



Retail Framework

A revised framework for managing retail development in Jersey

1. Introduction

This paper outlines the position of the Economic Development Minister in respect of the development of the retail sector in Jersey. The Minister has considered the views of Islanders and businesses and has sought updated economic advice. Appended to this paper is a detailed economic analysis from the States Economic Advisor particularly focussing on the issue of concentration in the food retail sector. The economic advice draws on a range of research on the Jersey retail sector and work carried out by other jurisdictions. The policy itself is informed by work conducted by the Economic Development Department (EDD) and the Statistics Unit, as well as meetings with the relevant government departments and the government policy framework.

2. Policy

2.1 Policy Summary

The retail sector (including wholesale) is the largest part of the private sector outside finance in the Jersey economy in terms of GVA and employment. For an economy aiming to maximise productivity and economic growth, vigorous competition is a vital ingredient for success. Greater competition in the retail sector has the potential to lower prices and costs through increased efficiency. Lower inflation is generally conducive to economic growth and is also good for the Island's export industries including finance, tourism and agriculture. Competition in markets is about ensuring that the economy's resources are put to their best use – something that is critical for all economies but even more so for an island economy with limited resources at its disposal.

The States should not intervene to prevent change in the retail market, and should avoid restricting entry by new firms into the retail sector, whether they come from outside or within the Island, for the following reasons-

- Market structure, particularly in food retail, is not conducive to maximising productivity in the Island.
- There are serious concerns about the effects of concentration when there are only two players in a market.
- Consumers have clearly indicated that they want more competition, lower prices and more choice.
- Many retailers are not against additional competition if it is on a level playing field.
- Competition is a catalyst for change and modernisation.

- Research has indicated that the effects of increased competition on local businesses are generally not as severe as has been feared in the past.

As part of the Island Plan revision process consideration has been given to the guidelines on retail development to try to ensure that they do not unnecessarily impede market forces and the required development of the retail sector (see Section 6).

The most desirable outcome, in terms of increased competition and associated benefit to consumers, as well as the most desirable in the minds of the public of Jersey, would be the entry of an additional large food retail competitor into the local retail market.

Unlike the previous retail policies, neither this document nor the associated economic advice attempt to determine the exact appropriate level of retail space in the Island.

2.2 Previous Policies

The original Retail Framework sought to-

“Limit the scope for additional net floorspace to the broad levels set out below and assess the impact of this new space before allowing significant further entry (unless the market structure changes):

- 40-50,000 sq ft for convenience (supermarkets and food stores)
- 40-50,000 sq ft for bulky comparison (DIY, electrical, furniture/carpets)
- 15-25,000 for clothing/footwear
- 20-30,000 for other non bulky comparison (books, toys, sports, leisure)”

This established the EDD’s position on the matter, but was wrongly identified in some cases as a target figure rather than a maximum, leading to confusion about the Retail Framework’s ultimate objective.

Additionally, the Minister now considers that there is no need to establish desired or maximum levels of retail space, as this is ultimately a matter for the market. If the appropriate conditions for effective competition are established then the market will resolve any issues of over-concentration.

Accordingly, this document seeks to identify such conditions rather than recommend or limit any specific increases in floorspace.

3. The Retail Sector

3.1 General composition

The wholesale and retail sector provides £259m to the Island’s GVA per year¹, the second largest private sector contribution towards GVA (with financial services providing the largest). This contribution is equivalent to nearly 7% of the economy overall. It employs over 7,300 full time employees, approximately 15% of those employed in the Island, meaning that it is also the largest employer outside the finance sector².

¹ Statistics Unit, (December 2008), *Jersey Economic Digest*, States of Jersey, p32 (provisional figure).

² Ibid. p34 (FTE, excluding one-person businesses).

The average employee in this sector earns £430 per week³, and contributes £32,000 annually to the Islands GVA⁴. These are low in relative terms, both being the 3rd lowest of the Island's 10 measured sectors. Only agriculture and the hospitality industry generate lower returns.

Despite representing only 7% of the economy, the wholesale and retail sector employs 1,200 non-local staff, making it the third largest employer of non-locals.

It is therefore a large but relatively low value sector.

The figures above refer to the direct contributions of the sector and do not include the supply/service linkages to the rest of the economy. The sector is clearly an important component of the Jersey economy, and if the Island is to achieve its economic objectives then the wholesale and retail sector must function efficiently.

3.2 Market Concentration

The grocery retail sector in Jersey is largely comprised of two supermarket chains (Sandpiper which owns and operates three 'Checkers' supermarkets and the 'Marks & Spencer' food franchise; and the Channel Island Co-operative which owns and operates two 'Co-op Grande Marchés') and numerous convenience stores (either independent or belonging to Sandpiper, Co-op, or the 'Spar' chain). In addition there are a number of specialist retailers operating out of St. Helier's Central Market and farm shops in out-of-town locations.⁵

Concerns have been expressed by the Jersey Competition Regulatory Authority (JCRA) and the States Economic Advisor about the level of 'concentration' in the local retail market (see Section 5). Concentration occurs when there are only a small number of suppliers in a market - in this case, two supermarket operators and one major fascia group, Spar, (plus independents) for Jersey's convenience retail sector.

As detailed in the work of the States Economic Advisor the local market is concentrated as, despite the presence of small retailers, there are only two multiple operators and this can lead to reduced consumer choice and higher prices to consumers.

4. Public opinion

The Economic Development Department has gathered a considerable body of evidence in respect of the public's opinion on the introduction of additional retail space in the Island. In particular, work has been carried out to assess the desire for an additional supermarket retailer.

At the request of the Economic Development Department, the Statistics Unit has independently conducted a survey⁶ which has indicated that-

- 84% of Islanders are in favour of having a third supermarket.
- 61% feel that the current range of supermarket operators is poor or very poor, only 15% consider it good or very good.
- Only a third are concerned (and half are not concerned) about the impact on small shops.

³ Ibid. p36.

⁴ Ibid. p33 (£ at 2003 value).

⁵ Information from - JCRA, (March 2008), *Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor*, p i, States of Jersey

⁶ Statistics Unit (December 2008), *A Third Supermarket operator in Jersey? - Survey Report*, States of Jersey

- Only 15% are concerned (against 71% not concerned) about the impact on supermarkets they currently use.
- Of those in favour of a third supermarket, three quarters would like a general British operator.

The Statistics Unit considers that the distribution of the survey and the extremely high response rate ensures that the conclusions 'robustly represent the views of Island residents'.⁷

It is clear from this response that the public in Jersey have a specific favoured outcome - the introduction of an additional large food retail competitor into the Island's retail market, with a preference for a UK operator.

5. The Jersey Competition Regulatory Authority (JCRA)

5.1 JCRA Study - the price of food in Jersey

Prior to the publication of the previous Retail Framework in 2006, the (then) Economic Development Committee requested the assistance of the JCRA "*in seeking to ascertain the reasons why prices of certain food products in Jersey appear to be significantly higher than prices for equivalent products in the UK*".⁸ The JCRA reported in October 2005, and their primary conclusions were:

1. *The majority of food products surveyed are more expensive in Jersey than in the UK, with some products being significantly higher priced. Historic below-cost pricing for some products in the UK, however, complicates price comparisons.*
2. *The price differential for food between Jersey and the UK probably is attributable to several factors.*
3. *One contributing factor is the higher cost of doing business in Jersey compared to the UK. The cost of labour appears significantly more expensive in Jersey, as much as 40% higher than in the UK. Other increased costs such as transport, are also likely to be factors. The effect of increased costs on retail prices multiply across the food supply chain, to the extent that activities are carried on in Jersey.*
4. *A second contributing factor consists of inefficiency and lack of scale economies in Jersey that appear to exist in several levels of the food supply chain. Farming is expensive in Jersey compared to the UK. Jersey's food producers and retailers are very small scale and probably do not achieve economies of scale comparable to UK equivalents.*
5. *Another likely contributing factor is the high market concentration levels in Jersey compared to the UK in markets for food production, distribution and retail sale. High levels of market concentrations can result in less competition and higher prices, based on actions by competitors that may or may not violate competition law.*
6. *Differences in consumer purchasing habits may exist in Jersey compared to the UK, and if so, they also could contribute to price differentials.*

⁷ The survey was distributed to 2,000 households at random, with a response rate of 60%.

⁸ Economic Development Committee, 23rd November 2004, Act B1, reproduced in JCRA, 2005, *Comparison of Food Prices in Jersey and the United Kingdom*.

The JCRA report contains a comprehensive discussion of the factors that could contribute to the comparatively high cost of food in Jersey. It supports Conclusion 5 by noting that Jersey has 'high levels of concentration' in milk processing, shipping and food retail⁹.

