

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. M. King (Chief Executive Officer, Economic Development Department)

Mr. D. Peedle (States Economic Adviser)

Deputy G.P. Southern:

Welcome to this fourth hearing of the Economic Affairs Scrutiny Panel Retail Strategy Review, and welcome tonight to Mike King, Chief Executive Officer of Economic Development, and Dougie Peedle, the States Economic Adviser. Before we start, I have to draw your attention to the statement that is in front of you about the conditions under which you are here. I think you have been before, so you are aware of the conditions. Can I say to you that the microphones are for the sake of recording and do not broadcast to the public, so if you can speak up a bit we will probably be able to hear you. I have agreed with the Minister that there should be no political questions aimed at you; it should be strictly technical. Neither will there be any questions from the public. So perhaps it will not be too painful for you. So welcome, and perhaps you would like to tell us something about the *Experian Report* that was commissioned some while back and its development to the current Retail Strategy Framework that you developed from that. Would you like to start off?

Mr. D. Peedle:

I think the *Experian Report* really tried to address a number of questions about the retail sector in the Island. It was originally commissioned, I think, way back in 2004, when for a number of reasons the question was put forward in terms of what would be the impact of additional retail space on the Island economy and particularly the retail sector, but also in terms of what additional space might the Island be able to support through consumer demand, what was the capacity relative to spending in the Island. That question arose, as I say, from a number of sources. Experian were commissioned to do the report, I think, in the autumn of 2004. We went through the normal process in terms of appointing an external

consultant to take on that role, and they were commissioned to provide not just a retail capacity study but also their views and additional research on the retail sector in Jersey. The process that then followed that report was the report was taken to the Economic Development Committee at the time. The reason for that was obviously it related to the Economic Growth Plan and the commitment there to look at the individual sectors within the economy. Obviously it was an economic development question as well. That committee, on seeing the findings of the report, thought it raised a lot of questions, and they put it out for public consultation in 2005. There was a chance for people to write in and comment on the report after a period of a couple of months, I think; there was a public meeting to try and get feedback on that report as well. Then I think finally in terms of the consultation process in drawing up the Retail Framework, which is of course not the *Experian Report* but the *Experian Report* was one of the reports that fed into that framework, myself and Mike King held detailed discussion with a range of retailers and consumers on an individual basis and with a number of consumer representative groups as well. I think that is the broad process. I do not know if you have got anything else to add to that, Mike.

Mr. M. King:

I think in that final consultation process, we had 32 separate meetings with either retailers, consumers or also importers as well. I think, just to re-emphasise what Dougie said, I do not think anybody should be misled into believing that the Retail Framework and the *Experian Report* are one and the same thing, because they are not. The approach that the Retail Framework takes is a much more incremental, one might say more conservative approach, to both growth and capacity in the market than was perhaps suggested by Experian.

Deputy G.P. Southern:

Would you like to go into some more detail about precisely how the present policy resulted from the *Experian Report*? When you say incremental, for example, what do you mean?

Mr. M. King:

I think there is a view that is outlined in the *Experian Report*, both the initial and the revised report, that there is a very significant capacity in the marketplace for additional floor space in convenience and other retail sectors. We have to be mindful, not just looking at it from a purely economic perspective, market perspective, but also in terms of the potential impact that that may very well have on a socio-economic perspective and indeed on St. Helier as the primary focus of retail development. Mindful of the amount of space that had already been consented, we took a view that it would be more prudent to somewhat discount from the Experian estimates of potential capacity in the marketplace, certainly over an initial 5-year period, and effectively drive a more measured increase in the market capacity than was detailed by Experian. Now the approach that we have taken is to identify additional floor space capacity, informed by both the *Experian Report*, the work that Professor Sparks did, and indeed the JCRA, over a period of 5 years. Anything within that and also over and above that will be subject to a detailed analysis of the

potential impact on the existing market. So that is the other factor of the framework that perhaps is somewhat different to the approach that has been taken before.

Mr. D. Peedle:

If I can just add, the framework is very much about balancing all the information that was available at that time. We felt we had a wide range of reports, but also a wide range of views from across the Island community, to take into account. What the framework does, I think, is get a balance right in terms of retailers, some of whom were not comfortable with the thought of additional competition, some of whom were comfortable with the thought of additional competition, as long as it was on a level playing field, with the views of the consumer groups and individual consumers that we met, which were very much at the opposite end of the spectrum, wanting additional competition, wanting lower prices, wanting wider consumer choice, all those issues, and saying to us that we should not be mindful of the impact on the existing retail base. Why should it be protected relative to any other sector? So the framework very much, I think, gets the balance right and gets the balance between an Experian capacity study, which has its limits, and the views of JCRA and Professor Sparks as well.

Deputy J.A. Martin:

Can I just take you back to the beginning? When the first report was commissioned by the then Economic Development Committee, and you said you went out to normal tendering process, what were the terms of reference? I know you have done a lot of consultation with the trade after the release of the report, but there does not seem to have been any before. Were they not to do that, or was it specified that they were not to do that? Why did they not do that is the question.

