Economic Affairs Scrutiny Panel

Retail Strategy Review - Update

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Retail Strategy Review – Update

The Economic Affairs Scrutiny Panel published its 'Retail Strategy Review' in April 2007. The review was concerned with the policies of the Economic Development Department in respect of the retail industry in the Island.

Retail Strategy Review report – S.R.9/2007 - summary

The Panel's retail report set out the concerns of the industry and others over the Retail Framework of the Economic Development Department and the work on which it had been based, the 'Assessment of Jersey's retail sector' produced by Experian Property Consultancy in June 2005. The Panel's findings in respect of the entry of a UK multiple were as follows-

- The assumption that the arrival of a UK or European multiple will produce an increase in competition and a decrease in food prices ignores many of the factors operating in the Jersey market, namely:-
    - The structure of retail trade
    - Regional price variations
    - Increased labour costs
    - Comparison with the Isle of Man

- Every pound spent at a locally-owned retailer is more beneficial to Jersey in economic terms than one spent at a UK multiple would be, in that-
    - Locally grown or supplied products are likely to be replaced by products from elsewhere.
    - Centralisation of services will result in services being sourced nationally rather than locally.

The Panel also expressed concerns that the arguments in favour of a UK multiple were based on a flawed understanding of the retail market-

- The recommendations for retail growth contained in the Retail Strategy, despite being scaled down from those proposed by Experian, and supposedly incremental in nature, retain the potential to have a significant detrimental effect on the retail economy.

- The Experian report was so fundamentally flawed as to be "unfit for purpose". The figure produced for 'overtrading' in Jersey's convenience retail sector was 45% greater than is justified by the evidence.

Given these findings, and with serious concerns having been expressed in respect of the work on which the Economic Development Department had based its policy, the Panel made the following recommendation-

- Given the cumulative defects in the analysis that has lead to the Retail Framework the Panel recommends that the Economic Development Minister suspends any action based on the strategy until he has fully re-examined the guidelines in the light of accurate data and reported his findings to the States.

Jersey Competition Regulatory Authority – '

Following the publication of the Panel's Retail Strategy Review report, the Economic Development Minister directed the Jersey Competition Regulatory Authority (JCRA) to produce a report (in the form of advice to the Minister) detailing the benefits of a UK multiple entering the Jersey retail market. The terms of reference set by the Economic Development Minister were as follows-

> *"In providing its advice, the Minister asked the JCRA to take into account the likely impact on:*
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> *• Consumer welfare (in terms of prices, quality, innovation and choice available to consumers);*
> *• The productive efficiency of existing retailers (in terms of their costs and revenues); and*
> *• The Jersey economy overall.*
>
> *The Minister also asked that the JCRA advise on the basis of the most recent and relevant information available and it should consider empirical evidence which may be relevant to circumstances in Jersey. In this regard, he mentioned that experience from other small economies may be particularly relevant."*[1]

The JCRA also acknowledge-

> *"That the terms of reference for this report were limited to determining the economic impact of new entry – consistent with the JCRA's role and expertise. Other considerations, such as planning, population growth, and environmental*

[1] JCRA, 'Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor', 14th March 2008, p 1

impact, also are undoubtedly important, but were beyond the scope of our inquiry. Thus, this report does not purport to be the final word in this debate, but aims to contribute positively to it, and help the Minister make as fully informed decision as possible."[2]

The key benefit that the JCRA identifies is the likelihood of reduced price to consumers, in accordance with the application of economic theory.

The Jersey Chamber of Commerce (JCoC), the representative body that acts as the voice of Jersey's industry, disagrees strongly with the conclusions of the JCRA report, and has provided evidence to the JCRA that some of their conclusions are drawn from a flawed interpretation of the evidence.

Local market conditions in Jersey

The Panel is aware that there is a considerable difference in composition between the retail markets in Jersey and the UK, and this reflects in part the lack of large multiple involvement in the Island. According to Experian's 2005 figures, in the UK, first tier ('big four') multiples make up 68.3% of the convenience market, with 22.5% held by second tier multiples and 9.2% by third tier small retailers, of which only 3.8% are 'independent' (single premises retailers).

