



Case L-012

Strategic review of postal services

Non-statutory call for information

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1 Executive summary

- 1.1 This document is the Jersey Competition Regulatory Authority's (**the Authority**) non-statutory call for information for the strategic review of postal services (**strategic review**). The Authority's role as the postal regulator centres on the need to protect and further the interests of users of postal services, where appropriate by promoting competition.
- 1.2 Postal services play a key role in our society and almost everyone in Jersey interacts with postal services on a regular basis. The ability to send and receive letters and parcels is a key form of communication and allows islanders to complete business transactions and provide goods and services without having to meet in person.
- 1.3 The impact of the Covid-19 pandemic underlined the importance of the postal services and created challenges as well as opportunities for the postal sector. In particular, the number of letters people send and receive has continued to fall, as people increasingly rely on email and other online communications. At the same time parcel volumes have continued to grow significantly, driven by increases in online shopping. This change in mix continues to drive the need for efficient delivery of letters, while the growing market for online shopping has created new opportunities for increased parcel delivery requirements.
- 1.4 In this period of significant change in the postal market, the Authority's aim is to ensure the local postal regulatory framework is fit for purpose and operating effectively. The Authority's last major review of the postal sector was carried out in 2012 and this document is the first step in the next review. The aim of the strategic review is on a forward looking basis, to set out the high level framework as to how best the Authority can continue to deliver effective supervision of postal services.
- 1.5 Reflecting on this framework, the Authority is not making any policy proposals at this point. Instead, the Authority invites views on the four main themes to be considered as part of the strategic review:
 - **Theme 1: The interests of postal service users;**
 - **Theme 2: The universal service obligation;**
 - **Theme 3: The future regulation of postal services; and**
 - **Theme 4: Wider influences on postal services.**
- 1.6 The Authority is seeking responses to the questions set out at the end of this call for information document by 20 January 2023. The Authority intends to publish a full consultation on the future regulation of postal services in 2023 before concluding the strategic review in 2024.
- 1.7 This document is organised as follows:
 - Background (section 2);
 - Themes to consider in the review (section 3); and
 - Call for information questions and next steps (section 4).

2 Background

2.1 This section is split into four subsections which cover in turn:

- What are postal services;
- The Authority's role in postal services;
- The 2012 review and subsequent regulatory developments; and
- Market developments.

What are postal services

2.2 The Postal Services (Jersey) Law 2004 (**the Law**) directly regulates the conveyance of 'letters' and indirectly regulates the provision of other 'postal services', being the conveyance of 'postal packets', of which letters are a subset. Under Article 3(1) of the Law, a licence is required for the conveyance of one place to another of a letter, that is:

...a communication in handwriting or in print (or in both) that is to be conveyed and delivered to a person, or to an address, indicated on the communication itself or its envelope or cover...

The Law excludes books, catalogues, newspapers and periodicals and anything weighing over 20 kilograms. The requirement is further refined to exclude:

- letters where the charge for conveyance per letter is more than £1.30; or
- where the letter weighs more than 500 grams.¹

2.3 In short, a licence is only required for letters where the charge is £1.30 or less and the letter weighs 500g or less. However, the licence can include conditions relating to the provision of 'postal services' other than the conveyance of letters, hence the indirect regulation of those services. A 'postal service' consists of the conveyance of 'postal packets' and incidental services; a 'postal packet' is anything weighing 20 kilograms or less which is for transmission by post or is posted. In this context, posted means coming into the possession of someone who provides postal services as a business, a 'postal operator'.

2.4 In summary, the regulatory regime directly or indirectly affects letters and packages weighing 20 kilograms or less which are conveyed or to be conveyed by a postal operator. Such an operator can, in its licence, also be designated as a 'public postal operator'.

2.5 Currently only Jersey Post Limited (**Jersey Post**) is designated as a public postal operator, the implication of which is the imposition on Jersey Post of a universal service obligation. Condition 12(3) of Jersey Post's licence sets out the obligations comprising the universal service obligation.² In summary, Jersey Post's key obligations are to:

- collect and deliver postal packets five days every week, public holidays excepted;

¹ There are other exclusions, set out in Article 7, including deliveries by hand and the service of legal documents in specified circumstances.

² In other jurisdictions, such as the UK, the universal service obligation is set out in the relevant Law. In Jersey by contrast, the Law does not specifically define what level of services should comprise the universal postal service and the requirements are set out in Jersey Post's licence.