Mr. D. Peedle:

We did not specify particularly that they were or were not to talk to the trade. They were tasked with assessing the retail market in Jersey, the size of retail expenditure in the Island, the size of floor space in the Island, but to go beyond that and provide additional information on the structure of the market and what they think changes within that market could mean in terms of overall impact on the Island. So they were not told explicitly to go out and gather information on a one-on-one basis with retailers. Depending on the nature of the people that tendered for the project, they might have taken different approaches. But in terms of Experian, they had a very extensive retail floor space database which was used on a national level, was used across the UK, and they were the only people that had that information for Jersey as well. So they had valuable information and a database that they could use.

Deputy J.A. Martin:

It has been put to us, and it is no secret, that people in the trade are quite disappointed with the findings of the report. Floor space has been underestimated; spend per head has been overestimated. You could grow the market and people will spend X amount more on food in the retail sector over the next 5 years,

at least more than 2. You say 5 years; a supermarket will not pop up in 5 years. The land will be purchased; it will be built. Then you have your 50,000 square feet, which could be done realistically, we will say, in a year to 18 months. So that will not be in 5 years. You also, in your Development for the Future, do not stop there. You say 40 to 50 for bulky electrical goods, 15 to 25 for clothes and footwear, and 20 to 30 for books, toys, leisure and sports. You say you do not think this will have a significant impact on already established local retailers: "Because such a controlled approach would both limit the impact while at the same time not insulate the Island from the benefits of greater competition." Now, you are saying this is the top limit for the next 5 years, but any of these if they go ahead could happen in the first 2 years. Surely in such a short time - I think even over the longer time if it is based on wrong information and the capacity of the market out there - to put that much extra floor space overall in retail, which as I say could be done as quickly as it could be built, you do not think that it would put many small retailers in Jersey out of business?

Mr. D. Peedle:

I am slightly confused by the question, but in terms of the 5-year reference, which I think was the one that Mike made ...

Deputy J.A. Martin:

Well, it is in your report.

Mr. D. Peedle:

The framework management of that additional space is for that 5-year period. We recognise that retail space may or may not take up the guidelines that are within the framework, so if as you say something happened within the space of a short period of time, then that would obviously mean that in subsequent years, if the guidelines in the framework are adhered to, then there would not be scope for additional space within that sector. So I am not sure if you are confusing the 5 years issue. That is just in terms of framework a period for managing the additional space.

Deputy J.A. Martin:

You are putting down in, say, supermarket and foods between 40,000 and 50,000 square feet in the next 5 years. That could be built in year 1 or year 5. But once it is built, nobody can build any more until you have another look at it? That is what it says in your report.

Mr. D. Peedle:

That is correct, yes.

Deputy J.A. Martin:

So what I am saying is if that is built in year 1, you are saying you do not think it will have any impact

at all on the small retailers in the Island?

Mr. D. Peedle:

I do not think the framework says that at all. I think it says by managing the increase in additional space that you would therefore limit the impact on existing retailers in the Island, which it clearly would, because if those guidelines are binding, then that prevents additional retail space coming on, which would be competing with existing retailers. So I think “limit” is the important word there.

Mr. M. King:

Deputy Martin, there seems to be a presumption in your question that additional space and a change in the nature of the retail market is not something that would benefit the consumers in the Island. I think what runs through the whole report that was written as a consequence of Experian and the JCRA and Sparks is that we believe it would be perhaps a little mistaken to believe that Jersey has the optimum retail sector offering right now, and that additional capacity within the market and indeed additional competition is something that could benefit the consumer.

Deputy G.P. Southern:

So you have accepted the fundamental conclusion of Experian that the retail market in Jersey can expand and could take, let us say in the food sector, up to 50,000 extra square feet?

Mr. M. King:

That is what the Retail Framework says.

Deputy G.P. Southern:

Yes. So that conclusion that came from Experian ...

Mr. M. King:

No, the conclusion that came from Experian was that there was additional capacity in the marketplace. The quantum of that additional capacity is something that is somewhat less in the framework document than was suggested in the original *Experian Report*.

Mr. D. Peedle:

It depends what you mean by “take”. The Retail Framework is not a capacity study; it is not an Experian-style capacity study whereby this additional space comes on line. I do not know what you mean by takes it, but the whole point of having that additional space in terms of meeting the Island’s economic objectives is that that would lead to increased competition within those sectors, and in a number of sectors there are concerns about the level of concentration in those sectors, that that additional competition will play through in terms of greater efficiency, potentially lower prices or prices

lower than they might have been in the future, and that that would feed through. Now that to me does not say that a market can take it. I do not quite see the point of that. The framework is about managing the additional space and managing those impacts, seeing what the impacts are, not saying that the market can take that space.

Deputy G.P. Southern:

Well, I do not know what word you want me to use, but nonetheless in your report you say up to 50,000 square feet of retail space could be created.

Mr. D. Peedle:

Yes.

Deputy G.P. Southern:

Right. 50,000 square feet - excuse me if I am wrong - is let us say roughly twice the size of any of our supermarkets currently operating. So that is 2 Jersey-size supermarkets.

Mr. D. Peedle:

I do not think that is quite true. As I understand it, Checkers at Rue des Pres with an extension certainly would not be half the size of that. I think the 40,000 to 50,000 square feet was something we discussed with retailers and consumers in terms of a hypothetical case, so I do not think it is a case of it is twice the size of anything that is in the Island or is likely to be in the Island with Checkers Rue des Pres extension, but also it is a case that is was something that was discussed with retailers and consumers as a hypothetical case.

