



# **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

11 October 2005

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## I. EXECUTIVE SUMMARY

In June 2004 the States of Jersey Statistics Unit issued a report 'Comparison of consumer prices in Jersey and the UK: June 2004.'<sup>1</sup> This report stated that in the four years from June 2000 to June 2004 the Jersey RPI had increased by 18.3% whilst the UK RPI had increased by 9.2%. It stated that one of the main drivers behind the higher rate of overall price increases in Jersey compared to the UK had been food prices, which had been rising at nearly seven times the rate in the UK in the previous 12 months. It pointed out that in June 2004, average meat prices were 22% higher in Jersey than in the UK, vegetables 15% and fruit 20%, a sliced white loaf cost over 70% more on average in Jersey and a pint of milk 60% more.

As a result of this report, the Economic Development Committee (EDC) requested the assistance of the Jersey Competition Regulatory Authority (JCRA) under Article 6(4) of the Competition Regulatory Authority (Jersey) Law 2001 '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.'

This report constitutes the JCRA's response to the EDC's request. The report's primary conclusions are the following:

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 concentration can result in less competition and higher prices, based on actions by competitors that may or may not violate competition law.

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<sup>1</sup> States of Jersey Statistics Unit, *Comparison of consumer prices in Jersey and the UK: June 2004*.

6. Differences in consumer purchasing habits may exist in Jersey compared to the UK, and if so, they also could contribute to price differentials.

These contributing factors may suggest potential areas of further examination and enquiry, either by the JCRA or the EDC, which are detailed at the end of this report.

## **II. COMPARISON OF FOOD PRICES IN JERSEY AND THE UK**

### **A. Statistics Unit Reports**

The Statistics Unit's June 2004 report states that:

- From June 2000 to June 2004, the increase in the RPI had been 18.3% in Jersey and 9.2% in the UK. During this time, food prices had increased by 14% in Jersey and 5.9% in the UK.
- From June 2003 to June 2004, food prices had increased by 4% in Jersey and 0.6% in the UK. During this time, increasing food prices had accounted for 9.5% of Jersey's overall increase in RPI.

Some of the price differences detailed in the 2004 report were:

- overall average meat prices, for the items for which prices were available, were 22% higher in Jersey than in the UK in June 2004;
- the average price of potatoes was approximately 10% lower in Jersey than in the UK, but all other vegetables were more expensive in Jersey;
- dairy produce was significantly more expensive in Jersey than in the UK, with a pint of milk being on average 60% more expensive; and
- most types of bread were approximately 50% more expensive in Jersey.

While we were undertaking this study, the Statistics Unit published new, updated RPI data in its June 2005 report.<sup>2</sup> Overall, this new report states that:

- From June 2000 to June 2005, the increase in the RPI had been 23% in Jersey and 12% in the UK.
- However, the annual change in the RPI from June 2004 to June 2005 showed a much closer rate of change, with the Jersey RPI increasing by 3.6% and the UK by 2.9%.
- From June 2004 to June 2005, Jersey has seen a much smaller overall increase in food prices compared to June 2003 to June 2004 – 0.4% for 2004 - 2005 compared to 4% for 2003 - 2004 – with the result that food prices have risen more quickly in the UK (2%) than in Jersey during the June 2004 to June 2005 period.

Some of the price differences detailed in the 2005 report were:

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<sup>2</sup> States of Jersey Statistics Unit, *Comparison of consumer prices in Jersey and the UK: June 2005*.

- overall average meat prices, for the items for which prices were available, were 17% higher in Jersey than in the UK in June 2005;
- the average price of new potatoes was approximately 5% lower in Jersey than in the UK, but main crop potatoes that had been 6% less expensive in Jersey in 2004 were over 40% more expensive in Jersey in 2005. Other vegetables continued to be more expensive in Jersey than the UK;
- dairy produce continued to be significantly more expensive in Jersey than in the UK, with a pint of milk being on average 57% more expensive; and
- most types of bread were still more expensive in Jersey though the price difference was not as large as the previous year.

Therefore, while the 2005 report showed improvement in the rate of change in Jersey's RPI relative to the UK, both in general and specifically concerning food, it does not materially change the observation that most of the food products surveyed are more expensive in Jersey than in the UK.

## **B. JCRA Data Analysis**

Prices of various food items including fresh food and proprietary grocery items were gathered from four convenience stores and four supermarkets in Jersey for the months of March to June 2005 inclusive and were compared with the prices in four UK supermarkets for the same months. The prices for the Jersey supermarkets were averaged for each month and compared with the average prices for the UK supermarkets. Prices were also gathered for some additional fresh foods for July and compared. Overall 40 branded products, six types/brands of bread, four types of vegetable, and milk were surveyed. The results are set out in Appendix 1.

There was a considerable variation in prices over the four months surveyed and in the differences between Jersey prices and UK prices. A major factor in these variations appears to be the use of promotional discounted prices. It was possible, however, to establish to a reasonable degree which products are usually cheaper in Jersey than the UK and which are more expensive, and, to a certain degree, the size of the differences in prices.

All products compared were more expensive in Jersey than the UK except for chocolate products, lager, and potatoes. The majority of products surveyed were 10% to 17% more expensive in Jersey than the UK. A few were very similarly priced and very few were cheaper in Jersey. There were some anomalies in branded products with, for example, the average price for one rice product being cheaper in Jersey for the 250g size but more expensive for the 500g size, and a tinned fruit product being cheaper in Jersey for the 227g size but more expensive for the 420g size.

