

STATES OF JERSEY

Economic Affairs Retail Strategy Review Sub-Panel

THURSDAY, 22nd FEBRUARY 2007

Panel:

Deputy G.P. Southern of St. Helier (Chairman)

Deputy J.A. Martin of St. Helier

Deputy K.C. Lewis of St. Saviour

Witnesses:

Mr. K. Keen (President, Chamber of Commerce)

Deputy G.P. Southern:

Last this evening but by no means least, the person who initiated this inquiry because he pestered me and said: “Why do you not you look at this?” He sent me some early material and I thought: “Yes. I think we have got a space we can do this in and I think it is worth doing.” So, yes, we have heard tonight of Experian and its developments from there. We know that Kevin Keen, Managing Director of the Dairy, has some criticisms and we would like to hear him tell us about them.

Mr. K. Keen:

Okay. Well, thank you, everyone and thanks for taking this on and looking at it. We really did think it was important that an evidence-based review was carried out. I should first of all declare a couple of interests. First of all, my family own 4,390 shares in C.I. Traders and they have a value of 3,900. They are mainly my daughter’s, I have to say, and they have not been a very good investment. I think the other 2 more significant ones are that I did work for Le Riche’s for over 17 years and I held a number of roles in that organisation and, in the last few years, they were both quite senior. One was in finance and one was in general management. I ran their supermarket business for a couple of years. Then finally, as you said, Deputy Southern, I am at the Dairy now and we are suppliers to all retailers and the supermarkets, obviously, are our big and very, very good customers so they have been very supportive of us. So, I know you will take into account what I say in the light of that as well as my position as president of Chamber.

Deputy G.P. Southern:

Well, the floor is yours if you would like to explain your position on the retail strategy, then we will take

it from there.

Mr. K. Keen:

Okay. I think the first thing, you know, you have heard lots about Experian but if I could just say a quick few things. I mean the first report was produced in June 2005 but it was not issued until August 2005. It cost 62,500. As far as we know, there were no discussions with consumers; there were no discussions with retailers; the selling space was estimated; the sales value was estimated with some old household expenditure figures. The key conclusion of that report was that, in essence, shops were too busy. In other words, their sales density was 35 per cent higher than the UK and they quoted existing floor spaces overburdened with excessive consumer demand. There was an acute need for more floor space: 100,000 square feet of food, that is about equal to 4 Co-op Grand Marchés, and 150,000 square feet of what they call comparison goods, which is non-food products. It did not sound right to any of us and so we decided to commission Professor Sparks from the University of Stirling to do a review and that was published in October 2005. I think his key recommendations were - and there were lots of them - check the numbers, make sure they add up. It sounds ridiculous for a 62,500 report but that was one thing. Wait for the latest Household Expenditure Survey because that is going to be published quite shortly and, in all those things, understand what I would call the trade offs; what it is that you get and what it is that you lose. In January 2006 there was a retail workshop run by the Economic Development Department and there were some consumers there in fairness and there was also a French retailer who was promoting his business. There was a representative of Experian there and Professor Sparks was invited along. Unfortunately, the amended *Experian Report* was still not available, even though it had been published, according to the report, in December 2005. We pushed for it, Professor Sparks pushed for it, and it was finally published in February 2006, so this was after the workshop where they brought this chap along to explain some of the problems. When that report came out the sales densities, i.e. the how busy are shops, had been changed from 35 per cent to 2½ per cent higher. So shops were not 35 per cent more busy than UK shops; they were 2½ per cent busier. I know we are supposed to submit the evidence but I have just got the 2 sheets so you can see exactly what has happened. The reason was that they had counted the space incorrectly. They had missed out some space that was in their own report. Now, retailers had disputes about whether they had got the space right in the first place because, as Mr. Smith had said, they had not asked anybody; they had not looked at any records. This was just a straight adding mistake and the strange thing about it was the adding mistake gave a result that said shops were just too busy and I have the 2 sheets there highlighted so you can see where the error was. The conclusions of the report, amazingly, from being 35 per cent overtrading to 2½ per cent overtrading were exactly the same. We still need another 100,000 square feet, 4 Grand Marchés more or less, and we need another 150,000 square feet of non-food. There were loads of other arguments about even if that figure was right because we were still working on an old Household Expenditure Survey and I think there is a slightly more difficult argument to get your head round. Sales densities are supposed to be about the volumes of goods. So if you go into a store and buy one tin of baked beans that is one tin of

