

Economic Development Department
Green Paper

The Universal Service Obligation for Postal Services in Jersey

28 June 2010

Purpose and type of consultation

To invite comments about the provision of Jersey Post's Universal Service Obligation (USO). This paper shows that Jersey Post can no longer afford to run the service at current levels because it is losing too much money. Essentially the postal service must change. This paper puts forward options for change and asks for your views.

Closing date Monday 30 August 2010

Summary

The Minister for Economic Development would like your views about the provision of the Universal Service Obligation in postal services. The USO is basically the number of times that mail is picked up and delivered to homes and businesses. Information received from the consultation will assist the Minister in developing policy.

Further information www.gov.je/consultations

Please send your comments to:

Dr Jason Lane
Director of Regulatory Services
Economic Development
Jubilee Wharf
St Helier
JE1 1BB

How to contact us

Telephone: 448120
Email: j.lane@gov.je
Fax: 448170

This consultation paper has been sent to the following individuals / organisations:

The Public Consultation Register
All households in Jersey

Supporting documents attached

Executive Summary

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

Introduction

Currently, Jersey Post, as a condition of its licence, is required to make deliveries and collections six days per week and to provide a network of post offices. This requirement is known as the Universal Service Obligation (USO). The requirement is no longer financially viable as a result of the significant and sustained downturn in postal business. This consultation paper considers the options for reforming the USO to make it viable.

1. The Universal Service Obligation

- 1.1 In most developed countries there is an obligation on the providers of utilities to provide a service to everybody in the community which is termed the Universal Service Obligation (USO). Thus electricity and gas companies have to provide facilities for all properties, even those that are isolated (although there are some exceptions), and similarly telephone and postal services have to be provided to the whole community. This inevitably means an element of cross subsidisation, typically from those in highly populated areas to those in lowly populated areas.
- 1.2 In Jersey, the United Kingdom and a number of other jurisdictions, the USO for postal services is one delivery to each address each day, two daily collections from each post office and post box, a basic price for standard mail services and a network of post offices.
- 1.3 The States, through the Minister for Economic Development ('the Minister') retains strategic political responsibility for Jersey's postal services industry, with the Jersey Competition Regulatory Authority ('JCRA') having responsibility as the independent licensing and regulatory authority for postal services. In these respective roles, both the Minister and JCRA have a primary duty to ensure that as far as reasonably practicable, postal services are provided in Jersey and between Jersey and the rest of the world, as satisfies all current and prospective demands for them. In addition, the Minister and the JCRA must ensure:
- services are rapid, of high quality and reliable
 - services are affordable and accessible to the highest number of business and domestic users
 - services are provided in places and at times that meet the demands of the highest number of business and domestic users.
- 1.4 Under Article 9 of the Postal Services (Jersey) Law 2004 ('the Law'), the Minister may issue the JCRA with Directions and Guidance. In 2005, the previous Economic Development Committee issued the JCRA with guidance, which stated that deliveries must be made **every working day**. The Guidance also stated that post must be collected from post offices, sub post offices and post boxes at least **five days a week**. The Law also allows the Minister to direct the JCRA regarding Social and Environmental matters.
- 1.5 On 1 July 2006, the JCRA issued a Class II Postal Operators Licence to Jersey Post. Condition 12.3 of that Licence sets out Jersey Post's USO. It requires post to be delivered at least **six working days** a week, and at least one postal collection from post offices, sub post offices and post boxes to be made at least **six days a week**.

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

Although the Licence's requirements on delivery and collection exceed those set out in the former Committee's guidance (6 days instead of 5 days), this reflects the service Jersey Post has traditionally provided, and continues to provide, under the USO. The full set of USO obligations, as currently set out in Condition 12.3 of Jersey Post's Licence, are detailed in Annex 1.

- 1.6 Since some of the services provided under the USO may be unprofitable, it is often accompanied by a protected monopoly of postal services. Under this approach, no other business is allowed to offer services provided under the USO, which allows higher than normal profits to be made on parts of the business to pay for losses on the unprofitable part. However, such an approach is not possible in Jersey because the Law explicitly abolishes the formerly exclusive privilege of the States to provide postal services in Jersey, and enables the JCRA to licence other postal operators. Where competition is allowed then other providers may have to contribute to the costs of the USO.

