



Case L-012

Strategic Review of Postal Services: Draft Decision

Document No: JCRA 23/27

Date: 12 July 2023

Jersey Competition Regulatory Authority
2nd Floor Salisbury House, 1-9 Union Street
St Helier
Jersey JE2 3RF
Tel 01534 514990
Web: www.jcra.je

Contents

1.	Executive summary	1
2.	Introduction	3
	Background to the Draft Decision and Authority process	3
	How to respond	4
	Structure of the document	4
3.	Background	5
	What are postal services	5
	The Authority's role in postal services	6
	The 2012 review and subsequent regulatory developments	8
	The focus of the strategic review	9
4.	Market outline	10
	Demand-side overview	10
	Supply-side overview	11
5.	The call for information	14
	Theme 1: The interests of postal service users	14
	Theme 2: The universal service obligation	15
	Theme 3: The future regulation of postal services	15
	Theme 4: Wider influences on postal services	15
6.	Updating the regulatory framework	17
	The Law and Government Policy	17
	Postal Service Licences	18
	User Councils	19
	Reporting requirements	20
7.	Safeguarding universal service provision	24
	The definition of the USO	24
	The net cost of the USO	26
	Changes to the USO	28
8.	Meeting consumer expectations	31
	Quality of service regime	31
	Annex 1: Proposals for Class I Licences	36
	Future Class 1 Licence framework	36
	Annex 2: Consultation questions	38

1. Executive summary

- 1.1 This document is the Jersey Competition Regulatory Authority (**the Authority**)’s non-statutory Draft Decision (**Draft Decision**) for the Strategic Review of Postal Services (**strategic review**). It follows the non-statutory call for information published in October 2022.
- 1.2 Postal services play a key role in 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 Authority’s role in postal services is defined in the Postal Services (Jersey) Law 2004 (**the Law**). 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 has a number of other duties, including, but not limited to, acting in the interests of consumers, ensuring the efficiency of postal services and ensuring prices are reasonable.
- 1.4 The Authority’s goal is to deliver effective supervision of postal services. This strategic review was launched in the context of a period of significant change in the postal market since the last time the regulatory framework was updated. The changes in the postal sector have created both challenges and opportunities and the strategic review has been framed in this context, with the aim to ensure effective regulation on a forward looking basis.
- 1.5 The proposals in this document cover the two Licensees:
 - Jersey Post Limited (**Jersey Post**), who hold a Class II Licence from the Authority. As part of the Class II Licence Jersey Post deliver the universal service obligation (**USO**) for Jersey; and
 - Hi-speed Freight Services Limited (**Hi-speed**), who hold a Class I Licence from the Authority for a limited outbound international service for a small set of business customers.
- 1.6 The focus of the Draft Decision document is on policy proposals for Jersey Post, with the proposals for Hi-speed set out in Annex 1. The proposals for Jersey Post are split into three broad areas:
 - Area 1: The regulatory framework – this covers the updates required to the broad regulatory framework, which underpins the Authority’s regulation, to help ensure effective supervision on an ongoing basis.
 - Area 2: Universal service provision – the USO, provided by Jersey Post, continues to play a key role for senders and receivers of mail items, however it faces challenges due to changing consumer demand and other pressures. While the Authority is not proposing to change the USO this sets out the approach to any future changes.
 - Area 3: Meeting consumer expectations – the quality of service regime imposed on Jersey Post is a key mechanism for ensuring consumer expectations are met. However, the targets were last fully reviewed in 2013 and this sets out changes to ensure the regime reflects changing market and consumer dynamics.
- 1.7 Table 1 overleaf sets out the policy proposals across these areas and for the Class I Licence.