Deputy G.P. Southern:

As hypothetical?

Deputy J.A. Martin:

I am even more confused, sorry. Your figure of 40,000 to 50,000 square feet; I think Experian said 100,000, there is capacity in the market for 100,000 square feet. Again, they have been accused of underestimating the existing retail space, and it was an estimate.

Mr. D. Peedle:

Yes.

Deputy J.A. Martin:

So where do you get this, just by talking, or research? Where does this come from, that you can say that we need 50,000 square feet of retail in the market?

Mr. D. Peedle:

We do not say you need 50,000 square feet of additional retail space.

Deputy J.A. Martin:

But you are saying you would allow up to 50,000.

Mr. D. Peedle:

The guidelines in the framework are that that amount of space should be allowed within the next 5 years in terms of managing the increase in retail space or an initial increase in retail space within the Island. Also you must bear in mind what the framework is there for. It is to help the Minister of Economic Development and the Minister for Planning to make decisions that they could well face tomorrow, are in the process of facing, in terms of how do they make decisions about Regulation of Undertakings. So it is not something that is just pulled out of the air in terms of "Let us look at the amount of additional space". It is if retailers want to come to the Island, if existing retailers want to expand space, what should be allowed to happen; what factors should we bear in mind. The reason that we have put those guidelines in is because through the consultation process that we had, there were a number of people we spoke to, particularly existing retailers, that were concerned about the impact on existing retailers, concerned about the impact on the makeup of the High Street. So 40,000 to 50,000 square feet in convenient -- it is about putting a limit, a guideline, there which would allow us to manage that increase in space if it happens, if somebody comes along and wants planning permission, or a regulation when making his application to do it that way. So, it is about taking on board what people like Professor Sparks said, in terms of managing the increase, looking at the impact that the additional space would have. That increase would allow that additional space, allow the competition but at the same time would not allow somebody to come and dominate, for example, the convenience food sector in the Island.

Deputy K.C. Lewis:

Can I just clarify? You say that the 50,000 square feet is within the framework but Economic Development is not saying we need an additional 50,000.

Mr. D. Peedle:

I do not think the framework says anywhere we need it.

Mr. M. King:

It does not say we need it; what it says --

Deputy G.P. Southern:

The word we are supposed to use is "can be allowed." I think that is the phrase we use.

Mr. M. King:

Yes.

Deputy G.P. Southern:

Right, so we can allow up to 50,000 extra square feet and that includes, or does not include, an expansion at Checkers, which is, I believe -- do they have permission yet to expand, or are they applying for special permission?

Mr. D. Peedle:

I believe they have permission.

Deputy G.P. Southern:

In that 50,000 in the next 5 years, does that include or exclude the extra square footage that Checkers have already got or permission for?

Mr. D. Peedle:

It is excluded because at the time of the report the only things that were taken into account were things that had permission unless, as I say, at the time of the report I understood that it had permission.

Deputy G.P. Southern:

So, it is 50,000 square feet and additional on top of a new Checkers, expanded Checkers?

Mr. D. Peedle:

The extension, yes.

Mr. M. King:

I think it is very important to point out that, as you see, this is to reiterate this, these are guidelines that the Ministers can use. It is a framework the Ministers can use. If the demand is not there, either from existing retailers or retailers from outside the Island, then this is not Economic Development going out and saying we must have 50,000 square feet of retail space. What it says is that if an existing retail, or a new entrant, on a level playing field, comes and says that they would like to expand retail space then, providing it is within this framework, it is something that should be approved within the period of 5 years.

Deputy G.P. Southern:

That potential expansion, although it is of a different magnitude, flows from the results of the *Experian Report* that said Jersey would benefit from such an expansion, the expansion of retail space.

Mr. D. Peedle:

No, it draws on the *Experian Report*. It was one of the reports that were considered in terms of drawing up that framework. If you read the report, which I am sure you have, at no point does it say this quantum is related to the capacity study Experian did. It was about moving on as a consultation process that we undertook, which steered us to adopting a more cautious approach than pure economics might suggest, and also the Experian might suggest, and adopt an incremental approach. So, no, the 50,000 square feet is not drawn from the *Experian Report*.

Deputy G.P. Southern:

Where then have you drawn the conclusion from that the retail, for example, food sector, would not be harmed by such an expansion, if not from Experian?

Mr. D. Peedle:

I do not think we said that the food sector would not be harmed. We are trying to, through the framework, balance the interests of everybody in the Island, retailers and consumers. So what exactly do you mean by “harmed”?

Deputy G.P. Southern:

For example, that suppose a non-local supermarket were to identify a site and were to say: “We want to come to Jersey, and want to open at such and such a place.” Let us suppose that site is in Bath Street, or close. That undoubtedly would have a marked effect on the town centre, the shopping patterns in the town centre, on small traders, probably on the market, immediately. Yet you are saying such a request from a UK, let us say, supermarket would be within the guidelines we have set and presumably there would be no objection to it, if it is allowed.