2. Why the postal services USO is under pressure

- 2.1 The USO is under significant pressure in Jersey, Britain and most other countries. Unlike other industries, the scope for reducing costs through greater use of technology is limited. The use of postcodes has led to some cost savings, particularly where electronic sorting is fully used. However, it is difficult to achieve cost savings for basic collection and delivery services. Delivering two letters to a house costs no more than delivering one letter, and collecting 50 letters from a post box costs little more than collecting one letter. This means that over time the cost of postal services is likely to rise in relation to the price of goods and services generally.
- 2.2 More recently, the use of the internet, and of email in particular, has had a major negative impact on the demand for traditional postal services:
- people increasingly communicate with each other by telephone and email rather than by post
 - bills are increasingly paid either by direct debit or by internet banking rather than by sending a cheque
 - utilities and many other businesses now send bills by email or make them accessible on a website rather than posting hard copies
 - many journals are now produced electronically rather than in hard copy, which means they can be delivered both more cheaply and more promptly.
- 2.3 Furthermore, traditional providers of postal services also face increasing competition from express mail couriers, such as FedEx, DHL and others. Increasingly, this means that the regular mail is no longer used to send urgent items. Generally, the demand for traditional postal services is declining annually and there is no expectation that this trend will be reversed. Since 2003, total mail volumes have been steadily declining at 4% per year and in 2009, partly as a result of the world recession, Jersey Post's mail volumes fell by 13%. By comparison, Royal Mail's volumes fell by 10% in 2009. The following table shows these trends:

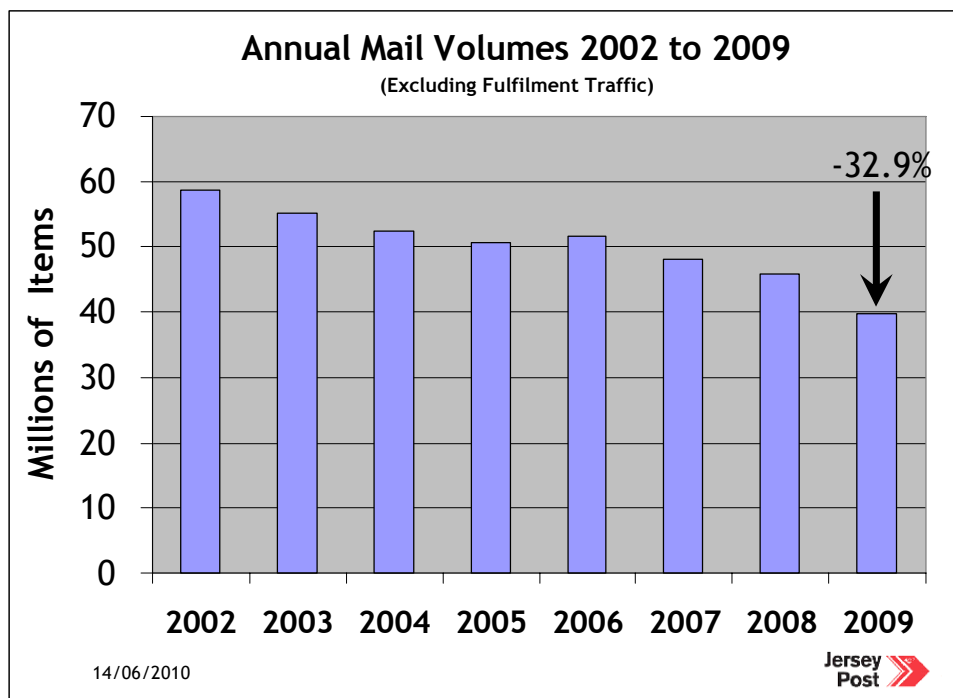
Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public