baked beans. In Jersey it is accepted that that tin of baked beans is probably going to be more expensive. You have still only sold one tin of beans, so the sales densities were also exaggerated by the fact that prices were higher in Jersey in any event. Does that make sense? I mean effectively we have almost got a different currency; although they are both called pounds, prices are higher here and therefore when he was saying: "What is the volume of goods?" and expressing them in money, that was a misleading thing. That felt right to me. I have got a great interest in the thing. That felt right to me because I always thought there were too many shops in Jersey, that there were lots of convenience stores. Not too many in the respect of let us get rid of some but there are a lot of shops. There are 34 petrol forecourts, lots of village stores and everything like that. Anyway, I think our conclusion was that the -- and I think it is fair that this *Experian Report* is absolutely, wholly discredited and I cannot think of anything that you would want to use it for. Well, I can just think about one thing. **[Laughter]**. In fairness to Senator Ozouf when he published his business plan in early 2006 he did state and accept that there were problems with the *Experian Report*. I have not got the direct quote with me but I could get it and he said: "Jersey can look to other locations to learn how not to rip the heart out of the High Street". So he seemed to be accepting that there was an issue with these Experian reports and they needed to be treated with great caution. We thought they were listening at that point and we were pleased about that. During March 2006 there was the beginning of some consultation. It seemed very hurried and we were not quite sure what it was, but I think that eventually it came out that they had to make some responses about the waterfront development and that there was a need to get another piece of paper out to support potential retail on the waterfront. We wrote to Mr. King in March 2006 and gave him our views, again, about Experian and also about development of a big supermarket on the waterfront. On 29th June the so-called framework for managing the development of the retail sector was published. That was just about 13 days before the Household Expenditure Survey was published, both from the States of Jersey. I found the report very difficult to understand and I guess I have become even more puzzled tonight when the previous witnesses have said that they did not rely on Experian in coming to this view. I am left with the question of, although they quoted extensively from it, if they did not rely on it what did they rely on? But on page 4 of the report (the Framework for Managing the Development of the Retail Sector in Jersey- the Framework) it says: "The retail sector in Jersey is one of the largest in the Jersey economy, both in terms of employment and GVA (gross value added). It employs just over 7,000 people or about 16 per cent of the employed in the Island, the largest employer outside of the finance sector. Wholesale and retail contribute to just over 200 million in GVA, equivalent to nearly 7 per cent of the economy overall, the second largest sector outside of finance. This equates to about 30,000 worth of GVA per employee, the 9th largest and the highest." Well, I have Mr. Peedle's review of the Jersey economy published December 2006 and quite interestingly, rather than say the 9th he should have said one before the last. Also interestingly, they quote the GVA per employee in the retail and wholesale sector of 30,000 but they do not care to mention what the GVA per employee is in the finance - 140,000. So the inference of this thing is that retail is the absolute powerhouse of the Jersey economy and I just would invite you to read it again and see what impression you get. Finance produces

1.6 billion; retail produces 230 million. The sector is heavily employee reliant and it generates low margins. The GVA per employee is worse than agriculture. That does not come out to me. I, obviously, have an interest, but that is not what comes out to me. GVA, as I understand it, is about profits and the wages of the staff that are involved. So what I would say is to think about where do retailers get their customers from and their profits from. They get it from the industries like finance, like the public sector. They do not create wealth; they service the community. If people were sort of beating down the door to come and see a Tesco because they have never seen one and coming here on holiday to see one, then I could understand why it is just the thing that you would want to put a very finite resource to: people and land. In the Framework report on page 10, when I was listening to the previous evidence, I got the impression there was talk about using the 50,000 square feet to build a few little stores and a bit of this and a bit of that. On page 10 in the top paragraph it says: "Given the likely size of some larger stores in the Island, if a new entrant was allowed to compete on equal terms with the current incumbents then it should be allowed to open a store in the region of 40-50,000 square feet. A larger store should not be ruled out but the risks that it will have a major impact on existing retailers, suppliers in the High Street will be much greater and therefore the issue would need more detailed consideration." 40-50,000 square feet is getting on for double the size of the existing incumbents in the Co-op and the Checkers at Plat Douet Road. At 50,000 square feet it would be hard for the store to dominate the market. Well, the annual sales projected by them, it was said yesterday, are 75 million and we have now heard that that is half the food market. I think that is getting pretty close to domination. Then on page 12 it (the Framework) talks about 500 to 700 new jobs. Well, I agree with the questioners before. Where are these people going to come from? If it creates competition among other retailers to attract those staff you will get inflation in pay rates. You are attracting staff to the sector that produces a lower GVA per employee than agriculture, according to the Economic Department's own figures. But I think on page 12 of the Framework in the middle paragraph it says: "The impacts on existing businesses would also depend on their ability to respond. It cannot be ruled out that a significant new entrant would lead to existing retailers large or small leaving the market." So it seems to me that what they are saying in other words is additional competition is likely to be temporary. It will replace local with non-local. It will replace taxpaying with non-taxpaying and we would be back to where we are now, potentially worse. On page 16 of the framework it says, the bold font in talking about the information and in talking about Experian which this thing is not based on: "However, the only way to be sure will be to see the next set of Household Expenditure data when it is available later this year." Or more or less lately this week; it came out 13 days later. On page 17 of the Framework it says: "However, [bold again] the data is an estimate and as such there is a margin for error on both sides. It is important to bear this in mind when considering future decisions concerning the retail sector." Well, the HES, published on 12th July by the States, said that the Experian Report overstated the food market by 28 per cent or 55 million and overstated the non-food market by 11 million or 5 per cent. There was no account taken of internet shopping or anything like that or shopping from outside of the Island but I do not think that many people buy their groceries outside of the Island or by the internet. Of course we are still waiting for the report