Mr. D. Peedle:

You have made a number of assumptions there. One is that it impacts on the High Street. If you are talking about a supermarket, then the extent to which it impacts on the High Street in particular will depend on what exactly it sells. The impact on the market as well, that is difficult to fathom. If you ask some independent traders, they believe that they have been competing with supermarkets for years because, funnily enough, we do have supermarkets here, which I do not need to point that out, and therefore they feel -- I mean, one small local butcher said that quite clearly to us, that they have been competing with supermarkets. They would not feel threatened at all because they compete in a different market and through different means, so they would not be threatened. Now, additional retail space in terms of supermarket space, I think the biggest impact is likely to be on other supermarkets already within the Island. Now, you use the word “harm”, is it harmful for the Island as a whole to potentially have more competition, wider consumer choice and potentially lower prices? That is, again, what the

framework is trying to balance, the economic objectives of the Island with the recognition that just to allow an increase in retail space without any limitations, which is obviously one option, the impact on those existing retailers is going to be much bigger. You would not have time to assess the impact of an increase along the lines of what is proposed in the guidelines.

Deputy J.A. Martin:

So, you talk about a level playing field. I come back to you say a supermarket of 40 to 50,000 square feet.

Mr. M. King:

No, that is not what we say.

Deputy J.A. Martin:

No, I am saying a supermarket.

Mr. M. King:

But it is not a supermarket.

Deputy J.A. Martin:

Retail space over 5 years.

Mr. M. King:

But what it says is that it is 40 to 50,000 square feet of convenience supermarkets or food stores, plural. It does not mean one 40 to 50,000 square feet supermarket. It says it is a floor space limit. It could be 2, it could be 3, it could be 5.

Deputy J.A. Martin:

That was my question. My question was going to be that is fine, if it has expanded like that. I mean this is a guideline for the Economic Minister, and if a sensible approach is taken that maybe the Co-op wants to expand by 10,000 square feet, Checkers take their 20,000 square feet, then there is a smaller convenience store wants to open out in St. Ouen, then you have got your 50,000 square feet over 5 years. That is a different impact, surely, than somebody having the 40 or 50,000 square feet under one roof and one part of the Island? That is the question, and have you done the 2 studies of it increasing slowly over 5 years, or one impact in maybe the first or 2 years of it getting a green light? Now, that is the difference. Surely, the impact on local retailers and existing supermarkets would be completely different in each area? Have you done the work to see? I mean, you just say a figure and you are not saying it should be in one place and you are not saying this, but exactly what are you saying, and what work have you done to say which way it should go?

Mr. D. Peedle:

I am not sure what this piece of work is that needs to be done because if that space is taken up by supermarket space then there would be an opportunity to monitor that impact. If it is taken up by smaller retailers or existing retailers within the Island, again, there is a chance to assess and monitor that impact, so that work would come and is part of the framework.

Deputy J.A. Martin:

Sorry, my question was you have 50,000 square feet; now, it is either built in one lump sum in one place on the island, or over 5 years it is managed and supermarkets and smaller convenience stores are made bigger. The impact on the local economy around them will be different. Do you agree that? If so, has the work been carried out in your department to see what impact one would have or the other would have? I think it is quite a straightforward question.

Mr. D. Peedle:

To answer your question, yes, it would have a different impact. I believe that is what I have outlined in my previous answer and my question to you is what is this piece of work that we have to do? Because we have done detailed, and we have had detailed pieces of work from Experian and JCRA and Sparks.

Deputy J.A. Martin:

You said that none of these conclusions is based on Experian.

Mr. D. Peedle:

Not based on, they are drawing on it. So, I am asking you what piece of work is it that we need to do? An additional retail capacity study?

Deputy J.A. Martin:

The JCRA said an economic analysis of the whole --

Mr. D. Peedle:

That has been done.

Deputy J.A. Martin:

Who by? Who at you relying on? Which report has done that?

Mr. D. Peedle:

Which report has done a retail capacity study?

Deputy J.A. Martin:

Yes.

Mr. D. Peedle:

The *Experian Report*.

Deputy G.P. Southern:

Do you accept its results? Because it has been criticised, for example, for overestimating the -- is that the right way around?

Deputy J.A. Martin:

No, underestimating.

Deputy G.P. Southern:

The capacity for overestimating spend. An alternative, the critique of its figures says that in Jersey we spend almost 8 per cent less than the average supermarkets in the UK, and that is a fundamental flaw in deciding that the market can accept an expansion of floor space.

Mr. D. Peedle:

If you are saying it is a fundamental flaw, I think what you are doing is drawing on information that was not available at the time of the *Experian Report*, which they could not have had access to, which was not available. So, it is not a flaw. It is the fact that several years later, yes, we have additional information on household expenditure in the Island. I think, as the framework makes clear, we are aware of that information, that is drawn on where it is needed. But to then go off and say: "Well, we need an additional retail capacity study" because one of the things, again, we say in the framework is that there is always going to be a big band of uncertainty about a retail capacity study because it is based on estimates of household expenditure and estimates of floor space sizes. So, you have margins of errors in the numerator and denominator in the calculation, and therefore, as we say in the framework, you have to be very careful about what use you would put to a capacity study. That is why that is how we feel we have adopted a cautious and incremental approach.

Deputy G.P. Southern:

But one which is based on a premise which has been shown by subsequent studies to be, and I use the word "flawed" because I believe it is accurate.

Mr. D. Peedle:

But I do not think any study has shown that the potential benefits of competition, particularly in markets of high concentration, cannot lead to wider consumer choice, that they cannot lead to potentially lower

prices. They are the reasons behind the framework and for the guidelines in their allowing an increase in retail space. So, no, the things underlying the framework have not really been questioned. What has been questioned is the *Experian Report*. We are well aware of that and therefore, and framework is not based on that.