- 2.4 There is one compensating factor for Jersey Post. As people increasingly buy online, particularly books, CDs, DVDs and other standard items, so there is a demand for the delivery of these items, an industry known as “fulfilment”. Jersey has become a centre for such an industry, aided by an exemption from VAT on small value imported items known as Low Value Consignment Relief (LVCR). LVCR allows goods imported into the UK under the value of £18 to be exempt from VAT as long as they are imported from offshore jurisdictions such as Jersey, Guernsey or Switzerland. Other Member States of the European Union have varying rates of LVCR but the principle is the same. LVCR gives the fulfilment companies of such goods a competitive advantage over their UK or mainland Europe based competitors.
- 2.5 As demand for its core (non-fulfilment) postal services falls, Jersey Post faces significant commercial pressures, regardless of whether additional competition occurs in the market.
- 2.6 The company has been able to endure these losses and Jersey Post’s overall profitability has been sustained because of the profits that it earned from the fulfilment sector. However, for reasons that will be discussed further in this paper, this position no longer looks sustainable.

3. The response of mail service providers

- 3.1 Jersey Post, the Royal Mail and other postal service providers have responded to the decline in the demand for their traditional services and to the accompanying cost pressures by:
- reducing the number of daily collections from post boxes and post offices to one
 - reducing the number of daily deliveries to one, often later in the day rather than in the early morning

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

- closing post offices
- removing many post boxes.

3.2 These measures have led to significant reductions in costs, but more are needed.

3.3 A number of mail service providers have also attempted to compensate for declining income from their mainstream business by diversifying into other areas where a mail service provider has a natural competitive advantage. In such an area it may be able to make a higher than normal profit which can then help to subsidise the USO. However, generally it is not possible to make higher than normal profits in any area given the strength of competition.

4. The position in Jersey

4.1 This section deals with issues that are specific to Jersey.

4.2 As a small island there is little possibility of urban areas subsidising rural areas to the same extent that occurs in larger areas.

4.3 36% of mail posted in Jersey (excluding fulfilment mail) goes to the UK, with a much smaller proportion (9%) going overseas. 63% of mail delivered in Jersey is posted in the UK or further a field. Jersey Post is paid for delivering this mail by both Royal Mail and other service providers, and thus has little ability to raise additional revenue given that these businesses themselves are under cost pressure.

4.4 Although Jersey has become a centre for the fulfilment industry, this is a fairly precarious industry and has been threatened by increasing concerns from the UK and other EU governments due to their loss in taxes. The UK secured an agreement with the States of Jersey to restrict market entry to wholly Jersey-owned and operated businesses in an attempt to restrict UK resident businesses from evading VAT. Pressures on this industry can be expected to continue.

4.5 During the past few years, handling fulfilment business has generated a significant profit for Jersey Post, which has helped sustain the increasingly deteriorating profitability of the USO. This position however is not sustainable.

4.6 While Jersey Post no longer has a monopoly in the provision of postal services in the Island, it remains the dominant supplier of postal services in Jersey¹. Moreover, postal services in the Island themselves are not isolated from other markets. Fulfilment companies are free to move from Jersey to other locations such as Guernsey or Switzerland or even to move part of their business to the UK. Jersey Post is well aware of this and may well have to offer better terms to fulfilment businesses to keep them here.

4.7 From a public policy perspective it is also questionable whether any business should be charging an excessive price for one product so as to subsidise another. The

¹ The Law removed Jersey Post's monopoly for the provision of postal services in Jersey and empowered the JCRA to licence one or more providers of postal services. To date, the JCRA has licensed Regency Holdings and Hi-Speed Freight Services Ltd, both of which handle small volumes of mail in Jersey.

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

fulfilment industry in Jersey employs around 1,000 people, and if that industry is charged an unreasonably high price then the effect can only be to cause the industry to suffer a loss of competitiveness and therefore put these jobs at risk.

