



## **JCRA CONSULTATION**

### **POSTAL SERVICES**

### **UNIVERSAL SERVICE OBLIGATIONS**

**CONSULTATION DOCUMENT  
2004/5  
OCTOBER 2004**

## 1. Introduction

It is common throughout Europe to define Universal Service Obligations ('USOs') within the postal services industry as the services and standards that *must* be provided. In the UK these USOs are written in the Law (UK Postal Services Act 2000). In Guernsey they are prescribed by a regulation of the States, whilst under the Postal Services (Jersey) Law 2004 ('PSL') they may be given as directions from the Economic Development Committee ('EDC') to the Jersey Competition Regulatory Authority ('JCRA'). Once agreed, it will be the duty of the JCRA to ensure that these USOs are delivered.

Unlike the UK's Postal Services Act 2000 (Section 4), the PSL does not specifically mention USOs, but instead makes provision for these to be defined in Article 9.

- (1) *The Economic Development Committee may, if it considers that it is desirable in the public interest to do so, give to the Authority written directions in respect of the principles, procedures or policies to be followed by the Authority in relation to the implementation of **any social or environmental policies in respect of postal services.***

The PSL was approved by the States in March 2004 and will come fully into force May 2005. The Law will help achieve the incorporation of Jersey Post Limited.

## 2. Consultation Procedure and Timetable

The consultation period will run from Monday 11 October until Friday 29 October 2004. Written comments should be submitted before 5pm on 29 October 2004 to:

Mr W. Brown  
Executive Director  
Jersey Competition Regulatory Authority  
6<sup>th</sup> Floor Union House  
Union Street  
St Helier  
Jersey JE2 3RF

E-mail: [enquiries@jcra.je](mailto:enquiries@jcra.je)

All comment should be clearly marked "Comments on Universal Service Obligations Consultation Document", and marked for the attention of Mr W. Brown.

### 3. The Universal Service Obligations

The draft PSL has a number of primary objectives, an important one of which is to ensure a minimum postal service in the Island. Under Part 3 of the PSL the JCRA also has a series of duties, including promoting competition in postal services as well as efficiency, economy and effectiveness. The aim of the JCRA, through the Law, is to give postal users better choice and value, whilst encouraging innovation and efficiency amongst postal operators. Under the Law, the duties of both the JCRA and the EDC also extend to performing their legal functions so as to protect the interests of postal users in Jersey, further the economic interests of Jersey, impose minimum restrictions for those involved with postal services, and ensure that sufficient financial and other resources are available by those conducting the postal services.

Specifically Article 9a confers a primary duty on the EDC and Authority by issuing written directions in respect of the principles, procedures or policies to be followed by the Authority in relation to the implementation of any social or environmental policies in respect of postal services.

#### 3.1 The Universal Service Obligations in the UK

In June 2004, The UK Postal Services Commission (Postcomm) published its decision document on the UK's universal postal service. This was the culmination of a year long review to find out what people expect from the universal service.

The review has endorsed the approach that as far as possible, Postcomm should identify the generic nature of the postal services that make up the universal service in the UK, rather than focusing on Royal Mail's individual products. This is important because the universal service is not static and there can be no 'once and for all' decision about what it covers and who should provide it. Taking into account the views expressed, Postcomm concluded that:

- The essential elements of the UK's universal postal service are basic postal services for **everyone, everything, everywhere** and **every working day** at a **geographically uniform and affordable tariff**.
- The basic postal services should be categorised by reference to the speed of delivery and whether the service is secured. On this basis, the four generic types of postal services can be categorised as **priority, non-priority, economy**, and a **secure** service for all types of postal items (letters, packets and parcels) and to all destinations (national or international).