Deputy G.P. Southern:

The increased competition will come from a third operator that is a supermarket, is that the assumption or not?

Mr. D. Peedle:

It is not the assumption.

Deputy G.P. Southern:

How else will we get the increased competition if we do not increase the number of operators?

Mr. D. Peedle:

It may well come from a third operator, but the framework does not go as far as saying that. It depends to a certain extent as to who is going to come forward and want additional retail space. Mike is in a better position than me to comment on those people that are interested in coming to the Island.

Mr. M. King:

It is pretty clear that we have a situation right now where we are facing potential regulation of undertakings applications and planning applications for supermarket space from the UK, from France, and from existing players in the Island, in one way, shape or form. Those will be treated on a case-by-case basis, up to the guidelines that are in the framework, but there is no presumption by Economic Development that it will be as has been trialled elsewhere, that it will be a UK supermarket, a French supermarket, or indeed, anybody else, for that matter. The fact that there is potential interest and potential demand out there would seem to suggest that major retailers, both in the UK, in Jersey, and indeed in continental Europe, believe that there is capacity in the marketplace. There is capacity to make that marketplace more competitive, to offer more choice, and to make it more efficient from an economic perspective. Now, if all of those things come to pass, they will benefit the consumers in the Island, and if what you are saying is that Economic Development should not be looking at ways and means of that happening, then I think that we potentially have an issue. That is what is behind this, is to say that are we really saying that the retail sector in Jersey is truly optimised and does not need any increase in efficiency and productivity that will benefit the consumer? Are we saying that there is not a requirement for greater competition to realise those benefits? If we are saying that there is not, then we are saying that it is as good as it can get, and I am not sure that we are prepared to accept that.

Deputy G.P. Southern:

I understand what you are saying. So, you have been talking back there about an increase in efficiency and productivity. Are you not fundamentally talking about an increase in competition? That is the starting point.

Mr. M. King:

I think competition is a way of ultimately increasing productivity and efficiency in the marketplace, as well as existing operators increasing their efficiency and productivity as part of their day-to-day process.

Deputy G.P. Southern:

Therein lies a whole philosophical discussion but, nonetheless, it starts with competition.

Mr. M. King:

Yes.

Deputy G.P. Southern:

Do you see an increase in that competition as bringing prices down? Not by any certainty, but that is the way to get prices down in Jersey?

Mr. M. King:

The indications that we have - and it could be said that they would say that anyway would they not, - was that that could be a potential impact of competition, yes. What both the large continental and UK retailers - and I know there is some dispute about this - the economies of scale that they enjoy, and I think you will only have to look at the reality of economies of scale within each one of those markets to see that there are benefits from economies of scale, if they were passed on, either in part or in full to the Jersey marketplace, that would represent a potential to, through competition, increase and also reduce prices. That is, I think, a fair assumption.

Deputy G.P. Southern:

The counter assumption with that, in fact evidenced from the UK markets, suggests that the supermarket is priced to the market. So you pay more in the southeast of England than you do in the northwest, for example and at that price into the market would go in Jersey.

Mr. M. King:

I can only give you my experience from another place in dealing with major UK retailers, and this is not in any way related to anything that is has happened in Jersey, My understanding is that the major retailers apply a national pricing policy. Now, that may vary from their large stores to their convenience stores and the large retailers have a broad range, but within those different product groups that they

have, they apply national pricing. That is certainly what I have seen elsewhere.

Deputy G.P. Southern:

In particular, if I can just - the last one on this one - develop that a little further, given the high cost of doing business in Jersey, in terms of wages, in terms of building costs or renting costs, transport perhaps as well, you do not see it that what is occurring in Jersey is the price for the market, realistically priced? And that whether or not a newcomer has greater buying power, the sheer cost of doing business in Jersey will hit similar sorts of marks?

Mr. M. King:

Dougie can comment on this as well if he wants to, but I think the economies of scale and the buying power of large UK or European retailers, you would have to question if that was passed on to the marketplace here. If it is a component of the overall pricing, you would see some impact of that in Jersey. But that is a presumption.

Mr. D. Peedle:

I think also that the market tells you something; if there is that interest there for potential new entrants, then they obviously think they can compete in Jersey. I do not think they will be coming here to think: "Oh well, we will just charge the same prices that are there." I think they see that they can compete in the Jersey market. Now, part of that is likely to be economies of scale, as you and Mike have both pointed out, but that is a factor. That is economies of scale that could potentially bring lower prices, and whether the prices fall or we just see lower inflation in Jersey, either way, that is of benefit to the Island as a whole and that is really what the framework is about.

Deputy G.P. Southern:

It was not the last question on this train of thought. Do you think they have read the *Experian Report*, these people who are interested in coming here, and that the market is essentially undersold?

Mr. D. Peedle:

I think these players are serious businesses and I think they do their own work and their own assessment on the market. So, I do not think they are relying on the *Experian Report*, no.

Deputy G.P. Southern:

Whereas we appear to be, but then you say we are not. Can you clarify?

Mr. D. Peedle:

We are not, just to clarify on record again.

Deputy K.C. Lewis:

Can you give your opinion of the current retail framework in Jersey, in the light of the criticism that it has attracted?