In Jersey, second tier multiples, in this case local multiples and the Marks and Spencer franchise, make up 48.6% of the market, with third tier retailers holding 51.4%, of which 18.4% is held by independents.

It is clear to the Panel, from the constitution of the market, that Jersey is more vulnerable to the loss of domestic independent operators than the UK, and it can be extrapolated therefore that the entry of a UK multiple would have a more serious effect on the local economy than a comparative entry into a local market in the UK.

In their report, the JCRA make an assessment of the retail market in Jersey. In the discussion of the benefits of a third multiple, they quote John Kay, one of Britain's leading economists-[3]

[2] JCRA, 'Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor', 14th March 2008, p iii
[3] The JCRA comment on this quote is-"*Kay noted that the desire to break and prevent economic concentrations of power was behind the adoption of both the United States antitrust and European Union competition laws*". This is an interesting example – the Robinson-Patman Act of 1936 (US), an anti-trust act, was also referred to as the 'Anti-Chain Store Act', and was a response to the growing negative effects of multiple retailers on independent stores.

"The world's largest economy had chosen pluralism over monopoly in its market structure. … The founders of the European Union were clear that competition and pluralism, not consolidation, was to be the basis of economic integration. "[4]

This is indicative of the general theme of the report, and provides an insight into the criteria on which the JCRA's argument is based. Not only are non-economic factors and government revenue not considered, but the theoretical exercise does not take any account of non-supermarket operators.

Leaving aside the JCRA's argument (largely based on a submission from Tesco) that a multiple operator would not affect small retailers, an argument with which the Panel does not agree, the quote specifically states that consolidation is not desirable. It is difficult then to understand how the entry of a UK multiple, which would consolidate the market share of a number of small retailers, would be of benefit.

History of local conditions - the Safeway situation

The debate on the benefits of an additional multiple hinges on the effects that this will have on local market conditions, in particular the current 'two operator' status of the economy. This came about after the purchase of Safeway by C.I. Traders on 30th April 2005.

The Jersey Evening Post of 3rd May 2005 noted of the timing of the takeover that-

"24 hours later and CI Traders may have been legally required to refer the deal to the Jersey Competition Regulatory Authority under the mergers and acquisitions rules designed to reduce the power of monopolies."[5]

Senator Ozouf, the then President of the Environment and Public Services Committee, expressed dissatisfaction with the move at the time, saying that-

"We know competition works and this is a narrowing of competition."[6]

There was also considerable public concern that the removal of a competitor in the food retail market would have a negative effect on food prices – resulting in an increase in food prices.

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[4] The Truth About Markets: Why Some Nations are Rich but Most Remain Poor, John Kay, Penguin Books, 2004, pp 38-39, 50-51, 69-70 – cited in JCRA, 'Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor', 14th March 2008, p 6

[5] 'Inquiry into £51m Safeway takeover', A. Lewis, Jersey Evening Post 3rd May 2005

[6] 'Inquiry into £51m Safeway takeover', A. Lewis, Jersey Evening Post 3rd May 2005

Customers were initially so concerned that they boycotted the Safeway store after the purchase, as the JEP reported-

> *"CI Traders took over Safeway in the islands in April, a day before a new competition law started in Jersey. Since then some customers have boycotted the supermarket in protest over the takeover and the perceived lack of choice in island supermarkets."*[7]

During this period, the Co-Op reported increased trading, and the additional demand was found to be so great that additional staff were required.

This indicates therefore that the Jersey consumer is sophisticated enough to understand the benefits of effective competition. It also demonstrates that a real or perceived lack of retail choice in Jersey will result in consumer reaction from shoppers.

History of local conditions - the Sandpiper situation

After the appearance of Sandpiper in the local economy, it was suggested that there might be a sell-off of the retail division, which would result in the economy being restored to a 'three-operator' position.