Bread was considerably more expensive in Jersey than the UK with the largest gap being between the cheapest sliced white 800g loaf available in Jersey (89p) and in the UK (19p). There was also a considerable gap in price between craft bread (traditional-style,

non-industrial bread) in Jersey and the UK, with the Jersey bread being approximately double the price of the UK bread. It should be noted, however, that in both Jersey and the UK bread varies greatly according to brand, ingredients and method of production and it is not possible to make a really accurate comparison.

The price of fresh pasteurised milk is also considerably more expensive in Jersey (96p a litre) than the UK (56p a litre).<sup>3</sup> The prices were consistent across all outlets surveyed and did not change over the four months.

Other products that were significantly more expensive in Jersey were frozen foods such as fish fingers and oven chips (34% - 44%), and sweet and savoury biscuits (20% - 27%).

Although only a small sample of food products was surveyed, the sample was sufficient to indicate that the majority of products are more expensive in Jersey than in the UK, with some Jersey prices being significantly higher.

An interesting comparison is provided by the Isle of Man General Index of Retail Price June 2004 and July 2005 reports,<sup>4</sup> issued by the Isle of Man Treasury. These reports referred to the same food products as the Jersey Statistics Unit's reports. As the Isle of Man has several similarities to Jersey (*i.e.*, island economy, similar-sized population) we believed that a comparison of Isle of Man, Jersey and UK prices would be informative. A comparison of the prices of a selection of the products is set out in Table 1, below.

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<sup>3</sup> Fifty six pence represents a supermarket price in the UK. Milk prices in the UK may vary depending on the size and type of store, with higher prices in outlets like convenience stores and garages compared to supermarkets. We understand that even in smaller-sized outlets, however, the price of milk is still significantly less expensive in the UK than in Jersey.

<sup>4</sup> The Treasury, Isle of Man, *Isle of Man General Index of Retail Price 16th June 2004*; The Treasury, Isle of Man, *Isle of Man General Index of Retail Price 19th July 2005*.

**Table 1: Food Prices June 2004 & June/July 2005<sup>5</sup>**  
**Jersey/UK/Isle of Man**

Product	Quantity	2004			2005		
		Jersey	Isle of Man	UK	Jersey	Isle of Man (July)	UK
White loaf bread sliced 800g	800g	1.14	1.01	.66	1.09	1.07	.69
Brown loaf sliced 800g	800g	.90	1.07	.62	.87	1.12	.34
Tea bags	250g	1.76	1.66	1.38	1.81	1.44	1.21
Coffee – instant	100g	1.89	1.86	1.76	2.00	1.93	1.82
Potatoes old loose	1 kg	.60	.37	.64	.62	.71	.44
Tomatoes	1 kg	1.29	1.20	1.16	1.55	1.01	1.47
Onions	1 kg	.76	1.34	.59	.71	.83	.71
Apples, cooking	1 kg	1.69	1.63	1.56	1.38	1.30	1.45
Oranges	Each	.30	.30	.23	.29	.33	.22
Bananas	1 kg	1.17	1.07	.86	1.36	.99	.96
Topside	1 kg	7.83	7.80	6.79	6.81	7.09	6.70
Lamb loin with bone	1 kg	11.20	12.64	10.50	12.13	12.76	10.33
Pork loin with bone	1 kg	6.32	5.80	5.02	6.24	7.20	5.00
Frozen chicken	1 kg	2.47	3.39	1.55	2.62	1.38	.75
Milk full fat <sup>6</sup>	1 pint	.56	.47	.35	.55	.50	.35
Butter imported	250g	1.04	1.00	.91	1.03	.94	.92
Cheddar cheese	1 kg	5.91	3.59	5.68	5.69	5.43	5.41

The Isle of Man prices for the above products and others referred to in the reports are generally less expensive than in Jersey, although the differences appear more significant in 2004 than in 2005. Specifically, in 2004, 12 of the 17 selected products were less expensive in the Isle of Man than in Jersey, while in 2005 ten of the products were less

<sup>5</sup> Data for Jersey and the UK is from June 2005. The June 2005 report was not available from the Isle of Man, therefore prices from the report dated 19 July 2005 have been included.

<sup>6</sup> Milk prices in the Isle of Man are controlled by a government pricing order.

expensive. Prices in both the Isle of Man and Jersey remain above the UK for most products, with some exceptions such as cooking apples. For most products, Isle of Man prices fall in between Jersey (the most expensive) and the UK (the least expensive). In 2005, for example, of the 14 products listed in Table 1 that were less expensive in the UK compared to both Jersey and the Isle of Man, on average the price differential was 9% greater in Jersey compared to the UK than for the Isle of Man compared to the UK.

### C. Conclusions and Observations Concerning Price Differentials

The Statistics Unit June 2004 report showed that in the year June 2003 to June 2004 food prices had increased by 4% in Jersey and 0.6% in the UK, and in Jersey had accounted for 9.5% of the overall increase in RPI. The situation improved from a Jersey perspective in the year June 2004 to June 2005, with the contribution of food prices to the increase in RPI being negligible.

