

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2014 (P.122/2013): SECOND AMENDMENT

**Lodged au Greffe on 19th November 2013
by the Connétable of St. Helier**

STATES GREFFE

PAGE 2, PARAGRAPH (a) –

After the words “as set out in the Budget Statement” insert the words –

“except that the estimate of income from taxation during 2014 shall be decreased –

- (i) by £989,000 by increasing duty on all categories of alcohol by the June 2013 RPI figure of 1.5% and not by the percentages proposed in the draft Budget Statement;
- (ii) by £866,000 by increasing duty on all tobacco products by 4.5% (being the June 2013 RPI figure of 1.5% plus 3%) and not by 11% as proposed in the draft Budget Statement;
- (iii) by £100,000 by increasing duty on fuel by the June 2013 RPI figure of 1.5% and not by 2% as proposed in the draft Budget Statement;”.

CONNÉTABLE OF ST. HELIER

REPORT

This time last year I tried to reduce the above-inflation increases in alcohol duty the 2013 budget. My amendment (P.102/2012 Amd.(3)) argued that restricting increases in duty on all classes of alcohol to 2.5% would be in line with the States' anti-inflation strategy. It was lost by 6 votes, a result which might have gone the other way had the Minister for Economic Development and one of his Assistant Ministers spoken in support of the amendment as well as voting for it.

My reasons for urging the States Assembly to resist the efforts of the Council of Ministers to treat impôts as a blank cheque to fund their spending plans have changed very little from last year when I argued –

‘... that such large increases in the cost of alcohol cannot be justified, as they will add to inflation and continue to put pressure on licensed premises, where the consumption of alcohol can be controlled far better than home consumption. The liquor trade has long argued that higher than inflation increases in alcohol impact on licensed premises sales far more than off-licence sales, where drinks promotions are common (whereas they are not allowed in pubs and clubs).

For several years, a 2.5% increase in States charges was assumed to be the correct level as part of the Island's efforts to stem increases in the cost of living.

Health arguments have been used in the past, and will no doubt be used to justify the significant rises in alcohol duty proposed in this Budget. However, I believe that the Council of Ministers needs to focus its efforts on reducing the impact of alcohol abuse through educational measures. Attention should also be paid to moves in other jurisdictions to tax alcohol in a way that does not encourage drinking at home, i.e. by investigating the minimum pricing of alcohol. This would ensure a level playing field between off-licences and licensed premises in the Island.’

In spite of various commitments given during previous budget debates, we have yet to see an evidence-based approach to the setting of impôt levels, whether on alcohol, tobacco or fuel; instead we hear the usual questions about prices and margins, stark tales of the evils of alcohol abuse (which will be unaffected by duty increases, however swingeing), promises of strategies in the pipeline to tackle health and social issues, and statistical comparisons which are open to challenge. I have included some recent correspondence from representatives of local brewery companies which illustrate this, besides making, I believe, several other valid points about the proposed above-inflation increases in this year's budget. Members will also be able to consider the responses of the Corporate Services Scrutiny Panel, whose Chairman argued in the last budget debate ‘it is time to peg increases’ and to stop treating impôts as a ‘cash cow.’

Indeed, what I would welcome from the Minister for Treasury and Resources is a commitment to peg increases in duty on alcohol and fuel to RPI, with an extra percentage increase applied to tobacco. Not only would this spare the States Assembly an annual debate on impôts, but it would offer some stability to the various sectors of Jersey's economy which rely on selling these products. In the UK the Chancellor of

the Exchequer gave breweries a much-needed boost of confidence in March this year by lowering duty on beer, while Guernsey has adopted a policy-based approach to its increases in tobacco duty.

Local businesses in the Island's vital tourism and hospitality sectors have continued to invest heavily in licensed premises in spite of the recession; I believe that a commitment to RPI-based duty increases is the least the States of Jersey can do to support them. At the same time, we will be breaking our bad habit of punishing the majority of Islanders who drink and smoke in moderation, and whose use of fuel is as sparing as their circumstances permit.