On 3rd August 2007, it was reported that the Royal Court had sanctioned the recommended proposal for the acquisition of CI Traders by Sandpiper Bidco Ltd, a company formed by Duke Street Capital, Europa Capital LLP and Uberior Co-Investments Ltd. Sandpiper had made a recommended proposal to acquire CIT for 100 pence per share, valuing the group at £260 million.

This sale was initially thought to represent an opportunity for a UK multiple to enter the Island through a takeover of the Sandpiper retail division. This would greatly lessen the effect on local businesses as it would not increase the total retail floorspace.

However, recent indications from Sandpiper CI are that they will not be selling off their retail division. Sandpiper CEO Tony O'Neill said the company was continuing with its focus on its retail core-

[7] BBC News, Jersey 22 June, 2005. www.news.bbc.co.uk/1/hi/world/europe/jersey/4120560.stm

"This disposal will see the divestment of the remaining non-retail businesses within our Channel Islands portfolio and, in the event of a sale, will leave Sandpiper CI as a focused Channel Islands retailer"[8]

If these comments are taken at face value, it can be assumed that there will be no new entrant resulting from the sale of Sandpiper CI's retail division. Therefore any new entrant will arrive through the development of additional retail space, which would result in an oversupply of retailers, triggering the loss of local businesses.

It should be noted that the JCoC has expressed the opinion that the venture-capital nature of Sandpiper CI will make as sell-off of the retail business likely in the medium term.

The policy of the Economic Development Department

The current policy of the Economic Development Department is to promote competition. This is enshrined in the departmental policy 'A Framework for Managing the Development of the Retail Sector in Jersey' (the Retail Framework), which says-

"For an Island economy aiming to maximise productivity and economic growth, vigorous competition is a vital ingredient for success".[9]

This desire for competition is fuelled in part by the understanding of the Department that the market in Jersey is not acting efficiently, that there are too few retailers for too many customers, and that the price to consumers is artificially high. They persist in arguing that the market is 'overtrading'.

This understanding has been reached following the work of Experian Property Consultants, who were invited to study the local market by the Economic Development Department in 2005.

The conclusion of this report, that the Jersey market was valued at £431 million and was overtrading by 21% overall (that is to say that the market was 21% larger than the existing retailers could cater to), was challenged by numerous bodies, most notably the JCoC. Food retail was estimated to be overtrading by 47%.

The outcome of the challenges to the Experian report has been that even the Economic Development Department no longer attempts to defend it. However, there remains a link between

[8] Guernsey Press Website - www.thisisguernsey.com/2008/08/22/sandpiper-is-to-sell-warrys-as-it-looks-to-offload-food-division September 2008
[9] Economic Development Department, 'A Framework for Managing the Development of the Retail Sector in Jersey', p 1

the Experian report and the current policy of the Economic Development Department. The Retail Framework itself notes that-

> *"It is worth bearing in mind how these numbers relate to some of those in the Experian report. Firstly, <u>the floorspace data is drawn from their estimates</u> but the conclusions are not dependent on their data."*[10](Panel's emphasis)

After the publication of the Panel's Retail Strategy Review report, the Economic Development Department responded critically to the conclusions drawn and evidence used. It did not, however, seek to rebut the connections between the discredited Experian report and the Retail Framework as outlined above.

The Economic Development Department, therefore, is still using discredited and outdated market data to plan future strategy. This data supports the free market ideological position of the Minister. It is primarily for this reason that the Department has been attempting to gather support for a UK multiple to enter the Island. This has driven the most recent JCRA report, which has been challenged by the JCoC.

Jersey Chamber of Commerce and the Jersey Competition Regulatory Authority

Ultimately, the JCoC and the JCRA disagree on a fundamental question – would a UK multiple operator entering the Island benefit consumers, would it have a negative effect on local businesses, or would it result in both?