which talks about the regeneration of town. So I cannot understand why the framework did not wait for this data or, at least, if when the data came out it was not immediately withdrawn, because if we are going to make decisions about economic growth we should surely make them on some sort of data rather than say: "Well, we did not like the Experian one so we will not have 100,000. We will not base this on anything. We will have 50,000 because we want more competition." But probably we will end up with no more competition than we have got because we will have replaced one with the other. Tesco, just looking at their reports today, have 2,672 stores. Their sales are 42 billion. Their profit last year was 2.2 billion. Their chief executive gets paid 4 million per year. The average pay per staff member is 10,000. The Co-op average pay per member of staff is 24,000. The Co-op sales are 111 million and last year their profit before tax and exceptional items was 7 million, so more than half of the Co-op's profit would go to pay Tesco's chief executive. However the Coop pay their profits to their owners, the customers. Wal-Mart owners of Asda have sales \$312 billion, 6,000 stores, and a profit before tax \$17 billion. Jersey would just be a small light on a very, very big map and yet at the moment we are lucky enough to have retailers where they can be named and shamed in the JEP (*Jersey Evening Post*), where it matters to them if they are. We saw what happened to C.I. Traders. That would not matter a damn to any of these people. Do you want questions? Shall I stop ranting?

Deputy G.P. Southern:

I was enjoying listening.

Mr. K. Keen:

What I would say is it is all about competition. They had a review from the **JCRA**. They have not found that anybody has committed a breach of the law. We have asked them (the Economic Development Department) to do an economic impact assessment, which would be required in America. What exactly will consumers get? What exactly will they get? What will they lose? How much will the economy grow? How much? Is there something we could be doing better with the resources that we have in terms of land and people? What will be the impact on tax revenues? I do not think it is good enough to produce this piece of paper based on something that was wholly wrong and just say: "We will see what happens. We will find 500 people from somewhere." It is not a great quote but I would say competition is like spice in your cooking; the right amount will liven it up, too much and you get indigestion. This is what we need to be careful of because we will end up back where we started, or worse only with one retailer where we are one of 6,000 stores or one of 3,000 stores rather than one of 20 and somebody who lives and pays tax in the Island. That is why we want this framework withdrawn and if there is not enough proof now, I do not know what else we have to do.

Deputy G.P. Southern:

Okay. Point well made. Of course, I must start on the obvious question. You represent the Chamber of Commerce who represent, in turn, many small traders. What have you to say to those who say: "Well,

he would say that”?

Mr. K. Keen:

Well, of course, I would say that is my job but I think what we have tried to do is we have tried to put evidence before it. We asked Professor Sparks, who is a highly reputable expert in retailing; he has more to lose than his reputation over some piece of work in Jersey. Frankly, I make no apologies for defending the interests of our members and most of them are smaller businesses in the Island because I think they are the things that make Jersey different and special and they pay tax here and they pay their staff more and without any quantification as to what we get from the new entrant. What do we get?

Deputy G.P. Southern:

We have a fairly good response from the public out there and I must admit the letters are -- the piles are about equal, 50-50, saying: “Yes, please get a new supermarket in. It will be good for us. It will bring prices down and the rest.” The other half saying: “No, that is not what we need. We are okay as we are.” The central argument, it seems to me, is around that issue of will additional competition bring down prices? How do you respond to that basic question?

Mr. K. Keen:

Well, I think the question is how long will it bring them down for and by how much and what is the price of that. I mean one thing that would potentially happen is that retailers would start to rationalise their estate. They would be unlikely to close their larger stores, which I think we have heard already tend to be more efficient in terms of making money because you need one store manager, whether you have a store with 10 staff or 120 staff. So what would be likely to happen is that those stores would start to close. You can see good examples of it elsewhere, village like St. Ouen’s, I always think of the one opposite St. Ouen’s Church, and St. Aubin, those stores would potentially go. So if you said to the consumer: “But you always have to get in your car because there will not be any shops just around the corner” or: “When you are driving home from work and you have been working all day and you really just want to pop in and get a newspaper and a loaf of bread and a litre of milk and it is basically the same price wherever you go for those sorts of items, well they are not there any more” I do think consumers might have a different idea. This is the thing we have always been trying to say is just understand that these guys are not charities. They are here to make money and the retailers from outside of the Island are also going to be here to make money. We see it with UK retailers that are already here. The JEP puts in a thing about them charging VAT (value added tax) but they do not read the JEP so they do not care. You know, this is the difference. When you have a locally-owned business people do care because they do not want to have their face on the front of the JEP, they do not want to be named in the States Chambers, they do not want to bump into people in the street. They want to make a profit, of course they do, but it does not always revolve around, you know, an expert from outside of Jersey will always come and sort of change things. Somebody from outside the Island is always going to be better