The JCRA go on to state that the "UK's Competition Commission concluded that consumer choice in food retailing is adequately safeguarded when three or more supermarkets compete in a particular locality".¹⁰ Also that the Australian Competition and Consumer Commission has stated even more strongly that a "reduction from three large firms to two makes the emergence of cooperative behaviour almost inevitable even if the firms do not consciously seek to cooperate".¹¹

5.2 JCRA Study - the effects of an additional multiple entrant

Following the publication of the original Retail Framework, and the subsequent production by the Economic Affairs Scrutiny Panel of the 'Retail Strategy (Interim) Review (SR9/2007) in April 2007, the Minister again sought advice from the JCRA, on "the economic impact of new entry into the retail sector by a large supermarket competitor in terms of the impact on consumer welfare, productive efficiency and the Jersey economy overall".¹²

The JCRA, in its summary of the full report, concludes that-

'After considering the evidence and taking into account comments made in submissions, the JCRA, on balance, advises the Minister that the economic impact of new entry into the retail sector by a large supermarket competitor would be economically beneficial in terms of increasing-

- consumer welfare;
- the productive efficiency of existing retailers; and
- the Jersey economy overall.¹³

In its analysis of responses received from interested parties, the JCRA noted that some responses go "beyond the economic and commercial perspective"¹⁴ and deal with perceived negative social effects. The JCRA responded-

"However, the JCRA does note that, should it conclude in this inquiry that the entry of a third supermarket is economically beneficial [as later it did], then rejecting entry on the basis of a hypothetical and subjective adverse social impact will come at a cost to consumer welfare and the economy generally."¹⁵

The Economic Development Minister fully accepted the JCRA's advice at the time of publication. No evidence in the intervening period has emerged to alter the position in respect of this advice.

The potential social effects of the entry of a new large food retail competitor are addressed in the advice of the States Economic Advisor (see Appendix Sections 11, 12, 75-84).

⁹ JCRA, 2005, *Comparison of Food Prices in Jersey and the United Kingdom*, p 14

¹⁰ UK Competition Commission, 2000, *Supermarkets; A report on the supply of groceries from multiple stores in the United Kingdom*, p26 reproduced in JCRA, 2005, *Comparison of Food Prices in Jersey and the United Kingdom*, p14

¹¹ Australian Competition Commission, May 1996, *Application for Authorisation: Watty/Courtaulds/Taubmans/Pinchin Johnson*, p65, reproduced in JCRA, 2005, *Comparison of Food Prices in Jersey and the United Kingdom*, p15

¹² Economic Development Minister, 29th August 2007, *Request to the JCRA under Article 6(4) of the Competition Regulatory Authority (Jersey) Law for advice on economic impact of new entry in the retail sector*. (Ministerial Decision MD-E-2007-0167)

¹³ JCRA, (March 2008), *Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor*, p27, States of Jersey

¹⁴ Ibid. p10

¹⁵ Ibid.

5.3 JCRA Role

Ultimately, Jersey is not significantly under-supplied with retail floorspace, but the current economic advice indicates that this floorspace is concentrated amongst too few large competitors.

Accordingly, the Minister will continue to work with the JCRA to resolve the current issues of excessive market concentration in the food retail sector.

6. Island Plan

While the weight of evidence points to a new large food retail competitor delivering significant economic benefits, Jersey's particular characteristics could inhibit the development of such an operator. The most significant challenge in addressing the market structure is the lack of suitable sites for the development of a modern supermarket, a land-use issue which is ultimately controlled by the Island Plan.

During the development of the Island Plan 2010, the Economic Development Department engaged with the Planning and Environment Department to try to establish a method by which a suitable site for a new large food retail operator could be selected. PED agreed to incorporate into the revised Island Plan a 'sequential test', to establish the most suitable site for the construction of any potential supermarket development by identifying suitable town centre locations, and, if no such sites exist, to identify sites in other locations.

It would be desirable from EDD's perspective if the stages of the sequential test included the options of 'within town but outside the town centre', 'outside town but within the Built-Up Area', 'edge of Built-Up Area' (potentially encompassing brownfield sites) and finally, if no other suitable location can be found 'outside the Built-Up Area'. It is understood that, at the latter stages of the sequential test, there will be a higher burden of proof required related to the benefit of the development to the Island versus the cost of increased development, or some mechanism such as a public planning inquiry in relation to this.

EDD has expressed its concerns about the feasibility of resolving market concentration issues while operating within an Island Plan which is based on an explicitly stated understanding that the Island does not require additional food retail development. The States Economic Advisor has also noted that PED's preferred measurement method of floorspace planning is not able to deal with issues such as market structure or levels of competition (this position is explored in the Appendix Sections 54-60).

The EDD hopes to continue discussions with the PED in order to find a mutually satisfactory method of removing barriers to entry to the local food retail market.

7. Other considerations

Notwithstanding the benefits to consumers of potential downward pressure on food prices, with the associated possible benefits of economic growth and retail efficiency, concerns have been raised during discussions of this issue with the public and other stakeholders.

7.1 Effect on local businesses

An oft-cited danger of introducing an additional supermarket operator is a potentially detrimental effect on local businesses. This is often accompanied by concerns that the entrant will seek to obtain market dominance by eliminating competition through under-pricing, before maximising profits as a monopoly.

The States Economic Advisor has analysed the potential impact on local shops, using the most recent data from the UK and other jurisdictions, and his results are detailed in the Appendix Sections 30-41. He has also addressed the concern that Jersey is too small to accommodate a third supermarket operator, with reference to supermarket operating densities elsewhere (Appendix Sections 48-50).

7.2 Effect on the local environment

In the event of a new competitor constructing a large food retail development in the Island, the Minister hopes to minimise any environmental consequences by working with the PED to ensure that any site selected by the new operator is suitable (See section 6, above).

8. Wider policy framework

8.1 States Strategic Plan - Economic objectives

The economic objectives of Jersey are detailed in both the Economic Growth Plan and the States Strategic Plan.

In April 2005, the States approved the Economic Growth Plan (EGP), which examined how best to use Jersey's assets to ensure future prosperity.

The EGP is quite clear in terms of competition policy-

*"Ensuring there is vigorous competition between firms is also critical to maximising productivity and economic growth. Competition encourages firms to innovate by improving efficiency and reducing slack, puts downward pressure on costs and improves the organisation of production. The end result is a better deal for consumers."*¹⁶

It also specifically addresses the issue of local protectionism-

*"The threat of potential competition from abroad is also an important factor, because this too can encourage incumbent firms to improve efficiency and to innovate ...The challenge is to identify where there are barriers to open competition and where there is no reason for the government to allow them to remain they should be removed."*¹⁷

The States Strategic Plan (2009-2014) also encourages an increase in the efficiency of the Island's economy and the limitation of possible cost-inflation. The relevant policies are-

Support the Island community through the economic downturn (Why we must do this)-

We need to protect the most vulnerable from the worst impacts of the downturn.

This policy will meet this requirement by encouraging competition that will maintain downward pressure on prices, which will assist the vulnerable (in this case low income families) to maintain their quality of life through access to greater consumer choice.

Support the Island community through the economic downturn (What we must do)-

Identify policy options to stimulate the economy and consider – what we can do to support the people most affected (p8)

¹⁶ Economic Development Committee, (1st March 2005), Economic Growth Plan, (P.98/2005) p52

¹⁷ Ibid. p55

Increased competition in the retail sector may have the dual effects of benefiting low-income families, as detailed above, and improving the condition of the economy by removing resources from a low-return (low GVA) sector of the economy and making them available to higher value sectors. The secondary effect of lowering consumer prices would be to leave more money in Islanders' pockets, which would allow more discretionary spend, benefiting the economy.

Support the Island community through the economic downturn (What we must do)-

Identify policy options to stimulate the economy and consider – making the States more responsive in areas such as Planning and the Regulations of Undertakings and Development Law (p8)

The above strategic aim is mirrored in this policy, which intends to maximise benefit to the Island by ensuring that effective competition can operate to ensure economic efficiency and lower consumer prices.

In addition to the specific aims, the States Strategic Plan also contains 'key indicators', which are a measure of success. This policy seeks to assist in meeting two of the criteria-

[To meet the] full range of economic indicators set out under priority 2 [which includes keeping the local Retail Price Index as low as possible] (p7)

[To] work to maintain low inflation in the Island (p9)

9. Conclusion

The policy of the Economic Development Department has been to ensure that there is sufficient effective competition to maintain downward pressure on prices. Not only will competition potentially increase economic growth in the Island but could also drive increases in efficiency. Competition also serves a social function, as it permits low-income families to have access to everyday goods at the lowest possible price.

This policy has traditionally been tempered by a desire to ensure any possible detrimental effects on local businesses are minimised, and accordingly the States Economic Advisor has carried out an analysis of those effects, based on the latest available data.

The Minister believes that an additional large food store operator should not be prevented, and that any application should be treated on a level playing field with other existing operators in terms of Regulation of Undertakings and planning policy. An effective sequential test would be necessary to determine the most suitable location for such development

9.1 EDD policy aims

The key policy aims are-

- There should be no barrier in the Island Plan to the consideration of applications by new large food store operators. The Minister supports a 'sequential test' to protect Island Planning objectives and to consider whether there is an appropriate site for any potential entrant.
- In order to avoid establishing an 'uneven playing field', all applications for retail developments should be treated in a similar manner, and no special concessions should be granted to arriving operators.

In every case, an application should be treated on its merits, balancing social environmental and economic issues.

In addition to the aims as above, EDD will also-

- Investigate with the JCRA what powers it would require to address competition and issues of market structure in the retail sector.

Economic Development Minister, March 2010.