The recent JCRA report 'Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor' is an assessment of the benefits of increasing the total number of multiple operators in the Island from two to three. It concludes that the competitive benefits of a third supermarket would outweigh other concerns, and that this can be proven by studying the Isle of Man position, as Tesco has entered the Manx market and now accounts for a significant proportion of retail sales.

The JCoC strongly disagrees, and has suggested that the outcome in the Isle of Man is far from clear. The JCoC, it must be noted, represents the traders in Jersey, and not consumers. While the Panel hold the JCoC in high regard, it must be recognised that it is a self-selecting group of the businesses within the retail sector that represents only a small section of the total population. Therefore they have a vested interest in the matter of a UK multiple potentially entering the Island.

[10] Economic Development Department, A Framework for Managing the Development of the Retail Sector in Jersey' p11

The JCRA, however, is not without preconceptions of its own.

The nature of the JCRA

The Panel considers that the Jersey Competition Regulatory Authority is undoubtedly the best available source for competition theory, and has no doubt about the quality of that organisation's work or it probity. It is regrettable that their work cannot take account of factors beyond their assigned terms of reference. The JCRA is a highly specialised organisation, designed to act as a competition regulator, and that the level of specialisation results in reports that are constructed entirely from a standpoint of maximising competition.

A weakness of any economic analysis will be its inability to accurately determine the importance of 'intangibles', outcomes which do not have measurable values. The JCRA report is more limited even than a standard economic analysis in this case, as it is constrained by its terms of reference only to consider competitive effects on the customer, retailer efficiency, and the economy. It does not, crucially, measure wider economic effects such as the impact on government revenues, or possible displacement effects on employment.

This impact on government revenue could be significant. The effects will include a loss of tax receipts from multiple shareholders under the 0/10 tax scheme as profit is accrued by non-locally owned businesses. There may also be a marginal reduction in employment, and associated taxation, as the same consumer spend can be accommodated in a UK multiple at a lower level of staffing than in average local businesses. It is likely that this reduction will be absorbed in other sectors.

In its report, the JCRA notes that, should it conclude in this inquiry that the entry of a third supermarket is economically beneficial, then rejecting entry on the basis of a 'hypothetical and subjective'[11] adverse social impact will come at a cost to consumer welfare and the economy generally. This is an indicator that the JCRA is unable to account for, and therefore ignores, 'intangible' benefits. Ironically, these are often the factors that most heavily influence quality of life – community sprit, local distinctiveness, as sense of identity, etc.

The report itself is admirably clear about the terms of the review-

[11] JCRA, 'Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor', 14th March 2008, p10

"The terms of reference focus on the economic impact of new entry, without taking into account of how that entry is achieved (ie, how suitable land is acquired or the manner in which required consents are obtained)."[12]

The Panel considers that the JCRA, while highly capable within their own sphere, are not positioned to consider the many immeasurable effects of a multiple entry. The publication of the JCRA's advice to the Minister as a report, therefore, is not especially helpful as it clouds the issue by highlighting a benefit while openly declining to consider any potential downside.

Market consolidation

The JCRA state in their report that-

"Tesco has provided confidential empirical evidence that there was no net effect on the number of grocery retailers with the entry of an additional retail grocery operator."[13]

The Panel does not wish to engage in the criticism of Tesco that has arisen as a result of its unparalleled success in dominating the UK retail market. However, it must be recognised that Tesco has a significant interest in downplaying the effects of its possible entry into the Jersey retail market on local retailers.

In contrast to Tesco's assurances, a number of studies have indicated that there is a significant effect on local retailers following the entry of a multiple (or additional multiple) into a market already served by a number of small operators. An assessment for the UK government concluded-

"Our research identified impacts on market share of between 13%-50% on the principal food retailers in market towns and district centres as a result of large foodstores in edge-of-centre and out-of-centre locations. The decline in market share for the town centre convenience sector as a whole ranged from 21% in St. Neots to 64% in Fakenham, and 75% in Warminster." [14]

The Panel is aware that the data for UK market towns is not directly applicable to the local situation. However it sees no reason to allow the assertion of Tesco that its entry will have no effect on smaller retailers to go unchallenged. As noted above, Jersey with its large number of independent retailers is especially venerable to the effect of a multiple.

