

POLICY FOR THE FULFILMENT INDUSTRY

Introduction

1. Previous research on the nature of the fulfilment industry in the Island has thrown some light on the activity at a time when it is attracting some negative publicity which is in danger of undermining the Island's good international reputation and integrity. The negative publicity is focusing on existing UK companies that are switching the distribution of their DVDs/CD's through the Channel Islands to take advantage of the Low Value Consignment Relief (LVCR – the EU approved mechanism for VAT exemption).
2. This paper sets out a revised policy that can maximise the benefit of the fulfilment industry while at the same time not damage the Island's international reputation or integrity.

The Economic Benefits

3. There are basically two types of activity within the fulfilment sector, although a number of companies operate as a hybrid of the two activities. Whole Chain Companies (WCC) physically buy in and own the stock and sell the goods to the final customers. Third Party Service Providers (3PS) on the other hand provide logistics or distribution services to other retailers. WCC receive revenues based on the total value of sales whilst 3PS only receive revenues based on the service they provide, with the sales revenue going to the retail company.
4. The Economic Growth Plan (EGP) has two key objectives: to generate £20m additional tax revenue and to create high value jobs for local people. On purely economic growth grounds the dichotomy within the industry means that the appropriateness of the two types of activity for the Island is significantly different. The high value added per employee and significant tax contribution of WCC activity means that it is fully complementary to the EGP and therefore should be supported by the States wherever possible.
5. 3PS activity contributes less significantly to either of the two key economic growth objectives and the States should therefore be much more cautious about this type of activity. Significant growth in employment in this sector poses two questions (assuming that licences will not be granted for significant non-local labour):
 - Where will this labour be drawn from – the unemployed/new labour market entrants or other industries/firms?
 - Could the labour be put to more productive uses?

6. The answer to the first question is that while some of the existing employees might have come from the unemployed or new labour market entrants there are greater concerns that further jobs growth will start to bid up wages in this area and therefore undermine activity of all firms in the sector and possibly other sectors such as tourism.
7. The very low value added per employee of 3PS activity also suggests that the labour could be put to better use in other areas such as tourism and retail.
8. On pure EGP grounds the conclusion should be to support WCC activity but not to allow further growth in 3PS activity, where it requires significantly more labour.

Jersey's Integrity in Financial and Commercial Matters

9. The impact of the fulfilment industry does not however, stop here. EGP issues also have to be balanced with those surrounding the Island's international reputation.
10. The selling structure which is adopted by the retailer is little better than a sham. The vendor, or the vendor's parent company, and the purchaser are both located in the United Kingdom. The goods, or some of them, come from the United Kingdom, and are shipped to Jersey for a "sale" before being shipped back to the United Kingdom for delivery to the customer. Jersey's integrity in financial and commercial matters cannot but be damaged by the use of the Island as part of such a selling structure.

The policy

11. The appropriate policy (for further details see notes below) that meets both the Economic Growth Plan and protects the Island's international reputation and integrity is:
 - (i) Existing WCC should be supported, particularly those that are or have been majority beneficially owned by Jersey principals.
 - (ii) New WCC which are beneficially owned by Jersey principals will be supported.
 - (iii) With the exception of those companies trading in DVD/CD's into the UK market, high value hybrid companies should be supported, where they do not involve UK companies diverting current business through the Island.
 - (iv) There are some UK companies already operating in the DVD/CD market through 3PS. These companies should have applied for licences, and any which have not will be required to do so. Assuming that there is no ground for refusing a licence additional to those set out in this policy statement, such companies will be granted time limited licences to allow them gradually reduce and eventually to discontinue their activities.
 - (v) 3PS activities will be allowed to grow where they do not require significant additional labour and are consistent with the Economic Growth Plan.

Notes

12. WCC are as previously defined – companies that physically buy and sell goods to final customers and receive revenues based on the total value of sales and are generally owned by locally qualified principals.
13. 3PS are as previously defined - they provide logistics or distribution services to other retailers and only receive revenues based on the service they provide, with the sales revenue going to the retail company.
14. Hybrids are fulfilment related companies that do not fit easily into either category but have a permanent establishment with some or all of their core activities in the Island such as a head office, finance, purchasing, marketing or customer service. Hybrids employ locally qualified people in high value jobs, make a significant local tax contribution and stock is owned and possibly held by the local business. Their pick and pack operations are likely to be carried out by a 3PS but could be done by the company itself. There could also be companies that operate as both WCC and 3PS.

Implementation

15. For the policy to work:

- The Chief Minister's department will undertake any international relations work.
- The Economic Development Minister will apply RUDL in the required manner*.
- Time limited consents will be issued for a maximum of 12 months from the date of this policy.
- The Economic Development Minister will seek to ensure that Jersey Post will comply with this policy.

*When considering any application, the Economic Development Minister is required under the Regulation of Undertakings and Development (Jersey) Law 1973 ("RUDL") to have regard to the need to regulate and manage demand on the resources of the Island and to protect its integrity in commercial and financial matters. Furthermore, the Minister has particular regard for the Population & Immigration Policy recommendations adopted by the States in November 1997 and the States Strategic Plan 2005.

The Minister will make decisions in line with domestic legislation and policy. However, the Minister will monitor the fulfilment industry and seek to ensure that a level playing field is maintained with other jurisdictions.

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