Mr. D. Peedle:

In terms of the current framework, I think it has the balance just right, as I think I have tried to get across so far. It is about balancing the economic objectives of the Island; it is about bearing in mind what the impact of additional space could have on existing retailers; the benefits it could have to the wider economy and to consumers in the Island, and to strike that balance. It really is about getting a balance and the criticism I have seen of the framework I do not think fully appreciates what the framework is trying to achieve, what evidence it is drawing on and what it is trying to do, in terms of trying to get that balance just right. So, to some extent, I think the criticism is slightly unfounded, and I think it has certainly got that balance right between what are, to some extent, slightly conflicting objectives.

Mr. M. King:

I think it is interesting to note we are almost a year into this thing now, and the criticism of it was that it effectively opened the floodgates to the development of hundreds of thousands of square feet more retail space. Well, I have not noticed any in the short term, and this is a 5-year framework. So, I think that what we have tried to do is come up with a measured approach that balances impact on the retail sector with the potential benefits to the consumers who, in the final analysis, do represent the large majority of the population. Everybody will benefit, should there be more efficiency, more effectiveness, more productivity, more competition, more choice in the marketplace, potentially.

Deputy K.C. Lewis:

We are all consumers in one way or another, but do you think there will be casualties?

Mr. D. Peedle:

Can I just add something to what Mike said there, in terms of the consumers? I think when you mentioned the criticism of the framework, I think some voices are louder than others across that spectrum of people that are likely to be affected and to some extent, what you are hearing is the one side of the argument from the retail side. I am sure as you are doing, in terms of the work we did with the consumers, people that represent the consumer bodies and consumers across the Island, when you hear what they have got to say on these issues, I do not think they are really critical of the framework. To some extent, they might want to go further.

Deputy J.A. Martin:

Sorry, you keep referring to this work and, as a Panel, firstly, can we have any background papers in consultation that you have done? Secondly, can we have the terms of reference for the original *Experian*

Report? Because we need to know if they followed those precisely.

Mr. D. Peedle:

In terms of what I was referring to, in the back of the framework is a summary of the consultation process we did, and the organisations and people that we spoke to there, and so that is all documented in the framework, but I can certainly get the terms of reference for Experian.

Deputy J.A. Martin:

Mike King has just said that it has been a year in and we do not have anybody building a 50,000 foot -- but you also just said, previous to that, that there are people who are expressing lots of interest in the market, and they have obviously done their homework. My question, going back again, the homework, if we have a UK player in the market in the 50,000 feet, what homework has the Economic Development done to say about using local produce, using the local people, farmers, dairy, whatever? They do not do it in the UK; they said they do it from the central warehouse.

Mr. M. King:

It is not true.

Deputy J.A. Martin:

What do you mean it is not true? I am talking, say, about Tesco.

Mr. M. King:

We are not going to talk about specific companies and it is not about Tesco, but both French supermarkets and UK major supermarkets, including the big 4 in the UK, are increasingly using local products. Now, is the majority of the produce in their stores local? No, of course it is not, because that is simply not possible. But are they looking in their local market place and looking to exploit that? Yes, and the company that you mentioned has a declared policy of doing that. So, the thought that companies of this ilk, as with any operator, do not use local produce -- because there is a lot of local pressure to use local produce, not just in Jersey but elsewhere, and retailers are responding to that.

Deputy J.A. Martin:

What I am saying is if somebody does come in who does not normally use the central -- and a brand, own their own brand, they will bring it into the Island, it would not use -- well I am not saying it will not use. Who will you speak to? Who will talk to the incoming supermarket chain, whoever it will be, and ask them what their policy is on using local traders?

Mr. M. King:

The answer to your question is that the direct contact that we have had with both UK and continental

retailers, one of the factors that has come up as a primary component of those discussions is the use of local produce in Jersey. Those discussions have been held with the department, so that is an important factor in our consideration of the likely entrants, should it come to pass that they decide to make an application.

Deputy J.A. Martin:

But that goes against the economies of scale. They are so cheap because they buy in bulk and they buy from all over the world.

Mr. M. King:

No, come back to what I said --

Deputy J.A. Martin:

Can you enforce it? If you have an attack across their table and it is in discussion if they come in, can you enforce that they use local produce? How will it be enforced?

Mr. M. King:

I do not know whether we can enforce it. I am sure it is a government intervention that we should be using, but the point is that this is something that retailers are making a commitment to do. As I said earlier, will the vast majority of the stuff that they carry, 32, 30, or however many thousand lines it may very well be, will the majority of that be locally sourced? No, it will not. Will we see the advantage of economies of scale because of their central purchasing and distribution? Yes, we will. Does that remove the ability of local producers to supply that store? No, I do not believe it does and I think evidence in the UK would suggest, although it is a relatively modest component of what they supply, it certainly is happening.

Deputy G.P. Southern:

Can I return us to the *Experian Report*, even though your new strategy is not based upon it, and point to the fact that they suggested that we were going to grow the retail market, and they talk about 5 per cent but 10 per cent might be possible. It has been put to us that growing the retail market in the absence of growing the population is quite difficult. It is the same money circulating in a different way. How do you grow a market and that efforts would be better made in growing some other form of productive industry rather than the retail trade, which is, as I say, just circulating the same volume of money. How do you grow retail?