- provide collection points (e.g. post offices and post boxes) to allow reasonable access to postal services;
 - arrange for the despatch and delivery of postal packets to and from places outside Jersey; and
 - provide a uniform and published tariff for postal services.³
- 2.6 The only other current licence has been granted to Hi-Speed Freight Services Limited (**Hi-Speed**) and is limited to the collection of certain categories of letters for delivery to DHL at Jersey Airport for international delivery. There is no universal service obligation although Hi-Speed can be required to contribute to the cost of Jersey Post’s universal service obligation.
- 2.7 As only those parcels weighing 20 kg or less fall within the definition of a postal service, most parcel delivery is not subject to any licensing requirements and there are many different parcel delivery operators in Jersey. There is no requirement to hold a licence for providers of inbound parcel services on a commercial contract direct with a supplier.

The Authority’s role in postal services

- 2.8 The Authority is the regulator of postal services in Jersey. As set out in the Authority’s Strategic Plan⁴, the Authority’s goal is to deliver effective supervision of postal services:

“Postal services play a vital role for Jersey consumers, citizens, businesses and the economy. Our objective is to protect and further the interests of users of postal services, where appropriate by promoting competition. This objective will be met in light of continuing change in the sector, this includes the decline in letters and the transformation of the parcels sector.”

- 2.9 The Law empowers the Authority to license companies providing postal services in Jersey. The Authority’s primary duty is to ensure that demanded postal services are provided both within Jersey and between Jersey and the rest of the world. Alongside this primary duty the Authority must also:
- promote competition where appropriate such that it is in the best interests of postal users and the economy of the Island;
 - act in the interest of consumers wanting to use postal services, now and in the future;
 - ensure that postal services in the island are efficient and economic;
 - ensure low income islanders are not prevented from sending mail;
 - ensure postal prices are reasonable;
 - ensure sufficient access to postal services are available for those wanting to use them; and
 - ensure the public can express a view on any changes to postal services.
- 2.10 To meet these duties, the Authority provides oversight of Jersey Post’s customer service and prices, as well as ensuring quality of service provision and universal service obligations (which

³ Please see Condition 12 for a comprehensive list of the USO requirements

⁴ See: <https://www.icra.je/strategic-plans/strategic-plan/strategic-plan/>

ensures all users receive a minimum level of service) are met. The Authority has also adopted this approach with the remaining licensees.

- 2.11 In addition to these responsibilities, the Authority has a consumer dispute resolution role for all postal service providers. This means that if a postal service user is not satisfied with all the steps taken by an authorised postal service provider to resolve their complaint, the Authority can then help resolve the dispute.⁵
- 2.12 The Authority's role sits within the context of the Law, other key bodies with an involvement in postal services include:
- The Universal Postal Union (**UPU**) is the governing body of Designated Postal Operators across the world. The UPU has 192 member countries, it is the primary forum for cooperation between Postal operators globally. It helps to ensure a truly universal network of up-to-date products and services. Structurally, the UPU is divided in to four bodies: Congress, International Bureau, Council of Postal Operations and Council of Administration. Each of these bodies provides oversight as to how the global postal system is run and regulated.⁶
 - Jersey Post as the Designated Postal Operator for Jersey. Jersey Post therefore has to conform to the UPU's rules and regulations. Changes to what is possible or required in the postal world are defined by the speed at which the UPU can instigate changes.
 - The Government of Jersey, which has a key role as sole shareholder of Jersey Post. Government also has a policy role and can provide direction to the sector, though at the present time there is no Government Postal Policy.

The 2012 review and subsequent regulatory developments

- 2.13 The Authority last reviewed the regulatory framework for post in 2012 (**2012 review**).⁷ This review came about following a direction by the Minister for Economic Development after the UK Chancellor of the Exchequer in April 2011 announced that the threshold for Low Value Consignment Relief (**LVCR**) was changing. The aim of the 2012 review was to establish the effect this decision would have on Jersey Post's ability to continue to provide the universal service obligation given the likely drop in volumes.
- 2.14 The conclusions of the 2012 review were as follows:
- It was established the universal service obligation was sustainable, for the short and medium term, without cross-subsidisation from Jersey Post's fulfilment business;
 - Changes to the scope of the universal service obligation were not required although it's long-term sustainability may necessitate that Jersey Post consider how it is delivered; and

⁵ See: <https://www.jcra.je/make-a-complaint/post-making-a-complaint/>

⁶ See: <https://www.upu.int/en/Universal-Postal-Union>

⁷ Public versions of all documents referenced in this section can be found on our website at: <https://www.jcra.je/>