Although there are some variations in the price differentials between the Statistics Unit reports and the data gathered by the JCRA, the majority of food products continue to be more expensive in Jersey than in the UK with some products being significantly higher priced. The Isle of Man Treasury reports also show pricing differentiation compared to the UK, although not as marked as between Jersey and the UK.

A potential complicating factor for price comparisons with the UK is the loss-leadership practices (*i.e.*, below-cost pricing of high volume items intended to attract customers) allegedly followed by some of the major UK retailers. Such practices may have affected some of the products that were the focus of the Statistics Unit's reports. Both the UK's Competition Commission and other sources have cited evidence of below-cost pricing for sliced bread.<sup>7</sup> There also have been various allegations in the UK of below-cost milk pricing, although such claims have been denied by both milk processors and retailers.<sup>8</sup> If such practices do, in fact, exist, they would complicate price comparisons between the UK and Jersey. While prices in Jersey may be high, their comparison prices in the UK for some products may be artificially low.

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<sup>7</sup> Competition Commission, *Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom*, 2000, p 132; *London's diverse dough to be consigned to the bread bin*, Sustain News, 12 May 2004 (reporting that supermarkets sell sliced bread 'as a loss leader, *i.e.*, at prices below its cost of production').

<sup>8</sup> Compare *Dairy farmers' milk price plea*, BBC News, 14 Aug. 2003, (reporting an appeal from dairy farmers to major retailers to 'stop using milk as a loss leader and to put up their prices'), and Felicity Lawrence, *Farmers lose out on retail sales*, The Guardian, 9 Sept. 2002, ('producers have accused the leading retailers of crippling the industry by selling milk as a "loss leader", at prices below the cost of production') with *Statements of Billy Keane, Finance Director for Robert Wiseman Dairies and Kevin Hawkins, Director of Communications, Safeway Stores plc before the Milk Pricing Subcommittee of the Environment, Food and Rural Affairs Committee of the House of Commons*, 1 March 2004, (denying allegations of widespread below-cost milk pricing).

### III. Possible Reasons for Higher Food Prices in Jersey

As detailed above, data presented by the Statistics Unit and the JCRA indicate that, in general, food is more expensive in Jersey than in the UK, and this remains so despite the recent improvement in Jersey's RPI. In this section we explore possible reasons for this difference. Our analysis concludes that (i) higher cost structures, (ii) inefficiencies and lack of scale economies, (iii) high concentration levels, and potentially (iv) consumer purchasing habits, all likely contribute to price differences.

#### A. High Cost Structure

The evidence we examined indicates a higher cost structure for businesses operating in Jersey compared to the UK. Some of these costs were identified in Experian Property Consultancy's Assessment of Jersey's retail sector, although our examination suggests that at least one cost – labour – is significantly more expensive in Jersey than reported by Experian.<sup>9</sup> The major cost differentials are the following.

##### *Transport*

The EDC has recognized that transport costs are cited frequently as justification for Jersey/UK price differentials:

The rate of inflation, and the cost of living generally in the Island is also affected by the cost of transport to and from the Island; for example many island traders seek to justify the fact that their prices are not lower than prices in the United Kingdom, notwithstanding the absence of value added tax in Jersey, by reference to the high cost of sea transport[.]<sup>10</sup>

The simple fact that Jersey is an island, thus necessitating the import of a majority of food items by either sea or air transport, does suggest that increased transport costs can contribute to higher retail costs. The Experian study suggests distribution and logistics contribute to a cost differential between Jersey and the UK of less than 10%,<sup>11</sup> and our own examination suggests that transport leads to increased costs of around 5-8%. The Chamber of Commerce cites anecdotal evidence of a higher cost differential (circa 15%), and notes that Jersey's harbour dues are high compared to UK ports.<sup>12</sup>

Reality, however, does not appear to be as straightforward. For example, Marks & Spencer in the Channel Islands adds 5% to the price of food items, allegedly because of higher transport costs. The Marks & Spencer store in the Isle of Man, however, does not

<sup>9</sup> Experian Property Consultancy, *Assessment of Jersey's Retail Sector* June 2005. The Chamber of Commerce expressed concerns about the recommendations of the Experian study in its own study entitled *A Commentary on the Experian Report "Assessment of Jersey's Retail Sector" submitted to the Jersey Chamber of Commerce by Professor Leigh Sparks* (Oct. 2005). The Chamber's *Commentary* is consistent with our conclusion that the costs of doing business in Jersey are high compared to the UK, and may be understated by Experian.

<sup>10</sup> States of Jersey, Economic Development Committee, *Future Air and Sea Transport Policy*, May 2005, p 7.

<sup>11</sup> Experian, p 114.

<sup>12</sup> *Commentary on the Experian Report*, p 23.

follow the same practice and apparently charges UK prices for food. These different policies could arise from the Channel Islands' Marks & Spencer being independently operated under a franchise, while the Isle of Man store is company-owned and therefore follows the company's national pricing policy.

Both Experian and our own study further suggest that cost differentials because of transport are not uniform across all food products. The differences are probably higher for perishable items such as fresh produce, meats and frozen foods. Such products have a short shelf life (ten days or less) meaning that they must be transported more often, thereby multiplying increased transport costs. Additionally, increased transport costs likely have a greater proportional price effect on lower priced food items. Thus, increased transport costs likely have the greatest effect on retail prices for low-priced perishable items such as fresh vegetables, fruits and meats. The inflationary effect is therefore likely to be less for higher-priced items, especially those with longer shelf lives.