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[12] JCRA, 'Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor', 14th March 2008, p8
[13] Impact of Large Foodstores on Market Towns and District Centres, Department for the Environment, Transport and the Regions (UK), 1998, Section 21

Shoprite

The Isle of Man is seen by both the JCRA and the JCoC as an indicator of how Jersey's retail market would develop were a UK multiple to enter the Island. There is only one key difference in the interpretation of the information from the Isle of Man – the parties cannot agree on the financial position of 'Shoprite', a retailer based in the Isle of Man. The continued operation of the retailer is central to the economic arguments made by the two sides.

The JCRA is of the opinion that the Isle of Man is an example of a comparable economy in which consumers have benefited from additional competition due to the entry of Tesco into the retail market. This has increased the number of supermarket operators to three (Shoprite, Tesco, Marks and Spencer) and this should result in a drop in the price paid by consumers. After discussions with the operators of Shoprite (a family company) the JCRA has concluded that it will continue to trade in the market and so the transition from two to three supermarket operators has been successfully made.

The JCoC's position, based on meeting with Shoprite and an analysis of its accounts, is that the future existence of Shoprite is by no means guaranteed, and that were the company to fail its operation would in all likelihood be subsumed by Tesco, which would return the Isle of Man to a 'two-operator' scenario, and result in no increase in the number of competitive players, but will have cost the economy a previously solvent local business of considerable size.

The JCoC's understanding of the situation has been communicated to the JCRA, who addressed it in their report-

> *"In their submission, the Chamber believes on the basis of anecdotal evidence that, since Tesco entered the Isle of Man Shoprite has traded at a loss and its future is based on shareholder generosity rather than it being a successful commercial enterprise … This position, however, is not supported by evidence from Shoprite's annual reports for the years 2002-2006 and its half-year report for 2007."*[15]

The response from the JCoC was a robust denial that the evidence was anecdotal in nature.

The JCRA reading of the Shoprite accounts, and its subsequent interview with management, suggest that the business has returned a profit in every year since 2002, with the exception of 2005, and that the business has expanded by the purchase of 'Morrisons'. This profit-making and expansion has taken place at a time of increased competition from Tesco, and therefore the JCRA suggest that the conclusion can be drawn that the increasingly competitive environments has forced changes upon Shoprite that have benefited customers while at the same time allowing the company to operate effectively.

The JCoC position is that the accounts of Shoprite can only be made to show a profit under certain circumstances, and that the JCRA has accepted this method as it fits with its argument.

The criticism of the JCRA's calculation is that it does not account for debt interest repayable. The 'profits' that the JCRA refer to are, the JCoC suggest, a result of an increase in the overall turnover of the business, not of improved efficiency through competition. The JCoC suggest that the JCRA has been somewhat disingenuous by including the profit from the Morrisons operation that Shoprite has purchased, but excluding the cost of repaying the debt that allowed the purchase to be made.

The JCoC have calculated the profit of Shoprite, before and after repayment of borrowings, as follows[16]-

	12 months 2005	12 months 2006	28 weeks 2007
Turnover	£65 million	£70 million	£37.4 million
Operating Profit (Loss)	c. (-82000)	c. 415,000	c. 402,000
Borrowings	£9.6 million	£12.1 million	£12.4 million
Net Profit (Loss)	c. (858,000)	c. (395,000)	c. (88,000)
Dividends Paid	Nil	Nil	Nil

These figures show that Shoprite's borrowing has increased significantly, and that it is not making a profit year on year after debt repayment.