Table 1: Overall of Draft Decision policy proposals

Area	Draft Decision proposals	Further detail
Updating the regulatory framework	<ul style="list-style-type: none"> - Recommend to Government updates to the Law to ensure that the regulatory framework remains applicable - Recommend that Government develops a Postal Policy to provide clarity on its objectives for the sector - Keep existing Licensing approach but make incremental updates to Licence Conditions to reflect the conclusions of the strategic review - Introduce a User Council for Postal Services, to provide an additional consumer voice for post, especially in the context of future service changes - Introduce greater reporting from Jersey Post to the Authority, this is to include financial data to ensure effective oversight 	Chapter 6 (Annex 1 for Class 1 Licences)
Safeguarding universal service provision	<ul style="list-style-type: none"> - To maintain the definition of the USO as defined in the current Licence, consistent with consumer research and as it has not been shown it is currently constraining Jersey Post's business - To estimate the net cost of the USO (i.e. impact of the USO on the profits of Jersey Post) using the 'commercial approach'. This approach is aligned to be best practice and incorporates both the costs and benefits of USO status - Future changes to the scope of the USO should be driven by the understanding of the net cost of the USO. Changes would be subject to Consultation and it is expected engagement would take place with the User Council and wider stakeholders 	Chapter 7
Meeting consumer obligations	<ul style="list-style-type: none"> - To implement a refined quality of service regime, with a focus on transit targets for Jersey to Jersey, Jersey to UK and UK to Jersey. These targets are rebased in line with best practice and redefined to be more meaningful to consumers 	Chapter 8
Class 1 Licence	<ul style="list-style-type: none"> - To maintain the existing framework, with the current protections for the Class II Licensee, in line with the Authority's proportionate regulatory approach 	Annex 1

1.8 This document is subject to Consultation. It will be followed by a Final Decision, which will set out stakeholder views received on the proposals and how, where appropriate, the Authority has taken them into account. The Final Decision will be accompanied by the required statutory Initial Notices and the Authority's aim is to implement the revised approach to postal regulation from 2024.

2. Introduction

2.1 This chapter covers the:

- Background to the Draft Decision and Authority process;
- How to respond; and
- Structure of this document.

Background to the Draft Decision and Authority process

2.2 In undertaking this strategic review the Authority is following a five-stage process.¹ This document is at the non-statutory Draft Decision stage and followed the call for information issued in October 2022. The call for information was supplemented by an initial consumer survey. These both closed in January 2023 and the responses are discussed in chapter 5.

2.3 Since the call for information was issued the Authority has:

- Appointed Copenhagen Economics to support the review. Copenhagen Economics is an expert consulting company in applied economics in the postal sector. It regularly works with public and private sector clients across the world, assisting with regulatory design and management and its policy advice has been integrated into this Draft Decision.
- Commissioned consumer research from 4insight into views on the postal sector (**consumer survey**). This was split into two stages, the first qualitative stage covered both business and consumer use, the second quantitative stage was focused solely on consumers. The findings from this research are summarised in chapter 4 and are integrated into the proposals. The full results have also been published alongside this Draft Decision.
- Carried out research on regulatory best practice. This has considered both Ofcom's approach to the regulation of Royal Mail and wider best practice in the European Union, drawing on the European Postal Services Directive.² In considering best practice, the Authority has had due regard to the relative size of the Jersey market and the need to be proportionate in the approach to regulation.
- Carried out multiple engagement meetings with Jersey Post. This included a site visit to understand the Jersey Post operation, alongside specific meetings to discuss different areas of the proposals. To support the Authority's understanding of the Jersey Post business, information has also been requested on key area linked to the review, including volume and financial data.
- Engagement meetings were also held with the other Licensee, Hi-speed. This included a site visit and follow up information requests.

2.4 This work has been incorporated into the proposals set out in this document. As per the Authority's process this document will be followed by a Final Decision, which will set out

¹ Document CICRA 18/29 "Regulatory Consultation Process"

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

² See: https://single-market-economy.ec.europa.eu/sectors/postal-services/legislation-implementation-and-enforcement_en

stakeholder views received on the proposals and how, where appropriate, the Authority has taken them into account.

- 2.5 The Law sets out various functions of the Authority which are ‘specified regulatory functions’ and which must therefore be undertaken in accordance with the statutory process set out in Article 24 of the Law. To implement the proposals in this document, through an updated Licence and associated requirements, would constitute an exercise of a specified regulatory function. Accordingly, once the non-statutory process is completed, the Authority would issue an Initial Notice under the Law, and follow the statutory process.

How to respond

- 2.6 The Authority invites written views and comments on the issues and questions raised in this document, to be made by 5pm on 8 September 2023. Questions are set out at the end of each policy chapter and a full list of the questions is provided in Annex 2. The Authority encourages respondents to provide comments that are supported by evidence. Less weight may be given to submissions that cannot be supported by evidence.

- 2.7 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

- 2.8 All responses should be clearly marked: “Strategic Review of Postal Services: Draft Decision”. 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.

Structure of the document

- 2.9 This report is structured as follows:

- Chapter 3 provides the background to the review;
- Chapter 4 provides an overview of the postal services market;
- Chapter 5 summarises the responses to the call for information;
- Chapter 6 sets out the proposals for updating the regulatory framework;
- Chapter 7 sets out the proposals for safeguarding universal service provision; and
- Chapter 8 sets out the proposals for meeting consumer expectations.