### *Labour*

In addition to transport, higher labour costs are an often cited justification for Jersey/UK price discrepancies. Tangible evidence of this may be seen in Jersey's new minimum wage being approximately 4.7% higher than the UK. Experian cites Statistics Unit data showing that average earnings in Jersey are about 10% higher than the UK, but goes on to conclude that Jersey labour costs may be on par with more affluent UK regions.<sup>13</sup>

We have been informed anecdotally that the cost differential for labour in Jersey compared to the UK is much greater than Experian suggests, and could be as much as 30-40%. For example, the weekly wages for a supermarket general assistant manager could be at least 35% higher than an equivalent position in the UK Midlands. Similarly, the Chamber of Commerce suggests that 'labour costs on Jersey are substantially higher than in the UK.'<sup>14</sup> According to the Chamber, a customer service assistant at the Channel Islands Co-op is 36% more expensive than an equivalent employee at a UK Co-op, and a warehouse fork lift driver is 59% more costly.<sup>15</sup> A Marks & Spencer customer assistant is 11% more expensive compared to an equivalent position in the UK, while Checkers reports overall staff rates are 25-30% higher than the UK.<sup>16</sup> The Chamber suggests that these differentials may be based in part on Jersey's scarcity of excess labour, which results in higher levels of overtime, wage premiums, and job title inflation.

### *Property*

The Experian study concludes that, although commercial rents are higher in Jersey compared to UK equivalents, this difference is offset, at least partially, by considerably lower property rates in Jersey.<sup>17</sup> Our findings are consistent, at least with respect to

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<sup>13</sup> Experian, p 112-13.

<sup>14</sup> *Commentary on the Experian Report*, p 23.

<sup>15</sup> *Ibid.*

<sup>16</sup> *Ibid.*

<sup>17</sup> Experian, p 10.

commercial properties.<sup>18</sup> Thus, with respect to commercial property costs, we agree with Experian's conclusion that '[o]verall property costs . . . are unlikely to be radically out of line with the UK.'<sup>19</sup>

### *Construction*

A 2002 States report concludes that construction costs in Jersey are 46% more expensive than the UK average.<sup>20</sup> Interestingly, however, the report also concludes that Isle of Man construction costs were also significantly higher than those in the UK, albeit around 8% lower than those in Jersey.

### *Other Costs*

We understand anecdotally that utility costs are higher in Jersey than in the UK, as are the costs of key agricultural inputs (explained more fully below).

In summary, increased costs of doing business in Jersey probably contribute to price differences with the UK, although the extent is difficult to quantify and not uniform across different products. Some of these increased costs may be offset by the 17.5% VAT difference between Jersey and the UK for some food products, assuming retailers pass this saving on to consumers. The effect that increased costs have on retail food prices can be multiplied across the value chain. For example, increased labour costs – by far the most expensive area we identified in comparison to the UK – can affect businesses at the production, distribution and retail levels, to the extent any of these are carried out in Jersey. Their inflationary effect on prices, therefore, is multiplied as each level of the value chain attempts to cover its own increased costs.

## **B. Inefficiency & Lack of Scale Economies**

In addition to facing higher costs generally, various levels of the food value chain in Jersey suffer from inefficiency and lack of scale of economies, compared to their UK equivalents. Such reduced efficiencies can increase cost generally.

### *Farming Inefficiencies*

A February 2003 strategic review of Jersey's dairy industry produced by Donald McQueen (the McQueen Report) details structural inefficiencies in Jersey's dairy industry.<sup>21</sup> The comparative Jersey versus UK price for milk has received much publicity, and was one of the items focussed on in the Statistics Unit's June 2004 Study. The McQueen Report attributes much of this price difference to structural inefficiencies that exist in Jersey's dairy industry. Concerning dairy farming, McQueen observes:

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<sup>18</sup> As discussed on page 10, a different story emerges concerning rents for agricultural property.

<sup>19</sup> Experian, p 10.

<sup>20</sup> States of Jersey, *Committee of Inquiry into Building Costs: Final Report*, 10 Sept. 2002, p 4.

<sup>21</sup> Donald McQueen, *The Dairy Industry in Jersey, A Strategic Review* (Feb. 2003).

Farming in Jersey is an expensive business relative to anywhere else in Western Europe. This is largely a function of being on an island, where most inputs have to be brought in by sea, and partly of the unusual characteristics of the Jersey economy in which competition for resources, most notably labour and land, drive up prices.<sup>22</sup>

As this quote indicates, the Report attributes higher farming costs in Jersey to higher costs for inputs (both domestic and imported), land and labour. Concerning costs of agricultural inputs, the McQueen Report lists 41 variable and fixed costs used for dairy farming. Out of these, 34 (83%) were more expensive than in the UK, with cost differentials averaging 40-50% higher in Jersey. For example, fertilizer was approximately 30% more costly in Jersey than in the UK, the cost for cereal seed was almost 62% higher, and maize seed was almost 23% more expensive. The cost for some inputs such as bedding straw exceeded UK equivalents by nearly 150%.<sup>23</sup>

The cost of agricultural land is also more expensive in Jersey compared to the UK. Specifically, Jersey's land holding system results in dairy farmers working fragmented holdings with small average field sizes. This 'adds directly to operational costs because of "dead" time moving machinery and stock between fields, and discourages investment in machinery, the effective use of which is restricted by such non-productive movements.'<sup>24</sup> Moreover, Jersey's agricultural leaseholds tend to be short term and held by multiple landlords. Such factors have contributed to agricultural rents in Jersey traditionally being as much as six times their equivalents in England.<sup>25</sup>

