

## **Retail Market Policies: Lessons from Other Countries –**

### **A Critical Review**

The essence of this report is summarised from this page up to and including the executive summary on page 5. The IRSG considers this to be non-confidential, and thus available for posting on the Competition Commission website. On subsequent pages, following the executive summary, the IRSG explains its background thinking, and considers this to be confidential to the Competition Commission inquiry team and therefore not for posting.

Time does not of course permit a thorough analysis of all other relevant countries, but this report presents a critical review of some key documents that relate to planning and competition policy in a range of countries.

### **Introduction**

A catch-all assumption seemingly being made by its critics is that planning policy is somehow an anti-competitive burden that ‘prevents new entry’. Almost uniquely, as a localised domestic economic activity, retail depends on the spending power available within the trade area on which incumbent firms can reasonably draw; this has been known for decades following research on the gravity model (Reilly, 1931) and Central Place theory (Christaller, 1933). This inherent spatial groundedness is approached only by utilities – which have often been local monopolies (water supply being a good example). UK citizens do not see any evidence of government pressure for ‘shadow’ or ‘alternative’ water companies to be created in order to invent competition – let alone to ensure adequate supplies. Lower barriers to entry, however, usually mean that local retail competition can spring up.

What planning is presumably accused of is preventing either excess competition via land-hungry over-building or preventing certain land-hungry new formats. However, because the planning system in England and Wales has in the past been more liberal, most retail formats have in fact been developed (eg supermarkets and Warehouse Membership Clubs).

This leads to a key point about market entry. If ‘different’ owners wish to operate in a local market they need not do so exclusively via the ‘new build’ that might imply planning conflict. Instead, in the last decade, WalMart and Morrisons – two of the ‘big four’ operators – have entered new markets by takeover/merger. The UK is remarkably liberal in this respect, with the present New Labour government perceiving there to be no ‘crown jewel’ activities that must remain under UK ownership. From the trivial – football clubs such as Manchester United and Chelsea – to the utterly essential (Thames Water, supplying London, has twice been sold abroad) there is no aspect of UK economic activity that cannot be broken into by, simply, buying it. It may reasonably be argued that if airports (BAA), ports (P&O/ABP), banks (Abbey National), media groups (the Murdoch empire) and power companies (EDF) can all be transformed by new ownership, then this is also an accepted route for retail innovators – accordingly, the planning rule-book does not have to be torn up.

As the *Evening Standard* reported (11 December 2006, p. 8), ‘Gordon Brown’s chief lieutenant [Ed Balls] today heralded the sell-off of UK Plc. Mr Balls was quoted as, in fact, acknowledging that ‘There’s one view in the world that says we should be backing national champions ...’ However, he then refused to approve of that course of action, and instead favoured permitting the unfettered entrance of foreign owners. This, as has recently been noted in respect of the retail sector, includes private-equity/venture-capital operations that are likened by some to asset-stripping.

In the same edition of the *Evening Standard*, counter-commentator Anthony Hilton opined that: ‘The fact is

that no serious economy in the world apart from Britain allows foreign firms to buy everything.' Whatever the merits of these counter-viewpoints, it is the former 'sell-off' viewpoint that is in the ascendant, and therefore Britain can be seen as already the most market-liberal economy; planning is merely a final fig-leaf that it is quite unnecessary to remove.

The extracts below are abstracted from the main text that is available to the Inquiry team. They give a sense of the viewpoints to be found in other countries. A particularly telling point is the widespread nature of restrictions placed on stores in excess of 3,000 square metres.

- *Warehouse-format retailers are less interested in locating at the focus of community life than are traditional format retailers. It will likely be difficult to weave power centres into the community fabric. By their nature, these facilities are collections of free standing buildings that are not designed for pedestrian circulation, for lingering, for entertaining or as places to meet, relax, socialise as well as shop.*
- *The ceilings retain the cap of 3,000 square meters for foodstores ... In the case of large, single-level stores (retail warehouses) specializing in the sale of bulky household [items] the cap is 6,000 square meters and in the case of retail parks the cap is 15,000 square meters. The report submitted to the Government in support of the new guidelines concludes that these size caps will have no direct effect on retailing costs. In the case of foodstores the report notes that economies of scale are exhausted at a store size of approximately 2,000 square meters.*
- *[U]ntil regional plans are implemented, the development of new shops (except food shops) with more than 3,000 sq meters of gross floor space for daily consumption and 1,000 sq. meters for specialty goods is not permitted.*
- *In 1998 a subsequent directive placed a freeze on the approvals of supermarkets with more than 3,000 square metres.*
- *The original version of the law ... was applicable to projects of more than 3,000 square meters in urban areas and 1,500 square meters outside urban areas.*
- *The element of innovation presented by warehouse stores ... does not appear to represent an innovation at all. Instead, it requires the opening up of low-priced land (compared to land prices in areas designated retail Commercial) in Prime locations to a highly competitive form of retailing. The lower land prices may be attended by lower property and business taxes as well.*

## **Executive summary**

Most countries impose limits on retail – not always through planning.

UK is uniquely liberal in respect of market entry by non-indigenous firms.

Most 'large' formats have already been developed in England and Wales.

With imagination, most formats can be accommodated in existing shopping locations.