Mr. D. Peedle:

There are a number of ways you can grow it. For example, you could win back the current leakage from the economy, if there is new space in the Island offering things that people are currently purchasing

when they are out of the Island or over the internet. What economists would call leakage, you could bring that back into the Island, in terms of things like savings, for example. We do not know what the savings rate is in Jersey but there is a possibility that people could be tempted to spend more within this new shiny retail space. Also, in terms of growing the market, if additional competition brings greater efficiency, brings lower prices, then that in itself can help grow the market. For example, if we all save a little bit of money on our weekly shop, we may well spend it in another retail sector in another shop. We may well spend it somewhere else in the economy. If we bring inflation down in the Island, that improves the performance of businesses in the Island. It particularly improves the performances of those that are export orientated. If they improve their performance, then again there is an opportunity there for more spending to occur within the retail sector. But again, we should not look at it purely just in terms of is it going to grow the retail sector. Is it going to be consistent with the overall economic objectives of the Island and help us achieve our economic growth target? That is what we are looking at overall, and that is where it is consistent with economic growth, whether it be within the retail sector or across the economy as a whole.

Deputy G.P. Southern:

I hear what you say, and I want to take on to a different aspect of the economic growth now, which is our intention to grow business on the Island in the high value, high paid sector. Now, if we are talking about growing the retail trade and if we are talking about possibly a new retail space, then we are talking about probably employment of fairly low grade, low skill work, by and large. The reality of the retail trade is that the vast majority -- not the vast majority, I do not know what the figures are, but it is about half-and-half, the split between non-locally qualified and locally qualified. We will risk doing what we are trying not to do, which is sucking in some low-qualified, low-paid workers, into our industry if we expand in this particular sector. Is that the case? Is that not contradictory to our aims?

Mr. D. Peedle:

No, it is not necessarily the case. It is a potential outcome, in terms of increasing the amount of space overall and over the medium term, and increasing employment, but that is not necessarily the case. If you are talking about competition bringing improved productivity and improved efficiency, that can mean meeting retail demand in the Island with less people. Now, the circumstances by which it means more people are ones where you are saying that there is demand for additional retail space within the Island. So, I do not think you can have it both ways. If it is going to impact on the existing retailers, that it is going to lead to much more space in the Island for retail and greater employment. If it is going to be additional space and additional employment over the longer term, then that suggests that there is something constraining the retail offer in the Island at the moment and that people that are saying this, it would be a lot of --

Deputy G.P. Southern:

But that is what you are saying. You are saying there is room for expansion, and if there is expansion of floor space with a new institution that will result in increased employment. You are not going to get those 30 bodies with no land.

Mr. D. Peedle:

Initially, there are 2 different impacts. There is an initial impact, where I think you are correct; there would be additional employment in the short term. How that would play out over the medium term, and this is again what we are looking at, we are talking about medium-term, long-term efficiency improvements in your economy. Now, if that plays out with greater efficiency, then over the course of 5 years, 10 years, you could end up with a more efficient retail sector that meets the existing demand, or even higher demand, with fewer people. In the Jersey economy, which we all know is constrained not just by land but by labour as well, that has potentially positive effects for the economy overall and, again, for our objective of meeting economic growth.

Deputy G.P. Southern:

So, we have net economic growth and we have initially created additional demand for labour in a fairly low-skilled area, but that is going to even itself out with time because the industry will get more efficient. Is not that code, is not that a posh way of saying some of the less efficient businesses, some of the smaller businesses, will be closed down? So, therefore, it will even out in the end?

Mr. D. Peedle:

No, it does not have to be smaller businesses.

Deputy G.P. Southern:

Tell me how it works otherwise.

Mr. D. Peedle:

If you are talking about the impact of a supermarket on the existing supermarket base, that is not necessarily a smaller business. You are talking about the employment impact. One of the objectives of economic growth is obviously tax revenue, but it is also employment opportunities for local people. Now, as you know, we have very high participation rates within the Island, but we also have a number of people who are not economically active, and so I would call it. Now, if we want to get those people contributing within the economy, then maybe looking for some flexible work, part-time work, there may be an opportunity there to get additional employment for local people. Not all jobs in retailing, as I am sure the retailers would tell you, are necessarily low value added or low paid.

Deputy G.P. Southern:

I would not suggest that all of them were.

Mr. M. King:

Can I just add something there? There are 2 things that need to be borne in mind here. One is that behind all of your questioning, assumes that the retail sector is a static entity and there is not churn all the time. Well, there is. The other thing is that I have 2005 figures here in front of me. There were 195 in the retail sector alone in 2005, there were 195 new licences granted that covered 489 staff, and only 8 of those staff were non-locally qualified. So, there are people applying for locally qualified staff all the time.

Deputy G.P. Southern:

The ratio on those consents for the retail trade is what? What proportion is locally qualified?

Mr. M. King:

The application of RDL(?) will continue the same and 98 per cent of additional licences granted for a new --

Deputy G.P. Southern:

Not additional licences. What is the overall mix in retail? In uptown catering, it is something like 17 per cent, is it not, non-locally qualified, by and large?

Mr. M. King:

Yes.