A consequence of fragmented land holdings is high demand in Jersey for contracting labour services. The costs for such services are very high compared to in the UK. For example, the McQueen Report states that grass silage is over 300% more costly, per bale, in Jersey compared to published prices in the UK. Combine harvesting is over 200% more expensive per hectare in Jersey, while grass mowing per hectare is over 300% more costly.<sup>26</sup> Thus, in Jersey average dairy farm contracting costs per litre of milk exceed 2 pence, while in the UK they are less than 0.5 pence.<sup>27</sup>

These higher costs result in Jersey dairy farmers requiring much more money per litre of production to support their costs. For the past year, the JMMB has paid farmers around 33 pence per litre of milk. The equivalent figure for UK farmers is around 20 pence per litre. Even with this comparatively generous amount, we understand that many of Jersey's dairy farmers still are struggling to meet costs.<sup>28</sup>

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<sup>22</sup> *Ibid.*, p 21.

<sup>23</sup> *Ibid.*, p 24.

<sup>24</sup> *Ibid.*, p 23.

<sup>25</sup> *Ibid.*, p 25A. The McQueen Report indicates that, at the time of its publication, Jersey's agricultural rents may have been decreasing slightly, and we understand that the price differential for agricultural land in Jersey compared to the UK may not be as dramatic today. We further understand, however, that the price for agricultural land in Jersey still is comparatively high.

<sup>26</sup> *Ibid.*, p 23.

<sup>27</sup> *Ibid.*, p 24.

<sup>28</sup> UK farmers also have complained that current milk prices are not sustainable. However, UK farmers claim that a price of around 22 pence per litre is needed to make dairy farming worthwhile. See *Dairy*

While the McQueen Report solely examines milk production, many of its conclusions appear indicative for farming in Jersey generally. Many of the increased input costs the Report identifies, such as fertilizer, seeds, machinery maintenance and engine oil, are required by virtually all farmers. The high costs for agricultural land and contract labour also appear to be applicable to the farming industry generally. Longer waits for scarce contracting services can result in fields being foraged past their prime, thereby reducing yields in addition to increasing costs. The McQueen Report observes that high land costs have resulted in certain forms of agriculture, such as commercial cereal production, not being economically viable in Jersey. The Rural Economy Strategy for Jersey similarly concludes that domestic commercial production of commodity crops probably is not viable, and observes that Jersey's tomato and pepper farmers 'struggle to compete on a commodity basis because of high fuel, shipping and labour costs.'<sup>29</sup>

### *Production Inefficiencies*

Jersey also suffers from inefficiencies and lack of scale economies in domestic food production. Our research focused primarily on the Jersey Milk Marketing Board (JMMB) and its dairy at Five Oaks. Five Oaks is the only dairy in Jersey and processes the Island's entire annual milk intake of 14.5 million litres. It is a 40 year-old facility spread among six different buildings. Its electricity supply is separated from the production facilities across a road. It operates at well below full capacity. Five Oaks' costs per litre for producing liquid milk are relatively high compared to similar size dairies in the UK, and do not even approach the efficiencies gained at larger UK dairies, which literally dwarf Five Oaks in scale. For example, while Five Oaks has an annual milk intake of 14.5 million litres, a new dairy being constructed by Robert Wiseman in Southwest England will have an initial capacity of 200 million litres per annum, expandable to 300 million litres.<sup>30</sup>

We understand that efficiencies at Five Oaks have improved, and that this has contributed to modestly reduced milk prices in Jersey.<sup>31</sup> Efficiencies are expected to improve further with the planned move to a new dairy at Howard Davis Farm in Trinity. The Trinity dairy could result in substantially increased production efficiencies and reduced overhead costs. We understand that JMMB hopes such efficiencies and cost savings could translate into both further reduced retail milk prices and higher returns for dairy farmers.

We understand that similar production inefficiencies may exist in other industries. Bread production, for example, is extremely small-scale in Jersey compared to the UK. Jersey currently only has one industrial bakery, C.I. Bakers, which we understand operates at

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*farmers' milk price plea*, BBC News, 14 Aug. 2003. This allegedly sustainable UK price point still is well below the current amount farmers receive in Jersey.

<sup>29</sup> States of Jersey, Economic Development Committee, *Growing the Rural Economy*, June 2005, p. 20; see also *ibid.*, p 14 ('Primary production of commodity crops is unlikely to succeed in Jersey because of the economies of scale and lower cost base of their competitors[.]').

<sup>30</sup> Robert Wiseman Dairies, *Annual Report and Financial Statements 2005*.

<sup>31</sup> The 2005 Statistics Unit report noted that during the 2004-05 period retail milk prices in Jersey decreased by 2.2%.

below full production capacity. There are at least five other smaller independent and craft bakeries, but these are labour-intensive and smaller scale compared to an industrial bakery. Jersey's lack of domestically produced commercial commodity crops results in bread producers being dependent on imported raw materials, such as wheat,<sup>32</sup> and Jersey also lacks a flour milling facility.