Deputy Baudains' amendment to remove completely the proposed increase in fuel duty was narrowly approved in last year's budget debate, and the arguments made during that debate are worth reading on Hansard (4th December 2012, 9.3.1–11). I would hope that a majority of States Members would agree that pegging the duty increase at RPI is an acceptable way forward while we await the promised 'debate' about prices and margins. Answering questions on 8th October on his statement about the 2014 Budget, the Minister for Treasury and Resources once again suggested that it is the industry that is taking unreasonable amounts of profit, and that States' Members' "benevolence in not increasing duties does not translate into margins, into actual consumer prices either being stable or falling for consumers. The opposite is the case and we need to have a Jersey-wide debate and we need to shine the torch into these areas ...". As a lay-person in these matters, I have no idea whether margins are unacceptable in the fuel supply industry, but I think that duty increases in this most essential of products should not rise above RPI until the case has been made.

My amendment proposes a 3% above RPI should be applied to tobacco duty, as there is evidence that recent hikes in tobacco duty are simply driving higher duty-free sales, and the importation of illegal amounts of tobacco. In any event, it seems a sensible course of action while we await the Channel Islands Competition Regulatory Authority's delayed report into tobacco price margins (originally due last May). The numbers on consumption, revenue, imports and duty-free use certainly do not support huge duty increases as a kind of stand-in social policy on tobacco use. There is clearly a role for such a policy (earlier this year the Assembly made decisions about the display of tobacco, and a consultation into banning smoking in open places has recently taken place), but that policy should come from the Health Protection department, and should be evidence-based and thoroughly debated. The department is about to commence work on the next tobacco strategy, which picks up when the existing strategy expires at the end of 2015. That is the right time and place to deal with questions about tobacco duty, not a budget debate.

Financial and manpower implications

There are no manpower requirements arising. The financial implications are self-explanatory from the amendment itself: if it is adopted, overall States income in 2014 will reduce by £1,955,000 as a result in a lower than proposed increase in impôts duties.

APPENDICES

1. Letter from the CEO of the Liberation Group to the Chairman of the Corporate Services Panel, 24th October 2103.
2. Letter from Chief Executive of Randalls Limited to the Chairman of the Corporate Services Panel, 14th October 2013.
3. Letter from Chief Executive of Randalls Limited to the Minister for Treasury and Resources, 8th November 2013.

APPENDIX 1

Senator S.C. Ferguson
Chairman – Corporate Services Scrutiny Panel
States Greffe
Morier House
St. Helier
JE1 1DD

24th October 2013

Dear Senator Ferguson,

Review of the Draft 2014 Budget Statement

Thank you for your letter dated 14th October 2013 inviting the Liberation Group to make a written submission regarding the Draft 2014 Budget proposals. Our submission relates to the planned duty increases of tobacco +11%, Beer (5% abv+) and spirits +11% and Beer below 5% abv and wine +5%.

We feel that these proposed increases are excessive and will cause real harm to Jersey's tourism hospitality sector as well as hitting the hard working people of Jersey. With June RPI at 1.5%, these increases are between three and seven times the rate of inflation!

The poorer in society tend to be higher consumers of alcohol and tobacco and this rise is therefore particularly targeting this section of the community which feels unjust.

If the proposed beer increase was applied, duty on a 5% abv pint of beer such as Peroni for example would be higher than the UK (53p UK per pint versus 57p Jersey) where politicians have finally stopped their relentless duty increases and actually reduced UK duty on beer by a penny a pint. This move in April 2013 boosted UK pub spend by 4% (Source: Barclaycard research comparing 2 weeks preceding and 2 weeks following the duty cut, adjusted for seasonal influences).

When we look at our other European neighbours, the duty on a 3.8% abv litre of beer post the proposed increase in Jersey at 61p is now well ahead of Spain 25p, France 24p, Greece 9p, Italy 8p and Germany 3p. Remember also that we add 5% GST to this duty in what is a tax on a tax.