- 4.8 The JCRA is currently considering applications for licences for bulk mail services from two businesses. This is being seen by some as having potentially disastrous consequences for the maintenance of the USO by Jersey Post. This is not the case. The issues, as have been pointed out, are there already. If the licences are granted this may accelerate what would already happen, but the issue is not about new licences, it is about the cost and sustainability of the USO.
- 4.9 Based on these considerations, Jersey Post is no longer in a position to continue to fund the provision of the USO from extra profits received from the fulfilment sector. Jersey Post's Chairman, Mike Liston, stated in Jersey Post's 2009 Business Review that "the £5m annual loss incurred by the USO can no longer be supported by earnings from the rest of our business going forward." Therefore, other options for funding the USO, or changes to the USO to reduce its cost, need to be considered and choices need to be made.

5. Does the USO have to be self funded?

- 5.1 It is a legitimate public policy question to ask whether the USO in respect of postal services should be self-funded. There are a number of different funding models.
- 5.2 It can be argued that the current USO is an essential service, and therefore it should receive support from the taxpayer. However, it is quite difficult to put forward a logical case as to why daily collections and deliveries of post constitute an essential social service that should benefit from a taxpayer subsidy. The reality is that the postal service is no longer used for urgent items. Policy on this issue must also be influenced by the overall state of the public finances. In Jersey, as in the UK, these are under considerable pressure, and it is not easy to make a case that taxpayer's money should be used to fund the current postal USO. The Treasury Minister has already made it clear that no funds are available for this purpose. (See the Treasury Minister's letter attached at Appendix Four).
- 5.3 The second funding model is to allow Jersey Post to continue to cross subsidise the USO by making profits from its monopoly position in other markets. However, for the reasons covered in the previous section this is not a viable option. Even if it were justified, in practice competitive pressures mean that it is no longer feasible to rely on extracting excess profits from the fulfilment business.
- 5.4 A third option is to subsidise the USO from businesses that are awarded postal licences. In this model Jersey Post losses could be compensated by taking a share of the profits of new businesses. In practice this is a risky strategy because it acts as a barrier to entry and / or artificially increases costs for fulfilment businesses and over time, may cause them to move to locations where this is not government policy. The result would be further loss of tax revenue and jobs in Jersey. It also does not address inefficiencies that may exist in the current USO, or address the difficult question of whether it is fit for purpose, given the declines in postal volumes.

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

5.5 The reality, therefore, is that the postal services USO should ideally be self-funded, a point that has been recognised by the company's shareholder and also by Jersey Post.

6. Options for self funding

6.1 Typically, where a service is not viable then one approach is to seek to trade off price against quality of service. It might therefore seem legitimate to ask the public if they are willing to pay an extra 10p for each stamp in order to maintain the current USO, or whether they would prefer stamps to remain at the present price and for the USO to be substantially reduced, for example halving the number of collections and deliveries.

6.2 Unfortunately this is not an option. The immediate effect of a hike in postal prices would be a further reduction in demand. At present, many small and medium sized businesses in Jersey still send out bills by post and receive payment by cheque. Almost all larger businesses such as utilities and banks now send bills or statements by email and receive payments electronically. Further pressure is being placed on Jersey Post by a practice known as ABA re-mailing. Here an increasing number of Jersey-based businesses are saving postage costs by taking advantage of cheaper postage prices in the UK and emailing their mail in bulk quantities to UK-based mail houses which print and package it for posting via Royal Mail back to Jersey. Thus the higher postal prices are pushed, the more pressure this will place on smaller and medium sized businesses to follow suit because it will be in their economic interests to do so. The public would also switch further from traditional mail to email. This option, therefore, is not realistic.

6.3 The JCRA is currently undertaking a review of Jersey Post's efficiency. This is a separate exercise. While there may well be efficiency gains to be made, it is unlikely that they will be sufficient to preserve the USO in its present form. As Jersey Post itself states in its 2009 Business Review, "the depth of the USO funding crisis cannot be resolved by efficiency measures alone."

7. The reality of the position

7.1 There are no easy options and hard decisions have to be taken. In summary the current position is:

- postal volumes have declined sharply and will continue to decline. The retail post business in Jersey is making a loss and if there are no changes to the current arrangements this loss will accelerate. Jersey Post as a corporate body is in no position to fund this loss
- the fulfilment business has over the past few years provided additional profits which have enabled the retail postal service loss to be financed, but this is not sustainable
- there is not an obvious case for public funding for retail postal services and the Treasury Minister has made it clear that this is not an option
- there is no significant scope for other providers of postal services to provide a subsidy sufficient enough to maintain the USO.