Deputy G.P. Southern:

I believe, and I do not have the figures in front of me, but it is around 50-50 non-locally qualified. The reality is while you are saying this is creating jobs for locals, the figures suggest that is not being --

Mr. M. King:

The past RDL decisions have been in that mix that you identify. Recent ones have been 98 per cent locally qualified. Now, there is a clear decision that the Minister can take to continue with that policy. That is a decision for him, which effectively has been made. It would not surprise you that as we were debating this at a personal level, the issue of the employment impact was raised and the figures I have just given to you come from a paper that we produced. In that paper it says: "As the application of RDL will continue in the same manner," and that was the Minister's, 98 per cent of additional licences granted for new and existing retailers will be for locally qualified staff. Will be, point forward, okay?

Deputy G.P. Southern:

I look forward to seeing it.

Mr. M. King:

Well that is the commitment. But just going back to the other point, sorry, about Dougie's, there is an issue about participation. Participation levels are very high in Jersey. However, as of June of last year, figures that were in, again in the same paper, there were just over 1,000 people unemployed, 4,350 people working-age females looking after the home, 4,400 people between the age of 53 and 68 who are retired, and 1,800 people between the age of 36 and 64 registered as long-term sick. Now they fall into the numbers that Dougie was putting as for one reason or other being economically inactive. There are potential employment opportunities that may very well be realised should this not be churned, and should through the long term it not even itself out, but could even further increase that participation rate. Particularly as we move into an area where the population is ageing, the requirement for employment opportunities for people who are currently in the flush of youth will probably increase. Supermarkets are one of the areas where those employment opportunities could be provided and happens at the moment here, and could happen in the future. This seems to be an underlying assumption that, as well as having the growth in the upper part of the economy, we do not also need to have support in the lower part of the economy. Now, some of that will come because it will become more efficient and more productive and we will be able to free up resources too, but there will always be an underlying demand for employment of that nature. There is a lot of natural churn in the retail sector, full stop, as the number of licences we grant clearly indicate.

Deputy J.A. Martin:

Where the employment comes from - and maybe I interpret what Mr. Peedle said - that it might not be small businesses, it might be the effect on the larger supermarkets.

If we had an outside operator and their economies of scale were so good that most people start to shop there, and then, obviously, I would presume it would have an effect on other supermarkets, what do you see the players of the JCRA in stopping us ending up in maybe 5 to 10 years time with back to maybe one or even 2 players in the major retail, the bigger supermarkets? What do you see their powers as being?

Mr. M. King:

The JCRA are there to administer the Competition Law and if any entrant, either existing or new, started abusing their position, exercising predatory pricing or whatever, then the JCRA, following a complaint, would be free to act, and I am sure would. So, the JCRA would not treat this sector any differently to any other sector it treats under the Competition Law, and I think it is fair to say that we have a Competition Law which is at least as robust, if not more robust, than competition laws elsewhere. So, the JCRA has a role, as it would have with any other sector. If there is an abuse of dominant position or abuse of position in the marketplace, then they would be expected to act.

Deputy J.A. Martin:

You are confident their powers are sufficient enough that we would not end up with one dominant player in the market?

Mr. D. Peedle:

Well, you said one or 2 players. Obviously, they have to monitor that situation today with 2 players, so that would only change if there was one, and then they have the full legal authority and powers to make sure that that does not have anti-competitive outcomes in the Island.

Deputy K.C. Lewis:

If I could follow on from Judy's question, a reasonable model for us would be the Isle of Man, I suppose. In the Isle of Man they had some local retailers called Shoprite Group PLC and in 2005 one of the, shall we say, large UK major retailers, moved in. Now, those local retailers have now posted a 371,000 pre-tax loss and it says in notes: "It is noted that the grocery cost on the Isle of Man, with a lower average income than Jersey, is still 11 per cent higher than the UK average."

Mr. D. Peedle:

Sorry, what is 11 per cent higher?

Deputy K.C. Lewis:

The grocery costs on the Isle of Man are 11 per cent higher than the UK average.

Mr. D. Peedle:

Than the UK?

Deputy K.C. Lewis:

Than the UK average.

Mr. D. Peedle:

The JCRA shows in its report that is below Jersey prices for the products that they looked at, so it depends how you look at the Isle of Man situation. Yes, they have the additional competition there, but it also seems to be reflected in the prices there.

Deputy K.C. Lewis:

They are on a lower income, though.

Mr. M. King:

Sorry to push you, but you are drawing a comparison between the Isle of Man and the UK, and what the

JCRA sought to do, I think, was draw a comparison between Jersey and the Isle of Man. Is that not a more relevant comparison?

Deputy K.C. Lewis:

I presume the major retailers are going to come from the UK or from mainland France, so our comparisons will be with the UK. What I am saying is it does not necessarily mean that prices are going to be lower if a major UK retailer moves in.

Mr. M. King:

What it says is that it does not necessarily mean the prices are going to be the same as the UK.

Deputy K.C. Lewis:

Not necessarily.

Mr. M. King:

No, sorry, what it does not say is that the prices will be the same as the UK. It does not say that they will not necessarily be low. It does not say they necessarily will, of course.

Deputy G.P. Southern:

I think we have explored whether it brings down prices or does not. Anything else? I am shopped out. Okay, well thank you very much for your contribution today, and no doubt we will follow up. You did mention a number of documents and reports. I shall follow up on those to get the backgrounds to where you have been. Thank you very much again.

ADJOURNMENT