More specifically, in generic terms, Postcomm has concluded that the following types of services should make up the universal service in the UK at this stage:

- (i) **Priority and non-priority mail services** – the universal service should provide a choice between priority and non-priority services for users to send letters and packets up to 2 kilograms, **including a bulk mail service for larger mailers**;
- (ii) **A non-priority parcels service** – for users to send parcels up to 20 kilograms;
- (iii) **A registered and insured service** – such as special delivery next day and recorded (signed for) products;
- (iv) **A range of support services** concerned with the security and integrity of the mail; e.g. redirection (up to 12 months); Keepsafe, Post Restante, Certificate of Posting and Business collections
- (v) **International outbound services**- for postal items and for registered and insured items, but not extending to bulk mail. This also includes obligations to handle **international inbound mail**.
- (vi) **Provision of free services to the blind** (This is a requirement on the Postal Services Act 2000).
- (vii) **Provision of access services**

### 3.2 The Universal Service Obligations in Guernsey

The States of Guernsey has directed that Guernsey Post Limited be required to deliver a universal postal service. The States Resolution XIII of 26 September 2001 defined the universal service as follows:-

*The following universal postal service 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 working days;*
- *Collections shall be for all postal items up to a weight of 20kg;*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20kg,*
- *Services for registered and insured mail.*

*In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users.*

*“access point” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service”.*

See <http://www.regutil.gg/> for further details

### 3.3 The Universal Service Obligations in Europe

The Postal Directive (97/67/EC) set out the Community universal service, which defined minimum requirements in all Member States (i.e. daily collection and delivery at least 5 days a week for letters and postal packets up to 2kg and parcels up to 10kg).

The table below shows the position with regard to the universal service in the 15 Member States as at April 2003.

Member States	Delivery Days per Week	Parcels Weight (Kgs) Domestic	Parcels Weight (kgs) Incoming cross-border	Uniform tariff
Belgium	5	10	20	Yes
Denmark	6	20	20	Yes
Germany	6	20	20	Yes
Greece	5	20	20	Yes
Spain	5	10	20	Yes
France	6	20	20	Yes
Ireland	5	20	20	Yes
Italy	5	20	20	Yes
Luxembourg	5	10	20	Yes
Netherlands	6	10	20	Yes
Austria	5	20	20	Yes
Portugal	5	20	20	Yes
Finland	5	10	20	No***
Sweden	5	20	20	Yes
UK	6	20	20	Yes

\*\*\* Applied in practice

The Table above demonstrates that in most Member States, the USOs exceed the minimum requirements of the Postal Directive. For example, 5 Member States out-perform the requirement for a delivery every working day. In each Member State, a single operator is entrusted with the provision of the universal service, and it is important to note that the uniform tariff remains a cornerstone of the universal service in all Member States.

The Postal Directive 2002/39/EC amended the initial Postal directive by defining further steps in the process of gradual and controlled market opening and further limiting the service sectors that can be protected from competition.

Article 1 of the Directive 2002/39/EC states:

*To the extent necessary to ensure the maintenance of universal service, Member States may continue to reserve services to universal service provider(s). Those services shall be limited to the clearing, sorting, transport and delivery of items of domestic correspondence and incoming cross-border correspondence, whether by accelerated delivery or not, within both of the following weight and price limits.*

*The weight shall be 100 grams from 1 January 2003 and 50 grams from 1 January 2006. these weight limits shall not apply as from 1 January 2003 if the price is equal to, or more than, three times the public tariff for an item of correspondence in the first weight step of the fastest category, and, as from 1 January 2006, if the price is equal to, or more than, two and a half times this tariff.*

*In the case of the free postal service for blind and partially sighted persons, exceptions to the weight and price restrictions may be permitted.*

*To the extent necessary to ensure the provision of universal service, for example when certain sectors of postal activity have already been liberalised or because of the specific characteristics particular to the postal services in a Member State, outgoing cross-border mail may continue to be reserved within the same weight and price limits.*

### **3.4 What does the JCRA recommend for Jersey?**

Taking into account universal service as defined in both the EC and the UK, and in an attempt to closely mirror those USOs in Europe, the UK and in Guernsey, the JCRA believes that the universal postal service in Jersey should broadly follow these guidelines.