To indicate how this will affect the company, the JCoC has also calculated the 'Gearing to EBITDA' ratio. This is a measure of how many years profit ('earnings before interest, tax, depreciation, and amortisation' - EBITDA) it would take Shoprite to repay its loans, assuming that no interest was paid. (This is simply an indicator – even a modest interest rate would greatly increase the ratio). The conclusions were as follows-

	12 months 2005	12 months 2006	28 weeks 2007
Gearing to EBITDA	n/a (loss)	x 29	x 16

[15] Economic Impact of New Entry in the Retail Sector by a Large Supermarket, JCRA, 14th March 2008 p16
[16] JCoC correspondence to the JCRA, 13th May 2008

The results indicate that as at mid-2007, if Shoprite spent its money on nothing else, it would take 16 years to repay its loans, at a zero interest rate.

As a further indicator, the JCoC also measure the profit (before repayments) that Shoprite was making on its turnover-

	12 months 2005	12 months 2006	28 weeks 2007
Turnover	£65 million	£70 million	£37.4 million
Margin on Turnover	Nil (loss)	0.60%	1.07%

The JCoC has argued that any business that makes less than 3% is not viable in the long term.

The Panel considers that at its current profitability, Shoprite would be hard-pressed to maintain its position even without its expanding borrowings. In reality, with over £12 million of debt, there is little to no chance of Shoprite repaying this sum (even at a benign interest rate) and continuing to trade as viable concern. It is therefore likely that the Isle of Man will soon revert to a ‘two multiple operator’ scenario.

Food price inflation

The key advantage to the entry of a UK multiple, the JCRA report suggests, is that it will lower consumer prices. This is equivalent to lowering food price inflation, or lowering the Retail Price Index in respect of food. It is suggested that the application of competition theory to food prices in this scenario will trigger an inevitable fall.

The Panel is not willing to accept this assertion without verification, and accordingly has examined food price inflation in the Isle of Man, used as a comparable jurisdiction by the JCRA.

The Panel has found that since the entry of Tesco into the Isle of Man, food price inflation has been higher in that jurisdiction than in Jersey for six years out of the past eight, with Jersey’s food costs only rising faster than the Isle of Man’s in the past two years.

	Isle of Man July-July	Jersey June-June
2000-2001	7.00%	5.10%
2001-2002	7.90%	2.10%
2002-2003	5.60%	2.10%
2003-2004	4.30%	4.00%
2004-2005	4.70%	0.40%
2005-2006	3.00%	2.30%
2006-2007	4.20%	4.40%
2007-2008	8.80%	12.90%
2000-2008 total	**55.50%**	**37.90%**

The Panel recognises that there are more factors involved in food price inflation than the presence or otherwise of a UK multiple retailer. However, there is an anomaly apparent in the figures, namely that despite the theoretical effect of a UK multiple, food prices in the Isle of Man have increased more rapidly than in Jersey.

The figures, however, show a trend since 2007, accelerating in 2008, of food prices increasing faster in Jersey. This may be a result of some cushioning effect inherent in the presence of a multiple. But, like the price increase in the Isle of Man from 2000-2006, this is not apparent from the figures.

Notwithstanding the increase in 2007-2008, the fact remains that from 2000 (when Tesco entered the Isle of Man) to 2008, food prices have increased by 55.5% in the Isle of Man, but only 37.9% in Jersey.

Predominance of Tesco material in report

The JCoC has expressed concern that the JCRA has given greater ‘weight’ to the evidence provided by Tesco (which it has not published) than to that provided by the JCoC.

The Panel finds that the references to Tesco and the JCoC are numerically comparable – with 14 references to Tesco evidence and 12 to the JCoC. However, there is a significant difference in the manner in which the evidence is treated. The information from Tesco appears to be primarily about the cost of operation in Jersey, and seems to build the case that Tesco could undercut local operators, thus lowering overall prices. The information from the JCoC is primarily concerned with social welfare and the effects of such undercutting, with the possible effect of a local multiple leaving the island.

The reference (cited earlier) in the JCRA report to “hypothetical and subjective adverse social impact” indicates the value placed upon the evidence provided by the JCoC. This is unsurprising given the nature of the JCRA and the terms of reference of the report.