ENDNOTES

Economic Development Department, 2006, *'A Framework for Managing the Development of the Retail Sector in Jersey'*

Jersey Competition Regulatory Authority, October 2005, *'Comparison of Food Prices in Jersey and the United Kingdom (JCRA Response to a Request Received from the Economic Development Committee under Article 6(4) of the Competition Regulatory Authority (Jersey) Law 2001)'*

Jersey Competition Regulatory Authority, March 2008, *'Economic Impact of New Entry in the Retail Sector by a Large Supermarket Competitor (Advice to the Minister for Economic Development under Article 6(4) of the Competition Regulatory Authority (Jersey) Law 2001)'* (Public Version)

Statistics Unit, December 2008, *A Third Supermarket operator in Jersey?* (Survey Report)

Statistics Unit, December 2008, *Jersey Economic Digest*



Economics Unit

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ECONOMIC ADVICE FOR UPDATING THE RETAIL FRAMEWORK

Summary

1. This paper provides further economic advice for updating the Economic Development Department's Retail Framework first published in June 2006 and in particular with reference to the potential impact of entry of a third supermarket operator. It has been updated in response to a request from Economic Development to take into account all the new information contained in the numerous reports that have been published on the subject both in the Island and elsewhere since the Retail Framework was published.
2. As the previous Retail Framework highlighted, the retail sector (including wholesale) is one of the largest sectors in the Jersey economy employing 15% of the workforce; equivalent to 8,500 people. It is therefore critical that such a large sector of the economy contributes to the economic objectives set out in the States Strategic Plan 2009-14.
3. The supermarket sector in Jersey is highly concentrated with both players (Sandpiper and Co-op) having large market shares. The evidence is that such concentrated markets weaken competition and allow a grocery retailer to worsen their retail offer and earn higher profit margins. In Jersey there is evidence that prices for many food products are 15-20% higher than those in the UK for equivalent products. Entry by a large French or British operator would reduce concentration and bring economies of scale that currently do not exist in the supermarket sector in Jersey.
4. Entry of a third supermarket would also be conducive to achieving the States wider economic objectives. Competition in the supermarket sector could create space for small businesses to grow and larger retailers can bring economies of scale and new technology that lead to improved efficiency. The States' economic objectives centre on greater efficiency and improved productivity across the economy. Given the size of the retail sector in Jersey, these must be the objectives of the retail sector too. The analysis in this paper shows that important

ingredients in meeting these objectives will be ensuring that retail markets are competitive, removing barriers to entry and preventing concentrated markets.

5. A potential downside of entry of another supermarket operator is the impact on existing retailer and small shops in particular. However, an objective assessment of all the evidence from the experience in the UK is that the impact on small shops is not as great as some have made out. In fact, supermarket entry in the UK appears to have had no identifiable impact on a range of small independent stores. In addition, in Jersey only a third of Islanders are concerned (and 50% are not concerned) that smaller shops might close if Jersey has a third supermarket operator. If entry of a new supermarket entailed the retailer occupying an edge of centre store it could actually help to maintain and enhance the town centre and the small shops that exist there.
6. Experience in Jersey and the evidence from elsewhere is that Jersey is large enough to support competition between three or more supermarket operators.
7. While entry by a discount operator such as Lidl or Aldi should not be discouraged they should not be seen as substitutes for competition between larger supermarkets. The evidence is that such stores, and particularly entry of the first ones, do not provide significant competition for existing supermarkets.
8. While retail capacity studies may inform land-use planning, they are not sufficient for informing wider policy and should not be given much weight. They are partial and there is scope for a wide margin of error. If entry of new retailers is constrained simply because such studies show there is a risk of trade diversion, this will reinforce the market power of existing retailers and lead to higher prices than would otherwise have been the case.
9. There is a wide body of opinion that as consumers are less well organised than other interest groups their views should be properly canvassed and instrumental in determining retail policy. Until recently, it could have been argued that in Jersey consumer views were not being heard. A survey undertaken independently by the States of Jersey Statistics Unit at the end of last year has given a voice to the Jersey consumer which clearly indicates that:
 - 84% of Islanders are in favour of having a third supermarket.
 - Only a third are concerned (and half are not concerned) about the impact on small shops.
 - Only 15% are concerned (71% are not concerned) about the impact on supermarkets they currently use.
 - Of those in favour of a third supermarket three quarters would like a general British operator.

10. The previous Retail Framework suggested floorspace guidelines for new retail space as second best to greater competition. Such an approach could place a cap on new floorspace which would act as a barrier to entry and restrict competition. The preferred approach should be to allow entry on a level playing field basis and that entrants taking large amounts of floorspace be subject to an economic impact assessment.
11. It is important that economic advice is balanced with social and environmental factors. However, an initial consideration of the objectives of social and environmental policy suggests that there is little in principle to suggest that additional competition in the supermarket sector would work against these objectives. In fact, if managed in the right manner, such entry could work with social and environmental policy as well as economic policy. It could provide a good example of demonstrating how economic and environmental policy work together as required by the Strategic Plan. Nonetheless, the social and environmental consequences of a particular proposal should be reviewed on a case-by-case basis to ensure that the social and environmental consequences are fully understood.

Recommendation

12. Entry of a third supermarket operator in Jersey should be allowed and potential barriers to entry removed. This could bring valuable benefits in terms of increased efficiency and productivity, consumer choice and lower prices than would otherwise have been the case. The majority of Islanders are not concerned about the impact on existing retailers. Additional competition in the supermarket sector would therefore support the key economic objectives in the States Strategic Plan, and is widely supported by Islanders. Entry of a new supermarket could be managed in such a way that it contributes to social and environmental objectives. For example, a new supermarket entrant taking an edge of town site could reduce the risks of impact on the town centre and help enhance it.
13. The policy approach should be to allow competition on a level playing field basis and that the States should not prevent entry of a third supermarket provided it is in line with planning policies. A level playing field means that new entrants and existing players are treated in the same manner in terms of planning and RUDL. However, it will also mean that potential new entrants should have all the information at their disposal about current policy, particularly given the mixed messages they may have received in recent years as the public debate has progressed.
14. It will be important that the approach adopted is communicated properly to potential entrants so that it is clear to them that entry will not be prevented if a suitable site is found. Communicating policy to potential entrants will be an important role for the Economic Development Department (EDD).

15. EDD should also work with the Planning and Environment Department (P&E) to ensure that policy does not unnecessarily restrict competition and that it does not have unintended consequences. EDD should also work with P&E to ensure that planning policy is based on the most recent evidence, for example on the impact of competition on town centres. It will also be important to ensure that planning policy does not give too much weight to retail capacity studies.
16. It may well be that in a small island economy with tight controls over land use and population, barriers to entry in the supermarket sector still exist. EDD should give further consideration as to whether competition law could be updated and enhanced to help address these inherent problems. For example, weigh up the costs and benefits of break up provisions and whether they should be available as a last resort.

ECONOMIC ADVICE FOR UPDATING THE RETAIL FRAMEWORK

Retail and the Jersey economy

17. As the previous Retail Framework highlighted the retail sector (including wholesale) is the largest individual sector in the private sector outside finance in terms of GVA. It is equivalent in size to the whole of the public sector. It is also the largest employer outside of finance, employing 15% of the workforce, equivalent to 8,500 people.
18. If Jersey is to be successful in achieving its economic objectives then the retail sector must play its part. The States Strategic Plan for 2009-2014 sets out its key economic objectives as:
- i. Support the Island community through the economic downturn
 - ii. Maintain a strong, environmentally sustainable and diverse economy
19. Objective i is largely about using the Stabilisation Fund to support jobs and businesses in the local economy through the downturn. Entry of a third supermarket could be consistent with this objective if it occurred in a timely manner. It would initially create additional jobs and if it leads to new development this would act as economic stimulus but rather than taxpayers' money it would come from the investment of the supermarket involved. In the medium-term the impact would be in line with objective ii.
20. One of the key requirements for objective ii is that "sustaining and growing Jersey's economy must be delivered through sound public finances and increased productivity, not at the expense of excessive population growth or inflation". The Plan states that this means:
- Lay the foundations for a genuinely diverse economy
 - Further develop Jersey's careers, jobs and employment services to maximise opportunities for all Jersey residents
 - Continue work to diversify the economy, support new and existing businesses, attract low footprint/high value business from elsewhere and foster innovation
 - Work to maintain low inflation in the Island
 - Test economic growth plans for sustainability to ensure they do not diminish our natural capital
 - Show the world that economic and environmental success can work together.
21. The link between economic growth, environmental sustainability and diversification is productivity. Improved productivity means that we use the resources we have at our disposal more efficiently in terms of land use, people and energy and thereby fostering economic

growth. The drivers of productivity are skills development, investment, innovation, enterprise and competition, all supported by macroeconomic stability.

22. Entry of a third supermarket should support all the drivers of productivity and therefore is consistent with the second economic objective of the Strategic Plan. This is because:

- The more competitive environment generated by the new entrant will encourage it and its competitors to invest in the development of the skills of their workforce.
- The entry of a new operator will bring with it additional investment and the competition it will bring will spur greater investment and innovation as firms compete to improve efficiency.
- The supermarket sector in Jersey is a highly concentrated market and entry of a third player will be an important improvement in competition.
- The extra competition will mean that prices will be lower than would otherwise have been the case and this will support low inflation and macroeconomic stability.

