragment to many organisations that do not have a presence in the Island and at a time when the disposable income of Islanders have stagnated, hardly growing since 2001 (see the Average Earnings index for June 2018 published by the States' Statistics Unit). The result is that sales made in Jersey have declined causing a shrinking of the industry. Many shops on the outskirts of St Helier are now converted to businesses out of retail, most notably coffee shops. As sales remain static the obvious aim for businesses is to take market share off their competitors, however when the market is in decline then the other requirement to stay in business is to reduce costs. However, many retail costs are fixed, for example the term on a property lease will be fixed usually with upward only rent increases and employees will require salary increases. Jersey is an expensive jurisdiction from which to operate and with static sales, reducing margins and increasing costs, retail in Jersey can be an uncomfortable place to be.

There is anecdotal evidence that landlords have been more realistic on rental expectations but there are several shop units in St Helier that have remained empty for well over a year, this may be because the landlord has unrealistic expectations of the level of rent, or there have simply been no approaches or offers made to take on these units. The Scrutiny panel will be able to seek advice from the Estate agencies to establish the level of interest in these units.

ii) Tax
There are two taxation issues facing the Retail sector, these are the application of GST and the Retail Tax introduced in the 2018 budget. These two taxes effect the Food and Non-Food subsectors to different extents.

(1) GST

This consumption tax was introduced in 2008 to replace tax revenue lost when corporation tax was reduced as part of the zero-ten tax regime, the retail sector collects over half of all GST raised, it is therefore an important tax raising sector for the States of Jersey. It is also important that revenues are maintained at the current rate to avoid having to increase the rate that the tax is applied or introduce other forms of taxation to maintain revenue. The tax was introduced at a time when the volume of sales via the Internet were at a significantly lower level and a high de minimis level was applied. The retail sector has become increasingly concerned that the high value of goods that an individual may import tax-free has not been reduced in line with technological advances and the significant increase in the value of goods purchased via the Internet.

The GST de minimis level gives off-Island retailers a competitive advantage against retailers based locally and fails to collect millions of pounds in lost GST for the States Treasury. This company recently undertook market research asking customers about their preference to shop locally as against online, 46% of respondents preferred to buy locally, 23% preferred to by online and 31% indifferent or not sure. Whilst it is uplifting to see that nearly half of respondents preferred to buy locally it is disappointing that these people are being asked to subsidise those people who choose to buy online through paying GST on their purchases. Our research also asked customers whether they were prepared to pay more to shop locally rather than online and 35% of respondents said that they were prepared to pay more (up to 10%) whereas 65% were not willing to pay more to shop locally. This demonstrates that local retailers must compete against on-line prices whilst trading in a more costly jurisdiction.

The evidence provided by the tax department shows that GST received from retail has not kept pace with inflation in recent years, we believe this is because more sales are moving to on-line, away from local retail. This is a concern to this business, firstly because the application of GST is unfair and benefits retailers based outside the island and second, if GST receipts do not keep pace with inflation and at the level that one would expect to see raised in the economy, then there will be pressure for the GST rate to increase above the current 5%. Not only is this detrimental to the economy, but it further increases the subsidy paid by those customers who chose to shop locally and put local retailers at a further disadvantage on price.

If the strategy of the States of Jersey is to support the long-term objective of providing a vibrant and interesting retail sector then GST must be charged without favour on all consumption, net retail margins are small and to expect local retailers to start at a 5% disadvantage is unrealistic for the long term health of the sector and is particularly difficult for the small and micro retail businesses that provide much of the interest in the local retail offer. The point is not to discourage islanders from shopping on-line because customers enjoy the convenience of shopping at home, but to collect tax that is due to the States of Jersey and provide a level playing field for those Island businesses that wish to compete with a physical or on line offer to customers. The cost of collecting GST due on imported goods is often raised as a reason for inaction and we have been amused by assertions made that the cost of collection would be greater than the tax collected and that Internet based companies would cease delivering to the Island if they were required to pay GST on goods delivered here. We believe that there are two options for implementing a reduced or zero di minimis level, both would require a change of law to specify that goods sold in Jersey would attract GST but this has recently been done in several states in the USA and a sales tax is now being collected from Internet retailers. The first option is to monitor the goods entering the Island from specific companies and require them to register for GST on the basis that their trade exceeds the threshold that requires registration, probably 80% of imports into the island will be covered by capturing a handful of businesses in this way. The second option, and possibly the easiest, is to reduce the di minimis level to zero and require all goods to have GST paid before entry, the customs operation then becomes a check that all parcels have the duty paid stamp rather than checking for business registration and value threshold. This is the approach adopted by the UK when the di minimis level for goods entering the UK from the Channel Islands was reduced to zero and Jersey's customs operation should consult with them to understand the implications. It has been suggested that on-line retailers will simply stop delivering to Jersey, however, to make this statement mis-understands what drives the new breed of Internet based businesses, whose motivation is to grab large sections of the market whilst retaining their customer loyalty, they will not opt out of the lucrative Jersey market because they need to build market share and retain customers, keeping them from their competitors and Jersey, however small, helps.