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

7.2 This leaves only a reduction in service. The question is what sort of reduction should there be.

8. Options

8.1 Ideally, in a public consultation one offers a series of options, but in this particular case there is no realistic alternative to a significant reduction in the USO. Questions inevitably are confined to points of detail. Realistically, the reduced service would either have to be three days a week collection and delivery, or five days a fortnight collection and delivery, with three days on one week and two days the next.

8.2 Service reduction could be accompanied by some modest enhancements, for example:

- an enhanced collection service consisting daily collections from a small number (no more than about six) of collection points with next day delivery to the UK and delivery on the next delivery day in Jersey
- offering daily deliveries in exchange for a fixed monthly charge. This option would probably be attractive to a number of businesses, but probably not to many householders
- offering daily deliveries to all addresses in exchange for a fixed monthly / quarterly charge. This would be similar to the standard charge levied by other utility companies such as electricity, telephone, gas and water to access their networks. If such a charge were to be introduced, we recognize that it would be complex to implement.

8.3 Such enhancements may not be feasible or economic in the marketplace. If there is support for them in principle then work would have to be done to cost these services and assess whether there is a viable market.

8.4 All of these options would also have to be accompanied by changing the way Jersey Post customers access its services. The Island's post office network would change into a model that provides greater, albeit different, access e.g. online, 'post & pay' machines and a new, commission based retail model.

8.5 As with other industries where there is a decline in demand it is sadly inevitable that some people will lose their jobs and that there will have to be changes in working practices to take account of the new realities of the market place.

9. Consultation questions

9.1 Respondents need not respond to each of the questions. The first three questions in particular are appropriate mainly for those people with a particular interest in the subject or for businesses for which postal services are vital. Individuals are more likely to be interested in the remaining questions.

1) Is the analysis of the market in sections 2 - 4 correct? If you believe it is not correct what evidence can you provide to support your view?

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

- 2) The Treasury Minister has ruled out providing a taxpayer subsidy to support the present USO. Do you agree? If not, what is the justification for the taxpayer funding the USO as against other priorities?
- 3) Do you agree with the analysis of why cross subsidisation from other postal services to fund the USO is not viable? If you do not agree, what evidence can you provide to support your arguments?
- 4) Do you agree that the only viable solution is to reduce substantially, probably by around half, the current collection and delivery service? If not, what other viable solutions can you suggest?
- 5) Do you agree that part of this solution should include changing the way postal services are accessed, by improving availability, but removing the requirement for a traditional sub post office? If not, what other viable solutions can you suggest?
- 6) If you had a choice between deliveries three days a week or five days a fortnight, bearing in mind that the latter would be accompanied by marginally lower costs, do you have a preference?
- 7) If collection and delivery services are substantially reduced would you favour a daily collection facility from a limited number of collection points?
- 8) If delivery and collection services are significantly reduced would you favour mail recipients having the option to pay a fixed commercial charge in exchange for daily deliveries?

10. How to respond

PLEASE SEND COMMENTS TO

Dr Jason Lane Director of Regulatory Services Economic Development Jubilee Wharf St Helier JE1 1BB	Tel. 448120 Email j.lane@gov.je Fax 448170
---	---

- Appendix 1 The terms of the Jersey USO
- Appendix 2 The situation in Guernsey
- Appendix 3 The situation in the UK
- Appendix 4 Letter of Senator Ozouf to the JCRA

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

APPENDIX ONE: THE TERMS OF THE JERSEY USO

Universal Service Obligations (per Condition 12.2 of Jersey Post's Licence)