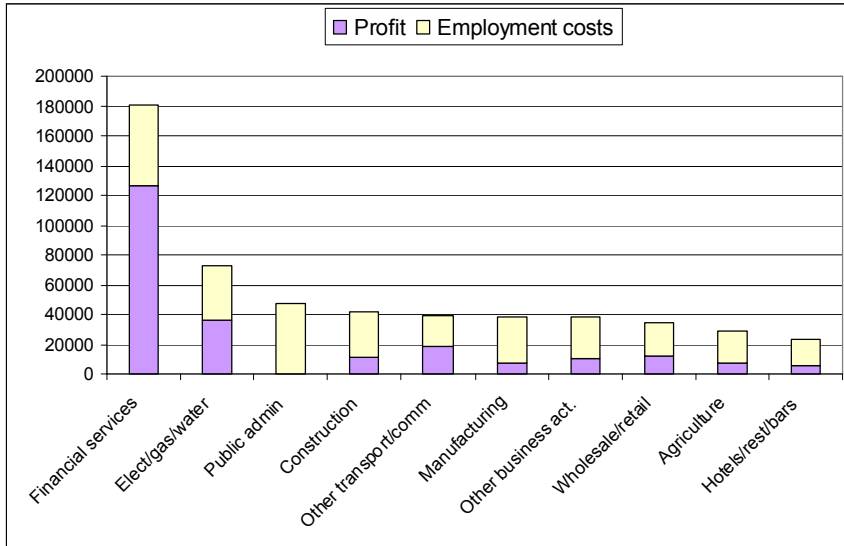
23. The dynamics of competition can be an important determinant of productivity growth. Foster, Haltiwanger and Krizan (2002) point out that there is a growing body of empirical literature that shows a substantial fraction of aggregate productivity growth is associated with the reallocation of resources from less productive to more productive firms. “Moreover, entry and exit of establishments play an important role in this reallocation”. Their paper looks at the case of the US retail sector and concludes that “virtually all of the productivity growth in the US retail trade sector over the 1990s is accounted for by more productive entering establishments displacing much less productive exiting establishments”.

24. Similar results are found by Baldwin and Gu in their study of the Canadian retail sector. They consider the relationship between the churn of firms (i.e. the competitive process) and productivity growth. They conclude that “most of the productivity growth in the Canadian retail sector can be attributed to firm turnover and the competitive process that shifts output and input from exiting firms and contracting incumbents to more productive entering firms and more productive growing incumbents”. They also find that foreign controlled firms make a disproportionately large contribution to productivity growth.

25. Productivity improvements can also be brought about through a change in the structure of the economy. That is, if resources flow from low value added activity to higher value added activity economic growth will occur with the same amount of resources. This type of change in the economy can also support diversification through the new higher value activity. The chart below shows that retail and wholesale activity is actually a low value added activity. Additional competition will bring greater efficiency and this means in the medium-term that any given level

of consumer demand in the Island can be met with fewer resources (land and people) than would otherwise have been the case.

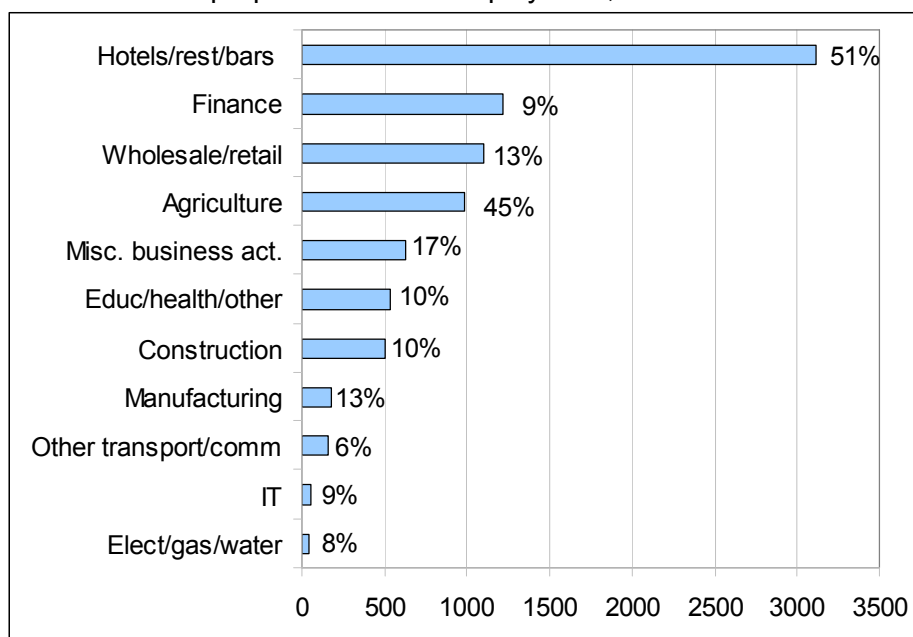
Chart 1: GVA per FTE breakdown by sector
2007 GVA per FTE excluding sole traders, profits include rent



Source: States of Jersey Statistics Unit

26. The chart below shows that the retail and wholesale sector also employs a high number of non-locally qualified. In June 2009 it was the third largest employer of non-locals with 1,100 and the fourth largest in terms of the proportion of total staff.

Chart 2: Employment of non-locals by sector
Number and as proportion of total employment, June 2009



Source: States of Jersey Statistics Unit

27. Charts 1 and 2 illustrate that entry of a third supermarket could also support productivity improvements and diversification. In the medium-term a more efficient retail sector will require fewer people to meet a given level of demand. This will reduce the dependence of the sector on non-local labour and facilitate productivity improvements and diversification. Growth can be supported if resources diffuse from low value activity into higher value activity. Average GVA/FTE in the Jersey economy is nearly double that of retail/wholesale, while GVA/FTE in the finance sector is five times that in retail/wholesale.
28. Planning policy also needs to be conducive to retail productivity improvements. Lower UK retail productivity is seen as one of the contributing factors to the overall 'productivity gap' between the UK and US economies. Haskel and Sadun (2009) examine the reduction in UK retail productivity growth between 1997 and 2003. In 1996 there was a change in retail planning regulations in the UK which made it much harder for retailers to build large out-of-town stores and supported inner town development. This brought a marked change in the strategy of UK supermarket chains toward new stores from opening 'big box' stores out of town to focusing on new inner town small shops. Their results show that the fall in shop sizes is associated with lower productivity and they conclude that they 'suggest a robust correlation between average store size and retailers measured productivity'.
29. Similarly, evidence from the US Census of Retail Trade shows that large retailers operating chains are much more efficient than retailers operating a single store. The higher efficiency of the bigger retailers reflects economies of scale and use of better technology.

30. The next section considers the impact of large supermarkets on small shops and includes an objective review of the evidence base. It is important first to distinguish between the impact on the small business sector and that of small retailers. Sobel and Dean look at the case in the US where the impact of Wal-Mart has been hotly debated. They point out that it is important to look at the impact of Wal-Mart on the small business sector as a whole. The 'recycling of productive resources into new areas' is precisely the process through which economic efficiency can increase. They also point out that the money consumers save on their general purchases because of Wal-Mart's lower prices is extra money that can be spent on other goods and services, some of which will be spent on goods and services produced by local small businesses. After examining a range of different measures of small business activity using different econometric techniques they conclude that there is no evidence for the claim that Wal-Mart has shrunk the size of the small business sector in the US economy. They also find no evidence that good small businesses are replaced by worse small businesses that generate less income for their owners.
31. In a small island economy like Jersey, the fact that supermarket entry could create opportunities for small businesses is particularly important. With a fixed amount of land and labour at our disposal, improvements in retail efficiency can create 'the space' for new small businesses to grow and expand. This is consistent with productivity growth and the Island's wider economic objectives.

The impact on small shops

32. An often cited concern about the entry of a third supermarket into the Jersey retail market is the decline in the number of small or independent shops in the UK over the last 30-40 years. The New Economics Foundation (NEF) has chronicled this decline in its reports *Ghost Town Britain* and *Ghost Town Britain II*. They have illustrated that the decline in small shops has coincided with the rise in the number of supermarkets. However, correlation does not prove causation and there is no detailed research to support the hypothesised link. Friends of the Earth echo NEF's views in their briefing paper *Good neighbours? Community impacts of supermarkets* but also provide little evidence for their assertions.
33. The UK Competition Commission undertook more detailed analysis in its 2008 investigation and reached similar conclusions in terms of the trends in convenience store numbers. They observe the long-term decline in the number of specialist stores since the 1950s. However, they also find that the number of convenience stores has not declined in recent years and that this contradicts the widely held belief that there is broad based decline in the number of convenience stores in the UK, although this may reflect the trends experienced within the non-affiliated independent part of the convenience store sector. Their overall conclusion is that:

“The moderate growth in convenience store numbers, and the more significant growth in convenience store revenues that we observed, indicates that any distortion in competition between large grocery retailers and other convenience store operators, is not causing a broad-based decline in convenience store numbers or revenues, including the number or revenues of independent non-affiliated and symbol group convenience stores.”