Similarly the duty on a litre of 40% abv spirits will be £12.79 in Jersey versus £11.29 UK, £2.89 Spain, £5.87 France, £8.52 Greece, £2.68 Italy and £4.53 Germany. (Source: European Commission Excise Duty Tables. Euro rate calculated 1.15 to £)

The result of the proposed spirit increase would actually see Jersey move to having the third highest duty rate in the whole of Europe behind only the states controlled alcohol monopoly markets of Sweden and Finland.

The proposed tobacco increase will push smokers further into smoking duty free tobacco, already at least 41% of tobacco smoked in Jersey has no duty paid and recent increases have seen this figure grow with no impact on the stated claim that high duty will reduce smoking. (Source: CITIMA 2013 Jersey duty free survey).

We have been unable to find another global market that has seen such heavy and relentless duty increases through the course of the recession, even Guernsey is only seeking an increase in tobacco of +5.7% (in line with their tobacco strategy of 3% above RPI) and alcohol of +5%.

Jersey's duty increases are a blunt instrument that clearly has not worked in the past. Actual duty collections are markedly down in 2013 after last year's excessive rise, 2014's proposals would deliver the same result! Looking at alcohol importation trends over the past 40 years, you can clearly see the large reductions that have taken place in Jersey duty collections. We therefore see no evidence to back up the claim that the alcohol duty increases for example would raise £1.25m in extra duty?

We feel that the budget should be supporting economic growth and jobs, rather than attacking the hospitality sector and the people of Jersey. This is the worst possible time to hit us with these increases as we are struggling to see any green shoots of economic recovery in the island.

The hospitality industry in Jersey faces high operating costs compared to our competitor markets so it is important that our sector of the economy is not constrained further through excessive above inflation duty increases and we are allowed to try and remain competitive particularly as we expect significant challenges again trading in 2014.

We continue to work with the various initiatives to get more locally qualified people in to employment, with up to half our employees in our pubs aged 25 and under, we clearly have a key role to play with recruiting and developing this key age group and the proposed increases would impact on our ability to invest in our people.

There are various comments in the Draft Budget Statement regarding purported health benefits from the proposed increases but we have seen no evidence from anywhere around the world that clearly demonstrates increasing duty benefits healthy drinking. The two are completely unconnected.

Only last week in the UK it was revealed that alcohol consumption continued the decline which has been ongoing since 2004. This fact challenges the inaccurate perception that there is a general issue with alcohol. There are specific problems with a very small minority of Jersey's population but these need to be solved with targeted education, increasing duty will have no impact on their consumption habits.

One of the unintended consequences of continual excessive duty increases is to drive people to seeking cheaper alcohol from the supermarkets. This switch of consumers out of the regulated environment of the pub and into home consumption does make it harder to control sensible and under-age drinking. The on trade is also a labour intensive way to retail alcohol and supporting the on trade through restricting duty increases will help retain and create employment. Finally, the pub has been at the centre of the community for Jersey for many years, to lose this would have a real impact on the wider Jersey community.

Finally, in a PR move to try and bury the bad news of these excessive proposed increases, we were dismayed to find our sector under attack for charging too much for retailing alcohol. There are high costs of operating in Jersey ranging across many areas including transportation costs getting goods to the island, utilities, refuse collection, repairs and maintenance, Sky subscriptions, legal fees etc. We recently refurbished the White Horse pub and we believe it cost c.£250k more than it would have in the UK due to the high cost of local labour and materials.

The table on page 43 of the Draft Budget Statement was used to attack the hospitality sector on pricing but we do not believe the figures are an accurate representation of the facts, indeed the note below the table confirms they are from a narrow range of sources with considerable price variations.