than somebody from within it. On the job front, you see a situation where there was a range of jobs in retailers and their local suppliers. You know I worked in one of them for a very long time. We had a marketing department. We had a finance department. We had a buying department. We had a computer department. Safeway, if you went into Safeway, the store had some part time checkout ladies and a manager probably, I do not know for sure, but they did not need any of those other high value jobs. They put those jobs somewhere else, somewhere cheaper. So the only jobs that they would be the ones they have to have in Jersey and that would be the lower paid jobs. This is a reason why these retailers are so powerful, because they have this massive scale, as Mr. King and Mr. Peedle said, and they have one computer department for 6,000 stores local businesses will also still need a computer department even if they only have 60 stores or 20 stores. The Global retailers like Tesco and Wal-Mart can have more buying power but they do not always apply that just to the consumer. I think a good example of that is if you look at the Household Expenditure Survey and see what people spend on food in the Island. They spend about the same proportion of their expenditure here as they do in the UK, about 10 per cent. So, you know, it is a different place and people do things differently and they buy things differently. I do not think pensioners in the UK would necessarily say: "Wow, is it not great, we have Tesco over here." Because if they have to get in their car and drive 15 miles to one, you know, maybe they do not want to do that. Maybe they cannot do that.

Deputy G.P. Southern:

You mentioned in your evidence that you suspected that some of the hurry-up was about the potential to site a new supermarket down at the waterfront. Can you talk to us a bit about potential siting and what the different effects might be?

Mr. K. Keen:

Yes. I mean I think the key point is the size of the store. That is the absolute key thing because, you know, when a store gets to 50,000 square feet it can have a big range of non-food as well. It needs a lot of car parking but it takes absolutely serious money and it does not then just hurt food retailers, it hurts every retailer and, as I said before, it will not buy local services. If Tesco were here, they would not need to advertise in the JEP because they are advertising on the TV. You know, you have to think through those things. Locations, I would think the absolute ideal site in the Island would be probably the waterfront if you wanted to have a supermarket. If you were a supermarket operator and you said: "What is your dream come true about Jersey?" 50,000 square feet on the waterfront is probably it. It is right where the population is. It is right where the traffic is. So, I think, you know if somebody has been saying: "Here we are, invitation to cheaper stores" or "New stores for Tesco on the horizon, where would you like to go?" the waterfront has got to be one of the strongest opportunities to grow our economy. So, you know, Pizza Hut, Kentucky Fried Chicken and Tesco - great, just what the visitors to the Island really need. What we were hoping for on the waterfront was something that would bring new money into the economy. The Centre Parcs idea that Mr. Crossland was trying to promote. Something

that would bring people in and bring money to the Island and then that goes to circulate in the economy. Bath Street, you know I think it would create some traffic chaos and I think it would not do St. Helier any more good than putting it anywhere else. Out in the country, do you really want to be a neighbour to one of these stores? You saw it when you put your advertisement in and started talking about St. Peter's. That is when people get excited, is when they think: "Yes, I would love one. Oh, it is going to be next door? Do we really need them?" If we have these people looking for jobs why do we not get them into small businesses? You know, our members have to apply to politicians. You know, we have the guy who runs a sandwich shop, he has to apply to a politician so he can get somebody to serve in his sandwich shop. If people are trying to start up new businesses and they want one or 2 people and they have to go through this blinking rigmarole, and yet someone comes in and says: "I want 500 jobs."

Deputy G.P. Southern:

You drifted off on to a more general point there.

Mr. K. Keen:

Yes.

Deputy G.P. Southern:

The question though would be 500 jobs and would that be local or non-locally qualified and you are not going to find 500 locally qualified, as you say it is difficult. Does anybody want to come in there before I take us on?

Deputy J.A. Martin:

Just to follow on the figures that Mr. King quoted about long-term sick and women looking after children. Obviously you have been in the market, you do not get many people off their bed or over 65 really wanting to come back into retail. That is where he is looking and saying that they will find the new employees. Do you think that is realistic?

Mr. K. Keen:

Well, I do not think it is realistic on 500. I think maybe over time we will all have to work longer. In fairness, Wal-Mart is famous for their employment practices. In fact, I think they are being sued at the moment over them. So, you know, they are famous and they do tend to employ older people because they are cheaper and they can have them on zero hours contracts. I think in the US a lot of these people are on -- you know, they have them on such a low wage, they have to get sort of welfare to pay for their medical care. Now, these companies, the reason they are cheap is because they are cheap, except for their chief executives normally.

Deputy G.P. Southern:

I just lost the thought there, where I was going next. Yes. The 2 previous witnesses suggested that supermarkets only compete with supermarkets and not with small traders. Again, I put the similar question to you. I noticed your face when you were saying that but do you want to react to that?