34. While the conclusions of the Competition Commission on the long-term trends may not be that dissimilar to that of NEF, their conclusions about the impact of large grocery retailer store entry on smaller convenience stores and specialist stores are quite different. Over the period 1999 to 2006, entry by a new large grocery store was found on average to result in a reduction in the number of greengrocers and trading markets and an increase in the number of bakers in subsequent years. However, there were no systematic identifiable impacts on the number of butchers, convenience stores, delicatessens, fishmongers, health food shops and off-licences.
35. It does not therefore follow that preventing entry of a large convenience store will protect smaller stores. The UK planning system was reformed in 1996 with the explicit aim to protect the vitality of town centres from the supposed draining effects of large out-of-town retail stores. Raffaella Sadun from the Centre for Economic Performance at the London School of Economics shows in her paper that these entry regulations have been associated with “greater employment declines in the independent stores they were meant to protect”. The reason the author concludes is that when larger retail chains are prevented from entering a new area with a large store, they instead enter using a smaller in-town format which competes more directly with independent stores.
36. The House of Commons All-Parliamentary Small Shops Group reported in 2005 on High Street Britain: 2015. Their concern was that by 2015 many small shops across the UK will have ceased trading with few independent businesses taking their place. This loss could damage the UK socially, economically and environmentally. They made a string of recommendations on mergers and takeovers, regulation, codes of practice, requirement for local authorities to adopt a retail strategy and delegating greater decision-making power to people locally. Their report predated some of the key pieces of work outlined in this paper and in particular did not make any recommendation regarding preventing competition in concentrated markets like that in Jersey. In fact their concern was in the opposite direction:

“Growth in the number of sites occupied by the “Big Four” has resulted in the emergence of monopolies and duopolies in specific regions across the UK. Data from CACI illustrates that Tesco holds incredibly dominant market shares in Inverness (51%), Milton Keynes (50%), Twickenham (47%), Southall (47%) and Hemel Hempstead (46%). In such areas ‘voting with their purse’ is not always a viable option, due to the lack of alternative offers”.

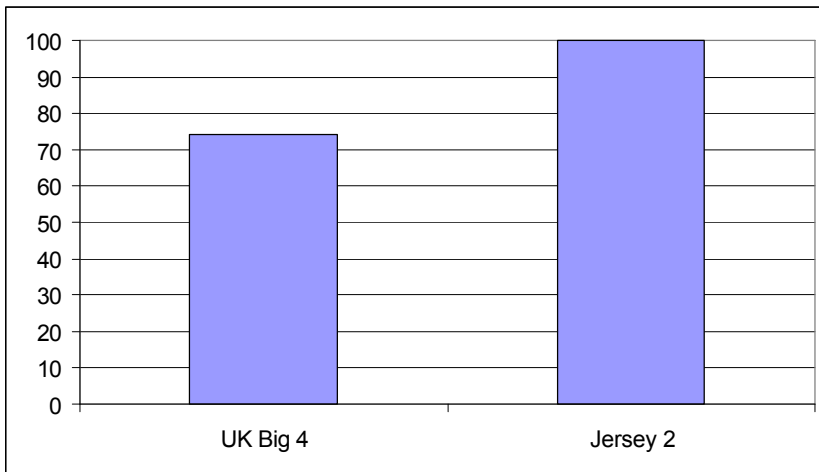
37. A paper which is often quoted is that from 1998 by the Department of the Environment, Transport and the Regions and titled *The impact of large foodstores on market towns and district centres*. The study comprises of a literature review of earlier research, a classification of market towns and district centres, a comprehensive survey of all the major foodstore operators and detailed studies of 9 market towns and district centres. The conclusions were that large foodstores in edge-of-centre and out-of-centre locations can, and have had, a large adverse impact on the principal food retailers and the market share of the town centre convenience sector as a whole. The level, and consequences, of impact will vary depending on the particular local circumstances of the centre concerned.
38. However, the conclusions from the DETR paper need to be treated with caution and have not been universally accepted. Professor Neil Wrigley from Southampton University in his 2006 paper notes three things about the conclusions of the DETR report and in particular with the conclusions about the impact of edge-of-centre stores. First, the extremely limited empirical evidence from which they are derived. Second, that the subsequent view of many academics was that the report tended to considerable 'ambiguity in detail'. Thirdly, the over-generalized way the headline findings were reported and subsequently used.
39. Wrigley believes that many academics have suggested that the only reasonable way to interpret the 'slender and ambiguous' DETR findings on edge-of-centre foodstores is to conclude that they 'left in dispute' whether they enhance the attractiveness of town centres, compete with existing facilities or are completely neutral. Under these circumstances Wrigley advises that attention should be paid to what the range of more recent studies have shown. His view is that 'there is now considerable academic agreement with the proposition that food retail provision – in particular the quality of supermarket provision – is vital to both the maintenance and enhancement of the role of small towns, district centres and rural market towns in servicing their hinterlands'.
40. DEFRA in their 2006 paper on grocery retailing note that the retail revolution since the 1950s which has encompassed the rise of multiple supermarkets and the decline of independent stores has been underpinned by socio-economic trends on the demand side:
- busy consumer lifestyles, with rising incomes
 - an increase in household numbers and women working
 - wider car ownership and the falling cost of car travel
 - wider ownership of fridge freezers.
41. This illustrates well that there have been a whole host of factors combining to impact on the retail sector in the UK and to just focus on one issue – the increase in multiple supermarkets – is not looking at the full picture.

The need for extra competition

42. Another argument often put forward against the case for a third supermarket is that there is no need for additional competition in Jersey as there is already enough competition between the existing players. The Competition Commission makes it clear in its report that where there are barriers to entry, the extent of local market concentration indicates the degree of competition between grocery retailers.
43. Market concentration is determined by the number of competitors in the market and the relative size of those competitors. The Competition Commission uses two distinct measures to assess local markets in the UK: retailers share of groceries sales area as a proxy for share of sales and the number of competing fascias. A retailer that has a high market share is more likely to benefit from market power and the greater the number of fascias, the greater the number of alternatives to which consumers can switch. The Commission point out that where a grocery store faces zero, one or two competitors (i.e. monopoly, duopoly or triopoly stores) and the retailer operating that store has a high market share that retailer is likely to face little or no competitive constraint in that market.
44. In Jersey the large supermarket sector scores poorly in terms of both the number of competing operators – 2 (Sandpiper and Co-op) and the fact that they both have large market shares. The Competition Commission concludes that consumers are adversely affected by local markets being highly concentrated. Weak competition in local markets allows a grocery retailer to worsen the store-specific retail offer and earn higher profit margins. Their estimate is that the effect of weak local competition is to allow larger grocery retailers to earn an additional 3% of annual profits each year.
45. In terms of the grocery sector (excluding smaller convenience stores) the Jersey market appears significantly more concentrated than the UK. As the chart below shows the big 4 supermarkets in the UK (Tesco, Asda, Sainsbury's and Morrisons) account for nearly three quarters of the market in the UK. In Jersey there are only two supermarket operators – Co-op and Sandpiper – which means by definition their market share is actually 100%.

Chart 3: Supermarket market shares

% of grocery market excluding small stores

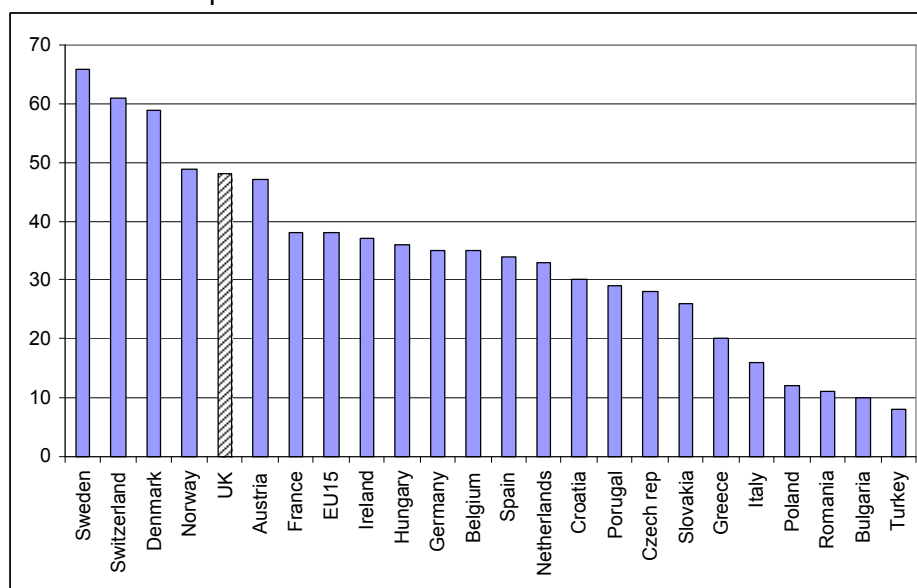


Source: DETR/TNS, Sandpiper/Co-op

46. Jersey not only has a high degree of concentration relative to the UK but also with the rest of Europe. The chart below shows that outside of the Nordic countries the UK has one of the most concentrated markets in the EU and Jersey has an even more concentrated market than the UK.

Chart 4: Share of largest retailers in grocery markets

% of share of top 3 firms



Source: DETR/IGD

47. A recent report by the French Competition Authority - Autorité de la concurrence - has examined why there are significant discrepancies between the price of consumer goods in mainland France and the overseas departments (DOM) – Guadeloupe, Martinique, Guyana and Reunion. One of their key findings was that the food retail sector in the DOM is insufficiently competitive due to barriers to entry (including scarcity and high price of commercial real estate) and that the concentration level is high with some groups having markets shares in excess of 40%. One of their recommendations is to revitalise competition by removing barriers to entry and by improving consumer information (as well as curbing anti-competitive practices).