- The delivery of letters should not be further liberalised until at least 2015, so as to give the postal sector a chance to stabilise. With further consideration given to the approach to regulation i.e. potential removal of price controls.
- 2.15 Since the 2012 review, LVCR to the UK has been abolished entirely in 2012 and in 2021 it was removed for EU destinations. This has significantly reduced Jersey’s attractiveness as an location for alternative postal providers to locate and provide services for mail import and export. Reflecting this, Hub Europe Ltd, Regency Logistics Ltd, CitiPost DSA Ltd and TNT Post UK Ltd (now trading as Whistl UK Ltd) all relinquished their Postal Licences during the intervening period. The one remaining Class 1 licence holder, Hi-Speed continues to operate a limited service.
- 2.16 Following the 2012 review, other key changes by the Authority were:
- In July 2012, determining that Jersey Post is not dominant in the supply of Bulk Mail services and the requirement for Jersey Post to publish its Bulk Mail prices was removed.
 - In February 2013, removing price control for reserved area services which resulted in less resources being required by the Authority and Jersey Post; and
 - In November 2017, consulting on the future of postal services regulation. This resulted in a lighter touch regulatory framework with a focus on providing Jersey Post, the universal service provider, with commercial flexibility supported by a number of safeguards.
- 2.17 Throughout the period there has been ongoing monitoring of Jersey Post’s Quality of Service performance, with results issued on an annual basis. Where necessary, interventions have been made when the expected level of service has not been met.
- 2.18 More recently and in readiness for this strategic review, in 2021, the Authority extended the licences of Jersey Posts and Hi-Speed to mid-2024. This extension will allow the licences that will be put in place after this strategic review, to fully incorporate the review conclusions.

Market developments

- 2.19 The postal industry has changed dramatically in recent years. The number of letters people and businesses send and receive has fallen, as they increasingly rely on email and other online communications, while parcel volumes have grown significantly.
- 2.20 Traditional letter mail in Jersey continues to decline at a rate of around 20% per annum⁸. Electronic substitution for traditional mail services is adding to the decline in traffic. Until relatively recently, important documents would need to be sent through the postal network for review, signature and return. This can now be carried out using secure portal services, eliminating the need for the transfer of many documents by post altogether. There have also been increases in the number of delivery points. For example, in Jersey, where a hotel was a single delivery point, it may now be 150 or more apartments which need to be individually serviced.
- 2.21 In contrast to letters, there has been a substantial increase in parcel traffic. For example, in 2021 this represented 25% of Jersey Post's revenues.⁹ This increased traffic requires more space to

⁸ Jersey Post, 2021 Business Review

⁹ Jersey Post, 2021 Business Review

transport and process, thereby increasing costs. Traditional postal operators are facing increased competition for delivery of this business. This includes competition from both freight logistics operators and specialist parcel delivery firms.

- 2.22 The Covid-19 pandemic has exacerbated the long-term trends in letter volume decline and parcel volume growth highlighted above. This was driven by the restrictions in place throughout the pandemic. For example, the temporary closures of retail outlets has led to a sharp rise in online shopping, which led to a sharp increase in demand for parcel delivery services, catalysing the pre-existing long-term trends. The pandemic also forced postal operators to adapt to new ways of working, primarily due to social distancing rules. This has posed logistical challenges and, in some instances, increased operational costs and staffing issues.
- 2.23 Notwithstanding the above, the postal sector globally is facing many additional challenges, most of which will impact Jersey in some way. These range from increased international regulation and compliance due to changing customs and cross border import tax requirements, to facing increased costs as the way inter-postal operator charging agreements are changing.

3 Themes to consider in the review

- 3.1 In this period of significant change in the postal market, the Authority's aim is to ensure the regulatory framework is fit for purpose and effective. This strategic review offers an opportunity to examine the wider issues of competition, investment, innovation and availability across postal services over both the short and longer term.
- 3.2 The Authority has an open mind as to how the strategic review will change its current approach to regulation. The aim of the strategic review is, on a forward looking basis, to set out the high level framework as to how best the Authority can continue to deliver effective supervision of postal services.
- 3.3 The Authority has identified four themes where it is seeking views, as follows:
 - Theme 1: The interests of postal service users;
 - Theme 2: The universal service obligation;
 - Theme 3: The future regulation of postal services; and
 - Theme 4: Wider influences on postal services.