To look at the facts on pricing, the average Jersey Retail Price for a pint of standard lager in our 74 pubs is £3.50 for Carling, not £3.79. Indeed I had a pint of our standard 4% abv cask beer, Liberation Ale, in the Post Horn last night and paid £3.05.

The UK Retail Price for a pint of standard lager is £3.50, not the £3.30 in the table so again the figure in the table is incorrect. (Source: London & SE Average Price per Measure of Alcoholic Drinks, GB On Trade, Beer & Pub Association Statistical Handbook Oct 2013.)

In summary, we feel that it would be a disappointing legacy for the members of the States of Jersey to continue the excessive duty increases throughout the recessionary years, a move that to date has led to actual reductions in the amounts of duty collected but caused many negative impacts across the Jersey economy.

We are a business that has invested heavily in Jersey, we employ up to 500 people and we provide enjoyment to thousands of customers every week. We feel that the proposed increases are excessive and unjust. We hope that some of our arguments above will support our view that this is the time to give something back to the hardworking people of Jersey whilst supporting economic growth and jobs for 2014.

Yours sincerely

Mark Crowther
Chief Executive Officer

APPENDIX 2

Senator S.C. Ferguson,
Chairman,
Corporate Services Scrutiny Panel,
States Greffe,
Morier House,
St. Helier,
JE1 1DD.

Reference Review of Draft 2014 Budget Statement.

14 October 2013.

Dear Senator Ferguson,

Thank you for allowing us the opportunity to comment on the recently published draft 2014 Budget.

Our interests are naturally focussed on the once again above inflation rises proposed for alcohol and to a degree tobacco.

We have seen our business decline over the past number of years, due in part to a fall in tourism, the poor economic climate, unemployment, the smoking ban and the high cost of doing business here in Jersey.

Compounding the decline has been The States desire to increase Impot Duty at every opportunity, using the health issue as main reason.

Recently the Treasury Minister announced that he will “shine a torch” on our pricing structures and went on to produce various figures for alcohol prices both here in Jersey and in the UK.

We really are at a loss to find where the Minister obtained his information as prices quoted £3.79 for an average pint of lager in Jersey when it is actually £3.30.

The UK figures produced were again, we guess based upon the lowest they could find. It is also worthy to note that the UK, unlike Jersey, can promote the sale of alcohol, through a variety of offers including price reductions.

In addition many UK outlets have benefit of large income from gaming machines AWP, for which Jersey is still awaiting permission. Locally our reaction was for the Gambling Commission to decide that Thrift Clubs would need to apply and pay for licences.

Notwithstanding the above, we as an industry are encouraged to promote responsible drinking. Some while ago we wrote to a number of States members outlining the brewers idea of introducing a low gravity lager.

Our proposal was to apply a sliding scale of duty as they have in the UK, as opposed to our two tier system whereby we tax from 1.2 degrees alcohol up to 4.8 at one rate and then it jumps by 50% for product above 4.9%.

Our suggestion was to have, as in the UK, a one tier system on a sliding scale, where low alcohol product could be promoted at a price point and customers were encouraged to drink a lower alcohol product.

Unfortunately only Senator Le Marquand responded saying he would look into the information provided, to date nothing more has been heard.

If the proposed duty increase is passed then we can foresee certain outlets closing, this will further add to unemployment, result in less choice for both locals and the few visitors we have.

Indeed the rise on spirits of £1.27 a Litre will bring Jersey to the third highest duty level in Europe with only Sweden and Finland ahead of us. This will doubtless encourage more drinking at home, pre-loading and personal importation via duty free.

I can recall the days when the Island was literally bursting at the seams with tourists. The Town was full of visitors with shops open throughout the season until 21.00 in the evenings.

Many of our shops were off licences, where visitors bought their “duty free” prior to the introduction of decimalisation I remember that a bottle of proprietary brand whisky sold for Twenty Five shillings and Sixpence...

So it is quite ironic that the proposed increase, albeit on a Litre of whisky is proposed at 25/6d or £1.27p

The rise proposed for beer is higher than inflation, once again no consultation, not even with the Ministers own Customs officers.