Jersey is small

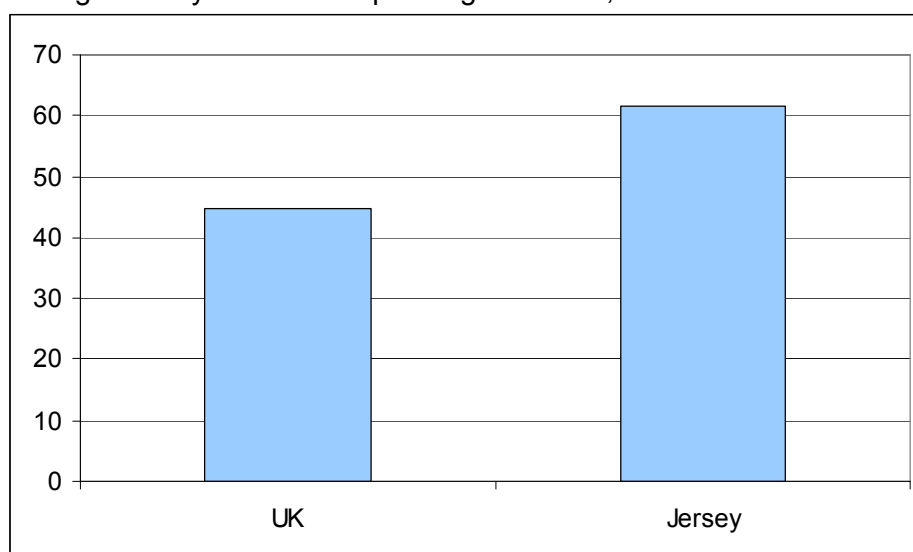
48. It might be thought that Jersey is too small to sustain competition between three supermarket chains. However the evidence again from the Competition Commission suggests that this is not the case. They recognise that the population in the catchment area will be an important determining factor as to whether a local market can support entry. The detailed analysis they undertake suggests that the minimum threshold for three competing stores is a population of 45,000 within a 20 minute drive time.

49. The Commission also quotes a number of examples of towns in the UK where the population within a 20 minute drive time is significantly less than the thresholds they set out for competition between two and three stores:

- Galashiels with a population 31,000 within a 20 minute drive time supports three large stores
- Fakenham has a population of 35,300 within a 20 minute drive time and supports two large stores
- Newtown has a population of 23,500 within a 20 minute drive time and has two large stores
- Berwick-upon-Tweed with a population of 24,500 in a 20 minute drive time supports 3 three large stores with plans to open a fourth.

50. In Jersey, average household expenditure on food and non-alcoholic drinks is nearly 50% greater than in the UK (see chart below) and therefore significantly greater than estimates of the difference in prices. This suggests that in Jersey a smaller number of people could be required to support any given number of stores relative to the case in the UK.

Chart 5: Household expenditure on food and non-alcoholic drinks
average weekly household spending in 2004/5, £s



Source: States of Jersey Statistics Unit

The impact of discount stores

51. The Competition Commission also examined the impact of entry of new stores on the revenue of incumbent stores. Where a revenue effect was identified this indicates that fascias may be a substitute for each other. Their analysis is summarised in the table below and shows that in most cases the entry by new Asda, Morrisons, Sainsbury's, Tesco and Waitrose stores has a negative effect on the revenue of the incumbent stores of these five names.

52. With respect to the discount chains such as Lidl and Aldi there is very little evidence that entry by one of these supermarkets impacts on other grocery stores.

Table 1: Rank of significant entry effects on incumbent fascias

Incumbent	Entrant	Incumbent	Entrant	Incumbent	Entrant
Asda	Tesco	Waitrose	Sainsbury's	Lidl	Aldi
	Morrisons*		Asda		Asda
	M&S*		Tesco		
				Netto	Regional Co-op*
Morrisons	Sainsbury's*	M&S	Asda		Asda
	Tesco				Lidl
Tesco	Regional Co-op	Somerfield	Tesco	Aldi	Lidl
	Waitrose				
	Sainsbury's				
	Asda				
	M&S*	CGL	Tesco		
Sainsbury's	Tesco	Regional Co-op	Asda		
	Asda		Sainsbury's		
	Waitrose*		Tesco		
	Morrisons*				
	M&S	Iceland	Asda		
	Lidl		Regional Co-op*		

*The effect is statistically weak.

Source: Competition Commission

53. These findings are echoed to a certain degree by research on the operation of discounters and supermarkets in Germany by Cleeren et al. They study intra-and inter-format competition between discounters and supermarkets in Germany. Evidence is found of intense competition within both the supermarket and discounter format, although competition is much greater between supermarkets. They state “perhaps most importantly, discounters only start to affect the profitability of conventional supermarkets from the third entrant onwards”. The authors feel that this may explain why many retailers add a discount chain to their business – early entrants may benefit from the growth of the discount segment without cannibalising the profits of the more conventional supermarkets.

Capacity studies

54. The previous Retail Framework highlighted some of the problems with capacity studies. In particular that they are based on estimates of expenditure and floor space which are used to calculate sales densities which in turn are compared against benchmark densities. There is therefore scope for a wide margin of error in both the numerator and denominator in the sales density calculation and the comparator benchmark which means overall there is a large margin of error in the overall capacity analysis.
55. The problems with such studies go beyond the scale of the margin of error. From an economic perspective, such studies are partial and do not give consideration to material issues such as the structure of the market, efficiency, productivity, consumer choice and prices. For example, the same sales density figure could be delivered by 20 individual retailers or one monopolist but they would be treated the same in a capacity study. Similarly the sales could be charged at very high prices or very low prices or could be delivered using vastly different numbers of people none of which would be distinguishable from a capacity study.
56. The DTZ study published last year is exactly this type of analysis and DTZ make it clear that it is “not a study of retail competition, on Jersey, and does not consider retail prices or the number of food store operators on the Island; since those are not material land use planning matters”. For these reasons, while such analysis may be helpful in planning terms it is not sufficient for informing policy for what is a large share of the Jersey economy.
57. DTZ do conclude that in quantitative terms there will be no need for any more large foodstores in the Island in addition to the existing stores for the foreseeable future but that there is a qualitative need for about two deep discount supermarkets. From an economic perspective this conclusion is partial at best as it fails to take account of wider issues in the large food stores in terms of the structure of the market, competition, price and consumer choice.
58. The Competition Authority in Ireland have similar concerns over capacity studies. Their concern was that planning authorities required retail impact assessments which included an estimate of how much trade would be diverted from existing retail centres by proposed new retail development. The Competition Authority points out that:
- “The possibility of losing turnover to new retailers is what drives retailers to provide maximum value and service to consumers. This is the essence of competition. When this possibility is removed, as is the case when trade diversion explicitly informs the decision making process of planning authorities, the established retailer is given the market power to charge higher prices than might otherwise be the case.”*
59. The recommendation was that planning authorities reduce the level of importance they place on trade diversion when considering retail impact assessments.

60. Economic research from around the world has shown that entry of new firms and exit of older firms is an important contributor to productivity growth. New firms can bring higher productivity, new investment and better organisation and compete with and replace firms that have lower productivity. Capacity studies pay little attention to this important dynamic driver of productivity and that policy based purely on such considerations will not be consistent with the wider economic policy objectives of improved productivity.

The Jersey consumer

61. As the Friends of the Earth point out 'local people can find it hard to make their voices heard or their wishes taken into account'. The All Party Parliamentary Small Shops Group also recommended delegating greater decision-making power to people locally. Similarly, NEF support the Local Communities Sustainability Bill in the UK on the grounds that it would "give local authorities, communities and citizens a powerful voice in planning their future".

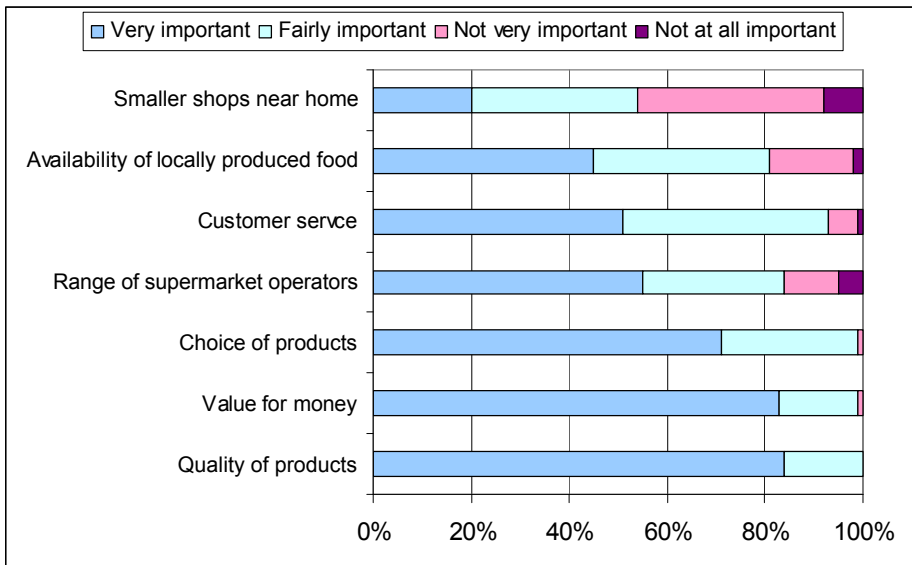
62. The Competition Authority for Ireland also pointed out the importance of suitable consumer representation. They felt that the level of attention paid to consumer interests in the planning process may be insufficient. The Planning Authority is required to balance a variety of objectives and take into account a variety of views from different organised interests. Consumers were felt to typically not be organised and therefore at a disadvantage. The recommendation was that local authorities should, when assessing future floorspace requirements, survey consumers to accurately ascertain attitudes and preferences.