Mr. K. Keen:

They compete with anybody and everybody and clearly they have been for years because, I do not have the figures in front of me, but the number of stores that exist now versus the number of stores that existed some years ago is massively reduced. There is a competition inquiry going on into supermarkets at the moment in the UK and they have just published some information about their impact on smaller stores, because the smaller stores have complained. I am just trying to find it. Anyway, basically we have seen lots of predatory activity or potential predatory activity by the major retailers. What they are saying is that: "A predatory strategy towards smaller stores may be feasible. In the period up to the application of our provisional findings we will assess the specific individual allegations that have been made and the likely effect of any predatory strategy on an entry deterrent." They are well known for voucher dropping against small stores and then saying: "Sorry, did we do that? We did not really mean it." There was an example very recently. I am reading from *Emerging Thinking*, the Competition Commission report: "The exit of smaller grocery retailers and the specialist stores may be an unintended consequence of below-cost selling rather than part of a predatory strategy. This is because major grocery retailers may be able to sell some products below cost due to their ability to sell other products at higher prices. Smaller stores typically sell fewer products and so are less able to support a below-cost selling strategy. Further, some of the products that are typically sold below-cost, such as alcohol, may be particularly important sources of revenue for smaller retailers. The exit of smaller retailers as a result of this below-cost selling which would reduce the number of stores at which consumers would choose to shop. This has a potentially adverse effect on consumers." So, yes, small stores, farmers, anybody is fair game for the big retailers.

Deputy K.C. Lewis:

Taking that a stage further, Kevin, do you think a UK retailer would wish to import milk?

Mr. K. Keen:

You know I did some work on this and I went to the Isle of Man to have a look at what had happened because they are lucky enough to have Tesco. I wanted to see what had happened to the other retailer and basically the other retailer's shop was absolutely on its knees and it was only because it was owned more or less by an individual, the company had not paid a dividend for nobody could think how long. This chap was quite a stubborn chap and he was not going to roll over but any sensible person would have given up and there would have been basically one retailer there. They had voucher dropped them and all sorts. But curiously the food inflation in the Isle of Man -- food inflation Jersey, 4 per cent; food inflation Isle of Man, 6 per cent; food inflation Jersey, 0.4 per cent in 2005; food inflation Isle of Man,

4.1 per cent; Jersey food inflation, December 2006, 2.9 per cent; Isle of Man, 5.2 per cent. So here we have a good example. Tesco are in the Isle of Man; Tesco are not in Jersey. Food inflation in the Isle of Man is higher than it is in Jersey. You know, I can get you those figures if you want. So it is clearly a case that that is happening. I think, as Deputy Lewis was pointing out, food prices in the Isle of Man may be cheaper than they are in Jersey, or they were when I did my studies, but I think you might find that they are catching up faster and clearly I do not know what the -- I did not inquire what the cost structure was like in the Isle of Man but I suspect it would be somewhat lower, certainly in terms of wages and other things.

Deputy G.P. Southern:

Indeed. The evidence we have just heard suggests that the Economic Development Department believe they have changed significantly from where they started in 2005 with the experience -- well, they talk about the new framework is a modest step-by-step approach. I am getting the impression that you do not think that, even now, that is satisfactory. Is that the case?

Mr. K. Keen:

I think they said in their evidence that it is not based on **Experian**. I would just say what is it based on? It seems to me it is based on the idea that they want to increase competition in the Island and that is that, but there is no assessment. There is no economic impact assessment. There is no environment assessment. What will it do? But just: "We want it and we will go a bit lower than Experian there because we more or less have got to accept that the *Experian Report* was wrong, wrong, wrong and we will get it out a bit quick before the Household Expenditure Survey comes out." That is why we want it withdrawn, because it just -- we do not think it is based on sound anything really.

Deputy G.P. Southern:

Finally, would it make any difference whether it was a French investor rather than a UK competitor, because we tend to know the UK situation better and we refer quite glibly to Tesco as the big buddy but it need not necessarily be.

Mr. K. Keen:

No. I cannot think that a French retailer would necessarily want to come here and on what basis they would come because clearly there are all sorts of issues. You know, these businesses are about scale, as has been discussed, and they are not going to run off some special products just for Jersey. I do not think it makes a huge amount of difference whether Carrefour or a Tesco. Carrefour is the number 2 retailer in the world; Tesco is at number 5 or whatever. I do not think it makes much difference but I cannot see it being a French retailer and I am not sure consumers, necessarily, would say: "Oh, I would rather have a French one." Consumers in the Island are bombarded with the national papers and with the national TV and Tesco are advertising insurance, food, everything and, you know, every little helps

and they think that it is a priceless choice, you know, that there is no cost – **but there will be a cost**; certainly not for the economy as a whole because you are going to put capacity into a system that is already under-performing.

Deputy G.P. Southern:

So are you back to that fundamental flaw in the argument?