- 2.10 The report also includes two annexes

- Annex 1 sets out the proposals for Class 1 Licences; and
- Annex 2 sets out all the Consultation questions.

3. Background

3.1 This chapter sets out:

- What are postal services;
- The Authority's role in postal services;
- The 2012 review and subsequent regulatory developments; and
- The focus of the strategic review.

What are postal services

3.2 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.³

This means a licence is only required for letters where the charge is £1.30 or less and the letter weighs 500g or less.

3.3 That said, 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'.

3.4 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'. Currently only Jersey Post is designated as a public postal operator.

3.5 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.

³ There are other exclusions, set out in Article 7, including deliveries by hand and the service of legal documents in specified circumstances.

The Authority's role in postal services

3.6 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."

3.7 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;
- ensure that postal operators have sufficient financial and other resources to carry out their business in Jersey; and
- ensure the public can express a view on any changes to postal services.

3.8 The Law provides for the Authority to grant a licence authorising a person to convey letters. Article 16 of the Law allows the Authority to designate certain postal operators as 'public postal operators' whereupon, in particular, postal equipment such as letter boxes may be installed near roads. Article 17 of the Law entitles the Authority to impose a universal service obligation (**USO**). Only Jersey Post, which holds a Class II licence (see paragraph 3.9), is so designated and subject to the USO.

3.9 The Authority's licensing structure is based upon two classes of postal services licence:

- Class I - for entities providing postal services, which are not designated as a public postal operator; and
- Class II - for entities providing postal services, which are designated as a public postal operator and are subject to the USO.

3.10 The licences form modular building blocks, with the same general approach adopted for both types of Licence, with specific additional conditions are applied to Class II Licences. There are two licensed operators:

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

- Hi-speed, which has a Class I Licence and is limited to the collection of certain categories of letters; and
- Jersey Post, which has a Class II Licence.

Further detail on Jersey Post and Hi-speed is provided in chapter 4.

- 3.11 The Class I licence contains a number of obligations, including to provide information to the Authority; to protect the integrity of letters; to develop postal facilities in accordance with international standards; to comply with directions of the Authority in relation to quality of service monitoring and reporting; to put in place consumer protection measures; to enable Jersey to comply with international obligations (see the UPU, paragraph 3.13) and, if so directed by the Authority, to contribute to the funding of the net USO.
- 3.12 The Class II licence, as well as designating Jersey Post as a public postal operator and imposing the USO, has additional provisions to the Class I licence, including relating to the making and changing of postal schemes⁵; more detailed provisions relating to consumer protection (including as to the creation of a Consumer Code and the setting up of User Councils if required by the Authority); giving powers over land for limited purposes; obliging Jersey Post to compete fairly in the postal market; not unfairly to cross-subsidise its activities or to show undue preference or to unfairly discriminate against any user of its services or other licensed operator. In relation to its services generally and those subject to the USO, there are obligations to publish prices and discount schemes and powers for the Authority to regulate prices. The Authority also has powers in relation to the manner Jersey Post maintains its accounts and to require reports on accounting records and activities.
- 3.13 The Authority's role sits within the context of the Law, however 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 into 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
 - 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.

⁵ A postal scheme sets out the basic terms and conditions applying as between the postal operator and users of its services, including as to prices and posting charges, how mail that has not been delivered will be dealt with and the basis on which compensation for lost or damaged mail will be paid.

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

The 2012 review and subsequent regulatory developments

- 3.14 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 USO given the likely drop in volumes.
- 3.15 The conclusions of the 2012 review were as follows:
- It was established the USO was sustainable, for the short and medium term, without cross-subsidisation from Jersey Post's fulfilment business;
 - Changes to the scope of the USO were not required although its long-term sustainability may necessitate that Jersey Post consider how it is delivered; and
 - The delivery of letters should not be further liberalised until at least 2015, so as to give the postal sector a chance to stabilise. At that stage further consideration would be given to the approach to regulation i.e. potential removal of price controls.
- 3.16 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 a 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 all relinquished their Class I Licences during the intervening period. As noted above, the one remaining Class I licence holder, Hi-Speed continues to operate a limited service.
- 3.17 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 April 2013 a revised quality of service regime was put in place, subject to minor changes, this is still fundamentally in place;
 - 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, with commercial flexibility supported by a number of safeguards.
- 3.18 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. In addition, the Authority has a consumer dispute resolution role for all licensed postal service providers. This means that if a postal service user is not satisfied with all the steps taken by an Licensee to resolve their complaint, the Authority can then help resolve the dispute.⁸