63. The Economic Development Department asked the States of Jersey Statistics Unit to independently undertake a survey of Jersey residents' attitudes and opinions on food shopping in the Island. 1,200 Islanders responded (an extremely high response rate of 60%) and such a good sample means that we can be 95% confident that a result published for the overall population is within $\pm 3\%$ of the true population figure.

64. In terms of attitudes to food shopping (see chart 6) the vast majority of Islanders considered quality of products, value for money and choice of products as very important. In contrast just over 40% and 20% of Islanders consider that availability of locally produced food and smaller shops near my home respectively as very important. This means that perhaps surprisingly just less than half felt that having 'smaller shops near my home for convenience' was not important and nearly a fifth thought that 'availability of locally produced food' was not important.

Chart 6: How important to you are the following with regards to food shopping in the Island?

% of respondents

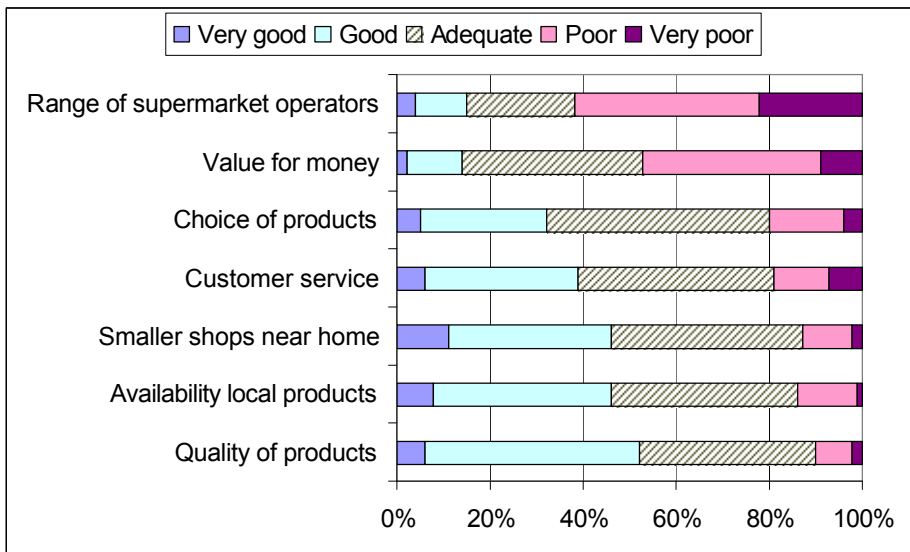


Source: States of Jersey Statistics Unit

65. The survey also gauged Islanders opinions on current food shopping in Jersey (see chart 7) and they were most positive about the 'quality of products', 'availability of locally produced food' and 'smaller shops near my home for convenience'. However, only around half of residents rated them as good or better. The two factors with the most negative ratings were 'value for money' and 'range of supermarket operators'. About 50% of people considered 'value for money' currently to be poor/very poor and three fifths considered the current range of supermarkets to be poor or worse.

Chart 7: How do you rate current food shopping in the Island?

% of respondents

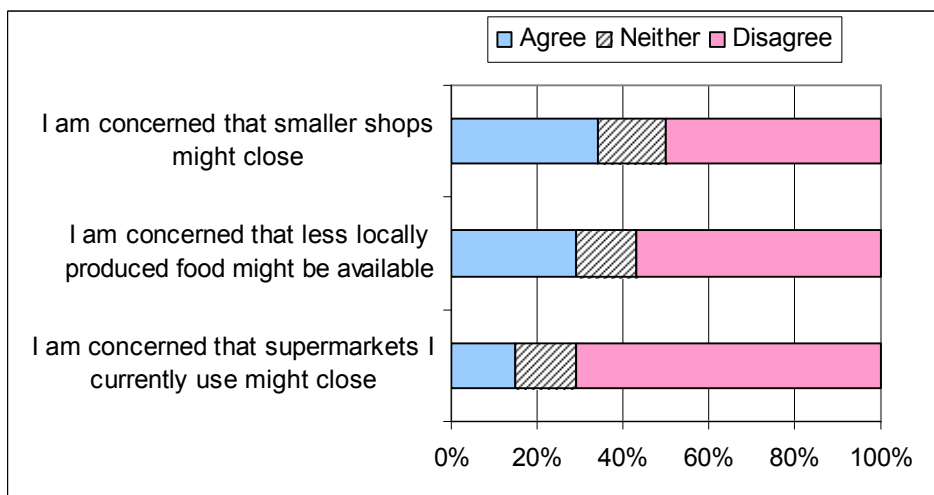


Source: States of Jersey Statistics Unit

66. Questions in the survey also focused on Islanders attitudes to having a third supermarket. As the chart below shows 71% were not concerned that supermarkets they currently use might close. Just over half were not concerned that less locally produced food might be available and half were not concerned that smaller shops might close.

Chart 8: Do you agree or disagree with the following statements about food shopping in Jersey, if Jersey has a third supermarket operator?

% respondents

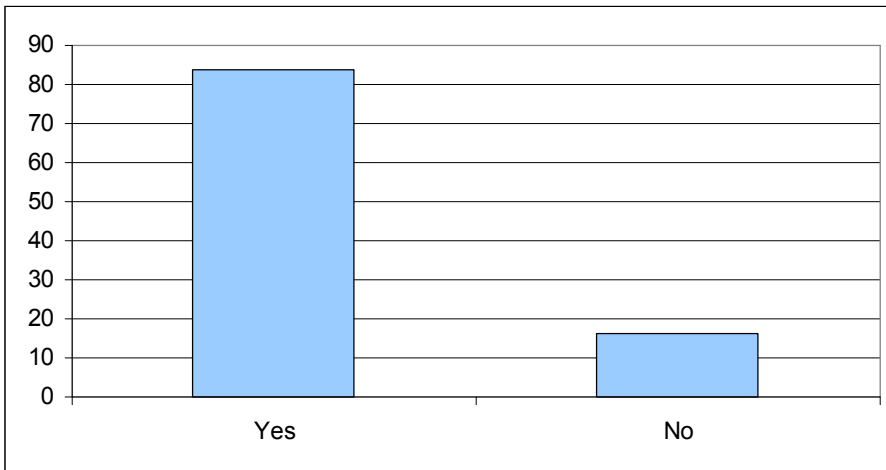


Source: States of Jersey Statistics Unit

67. When asked if they were in favour of having a third supermarket operator in Jersey, the vast majority responded positively. More than eight out of ten people (84%) responded that they were in favour as shown in the chart below. Whether the results were split by age, sex, housing tenure or income the vast majority was in favour of having a third supermarket.

Chart 9: Are you in favour of having a third supermarket operator in Jersey?

% of respondents

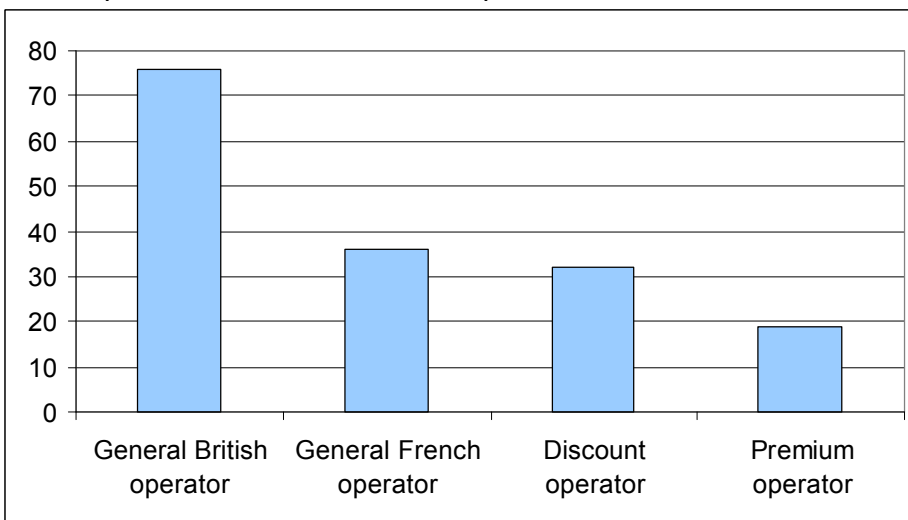


Source: States of Jersey Statistics Unit

68. Those respondents that were in favour of having a third supermarket were also asked which type of operator they would prefer. As chart 11 shows, twice as many of the respondents would like a general British operator compared with those who would like a general French operator or discount operator, while only one in five would like a premium operator.

Chart 10: Proportion of people who would like each type of operator

% of respondents in favour of third supermarket



Source: States of Jersey Statistics Unit

Floorspace guidelines

69. The previous Retail Framework emphasised the need to remove barriers to entry and therefore competition in the retail sector. That is, the States should not intervene and prevent new firms setting up in the retail sector unless there are good reasons for doing so. The Framework suggested that if there were concerns about the impact of competition, rather than preventing competition another option was to allow competition but in an incremental manner. It suggested that additional floorspace guidelines could be used to try and strike a balance between competition and any short-term disruption of the retail sector.