### *Structural Distribution Inefficiencies*

Our examination of the food industry in general, and milk production in particular, has also seen evidence of structural distribution inefficiencies. The JMMB is the sole milk processor in Jersey by statute.<sup>33</sup> It also enjoys a protected domestic market because of the licensing restrictions imposed by Jersey law on liquid milk imports.<sup>34</sup> The McQueen Report found evidence that JMMB may have followed pricing arrangements 'symptomatic of [its] market dominance.'<sup>35</sup> Specifically, JMMB sold its milk in Jersey at a declared retail price per litre with discounts given to different classes of retailers. JMMB also made press announcements on increases in milk prices. The McQueen Report concluded that such practices were analogous to resale price maintenance.<sup>36</sup>

We understand that JMMB still prices its milk on a per litre basis with discounts from the retail price provided to different classes of retailers, although it may have changed its practices with respect to price change announcements. This is an area that the JCRA could analyze in greater detail once Part 2 of the Law takes full effect on 1 November 2005, if it continues to be an issue after that date.

### *Retail Inefficiencies*

Another feature of the value chain that merits discussion is the small scale of the Jersey retail sector, in particular food retailers, compared to their UK equivalents. As Experian stated in its assessment of Jersey's retail sector:

Figures from the States' of Jersey Statistics Unit show that there are significant price differentials on fresh food convenience products between Jersey and the UK. We believe this is primarily a function of the structure of the respective markets, with the major multiples in the UK more readily able to translate their superior buying power and economics of scale into lower prices.<sup>37</sup>

As a practical matter, the two largest food retailers in the Channel Islands, C.I. Traders and the Co-op, are very small compared to the major UK food retailers. In terms of number of stores and turnover, there is little comparison.

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<sup>32</sup> *Rural Economy*, p 23 ('It is estimated the local consumer is purchasing between 8,000 to 10,000 loaves of bread per day with none of the wheat these loaves contain being produced in Jersey.')

<sup>33</sup> See Agricultural Marketing (Jersey) Law 1953.

<sup>34</sup> See Import and Export (Control) (Jersey) Law 1946.

<sup>35</sup> McQueen, p 67.

<sup>36</sup> *Ibid.*

<sup>37</sup> Experian, p 9.

**Table 2: Comparison of Jersey & UK Food Retailers**

<b>Retailer</b>	<b>Approx. Annual Retail Turnover</b>	<b>Approx. Number of Stores</b>
Tesco	£29 billion	1,780
Sainsbury	£16 billion	727
Asda	£14 billion	265
Wm. Morrison	£12 billion	498
C.I. Traders	£156 million	40
C.I. Co-op	£80 million	15
<i>Source: Company Websites and Most Recent Annual Reports</i>		

Having a larger number of stores and much higher levels of turnover, the UK majors are capable of obtaining economies of scale that probably are not possible for Jersey retailers. In its 2000 report on the UK supermarkets, the Competition Commission identified three potential economies of scale, namely: (i) spreading fixed costs over a larger sales volume, (ii) using more efficient distribution, and (iii) purchasing in larger quantities from suppliers.<sup>38</sup> While this report suggests that large suppliers enjoy no significant efficiencies with respect to distribution or overhead compared to their smaller rivals, it did find that large buyers were capable of achieving lower prices for branded goods from their suppliers. Overall, at least for branded goods, this study found a significant relationship between supplier margins and sales quantities.<sup>39</sup> Thus, large purchasers such as those listed above ‘for the most part [are] able to control their relationships with suppliers to their own advantage, whilst the smaller multiples are not able to do so to anywhere near the same extent.’<sup>40</sup>

We understand that both Co-op and C.I. Traders belong to purchasing cooperatives in the UK, which can create a degree of collective buying power among smaller retailers.<sup>41</sup> We further understand, however, that the advantages gained by such cooperatives do not approach the efficiencies enjoyed by the major UK retailers.

Being capable of achieving lower prices from suppliers does not, of course, automatically translate into lower retail prices. Furthermore, the Isle of Man comparison suggests that even if a major UK retailer were to enter Jersey, the Jersey consumer still might not

<sup>38</sup> Competition Commission, *Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom*, 2000, p 224.

<sup>39</sup> *Ibid*, p 249.

<sup>40</sup> Office of Fair Trading, *Proposed acquisition by WM Morrison Supermarkets PLC of Safeway plc*, 13 March 2003.

<sup>41</sup> The Chamber of Commerce states that Checkers is supplied by Nisa, Waitrose, and Iceland, while the C.I. Co-op is supplied through CRTG, the central Co-op purchasing organization. *Commentary on the Experian Report*, p 20.

benefit from efficiencies and scale economies on par with the UK. Although Tesco has a superstore in the Isle of Man, we understand that this store does not follow regular superstore pricing, but follows the pricing format of Tesco's 'Metro' stores located in urban areas in the UK. Tesco applies a 3-4% price premium on some lines stocked in its Metro stores.<sup>42</sup> Thus, even with the presence of a Tesco superstore, Manx consumers still do not enjoy the benefits of full superstore pricing. The fact that Isle of Man pricing tends to be lower than Jersey, if still higher than the UK, however, suggests that some benefit is derived.