(2) Retail Tax levied on 'Large 'Retailers'

The new Retail Tax introduced last year is intended to capture retail businesses selling to customers in Jersey making profits over £500,000 and introduces a tax rate applied to all profits that increases from nil at £500,000 to 20% on profits of £750,000 meaning that the additional profit of £250,000 between these two points is taxed at up to 60%. The tax is not intended to fall on those businesses where more than 60% of their sales derive from either wholesale or sales to customers outside the island through Internet or mail order.

Unfortunately, there was no discussion or debate as to why the Retail sector should be singled out to move away from the standard tax rate or an assessment of how much tax the sector already contributes, furthermore, no consultation was undertaken with the industry or business advisors on this tax and any detrimental impacts were not identified. The economic impact assessment that accompanied the proposition was flawed in that it only considered who would ultimately pay the tax, whether prices would increase to the consumer and whether it would be collected by the States Treasurer. It did not consider the impact this would have on the long term future of the Retail sector and there was no thought given to the significant changes that the wider industry is currently going through.

After careful consideration of this tax, we believe that the tax is contrary to the States' own taxation policies contained in the Strategic plan 2015 to 2018 and the best interests of the Island (tax raising, consumer choice and employment prospects) for the following reasons:

I. The tax is not a necessary tax nor justifiable when significant values of GST go uncollected.
II. The tax is not fair, it discriminates in favour of businesses with a large wholesale or Internet business meaning that businesses selling exactly the same products in the same manner are taxed differently.
III. The tax further discriminates against local retailers with a large presence on the Island against much larger retailers with a small presence on the Island.
IV. The tax is not internationally competitive as the 20% rate is higher than the UK and higher than many other jurisdictions with which Jersey must compete to attract business.
V. The tax will discourage inward investment in the industry by local and non-local companies that is vital to ensure the future of the sector and also protect GST receipts that the States of Jersey benefit from.
VI. The Jersey retail sector relies heavily on UK retailers who must be attracted to establish in the Island if a vibrant retail offer is to be maintained. Remember that UK retailers do not have to establish in Jersey to sell into the island and currently there is no requirement for GST to be charged on goods supplied here via on-line retail. Only UK retailers will take large spaces like the former Next and Mothercare stores.
VII. The tax penalises small local businesses that grow therefore discouraging the growth of home-grown retailers from which the States of Jersey would receive more tax thorough the personal tax system of dividends paid.

Following the adoption of this tax, efforts were made to reduce it to 10% and discussions to this effect continue, however, to simply take a bad, ill-conceived tax and reduce the rate does not address the core issues outlined above, we will still be left with an unfair tax that discourages inward investment into Jersey's retail sector. To adopt a lower rate of tax would be to accept that a reasoned argument on whether the retail sector should be singled out to move away from the standard rate has taken place and a compelling argument has been made, neither statements are of course true. The most pragmatic and logical way to move forward on this issue without damaging the Island's finances is to rescind the original tax change made at the 2017 budget debate, returning the industry to the standard rate, the States produce a strategy for the retail sector and then the Treasury make a case for why they believe a system for increasing tax on the sector is justified and propose a structure that is fair.

iii) Access to Labour

The industry sector is currently going through a very challenging time finding sufficient numbers of people to operate retail businesses. This issue follows the economic cycle and when unemployment rises the Social Security department are very interested in encouraging the sector to employ more people. When the economy is doing better and unemployment is low (especially when the Finance industry are recruiting) then retail has difficulty in replacing staff that leave (often to join the Finance industry). At these times States departments make the situation worse by reducing the number of licences the sector has available. Many local Non-Food businesses are trying to improve customer service to combat Internet sales but if they are unable to access labour then their ability to compete is hindered and their business model fails. It is very difficult to manage a business where there is inconsistent access to labour and our business will not invest in products or services that are labour intensive. Furthermore, the fluctuations in labour supply are detrimental to training programmes that are required to develop our people as it creates a stop/start cycle.