DTZ and the Jersey Competition Regulatory Authority

In July 2008, DTZ ‘one of the world's largest real estate advisers’[17] completed a study for the Planning and Environment Department into the amount and location of supportable retail development achievable in Jersey. Information for this assessment was gathered by a Household Interview Survey of existing shopping patterns, a survey of retailers’ attitudes, together with consultations with retailers and service businesses

DTZ have expressed a clear opinion of the effect of a new UK multiple operator entering the Island. They note that there have been expressions of interest from various parties, but consider that-

> *“In the UK there is a highly charged battle for market share taking place between the major food retailers, some of which have been very aggressive and successful in pursuing growth at the expense of smaller supermarkets and specialist food retailers. Such retailers will (if permitted) open new stores in locations where there is insufficient quantitative need, because they are confident that their great size and financial strength will enable them to take market share from smaller existing stores. Our retail capacity forecasts … indicate that this is likely to be the case in Jersey also. However, the strong interest from a deep discount supermarket operator supports our view that there is a significant qualitative need for one or more such stores on the Island. ”*[18]

This is clearly at odds with the position of the JCRA, but fits well with the JCoC position that a UK multiple will result in the loss of small retailers. Their position on deep discount retailers, however, gels with that of the JCoC, who have said-

> *“Chamber is not against a deep discounter in principle since this would allow consumer access to cheaper products. In fact prior to publication of the DTZ report Iceland has already opened up a store. The DTZ report also refers to a specific interest from another discounter to open a 5,000 square foot store and again Chamber would not have an issue with this. This would be proportionate to the size of the local market.”*[19]

[17] DTZ homepage, www.dtz.com/portal/site/Global, September 2008.
[18] DTZ, Jersey Retail Study 2008, Section 2.106 p29
[19] JCoC correspondence with Scrutiny Office – 10th September 2008. Reproduced with permission.

Key Findings

- The tight terms of reference set by the Economic Development Minister have resulted in a report from the JCRA that adds little value to the wider argument.

- The case that ‘three multiples is better than two’, and that this will result in lowered food prices, is not supported by a case study of the Isle of Man. The evidence indicates that one competitor is struggling while food price inflation remains higher than in Jersey.

- The latest consultancy report to the States (the DTZ report), clearly indicates that there is not sufficient capacity in the local market to support a third supermarket without significant negative effects on local retailers.

- A UK supermarket operator would not contribute to the tax revenue of the States, and threatens to remove from the market numerous small retailers that do.

- The JCoC has not positioned itself against the introduction of further competition in general, but solely the introduction of a UK multiple. It accepts that a deep discount retailer might be of benefit.

Conclusions

- The concept that the local market is overtrading has not been satisfactorily established. Only the Experian report has reached this conclusion, and this has been thoroughly discredited. The Panel is of the opinion that a policy based on this unproven assumption cannot be justified.

- The Panel concludes that the introduction of a UK multiple into a market which has not been established to be overtrading will have a negative effect on local retailers. Even the DTZ consultants employed by the Executive recognise that multiples that enter a market which cannot maintain them will take market share from indigenous businesses, and may thereby reduce overall choice by eliminating small businesses. The Panel does, however, support in principle the introduction of a deep discount retailer at this stage.

- The Panel also concludes that displacement is an issue.

- A UK multiple arriving in Jersey will require staff. The DTZ report suggests that this will remove local rival businesses from the market, thus creating a pool of redundant trained staff that the multiple can recruit. The JCRA on the other hand suggest that the effect on local businesses will be negligible. This would require additional employment of mainly low-skilled staff (against current policy) resulting in turn in increased immigration. The Panel concludes that both of these scenarios are problematic.

- The Panel concludes that the Economic Development Minister has not addressed the serious concerns outlined in this paper, and that he should be required to do so prior to permitting a UK multiple to enter the Island.

- Furthermore, the Panel is concerned that, having failed to make a clear case for a third multiple, retailer he should already have commissioned a survey on the subject in an attempt to drive through a potentially damaging policy.