- a) To provide at least one Collection of Mail, generated within the Island of Jersey, which should be made from each Access Point each Working Day;
- b) To provide at least one Delivery of Mail, whether generated within or outside the Island of Jersey, which should be delivered to every Delivery Point in the Island of Jersey, each Working Day;
- c) To procure, to the extent within the Licensee's control, the delivery of Mail to destinations outside the Island of Jersey at least at the same frequency as at the Licence Commencement Date, or at such other frequency as may be agreed by the JCRA;
- d) The Licensee shall use all reasonable endeavours to set collection times at the latest possible times to access key transport connections;
- e) To provide preferential Postage rates for literature for the blind and partially sighted as defined in the relevant Postal Scheme up to Universal Postal Union weight limits;
- f) To provide access, by the means of Access Points and Post Boxes or other appropriate means to allow the Users reasonable access to the Postal Services;
- g) To provide those Postal Services which the Licensee is required to provide to satisfy the USO at affordable prices and at a uniform tariff throughout the Island of Jersey;
- h) To provide services for registered and insured Mail;
- i) To treat Mail generated from outside the Island of Jersey no less favourably than Mail generated from within the Island of Jersey in terms of delivery times, or as otherwise agreed by the JCRA; and
- j) To procure the provision, from time to time, of preferential rates in respect of Mail to addresses within the BFPO (British Forces Post Office), or as otherwise agreed by the JCRA.

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

APPENDIX TWO: POSTAL SERVICES IN GUERNSEY

The situation regarding the provision of the USO in Guernsey has a different statutory basis than in Jersey, but Guernsey Post faces similar issues and pressures in the marketplace. These include:

- the segment of the market that would be most attractive to competition would be the high volume/high margin mail market;
- because of the nature of the USO, comparatively very little reduction in GPL costs would be realised as a result of that loss of business;
- the bulk mail market is almost entirely dependent on Guernsey not being in the EU and the ability to take advantage of the market distortion currently available in the form of Low Value Consignment Relief;
- GPL is seeing the impact of e-substitution not being offset by sufficient growth elsewhere. GPL is currently experiencing a 16% drop in mail – this is in part a reflection of a permanent reduction in the use of postal services.

The Regulatory model in Guernsey requires that a legal monopoly be prescribed by the Director General to fund this USO which is very different from the Jersey model that abolished the monopoly of JPL and introduced competition. The States of Guernsey gave the Director General of the Office of Utility Regulation (OUR) a Direction in accordance with section 3(1) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

'The following Universal Postal Service (USO) shall be provided by at least one Licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- One collection from access points on six days each week;
- One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all week days;
- Collections for all postal items up to a weight of 20kgs;
- Deliveries on a minimum of five working days for all postal items up to a weight of 20kgs;
- Services for registered and insured mail.

The States of Guernsey also directed that reserved postal services be defined so as to ensure that the USO was met. An Order was made in October 2001 designating certain postal services as 'reserved postal services'. The effect of the Order was to reserve the right to provide certain postal services to the first licensee in the postal sector in the Bailiwick, i.e. Guernsey Post Limited, to ensure that the USO could be met. The Order also stated that the Director General should carry out more in-depth analysis of the postal market in Guernsey with a view to determining whether this

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

designation should be amended in the future.

The Director General has powers to designate what services are defined as reserved postal services, but may only do so for two reasons: if he considers it is necessary to ensure the provision of the USO in the Bailiwick, or if it is necessary to comply with States Directions.

The OUR note that given the limited information available at that time, as well as having regard to international practice, the reserved postal services were defined exclusively by value, as those postal services provided for a consideration of less than £1.35².

The OUR has undertaken a number of efficiency reviews of Guernsey Post. These found that, progress in implementing efficiency recommendations was slower than expected and that costs in some areas were not being controlled sufficiently well. The review noted that overhead costs more than doubled from £2.9 million in 2005/06 to £5.9 million in 2009/10. Average pay per non-operational employee rose by 49% in the five years between 2005/06 and 2009/10. The OUR noted that overtime costs for operational postal staff also remained too high and created cost inefficiencies.

In 2009 the OUR published its draft decision on Guernsey Post's tariff changes for 2010/11 and the scope of its monopoly. Among the key proposals were:

- Requiring GPL to reduce payroll and overhead costs;
- Approving the move to PiP based pricing from April 2010;
- Reducing Guernsey Post's reserved area from £1.35 to 65p; and
- Leaving the cost of the basic local and UK stamp unchanged, at 36p and 43p respectively.