We currently have approximately 15 full time and part time vacancies and it is particularly worrying that we have seen a recent trend for people resigning to leave the island. We interview people who are qualified to undertake roles in the business but we do not have a licence under the Housing and Work (Jersey) Law to employ them. Our staff are currently working additional hours in often stressful conditions because they have to cover vacancies.

We believe that the retail sector is not responsible for population growth (the number of employees has declined by 8% over the last 10 years) yet the industry is being penalised through States' population policies.

It is often said that local businesses should 'go online' to compete, but it is unrealistic to except small locally owned retailers to establish a competitive Internet presence to compete with vast organisations located off Island, remember that 80% of local retailers are micro businesses.

Retailers need a consistent and sustainable level of access to labour and this needs to be an important part of the overall strategy for the retail sector that the States must adopt.

iv) States of Jersey social legislation

The States of Jersey have introduced a raft of legislation in the recent past to change employment practices, influence behaviours at work, outlaw discrimination and introduce family friendly practices. Whilst these are laudable aims, there does not appear to have been any assessment of the cumulative impact of all this legislation on the small and micro businesses in the Island. This comment is relevant for all small businesses and not just those in retail, however as stated earlier, 80% of retail businesses in Jersey comprise of 1-5 employees, they represent the entrepreneurial spirit of islanders and need to be supported and possibly protected from some of the penalties that they are now exposed to. Small retailers provide the interest in Jersey's shopping experience and the out of town areas of Gorey and St Aubin rely on these small businesses, the scrutiny panel are encouraged to visit these areas, especially on a Sunday to see for themselves. The legislative changes have made being in business considerably more risky and arduous.

As the panel will know, small businesses will grow into large businesses and as Jersey's retail sector is over reliant on UK retailers, we need to grow more local retailers to ensure that a thriving industry sector is maintained in the future.

v) Access to St Helier
One of the main reasons customers give for shopping on line is the effort it takes to get into St. Helier, especially by car and then finding a convenient parking space. The authorities have chosen to discourage the motor vehicle from the town centre and have restricted traffic from some smaller roads, forcing traffic along main routes. They have then introduced a proliferation of pedestrian crossings which stop the flow of traffic and cause the congestion that discourages people from visiting town. Examples are the crossings at Charing Cross, the crossings adjacent to the Royal Yacht hotel and the crossing from the end of Conway street to Liberation Square. Parking remains an issue but the authorities maintain the view that there is sufficient parking in St Helier. However, much of this is at the Pier Road carpark where shoppers do not like to park because of the walk up Pier Road, especially when there is wind and rain.

We propose that there is a mind change among the authorities to consider the position of the shopper visiting St Helier. Shoppers want to drive in without spending most of their time sitting in traffic, park a short distance from the shopping centre at a reasonable cost without the worry of a parking fine. More can and should be done to address these issues. The cost of parking is also an issue that is raised as a disincentive to visit St Helier and one should recognise that the salaries of many people have not kept pace with inflation over the last five years, yet parking charges are always increased by RPI, meaning that more of a shoppers disposable income is going on parking each year, hardly surprising that on-line shopping allows them to avoid this charge.

In conclusion, retail in Jersey is undergoing a period of significant change similar to the 1960's and 1970's when many local businesses sold to property developers and UK national retailers. This has left us with an industry sector that is reliant on the players in the UK retail industry establishing in Jersey, however they too are now feeling under pressure and Jersey is not as attractive as it once was because they can exploit the market through their Internet businesses. Retailers in Jersey are also struggling to adapt to the new competition that is facing them and are being affected by the move of retail sales to on line. This is in turn will give the States of Jersey a problem as GST receipts fall. The Island desperately needs a retail strategy to understand how the retail sector is to be positioned to be competitive in the future and what levers the States of Jersey need to pull to provide a positive consumer experience, employment in the retail sector and GST receipts to the Treasurer.

Should the Scrutiny panel wish to explore these issues in more depth, I am content to attend a hearing.

Yours sincerely

F Gerald Voisin
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