

SUBMISSION BY HI-SPEED FREIGHT SERVICES LTD

Introduction

Hi Speed Freight Services are supportive of further competition in the Postal sector (and the application by CitiPost DSA) subject to the crucial caveat that all licences should be issued with similar conditions. If this does not occur there will not be a level playing field which which would be against the spirit of the Postal & Competition Laws.

Our response in blue is for publication. Further comments in red are commercially sensitive and are not intended for publication.

Question 1: is there current or prospective demand for the introduction of a new provider of postal services to fulfilment companies in Jersey, or should that demand be satisfied by JP alone without the need for a new licensee? In answering this question, responders may want to consider the factors listed in Article 8(3) of the Law, i.e., the effect (if any) of a grant of a licence to Citipost DSA on the accessibility, reliability, quality, and affordability of postal services in Jersey.

There is clearly a demand for new providers of postal services to fulfilment companies. Hi-Speed have spoken to several clients who have expressed dissatisfaction with the pricing and service offered by JPO. Some of these clients sort and pack whole containers of post which are then taken to the harbour with no intervention from JPO. Due to the postal monopoly, JPO is able to charge a fee on each item leaving the island and these customers have told us that they regard the present situation as rather like being forced to pay a Feudal tithe.

Question 2: would or would not the grant of a licence to Citipost adversely affect JP's ability to satisfy all current and prospective demands for postal services provided under the USO? If so, how should the JCRA best manage this risk? In answering this question, responders may want to consider the factors listed in Article 8(3) of the Law, i.e., the effect (if any) of a grant of a licence to Citipost on the accessibility, reliability, quality, and affordability of postal services in Jersey.

On 20 June 2007 (in a section of Hi-Speed's Postal licence application) we pointed out that Postcomm's previous cost benefit analysis on the USO obligations of the Royal Mail demonstrated that there was an overall net benefit.

The JCRA's most research estimates that the USO costs Jersey Post £ 100,000 - £150,000, however the regulator accepts that no attempt has been made to quantify the substantial marketing & other benefits the USO give. One prime example is the special Customs/GST arrangements which have been granted to JPO for both inbound and outbound goods. No other operator enjoys these valuable privileges which far outweigh the costs above.

The best way to manage the small perceived residual risk on the other factors listed above is to introduce a cap of £1,000,000 on all licenced operators namely Regency Logistics, Hi-Speed Freight services and the new applicant Citipost DSA. It is suggested that the financial cap is increased gradually over time.

If the cap was increased by £ 500,000 per operator per annum this would take several years to introduce full competition during which time the JCRA can deal with unpredicted effects on reliability, quality and affordability criteria listed above.

Question 3: would or would not the grant of a postal licence to Citipost DSA, and the increased competition that results, appropriately protect the short term and long-term interests of users of postal services in Jersey?

The only possible negative effect of deregulation are

1. USO obligations cannot be met
2. Line haul inefficiencies arise
3. Inefficiencies arise due to duplication of final mile deliveries

USO obligations cannot be met

This has been dealt with above, deregulation over a few years removes any objections and allows the JCRA to monitor JPO's performance. There is no doubt that the customs and other advantages given to JPO mean that USO is a substantial net benefit.

Line Haul inefficiencies arise

At present, second class mail such as fulfilment items, leave by sea transport hence it makes no difference if a container is sent by JPO or another operator

Time sensitive consignments leave by various routes (i) the DHL/Hi-Speed freight aircraft (ii) the UPS freight aircraft (iii) the mail aircraft and (iv) Freight on scheduled flights.

Aircraft sizes and capacities can be changed so there will be no line haul inefficiencies arising from new operators entering the market and moving airfreight from the island in slightly different proportions to the present situation.

Inefficiencies arise due to duplication of final mile deliveries

No operator has proposed final mile deliveries and it is inconceivable that any operator would want to do so. Economic considerations will prevent any firm wishing to duplicate the delivery network however it is suggested that the regulator sets a final mile “access price” as Postcomm has done in the UK

Conclusion of Question 3

If the JCRA deregulates with a level playing field made to all existing and future licence holders (possibly with a gradualist approach to deregulation suggested in the response to question 2) then the long term interest of all postal users in Jersey are completely protected.

Question 4: would or would not a grant of a postal licence to Citipost DSA promote efficiency, economy and effectiveness in commercial activities connected with postal services in Jersey?

It is well known that competition is the best way to ensure that operators are operating efficiently and effectively. The granting of postal licences is therefore more likely to yield this result than a regulated state owned monopoly.

Question 5: would or would not the grant of a postal licence to Citipost DSA further the economic interests of Jersey?

There is no doubt that the granting of a postal licence to Citipost DSA will further the economic interest of the island. Monopolistic pricing can only benefit the monopolist. At least one fulfilment company has moved away from the island and there is a risk that other companies are deciding to stay away from Jersey.

Question 6: if the JCRA were to grant a licence to Citipost DSA, should the scope of the licence be defined narrowly to cover only the licensable services it intends to provide, or should it be a broad licence to simply provide postal services?

[See answer below](#)

Question 7: if a license were granted to Citipost DSA, should it contain conditions? If conditions are appropriate, what should those conditions relate to?

As stated below, Hi-Speed favour a broad licence with a short term financial cap which should be removed over time. It is not normal for a regulator to “pick winners” i.e: deregulate small sectors in an economy and/or submarkets. This would be similar to the failed industrial policies of the past and would lead to distortions in the economy.

Issuing Postal licences which relate to narrow industry sectors would be like a telecoms regulator issuing a licence for a service which only allowed customers to call London and another licence for customers to call Southampton.

It is important that any financial cap and deregulation of conditions is granted equally to all future and existing licence holders to promote fair competition.

Question 8: are interested parties aware of any financial information or information relating to Citipost DSA that may be relevant to the JCRA’s consideration of its licence application?

In the past Hi-Speed Freight Services have had had discussions with several fulfilment clients and have been able to offer rates which are lower than those presently charged by JPO.

These contracts have not been taken on as

- (i) Not only have the Postal Laws prevented us from carrying out these goods but crucially
- (ii) JPO enjoy valuable dispensations from Customs procedures relating to “low value goods”

Unless all licencees (including JPO) operate under the same licensing and customs regimes, some operators will be at a serious competitive disadvantage. This cannot be acceptable as part of a reasonable licensing regime.

Final comments not related to the questions above

Hi-Speed freight Services first applied for a postal licence on 20th June 2007. ** After over 12 months of waiting for a licence to be issued, it was obvious to Hi-Speed that the only way to be awarded any sort of licence was to finally propose & accept a very low financial cap on turnover which is £150,000. Since our licence was awarded we have become aware that one client *** who we have approached could generate this amount of postal revenue alone. Due to these talks we have not been able to advertise as it is likely that this would lead to exceed our financial cap. It is crucial in our business that we always deliver on our promises.

Therefore, at present, we cannot advertise our service and only approach one client at a time **** The decision making process to change a postal supplier can be many months (ie often requires head office approval) hence our sales pipeline is exceptionally slow. The low financial cap is having a very detrimental effect on our ability to provide any effective competition.