### C. High Levels of Concentration

In addition to suffering inefficiencies or lack of scale economies, several levels of the Jersey food value chain are highly concentrated. As noted above, there is only one milk processor, JMMB, and only one domestic industrial bread producer, C.I. Bakers. Only two companies provide ocean freight from the UK, Condor Logistics and Huelin Renouf. Before April 2005, there were only three operators of supermarkets in Jersey, and with C.I. Traders' acquisition of Safeway, this has been reduced to two.<sup>43</sup>

The existence of duopolies and monopolies does not, in and of itself, violate competition law. However, there has been a general recognition internationally that the risk of anticompetitive effects increases as markets become highly concentrated. Because of this risk, merger control authorities often have prohibited transactions resulting in a three-to-two market consolidation. The competitive dangers of such situations arise from the ability of the remaining competitors to coordinate their activities, either overtly or tacitly, thereby reducing competition. As stated by the European Commission:

A merger in a concentrated market may significantly impede effective competition . . . because it increases the likelihood that firms are able to coordinate their behaviour . . . and raise prices, even without entering into an agreement or resorting to a concerted practice within the meaning of Article 81[.] A merger may also make coordination easier, more stable or more effective . . . either by making the coordination more robust or by permitting firms to coordinate on even higher prices.<sup>44</sup>

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.<sup>45</sup> Thus, the UK Office of Fair Trading has stated that 'where a merger is expected to result in the merged entity facing less than two independent one-stop grocery fascias in a given area, then it may be expected to lessen competition substantially.'<sup>46</sup>

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<sup>42</sup> Competition Commission, *Summary of the Hearing Held with Tesco plc Concerning the Sumerfield plc/Wm Morrison Supermarkets plc Inquiry*, 2005, p 1.

<sup>43</sup> While C.I. Traders has stated publicly its intentions for Safeway to continue to operate independently, under competition law '[w]here a parent has a majority shareholding, the presumption will be that it controls the subsidiary's affairs.' Richard Whish, *Competition Law*, 5<sup>th</sup> ed., 2003, p 88.

<sup>44</sup> European Commission, *Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings*, O.J., 2004, C 31/5 ¶ 39.

<sup>45</sup> See Competition Commission, *Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom*, 2000, p 26.

<sup>46</sup> Office of Fair Trading, *Proposed acquisition by WM Morrison Supermarkets PLC of Safeway plc*.

The Australian Competition and Consumer Commission has reached an even stronger conclusion, stating 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,’ particularly in the absence of strong international competition and high barriers to new entry.<sup>47</sup> Other leading jurisdictions have reached similar conclusions.<sup>48</sup>

Again, comparison to the Isle of Man may be instructive. The retail food sector in the Isle of Man is less concentrated than in Jersey, traditionally having four supermarket operators (Manx Co-operative, Safeway, Tesco and Shoprite) and today having three, as a result of Shoprite’s recent acquisition of the local Safeway. In contrast, Jersey traditionally has had three supermarket operators, and now has only two. The Isle of Man’s reduced level of retail concentration may be a contributing factor to it having lower food prices generally than Jersey.

Whether coordination exists among competitors in various markets in Jersey, and whether such coordination could constitute competition law violations, are questions that the JCRA can analyze once Part 2 of the Law takes full effect on 1 November 2005, if there is a reasonable cause to suspect an infringement of the Law. We only observe in this study that markets in Jersey at various stages of the food value chain do appear to be highly concentrated, and international practice teaches that such high levels of concentration can result in less competition and higher prices, even in the absence of competition law violation.

#### **D. Consumer Purchasing Habits**

We were told anecdotally that different consumer purchasing habits in Jersey compared to the UK also may contribute to food price differentials. For example, Jersey consumers may have more ‘continental’ tastes compared to their UK counterparts, have higher incomes, and are more likely to eat at restaurants more frequently. A Jersey consumer thus is more likely to have a more sophisticated (and more expensive) palate compared to the average UK consumer. The Chamber of Commerce suggests that Jersey’s demographic profile ‘is very distinct and its consumption patterns are likely to reflect this distinctiveness.’<sup>49</sup> Our analysis did not find data to confirm such effects or quantify their potential influence on food prices. We note, however, that while such differences in consumer purchasing habits may exist, these could have an inflationary effect on *some* retail food prices. We say ‘some’ because the price for certain, basic items, like milk, presumably would not be affected by the relative sophistication of the consumers’ tastes.

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<sup>47</sup> Australian Competition and Consumer Commission, *Application for Authorization: Watty/Courtaulds/Taubmans/Pinchin Johnson*, 17 May 1996, p 65.

<sup>48</sup> In the United States, the reduction in the number of competitors to two, in the absence of entry from new competitors, threatens the creation ‘of a durable duopoly [that] affords both the opportunity and incentive for both firms to coordinate to increase prices.’ *FTC v. H.J. Heinz Co.*, 246 F.3d 708 (D.C. Cir. 2001). The New Zealand Commerce Commission has concluded that ‘[t]he reduction of three to two players is considered likely to materially increase the potential for coordinated market power, and substantially lessen competition’ in finding a proposed supermarket merger anticompetitive. New Zealand Commerce Commission, *Decision No. 448: Progressive Enterprises Limited/Woolworths (NZ) Limited*, 14 Dec. 2001.

<sup>49</sup> *Commentary on the Experian Report*, p 8.

We understand that the Statistics Unit will be examining consumer purchasing habits in Jersey, and at its findings may shed more light in this area.