The OUR issued a further public consultation on Postal Licence conditions on 12th May 2010. That stated that proposals for licensing competitors to Guernsey Post will be subject to the States of Guernsey agreeing to amend the Postal Law and the finalisation of the OUR's consultation process. Broadly, the paper proposed that new entrants have broadly similar conditions to those already applied to Guernsey Post, including provision for new entrants contributing to a fund, should it ever be deemed necessary, to support the Universal Service. The consultation ran until 11th June and a report will be compiled in due course.

Guernsey Post in their reply to the OUR consultation noted that:

- The market is not large enough to produce the degree of economies of scale that might be realised in a mainland market;

² The price limit was arrived at by multiplying the standard tariff for letters to the UK (27p in 2001) by five, along the lines of the EU approach. The use of the standard UK tariff reflected the fact that a significant amount of the Bailiwick's mail is between the Islands and the UK. It was understood that the Director General did not wish to include a weight limit in the designation of the reserved services until further consideration could be given to the profile of Bailiwick postal services, particularly those services that were provided on the basis of volume rather than weight (flower boxes).

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

- Local mail deliveries, where the local provider receives 100% of the tariff paid by the consumer, represent only about 10% of the overall market.
- International deliveries represent an extremely large segment of the market with 87% delivered to the United Kingdom. Accordingly, the United Kingdom postal service (invariably Royal Mail) has a significant influence on the Guernsey postal market.
- Bulk mail, including GPL's largest customer represents an extremely large segment of the total market. In particular, in 2011 five customers will represent about 70% of the volume of mail sent to the UK.

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

APPENDIX THREE: POSTAL SERVICES IN THE UK

Royal Mail provides the UK's universal postal service, which includes the one-price-goes-anywhere stamp, as well as collections and deliveries of mail for almost every UK address, each working day. Despite the fact that the £6.6bn UK mail market was fully liberalised in January 2006, Royal Mail still dominates the postal market, delivering 99% of volume in the addressed letters market (items weighing less than 350g and costing less than £1 to post) in 2007-08. This it has achieved by signing access agreements with some 50 competing companies who collect and process mail from bulk mail customers. Royal Mail however is responsible for the final mile.

The universal service is a set of requirements set out in the European Postal Services Directive, transposed in UK law by the Postal Services Act 2000. Some aspects of the universal service are unique to the UK.

The universal service obligation applies to letters, packets and parcels up to 20kg in weight. There are seven types of requirement:

- **Collection.** One clearance from each of the nation's 115,000 post boxes and 12,000 post offices per day on six days per week for letters, and five for parcels.
- **Delivery.** One delivery per day on six days a week for letters, and five for parcels.
- **Point of delivery.** Letters and packets must be delivered to the letterbox, unless health and safety issues or access restrictions make it impossible.
- **Reliability.** The regulator sets 12 standards for quality of service in Royal Mail's licence.
- **Accessibility.** The number and density of access points – post boxes and post offices - in the network.
- **An affordable price.** In the UK, prices for products contained within the universal service are controlled by the regulator.
- **A uniform tariff.** The price of a stamp is the same for any letter of a given weight and size, regardless of how far it will travel within the UK.

The UK regulator, Postcomm, is responsible for deciding which of Royal Mail's products should form part of the universal service. Under current regulations, they include first and second class stamps, standard parcels (up to 20kg), special and recorded delivery, redirections, poste restante, first and second class metered mail, bulk mail products (first and second class Mailsort 1400 and Cleanmail) and international delivery (both airmail and surface mail).

According to the 2008 Hooper Report – *'Modernise or Decline - Policies to maintain the universal postal service in the UK'*, liberalisation of the UK mail market has not threatened the universal service. The report states that competition has brought clear benefits and is encouraging Royal Mail to offer a more efficient service which consumers want. Whilst it recognises that that competition could present risks for the universal service in future, in 2008 when the report was written, it is not

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.ie, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

competition within the postal sector, but competition much more broadly across the communications sector, which poses the greatest threat to the universal service. Volumes have been declining since the peak of 2005. In 2007/08, they declined by 3.2%, but last year, they dipped by 8-9% and this is set to continue this year and next.