Theme 1: The interests of postal service users

- 3.4 How well are the general interests of postal service users being met, whether as consumers wanting to send a birthday card to a relative, for example, or a business expecting important documents to arrive as needed? While overall demand for such services may be changing or diminishing, there is no question islanders will continue needing a postal service for the foreseeable future – a question for consideration is what steps should be taken to ensure it continues to serve the interests of users.
- 3.5 Beyond ensuring that postal services remain available in the future, there is the question of affordability, or value for money. Prices for sending letters and packets locally, nationally and internationally have increased in recent years, in response to rising operator costs and lower market demand. Should there be a limit on prices charged for local postal services, or greater justification of planned increases. Linked to this there is also the question of access, be it to Post Offices or to letter boxes, and how can this be best be provided to meet postal user needs?
- 3.6 The development of online shopping and other e-commerce services have dramatically affected the postal market in recent years, both negatively through causing a decline in letters and positively through an increase in packets and parcels. Developments in the latter is increasing pressure on postal operators to develop new services, including enhanced tracking, same day delivery, in-flight address changes and 'white glove' services. All require investment – to what extent should this be influenced to ensure islanders are not disadvantaged compared to those living in other jurisdictions.
- 3.7 Most inbound parcel delivery services (delivering online purchases to Jersey) are outside the scope of present regulation, being fulfilled by commercial freight operators. Given the importance of this facility to islanders, do steps need taking to protect customers, encourage competition or improve service levels?

- 3.8 The Authority is keen to hear views on how the interests of postal service users can be best met and if any changes are required to ensure they are met going forward.

Theme 2: The universal service obligation

- 3.9 The aim of the universal service obligation is to offer users easy access to the postal network and to ensure satisfactory conditions with regard to the frequency of collection and delivery. The universal postal service is a form of protection for postal service users, in particular vulnerable users and those that are digitally disadvantaged.
- 3.10 The postal sector is continuing to change, however, the current universal postal service is heavily geared towards letters and was set over 20 years ago, in a very different market context. Reflecting this, Jersey Post, in their 2021 business review stated that *“Universal Service Obligations based on letters is now out of date and a drag on the sustainability of postal authorities.”*¹⁰ This concern is reflective on what is happening elsewhere, including the EU and UK where reviews have been carried out.
- 3.11 In the EU, in 2021, a report was published on the application of the Postal Services Directive. This Directive aims to harmonise postal services across the EU for all mail flowing through the networks. The report highlights the role of digitalisation in changing the postal and parcels sector, creating new opportunities and challenges for postal operators and modifying consumers’ needs and expectations. The report recognised the increasing costs of postal services led to the fact that sometimes Member States had to reduce the scope of their universal service obligation, based on local conditions. For example, this includes temporary relaxations of service standards i.e. around peak demand period, such as Christmas.
- 3.12 In the UK, Ofcom is currently reviewing its approach to postal regulation, including the universal service obligation. Notably, no changes are proposed to the scope of the universal service obligation, with a continued focus on quality of service standards and monitoring of pricing.
- 3.13 As part of Ofcom’s review, it also undertook a detailed analysis of parcel services and how well they are working for consumers. It found that the parcels market is overall working well in the UK and that competition is driving some benefits to consumers. However, it was found that contact handling and the process for consumer complaints was all too often inaccessible and inadequate. Also an area of concern was that disabled consumers in the UK were more likely to experience detriment from services failing to meet their needs. To address this Ofcom will be issuing Guidance on complaints to all operators and strengthening licence conditions around the treatment of disabled consumers.
- 3.14 The Authority is keen to hear views on whether the current scope of the universal service obligation will remain appropriate going forward or if changes are required.

Theme 3: The future regulation of postal services

- 3.15 The regulation of postal services in Jersey has changed significantly through time. Initially, in 2006, there was a single licence holder, Jersey Post, who were and still are, the universal service

¹⁰ Jersey Post, 2021 Business Review

provider. Other licences were issued and other operators commenced supplying outbound postal services but market conditions changed, making Jersey less attractive to operators and there is now just one additional licence holder offering a limited service to a specific group of users. In line with these broader market changes, the Authority has removed a number of regulatory obligations on Jersey Post and moved to a “light touch” position.