As is explained above, another hike that has not been thought through, which apart from the risk of pubs closing, will do nothing to increase Impot income as can be evidenced from the graph I enclose.

The graph shows the decline in Beer imports from 1998 at 480,000 litres down in 2012 to 370,000 litres. The graph also shows Jersey in the tourist heydays, 1978 importing 830,000 litres of Spirit down to 160,000 litres in 2012.

Quite an achievement some may say, but it really demonstrates the Law of diminishing returns very appropriately.

Summing up, this proposed increase we feel will be the last straw for some outlets. It will further distance Jersey as a tourist destination, it will cause more people to drink at home, it will deny the majority who drink responsibly, those on low incomes, those on pensions, the opportunity of a social time or a pint at their local.

We would hope that on this occasion common sense may prevail and the increases as proposed will be voted out.

Kind regards,

David Le Quesne
CEO Randalls Limited.

APPENDIX 3

Senator P. Ozouf,
Cyril Le Marquand House,
St. Helier,
Jersey.

8th November 2013.

Reference: Responses on proposed duty increase.

Dear Senator Ozouf,

We have been asked, ahead of our meeting on the 14th November, to comment on the harmful effect that alcohol has on the resources of the health and home affairs department.

We believe that the issues related to the abuse of alcohol really need to be put into perspective. On most week-end evenings, when the majority of trade is done in various pubs, clubs, restaurants and night clubs there can be up to 6,000 plus people on the streets of St. Helier.

The majority of those people who come out, have a good time and go home quietly and safely, sadly it is the minority who cause trouble, and these are the cases that the media focuses on.

Headlines like “Ten arrested for drink related incidents”, the report will never say 5,990 people went on a night out and got home safely without incident.

More alarming is the amount of alcohol that is now sold at retail level for drinking at home which as you are aware is uncontrolled and now seems to be the new vogue of pre-loading before going out for the evening.

The Police seem to have little or no powers to allow them to confiscate alcohol from youngsters and those obviously under the influence who brazenly drink in the streets, parks, Liberation Square, the Esplanade to name but a few.

Giving Police these powers may deter those who walk into Town on most week-end evenings brandishing cans of beer, bottles of wine and spirits, who then try to gain entry to pubs, clubs and bars.

Many of our managers have often asked what happens to those that are turned away.

Presently retail outlets seem able to obtain a Sixth Category licence with little or any checks, many of the small shops that sell alcohol often have a youngster behind the counter or till.

We are not aware of any training course related to the sale of alcohol that is undertaken by staff in these types of shops

Most supermarkets now actively promote the sale of alcohol with huge price reductions; buy one get some free offers and other discounts set to entice and tempt people to buy greater volumes.

Why is there no regulation applied to holders of Sixth category licences as there are applied to holders of First, Seventh and Night Clubs?

We regularly turn persons away who appear under age or under the influence, many of the underage persons hold or present fake ID's doctored Passports, driving licences, etc. It would seem that the possession of forged documents is not seen as an offence here in Jersey.

When we pointed out that for the purpose of travelling one is required to present ID, then surely if that ID is forged there must be safety being compromised, we still await a response.

Our current duty system is weighted unfairly by having two bands and by not being progressive. I have written on many previous occasions pointing out that low alcohol beers are being produced and to have a progressive duty from say 2% would make the pricing of low alcohol beers more attractive.

Surely this could be considered instead of the blind heavy hand of imposing high increases on an annual basis.

Finally as many pubs are the social hub for a lot of customers who do drink responsibly. We believe that the continued above inflation rise in alcohol duty is hitting law abiding customers who are seldom the drain on Health and Home affairs as is so often portrayed.

There are many other issues that I am sure will be raised during our meeting, to which we look forward to being aired.

Kind regards,

Yours sincerely,

David Le Quesne.
Chief Executive Randalls Limited