Mr. K. Keen:

Yes. I do not see the economics of it at all. I mean I am not an economist, but even then the economic arguments for this policy just don't make sense.

Deputy J.A. Martin:

I tried to get some answers from the other 2 witnesses and I ... you know, they are the economists and they are advising the Economic Minister and I felt that a straightforward question of X amount of square feet added over 5 years or in one hit was quite a different scenario and they would not answer that to me. They did not understand what work -- you are telling us what work should be done and we know what work should be done for economic impact across the whole of the retail, the suppliers and everything. I have asked for the background papers of what they are basing these figures on because they have said in this forum that it is not the *Experian Report*. So we need to know, as you say, and we have asked and we will keep digging until we find the evidence that they have based this 50,000 over 5 years on and it will not be over 5 years. It will be one hit.

Mr. K. Keen:

It says on page 10 of their framework that it will one 50,000 sq ft store or maybe bigger.

Deputy J.A. Martin:

Yes. But they tried to say tonight that it was not, so we need obviously a lot more, further investigation and we want the papers and we want the evidence. As you say, if that paper is just based on the outcome of we want more competition, it will not be accepted by this Panel.

Mr. K. Keen:

I thought now that we have the JCRA, why do we not leave competition matters to the JCRA?

Deputy G.P. Southern:

I do not think you were here when we were talking to the JCRA earlier. In terms of mergers and acquisitions they can act, in terms of anti-competitive practices, if it is brought to their attention they can act, but otherwise, no. Their remit is to, wherever possible, increase competition. It is part of their remit. So they are not a natural counterbalance to an economic development department that is saying:

“Go for competition.”

Mr. K. Keen:

Of course not but if there were some anti-competitive practices going on, you know, and it was indicated that -- in the JCRA report back in November 2005, that was another £17,000 worth of work. I do not know if I have it with me but they said, once the law kicked in, that they would have the power to investigate those things and I am not sure if they have yet but nobody has been prosecuted as far as I know.

Deputy J.A. Martin:

They also said they have to prioritise. They do not have that much money and if they are ordered to do so they are reactive and not proactive. This is where they are not going to be the catchall and they have said it, if we do get a dominant player in the market that their powers are not ... especially if it is somebody coming in and building a new build, there is nothing they can do under any of their laws.

Mr. K. Keen:

Could I say one other thing about the choice of stores and, you know, looking at this emerging ..Thinking report from the UK Competition Commission. I have found some quite interesting research about how close stores were and what choices consumers had in the UK and what the Competition Commission in the UK have found is that in rural areas less than 5 per cent of the population had a choice of at least 3 stores within a 10-minute drive. If they had a drive of 15 minutes, then only a quarter of them had it. So I think in a way, the idea that if you in the UK you have this massive choice and that we are denied it here, I am not sure that that is based on good evidence either. Of course, if you live in the middle of a city or in big conurbation you are going to have lots and lots of choice but we live in an island of 87,000 people. I think it is a bit like the ferries and the cinemas and so many other things, you end up that there is only room for one of these and 2 of those and one of those. If you apply more resource to it and get 3 or 4, you do not get it for very long and there is a possibility that afterwards the remaining player wants to recover what he lost previously. So it is not a huge piece of work. I can send through a link to it to add to the pile.

Deputy G.P. Southern:

The increasing pile. Kevin, do you have anything?

Deputy K.C. Lewis:

Well, I will not bother with the question that says what do you think of the *Experian Report*. I think we will take that as read. Would you like to comment further on the retail framework, because the JCRA are working within their retail framework and Economic Development are working within their retail framework and I think there are gaps in between?

Mr. K. Keen:

I take it that the retail framework is the same --

Deputy G.P. Southern:

It refers to the document here. Yes.

Mr. K. Keen:

It is not based on Experian but --

Deputy G.P. Southern:

They say not.

Mr. K. Keen:

It not based on anything that we can find and, as I have said a number of times, is that it has been said that, in the event that new evidence, the stuff that came out 13 days later, then that should -- you know, they should take care.

Deputy G.P. Southern:

Well, one of things that we will be asking is the Statistics Department to go over what the Experian group did with their stats and also to point us in the direction of significant changes between the Household Expenditure Surveys of 1998 and 1999 and 2005 so that we are going to get their take on: "Was this okay to do this with your figures and what were the significant differences?" so that we can get a picture of how out of focus that was. But it comes down to this, and it is -- I will ask you one final question I think. Somebody said yesterday that the *Experian Report* was written to a conclusion that was preordained. It was made to fit. Would you go that far?