Subject to further consultation with the EDC, the JCRA believe that the following universal service should be provided by at least one licensee throughout the Bailiwick of Jersey at uniform and affordable prices:

- **At least one delivery of relevant postal packets (postal packets whose weight does not exceed 20kg) posted in Jersey should be made on six days each week, except Bank Holidays, to each delivery point (the home or premises of every individual or other person in Jersey or to other persons in Jersey or to such identifiable points for the delivery of relevant postal packets as the Authority may decide).**
- **One collection of mail, generated within the Bailiwick of Jersey, from post boxes and post offices on six days each week, except Bank Holidays, including all working days. Collections from relevant access points shall be for all postal items up to a weight of 20kgs;**

- Collections at one or more access points or post-boxes, on a district basis, should be made at latest times that will enable relevant postal packets to access key delivery and transport connections.
- Deliveries on a minimum of six days each week shall be for all postal items up to a weight of 20kgs;
- At least one service of conveying relevant postal packets from one place to another in Jersey by post and the incidental services of receiving, collecting, sorting and delivering such packets should be provided at affordable prices, determined in accordance with a public tariff which is uniform throughout the Island irrespective of access point or delivery point.
- Services for registered and insured mail;
- Preferential postage rates for literature for the blind;
- Have regard to individuals who are disabled or chronically sick, those of a pensionable age; those with low incomes and those residing in rural areas;
- Preferential rates in respect of mail to addresses within the BFPO (British Forces Post Office).

**Licensees must provide access, by use of Post Boxes, Post Offices and other appropriate means to allow the public reasonable access to the postal network.**

The JCRA proposes that the Universal Service shall provide postal services which meet the above conditions, except to the extent otherwise provided in the relevant Postal Scheme or in circumstances or geographical conditions that the JCRA agrees are exceptional.

The JCRA seeks the views of consultees about the minimum USOs it proposes for the Bailiwick.

Your response is invited to the following questions:

- Q1. Do you think that there should be some definition of Universal Service Obligations for postal services in Jersey?*
- Q2. Do you think that the Universal Service Obligations in Jersey should closely mirror those in the UK, Guernsey and Europe?*
- Q3. International mail accounts for 3% of mail volumes in Europe and more than 30% in Jersey. Given that Jersey people and businesses may have a greater reliance upon international mail than other countries should there be special provision for international mail and quality of service in Jersey's Universal Service Obligations?*
- Q4. Is the proposed Universal Service Obligation appropriate for the postal customers of Jersey?*

## 4. Funding the Universal Service Obligations

There is a perceived belief in the postal sector that the universal service imposes a ‘cost’ on the provider because of the obligation to provide a comprehensive delivery service to all addresses. It is unclear whether the provision of USOs will be a net cost or net benefit to the operator charged with providing them. On the face of it, any cost associated with the provision of a comprehensive universal service may be greater than the cost of a more limited or basic universal service. However it is difficult to estimate at this stage whether any cost differential would be significant.

Prior to the EC Postal Service Directives, a common practice amongst many European postal service operators has been to use the income derived from profitable postal services to offset the losses from non-profitable but otherwise essential community services.

There are three commonly accepted methods of funding the USOs:

**User Pays** – price all services (including USOs) so that none are loss making.

**Reserved Area** – have a licensed area and limit the number of licensees who might operate in this area so that sufficient profit can be made by them to pay for otherwise unprofitable but essential services that they are required to provide.

**Compensation Fund** – run a compensation fund whereby the States or licenses make a contribution fixed by the JCRA to pay for the provision of these USOs.

### 4.1 Funding the Universal Service Obligations in the UK

In the UK there is a “reserved area” whereby a licence is required for the delivery of mail costing less than £1.00. Postcomm controls who may be licensed to operate in this reserved area, and through the licence conditions places obligations on the licensee to provide USOs.