#### **IV. CONCLUSIONS & POTENTIAL AREAS OF FURTHER ENQUIRY**

Food prices do appear to be more expensive in Jersey than in the UK, although loss-leading practices with respect to certain key products, such as bread and milk, may complicate comparisons. The factors contributing to price differentials are most likely multi-faceted and varied. As suggested above some, but certainly not all, of these factors may raise competition policy implications and potentially be subject to further JCRA enquiry, once the Law comes into full force. These include possible coordination in concentrated industries, resale price maintenance, and possibly reasons why the costs of certain inputs appear excessively high compared to the UK. The JCRA may also have the ability to examine whether any inefficiencies exist in relation to Jersey's harbour, and the contributing effect any such inefficiencies may have on increased transport costs, should it be given a regulatory role in this area as the EDC has suggested.<sup>50</sup>

Other factors contributing to higher Jersey food prices, however, such as those arising from Jersey's small scale compared to the UK, are likely to be endemic of a small island economy and not remediable through the competition law. While competition law may be directed against cartels and abuses of dominance, it is not designed to tackle inefficiencies or high prices in themselves. Still other factors in Jersey may have the effect of limiting competition. For example, we note that Tesco has decided to compete in the Isle of Man but not Jersey, although the former is a less wealthy jurisdiction with a more widely dispersed population. The potential interest of the major French supermarket retailer Carrefour in opening a Jersey store also has subsided.<sup>51</sup> The JCRA and/or EDC may want to consider whether current States requirements or policy may create or significantly contribute to large businesses such as these opting not to enter the Jersey market.

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<sup>50</sup> States of Jersey, Economic Development Committee, *Future Air and Sea Transport Policy*, May 2005, p 12.

<sup>51</sup> *Supermarket delays Jersey plans*, BBC News, 21 June 2005.

## Appendix 1

**% Jersey Average More Expensive/Cheaper than UK Average - Supermarkets**

Product	Size	March	April	May	June
Carling Lager, Cans	4 x 500ml	5	2	-10	-9
John Smith's Extra Smooth Bitter, Cans	4 x 440ml	-1	22	-24	-2
Nescafe Gold Blend Coffee	200g	11	-15	13	
Nescafe Gold Blend Coffee	300g	12	18	16	6
Tetley Tea Bags, Softpack 160's	500g	23	47	11	18
Jacob's Cream Crackers	300g	2	21	27	39
McVitie's Rich Tea Biscuits	300g	20	23	20	20
Alpen - Original Muesli	750g	7	15	13	13
Kellogg's Cornflakes	250g	2	0	7	-2
Kellogg's Rice Krispies	450g	10	11	11	11
Cathedral City Cheddar, Mature Grated	200g	28	24	8	
Cathedral City Cheddar, Mature sliced	200g	16	48		
Cadbury's Dairy Milk Chocolate	200g	0	2	0	5
Mars Bar	62.5	-12	-9	9	-9
Mars Bar	85g	-15	-16	13	-13
Bisto Gravy Granules No flavour	170gm	-8	21	16	25
Oxo Stock Cubes, Beef x12	71g	14	14	14	14
Uncle Bens Sweet & Sour Sauce	350g	17	17		
Walkers Crisps, Ready Salted	34.5g	7	7	7	7
Anchor New Zealand Butter, Original	250g	7	14	14	14
Flora Margarine – Standard	500g	8	13	13	13
Birds Eye chicken Burgers 4 pack, 1/4 pounders	227g	7	15	33	39
Birds Eye Fish Fingers 10s	300g	35	28	35	44
Birds Eye Fish Fingers 16s	480g	45	45	49	
McCain Oven Chips, Straight Cut	907g	11	9	30	34
Rice - Uncle Bens Boil in Bag - Long Grain	250g	-1	-22	-4	-4
Rice - Uncle Bens Boil in Bag - Long Grain	500g	7	17	6	13
Heinz Salad Cream, Non Squeezable Bottle	285g	14	14	14	2
Heinz Salad Cream, Squeezable Bottle	425g	13	0	14	14
Heinz Tomato Ketchup top down plastic	570g	0	12	3	3
HP Brown Sauce squeezable	425g	10	10	7	9
Coca Cola (Regular) Can	330ml	15	15	13	13
Highland Spring Still Mineral Water, Natural (still)	1.5ltr	11	11	11	7

<b>Product</b>	<b>Size</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>
Delmonte Fruit Cocktail in syrup	227g	-4	-4	4	-4
Delmonte Fruit Cocktail in syrup	420g	15	15	14	12
Fray Bentos Corned Beef	340g	17	17	17	19
Heinz Baked Beans, in Tomato Sauce	200g	14	11	6	8
Heinz Spaghetti Hoops, in Tomato Sauce	205g	17	17	17	17
Heinz Spaghetti Hoops, in Tomato Sauce	400g	10	10	10	10
Napolina Peeled Plum Tomatoes	400g	5	-3	-5	14
Milk	1 litre	71	71	71	71

**Fresh Food Prices July 2005 - % Jersey Average More Expensive/Cheaper than UK Average - Supermarkets**

<b>Product</b>	<b>Size</b>	<b>%</b>
Cheapest white bread	800g	368
Other white bread	800g	20
Cheapest wholemeal bread	800g	97
Other wholemeal bread	800g	64
Baguette		107
Large vienna loaf (crumb roll)		89
Potatoes - loose baking	1 lb	-15
Tomatoes - loose medium	1 lb	3
Onions – loose	1 lb	9

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