Mr. K. Keen:

I think you probably have to think about what was happening in 2005, have you not? I do not know at all, but my guess is that the *Experian Report* had been commissioned for some other purpose, I think probably something to do with the airport because there seem to some hints about the airport in it, the Airport 20/20 Strategy or something like that. Then of course in April 2005, or May or whatever, Safeway was purchased by C.I. Traders. There was a huge reaction to that. Customers punished that company for what they saw was unfair and the JCRA investigated but the company had not broken any laws. There were lots of political comments at the time that C.I. Traders need to be dealt with. It seems to me that it is possible that this *Experian Report* was sort of to say: "We have to do something about this now, let us get this *Experian Report*." Rather than saying, as they have ended up saying: "We want more competition so we will do it" they went through this exercise of saying that shops were too busy

and so we needed some more space. So it was a sloppy piece of work. No one can deny that it was a sloppy piece of work and I suspect its purpose was to respond to the idea, the political idea, that C.I. Traders employees and shareholders needed to be taught a serious lesson. Their customers had already done that but it seemed to me that there was some political will to do that. What about the collateral damage? Whatever you think of that strategy I do not know but the point is what does it do to everybody else?

Deputy G.P. Southern:

At which point I shall turn us over to comments and questions from the floor and I think we have a roving mike somewhere so that you can be recorded. Please do give your name and if you hold a responsibility attached to retail, please tell me us what that is.

Mr. C. Macleod:

My name is Colin Macleod. I am here representing the Co-operative Society. I would just like Kevin to be asked, in his capacity as Chairman of the Jersey Chamber of Commerce, is he aware of any local retailers who have been approached by Economic Development and discussed any of this additional 40 to 50,000 square foot with them, as appears to be the case with national retailers?

Mr. K. Keen:

I am not aware of that.

Mr. N. Le Couteur:

Nick Le Couteur. Kevin, 2 questions. Firstly, evidence that was given yesterday indicated that Tesco have a net profit of 6.5 per cent; CICS a profit of 6 per cent before dividend, so the net is 2, and certainly I believe Channel Island Traders is below 6. So therefore, on that basis, would you say the major players are profiteering?

Mr. K. Keen:

No. I did some work myself on it and certainly there is no evidence in the margins of C.I. Traders or the Co-op in terms of profit margin, that is the amount of money that they make on sales, or return on capital, which you might argue is the better indicator of if someone is making an excess profit. I also looked at ShopRite's accounts and there is no question, they are not making an excess profit in the Isle of Man.

Mr. N. Le Couteur:

In terms of perfect customer choice, CICS have branded goods and their own label; through the franchises of C.I. Traders there is Checkers, there is Checkers Express, and within those stores they have Iceland and Waitrose product; there is M & S (Marks & Spencer) and there is SPAR. So, on that basis,

would you say that the consumer is denied choice?

Mr. K. Keen:

Well, I think they are denied Tesco, are they not, and they are denied Sainsbury, but they also do have other choices and I think one of the great things that has happened in Jersey is we have seen these fantastic farm shops being created, with lots of high quality produce that people have never seen before. One gentleman was telling me about his store; his store is 13,000 square feet now. So we do have a different kind of choice. What we do not have is Tesco value and 7 pence loaves or whatever. Now, as Mr. Smith said, if this was an area that was right for discounters, you would not need 50,000 square feet because you would have had -- they need about 5,000 or 6,000 and they would be here. They have chosen not to be here. They have had a big invitation from Government: "Invitation for cheaper stores," was the headline in the Jersey Evening Post in November 2005.

Deputy G.P. Southern:

Anybody for any more? Bernie at the back first, if you would.

Mr. B. Manning:

My name is Bernie Manning. I am a small retailer in St. Helier. Are we going to go down the same route if we bring in somebody like Tesco as the States messed up with the telephones? We wanted better prices, yes, but they decided we had to have competition which is now going to destroy Jersey Telecoms, if we are going to have to sell that off, whereas all we had to do was bring the prices down. What we really need is some type of commission to keep an eye on the prices because most people are quite happy with the prices that are in retail outlets. Though they are against someone like M&S with their 5 per cent which originally, on the one store, made a bit of sense. It was items coming into the Island but now they have 3 stores and people do not like the idea of them still charging the 5 per cent. But if we bring in Tescos, I was in the UK last week and I was up in Birmingham and there were quite a few people there were telling me that some of these big shops are killing off the towns around them because these shops are all dying off because they cannot compete. You are not just talking about food; you are talking about clothes, you are talking about videos and everything else. Now, if St. Helier then starts coming a ghost town, we will end up closing off the tourism. Who wants to come for tourism if we can do the same thing? So we have to be careful what we do. Yes, we want good prices but surely we want a commission to keep the supermarkets in check rather than being in a big supermarket. I believe, like Chamber of Commerce do, that it is a knee-jerk reaction by the States to kick C.I. Traders for what they did. Thank you.