In the past financial year, Royal Mail's operating profit rose 26% from £321 million (2008/09) to £404 million (2009/10), a 26% increase on the previous year.

Overall Group revenue dipped for the first time in a decade to £9,349 million amidst difficult trading conditions, but all four businesses within the Group remained in profit. Competitive pressures from other forms of communication intensified with over 13 million fewer items of mail being handled each day than just five years ago.

Much of the improvement in the financial position was due to making significant advances in implementing modernisation and efficiency measures during the year which included a significant increase to 80% in the volume of mail processed automatically. Just 5 years ago, only 50% of Royal mail's mail was sorted automatically. There has also been a significant reduction in headcount, down 28% from 228,500 in 2002 (when the company was losing £1m per day), to 168,500 in 2010.

By the end of March 2009, there were 11,952 post office branches in the UK, compared to 13,567 at the end of March 2008, saving over £45m per year.

Post Office Ltd made a profit of £41m for the year ending March 2009, a figure which includes a £150m annual subsidy from the Government (available until 2010/11). Its operating profit improved by £75m - from a loss of £34m in 2007-08.

The Hooper Report concluded that for the USO to survive, as well as the modernisation programme discussed above, a new Postal Bill should be brought forward which would include:

- Selling a 30% stake of Royal Mail to a private postal operator;
- Transfer regulatory powers from Postcomm to Ofcom;
- Secure Government funding of the £8bn pension deficit

Several attempts have been made by the previous Labour government to push the new Postal Services Bill through the House of Commons and a fresh attempt is currently being made by the new Coalition Government.

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.ie, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public

APPENDIX FOUR

Minister for Treasury and Resources

P O Box 353, Cyril Le Marquand House, The Parade
 St Helier, Jersey, JE4 8UL
 Tel: +44 (0)1534 445502
 Fax: +44 (0)1534 445522



Mr C Webb
 Executive Director
 Jersey Competition Regulatory Authority
 2nd Floor, Salisbury House
 1-9 Union Street
 St Helier, Jersey
 JE2 3RF

30 April 2010

Dear Mr Webb

Class I postal services licences – consultation

I am responding to the JCRA's initial notices, in respect of the granting of proposed licences to Citipost and Hub Europe.

As Minister for Treasury and Resources, I represent the States shareholding in Jersey Post. I am concerned for the long term value and financial sustainability of the company and its operations. I have asked the Board to advise me of the impact of the issuing of these licences on the company's finances and operations.

I continually challenge the company to drive through efficiencies and innovate. The Board's recent review of the business and resulting restructuring has demonstrated a desire to continually improve and be an efficient, high quality postal company. In principle, I welcome competition in the market as an additional driver of efficiencies.

However, the Board has advised me that the issuing of these licences is likely to have a significant impact on Jersey Post's operations and in particular the company's ability to meet its Universal Service Obligation (USO). As shareholder I require the company to operate in a financially sustainable manner. The company inter alia, has to generate sufficient revenue to fund its operations, including its USO. Jersey Post is currently self funding, but is dependent on the large letter and packet service as an integral part of the overall business. I am advised the issuing of additional licences potentially puts the funding of the USO at serious risk.

The current economic and financial climate makes it essential that Jersey Post continues to be self financing. In addition, the States of Jersey investment in the company is significant and as with all States investments I expect it to deliver an appropriate financial return. I cannot contemplate a situation where the company successfully obtains a public subsidy to meet its USO.

I would ask that you consider these issues in your licence determination.

Yours sincerely

A handwritten signature in black ink, appearing to be "P Ozouf".

Senator Philip Ozouf
 Minister for Treasury and Resources

direct dial: +44 (0)1534 440287
 email: p.ozouf@gov.je
 www.gov.je

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc.).

Please delete the following as appropriate:

I agree that my comments may be made public and attributed to me

I agree that my comments may be made public but not attributed (i.e. anonymous)

I don't want my comments made public