- 3.16 This change is consistent with regulatory practice in wider jurisdictions. Most worldwide postal service providers started life as government run and operated organisations. In the early days of postal regulation, an in-depth regulatory approach was adopted with the aim of ensuring these organisations focused on cost effective service delivery and provision of market leading services. This regulation also incentivised the streamlining and optimising of postal operations. This has in the main been achieved, hence the lighter touch approach seen in Jersey and elsewhere.
- 3.17 Lighter touch regulation retains oversight and performance monitoring without the additional cost and resource requirement of in-depth regulation, benefiting all participants. A key focus of the lighter touch approach is on ensuring Quality of Service targets are met and maintained. These targets have been reviewed and amended as appropriate.¹¹ These targets are the current key mechanism used to gauge the efficiency and effectiveness of the services offered. However, given the rapidly changing postal sector and market drivers, it may be time for these targets to be reviewed?
- 3.18 Further, the Authority has a duty to promote competition where appropriate such that it is in the best interests of postal users and the economy of the Island. Competition can strengthen the incentives on Jersey Post to improve efficiency and reduce its costs. In addition, it may also benefit customers through increased innovation and value added services. However, competition could also pose a potential risk for the universal service.
- 3.19 The Authority is keen to hear views on what regulation is needed for postal services going forwards and the role of competition going forwards.

Theme 4: Wider influences on postal services

- 3.20 The world is changing rapidly, global events like Brexit, the Covid pandemic and the Russian invasion of Ukraine influence our economy, accelerate or stifle changes in technology and how we interact with it. Some of these changes may be small, others are managed behind the scenes so the end user impact is small. An example of this is at the start of the pandemic, the world’s transport links almost shut down for passenger traffic. The result was a chronic shortage of cargo capacity across the globe (a high percentage of cargo is moved utilising spare capacity on passenger transport) which caused significant disruption for operators, including postal service

¹¹ For example, the current Quality of Service targets were set in 2013 and revised in 2015. They are reported on an annual basis, see 2021 results: <https://www.jcra.je/cases/2022/l-004-jersey-post-quality-of-service-report-2021/>

providers, trying to move items across the globe. Full capacity has still not been reinstated which is causing longer lead times in obtaining goods.

- 3.21 The main set of influencers on postal services stem from increased technology which is replacing or complementing existing services. Second to that is the impact of decisions elsewhere in the world which impacts on the way the industry and by default the Jersey licence holders has to trade. The spread of the internet and mobile devices has empowered consumers and transformed them from passive to active participants in the postal services market. While online savvy urban consumers will have increasing choice for delivery options from parcel operators as well as access to services such as same day or even one hour delivery services, some groups of consumers are being left out of these options.
- 3.22 New technologies and innovations are being tested and developed, such as drone deliveries, 3D printing and peer to peer delivery networks, many of which could result in further service options and influence the way current and future operators interact with consumers.
- 3.23 There is also significant focus on sustainability and moving to transport solutions which are more environmentally friendly. The increase in packets and parcels creates tensions with these objectives as these larger items need more space to be transported and processed, and potentially result in more, not less freight movements and require potentially larger vehicles.
- 3.24 The Authority is keen to hear views on the identified wider influences on postal services and whether any influences have been missed.

4 Call for information questions and next steps

- 4.1 The Authority invites written views and comments on the questions raised below, to be made by 5pm on 20 January 2023. Responses can be submitted by email to info@jcra.je or alternatively in writing to:

Jersey Competition Regulatory Authority
2nd Floor Salisbury House
1-9 Union Street
St Helier
Jersey
JE2 3RF

- 4.2 All responses should be clearly marked: “Strategic review of postal services”. The Authority’s normal practice is to publish responses to consultations on its website. It should be clearly marked if any part of a response is held to be commercially confidential and a redacted version also supplied for publication.

Box 1: Call for information questions

Question 1. *Do you think the interests of postal service users are currently being met? If not, please explain what changes you think should be made, with supporting evidence.*

Question 2. *Do you consider the current scope of the universal service obligation will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.*

Question 3. *What regulation do you consider is needed for postal services going forwards, this includes a consideration of the role of competition? Please explain any changes you think should be made to the existing approach, with supporting evidence.*

Question 4. *To what extent do you consider the Authority should consider the identified wider influences on postal services in its strategic review? Please explain if there are any particular areas which should receive greater focus, with supporting evidence.*

Question 5. *Do you have any other comments in response to this Call for Information? If so, please provide your views with supporting evidence?*

- 4.3 The Authority’s approach to consultations was set out in an Information Note in July 2018.¹² The first stage is a non-statutory process. This call for information is the first step in this process and the Authority intends to publish a full consultation (Draft Decision) on the future regulation of postal services in 2023, this will be followed by a Final Decision in late 2023/early 2024.
- 4.4 The second stage of the process is the statutory process, which is required when carrying out certain specified regulatory functions, such as implementing changes in licence conditions for postal service operators. The Authority intends to implement the required statutory processes in early 2024.

¹² See: <https://www.jcra.je/media/597858/g1369gj-regulatory-consultation-process-information-note.pdf>