Mr. K. Keen:

One practical thing that Economic Development and the Economic Advisory could have done is said: "We have higher costs in Jersey. That hurts everybody. Why do we not have a proper inquiry to see if

we can find out what the causes are what can be done rather than being in an adversarial sort of situation where we are assuming that people are being dishonest? Why do we not have a review to see why these costs are, what can be done about them?" I know that the Co-op have offered to open their books and I am sure many other people would respond to a positive thing like that and say: "Well, if there were ways to reduce costs, we could all benefit from it." You know, the business I work in, we cannot increase our prices but our costs keep going up. We would love to find ways but you are in this situation where there is a sort of insinuation that the Island would be better off without local businesses because they are not efficient. I think that is unfair and I agree with Mr. Manning that what happens to towns, it has happened in the UK and it happens in America, you lose the small businesses that create the variety.

Mr. J. Hopley:

A pretty small one, Kevin, nothing too emotive but I would be interested if you could just give us an opinion. Can you think of any other jurisdiction in the world where politicians have gone as far as one of our Jersey politicians have and involved herself with the sector. There is no place for politicians interfering. They have every right to examine the market and every right to examine the sector and when they start talking directly to people, going public, inviting people to come to the Island and engaging in some of the mechanisms we have seen over the last couple of years, it strikes me there is no place for that in the demographic environment.

Mr. K. Keen:

Well, I think one of the things -- I would agree with that. The original economic growth plan that was sort of approved by the States in April 2005 talked about a light touch and only intervention if it was required and this does not seem to me to be much of a light touch, I have to say. I think, you know, customers are well able to let retailers know what they think and the media, of which we have a great media, makes sure that happens. You know, if you look at fair play and you look at some of these other things, a question that goes through my mind is who has done more for lower prices in Jersey, the JCRA or the JEP? The JEP costs 40 pence, a lot less than the JCRA as far as I know anyway. So I think the politicians would have been well served to leave the market alone and concentrate on what they should be doing.

Ms. K. Richings:

I just wondered whether you had done any work at all with Freddie Cohen regarding sort of EcoActive, looking at the point of the ecological impact of having a 40,000 square foot, possibly, UK supermarket chain coming here, just from the point of view of the carbon footprint point of view of the shipping and supplies coming over of a bigger store? I am just thinking that is probably a fairly emotive subject at the moment within the Islanders and looking at the supply of local produce and supporting independent traders, you know whether that is another facet of the --

Mr. K. Keen:

Absolutely. I mean I think that is one of the things that we asked for a couple of times, a full economic and environmental impact assessment. Let us put some numbers to it. What is the carbon situation going to be? What is the noise going to be? Could we be using the space for other things? It does not seem an unreasonable thing to ask when we are making such major decisions and they have already shown that the evidence that had been produced to make them originally was fatally flawed. I think the first report had been made and you might think: "Oh, well, it is just that lot moaning again. It is the Chamber of Commerce, they would say that, would they not?" We proved that report was wrong. We then said: "Why do you not wait until you get this Household Expenditure Survey?" They ignore that and then they say: "Wow, the Household Expenditure Survey has just advised that there is £66 million of market that does not exist." So we have tried to be reasonable and said: "Do a full environment and economic impact assessment." There is a formula for that and it is done in America. Why not do it? Why not do it? Maybe they would not like the answer.

Mr. R. Bryans:

Kevin, it is Rod Bryans, by the way. I want to thank you first of all because I came here with an open mind tonight, just to find out what was going on in the community in which I live and you have probably put all of that information together for free. We have not had to pay £62,000 for it. It seems to me 2 points that you have convinced me about. First of all the *Experian Report* is based on faulty data or information and anything that is based on faulty information, at the end of the day, falls down. Equally, as it happens we are talking about retail, anybody that has faulty goods you generally take it back and ask for your money back. The second thing is that it seems to me the Tesco question that always crops up and, again, you have convinced me that Tesco is a Trojan horse, you know, so beware of Greeks bearing gifts. My question now then is really, putting those 2 things aside, where do we go next? If we get to the point where we accept what you are saying, and I think you have made a very valid case for it, you know, looking for competition and looking for cheaper prices, what do we do next?

Mr. K. Keen:

Well, I think it would be useful to understand why costs are high and why prices are higher and I think, you know, it probably would be useful to wait and see really what happens to C.I. Traders for a start, because we all know that it is subject to a potential takeover and I think if we are going to make decisions, we get some reliable data to make them. As I say, I come back to this assessment of what do consumers get? Do they save £1 a week or £5 a week or £20 a week? What do they lose? Do they lose the fact that there are no village stores or no market or whatever? What does it do to the environment? What does it do? Then we can make some decision based on data, on evidence, rather than: We agree there are problems with Experian so we will not have 100,000 sq ft we will have 50, 000 sq ft instead, what sort of argument is that?

Deputy G.P. Southern:

Right. It was not a question you were just stretching. Okay, if that is all, we have had 2 good evenings I think and we have certainly covered all the bases that we need to start with. We were due to see the Economic Minister in person next week, however I understand he has cracked his knee skiing so he may not be here next week. It may be another time but, nonetheless, that is it for the moment, folks.

Mr. K. Keen:

Thank you for sparing the time to look at it and to take it so seriously because it is important to people.

Deputy G.P. Southern:

Absolutely.