This method allows Postcomm to carefully control the profitable segment of the postal market to ensure that sufficient profits are generated by licensees to be able to afford the costs of the USOs.

However, in determining the size of the reserved area, the JCRA must have due regard to the cost of the USOs. In the UK, independent analysis of Royal Mail’s own figures has calculated that the cost of the universal service is about £81m on a turnover of over £6bn. This represents only 1.3% of their total turnover and it is before any account is taken of the full range of commercial benefits of the universal service or scope for efficiency improvements. A similar previous study for the European Commission came to the same conclusion.



There is also the perception by many commentators in the UK postal services industry that the universal service does not represent a burden to Royal Mail; rather it represents a benefit. This is because Royal Mail has an unrivalled distribution network, which gives it a unique competitive advantage. It is the only operator that goes “everywhere every day”. Banks, for instance, or major government departments will want their mail delivered to all their customers including those living in remote areas and will require their postal operator to provide that service. So the universal service will be sustained not just by legislation and protection but also by customer demand and commercial reality.

Whilst the JCRA is not yet aware of the cost to Jersey Post of providing the universal service in the Bailiwick of Jersey, it does believe that the same arguments described above would equally apply to smaller postal operators such as Jersey Post as they do to much larger ones such as Royal Mail.

## **4.2 Funding the Universal Service Obligations in Guernsey**

Guernsey follows a similar approach to the UK with the reserved area for postal packets being £1.35 and Guernsey Post being the only licensee.

## **4.3 Funding the Universal Service Obligations in Europe**

In Europe the approach varies considerably. Some countries employ an approach similar to the UK, whilst others take a different approach. The “Report from the Commission to the European Parliament and the Council on the application of the Postal Directive (97/67/EC Directive)” has allowed that Member States may establish authorisation procedures, which may include individual licences for services and a compensation fund in the universal service area.

It is interesting to note that whilst 6 member states (Belgium, Denmark, Germany, Greece, Italy and Portugal) have introduced provisions for a compensation fund in their national regulatory framework, only one has firm plans to activate such a fund. This suggests that there is no apparent requirement for an activated compensation fund, though consideration is needed as to whether there should be a provision for such a fund in case this were ever required

## **4.4 JCRA proposals for funding the Universal Service Obligations**

Under the PSL, Article 8 states:

*Duties of Committee and Authority*

*(1) The Economic Development Committee and the Authority shall each have a primary duty to perform its functions under this Law in such manner as it considers is best calculated to ensure that (so far as in its view is reasonably practicable) such postal services are provided, both within Jersey and between Jersey and the rest of the world, as satisfy all current and prospective demands for them, wherever arising.*

The JCRA believes that Jersey Post Office Limited should be required to provide a universal service that involves daily delivery to, and collection from, addresses in the Bailiwick of Jersey at a uniform price.

In order to ensure that this service is provided and can be adequately funded, the PSL allows for the provision of a licence(s) for the delivery of mail that is below £1.30 in value or 500g in weight.

Given the experience elsewhere, the JCRA is of the opinion that for Jersey Post as the SMP operator, the universal service obligation may not a burden but a benefit. It therefore proposes that the funding of the universal service obligation should be provided via the reserved area.

The JCRA would like to gain your views on how the proposed Universal Service Obligations for Jersey should be funded.

Responses are invited to the following questions:

***Q5. Should the Universal Service Obligations be funded by allowing Jersey Post an exclusive licence in the 'reserved area' sufficient to earn profits to off-set the costs of the Universal Service Obligation Provision?***

***Q6. Do consultees believe that the JCRA should operate a Compensation scheme, requiring all licensees to make a fair contribution to the costs of another licensee, because the latter is required to provide a universal postal service?***

***Q7. Do consultees believe that the JCRA require that the States fund Universal Service Obligations as a social provision, funded by taxation revenues?***

***Q8. Do consultees think that the Universal Service Obligations should be provided at cost, on a User pays principle?***