70. This incremental approach was the route preferred by Economic Development and by doing so the decision was made to restrict competition on the grounds of concerns about the impact on existing retailers. The guidelines could have worked inadvertently to limit the amount of retail space and development and could therefore have worked as a form of cap on new retail development. The Competition Authority for Ireland in its report recommended that grocery retail caps be removed from planning guidelines because:

“Floorspace caps inhibit the scale and extent of expansion by existing retailers and prevent the entry of new ones. The availability of larger sized outlets would give consumers the ability to exercise choice over a wider range of products at more competitive prices. The present limit thus protects existing retailers at the expense of Irish consumers. Limiting floorspace means that Irish consumers experience less choice (for example, less competition between brands due to lack of shelving space) and, higher prices.”

71. The guidelines in the previous framework could have operated in a similar manner in Jersey, although given they would have allowed entry of a supermarket of significant size may have been less binding than the types of cap used in Ireland. Limiting retail space should therefore be avoided unless there is clear evidence that the consequences will be too great.

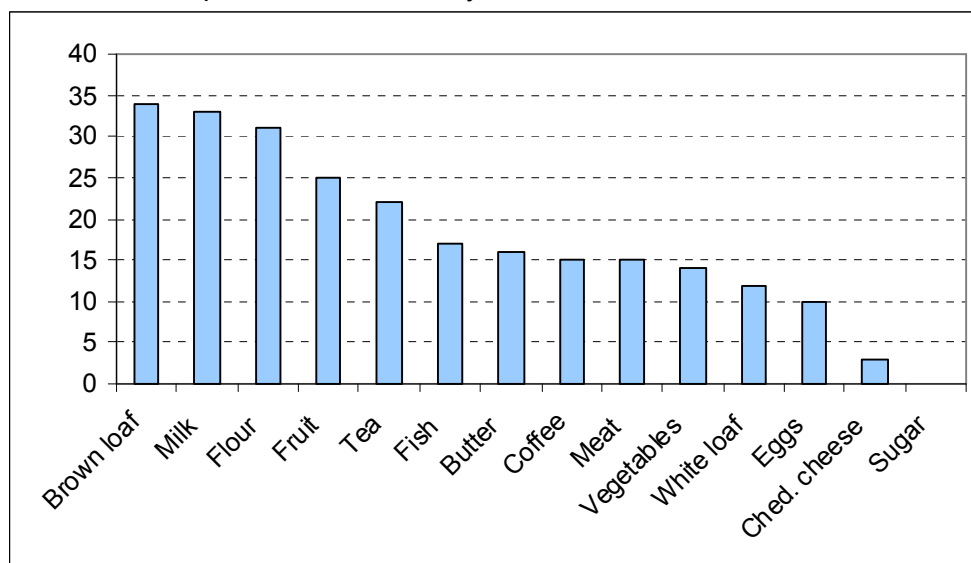
Price comparisons

72. The States of Jersey Statistics Unit produces an annual report on the Comparison of consumer prices which looks at the rate at which prices have changed in the various groups and sections of the RPI in the UK and Jersey. Direct comparisons are also made where possible to give an indication of price levels. The comparisons are based on information published monthly by the Office for National Statistics which shows the average price of around 60 non-brand items which are included in the UK RPI.

73. Caution is required when comparing the data not least because it refers to average prices in each jurisdiction which of course means that in different shops some prices will be higher and some lower than the average. Also, the fact that higher quality goods generally cost more than lower quality ones can complicate comparisons although in terms of food prices it is possible to focus on products where quality differences will be at a minimum.

74. The chart below compares the difference in price between a range of food products that are likely to be supplied by supermarkets, in June 2009. By focusing on a range of products it also helps to reduce some of the concerns about comparing prices. The chart shows that on the key products considered, prices in Jersey tend to be significantly higher than in the UK by about 15-20%. None of the products are cheaper in Jersey than in the UK, although sugar is about the same price.

Chart 11: Jersey/UK food prices comparison
% difference in price between Jersey and UK, June 2009



Source: States of Jersey Statistics Unit

Social and environmental issues

75. In their 2008 report the JCRA advised the Minister for Economic Development ‘that the economic impact of new entry into the retail sector by large supermarket competitor would be economically beneficial in terms of increasing:

- consumer welfare
- the productive efficiency of existing retailers, and
- the Jersey economy overall’.

76. However, they went on to point out that other considerations ‘such as planning, population growth and environmental impact, also are undoubtedly important, but beyond the scope of our inquiry’.

77. Professor Sparks in his presentation to the Chamber of Commerce on 17 June 2009 warned that ‘the social and environmental impact of change is always underestimated’.

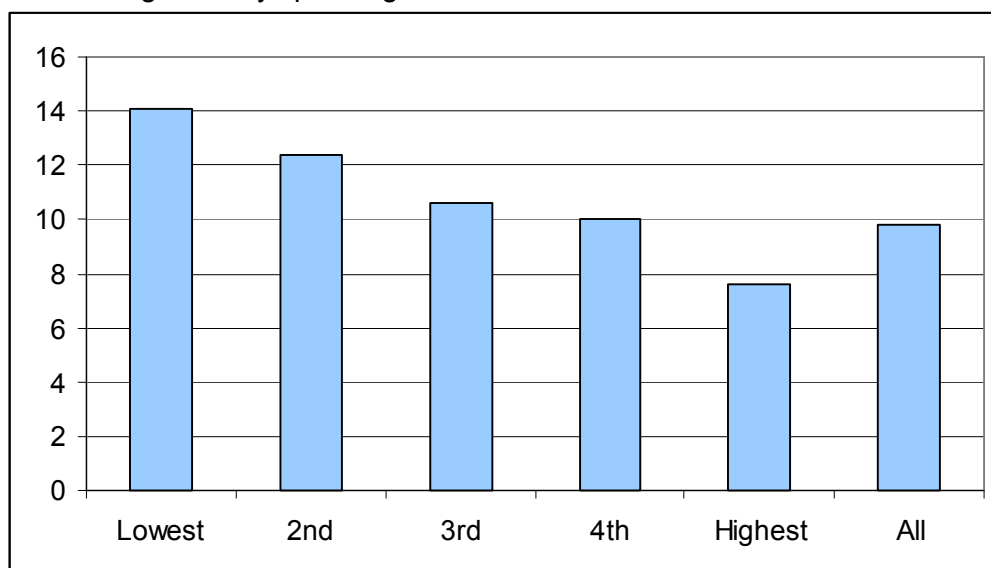
78. The line between economic impact and social impact can be very thin. For example, Broda points out in the Financial Times on 3 June 2008 that it is taken for granted that inequality has risen in the large developed economies as a result of globalisation. However, his work with Romalis looking at whether China and Wal-Mart benefit the poor in America tells a different story. They argue that conventional analysis of US inequality is based on trends in income and does not factor in what has happened to the price of goods consumed. The conventional analysis ignores the fact that inflation affects people in different income groups unevenly because they purchase different baskets of goods. Inflation of the richest 10 per cent in the

US was 6 percentage points higher than that of the poorest 10 percent in 1994-2005 – which actually means real inequality in the US remained roughly unchanged.

79. Hausman and Leibtag find similar results. They consider the impact of entry of supercentres into geographic markets in the US. They identify that Wal-mart offers many food items at an average price about 15-20% lower than traditional supermarkets and that entry has a direct price effect by offering lower price options but also an indirect effect by causing traditional supermarkets to lower their prices. They conclude that the impact is to significantly improve consumer welfare and that low income households benefit the most.
80. In Jersey, while the households in the highest quintile spend nearly 3 times as much each week on food and non-alcoholic drinks as the lowest quintile, the picture is quite different when expenditure as a proportion of household income is considered. The chart below shows that households in the lowest income quintile spend nearly 14% of total spending on food compared to 8% for the highest income households. Similar differences occur throughout the food group with expenditure on fresh fruit and vegetables making up 2% of the total spending of the lowest income groups compared to 1% of the highest.

Chart 12: Average weekly household spending on food and non-alcoholic drinks by income quintile

% of average weekly spending 2004/5



Source: States of Jersey Statistics Unit

81. With the less well off in Jersey spending a higher proportion of their total spending on food and non-alcoholic drinks it can be expected that where additional competition (and importantly a reduction in concentration) in the supermarket sector means that food prices are lower than would otherwise have been the case this will help reduce real income inequality in a similar way (although not necessarily to the same degree) as that highlighted in the US, other things remaining equal.

82. Income inequality is only one aspect of social policy. The Social Policy Framework focuses on the key aspects and includes:

- Labour participation
- Education
- Health
- Adequate income
- Housing/transport
- Social behaviour

83. An initial analysis against these criteria would suggest that entry of a third supermarket could also work with, rather than against, many of the objectives of the Social Policy Framework. Obviously, there could be a wide variation in the nature and location of such entry and more detailed consideration would need to be given, should such entry become a realistic proposition and the exact details are known. However, at first glance there would appear to be little justification in ruling out entry of a third supermarket on social grounds.

84. The States Strategic Plan sets out that Jersey should “show the world that economic and environmental success can work together”. Removing barriers to competition between supermarkets and facilitating improved productivity and efficiency in the retail sector would be a good example of how this can be achieved. There is little reason in principle to rule out entry of a third supermarket on environmental grounds, particularly as it would be conducive to improved productivity and greater efficiency. However, each case should be considered on its own merits and examined from an environmental perspective. An Environmental Impact Assessment is automatically required for shopping centres of greater than 10,000 sq m and it would be sensible for any large retail development to provide such an assessment.

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Economics Unit

November 2009

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