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

⁸ See: <https://www.jcra.je/make-a-complaint/post-making-a-complaint/>

- 3.19 More recently and in readiness for this strategic review, in 2021, the Authority extended the licences of Jersey Post and Hi-Speed to mid-2024, to allow the licences that will be put in place after this strategic review to fully incorporate the review conclusions.
- 3.20 In May 2023, Royal Mail issued a consultation considering changes to Royal Mail's operational relationship with the postal authorities of the Crown Dependencies. This included the potential removal of the mail plane servicing Jersey. In July 2023, it was announced that the mail plane was being removed from August 2023. Reflecting this development, in forming the policy proposals the Authority considered the potential implications of this change for postal services on Jersey.

The focus of the strategic review

- 3.21 The Authority's aim is to ensure the postal regulatory framework is fit for purpose and operating effectively. As set out above, the regulation of postal services has seen marginal changes since the last major review in 2012, while at the same time there has been significant market changes.
- 3.22 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. Three broad areas have been considered:
- Area 1: The regulatory framework – this covers the updates required to the broad regulatory framework, which underpins the Authority's regulation, to help ensure effective supervision on an ongoing basis. Items considered include the Law, the Class II Licence, alongside related matters, such as regular reporting and the role of consumers.
 - Area 2: Universal service provision – the USO, provided by Jersey Post, continues to play a key role for senders and receivers of mail items, however it faces challenges due to changing consumer demand and other pressures. Items considered include the definition of the USO, how the cost of providing it should be calculated and how it can be changed in future if required.
 - Area 3: Meeting consumer expectations – the quality of service regime, imposed on Jersey Post, is a key mechanism for ensuring consumer expectations are met. However, the targets were last fully reviewed in 2013 and have not been updated to reflect changing market and consumer dynamics. Therefore this area considers what changes are needed to ensure the regime is appropriate and driving the correct behaviour.
- 3.23 These three areas are explored in chapters 6-8, drawing on the outline of the market and feedback from the call for information set out in chapters 4 and 5 respectively. Detail on the proposals for the Class I Licence is set out in Annex 1.

4. Market outline

- 4.1 This chapter provides an overview of the postal services market in Jersey, drawing on the consumer survey and other publicly available information. Reflecting the market, this is split between the demand side and supply side assessment, within each area a distinction made between letters and parcels.

Demand-side overview

- 4.2 There are approximately 40,000 postal addresses in Jersey. Traditional postal service users sending or receiving letters, or businesses sending transactional mail have, and are continuing to, reduce in number. This is due to electronic substitution replacing traditional printed material. There is a growth side to the sector which is seeing an increasing number of parcels and packets coming to the Island as a result of increased use of online shopping. In terms of spend, postal services constitute a small direct part of household expenditure, for example the last Jersey household spending survey carried out in 2014/2015 by Statistics Jersey shows just £0.90 per week per household was spent on postage.
- 4.3 Reflecting the market dynamics, this section is split into three areas:
- Sending and receiving letters;
 - Sending and receiving parcels; and
 - Overall consumer perception.

Sending and receiving letters

- 4.4 For sending letters, the consumer survey showed the vast majority of respondents send under 3 letters in an average month, with 33% of respondents sending '0' letters while in contrast only 7% of respondents send '8+' letters each month. There was a clear age distinction here, with 53% of those aged 17-34 sending zero letters in an average month, whereas 82% of those retired sending 1 letter or more each month.
- 4.5 For receiving letters, the consumer survey highlighted that 75% of respondents receive between 1-6 letters each week. Younger people tend to receive fewer letters, with 48% of 17-44 year olds receiving 0 or 1 to 2 letters in an average week. Comparatively, 77% of those aged 75+ receive 3 or more letters per week. When looking to the future, 41% of respondents expect to receive 'about the same' number of letters in three years' time, 29% expect to receive 'slightly less' and 20% expect to receive 'much less'.

Sending and receiving parcels in Jersey

- 4.6 The consumer survey showed that most (57%) respondents don't send any parcels in an average month. In contrast to letters, those that do send parcels are predominantly younger, for example 17% of 17-34 year olds send 4 or more parcels in an average month. This is likely to be reflective of returns for online shopping.
- 4.7 For receiving parcels, nearly half of all respondents receive 1 to 2 parcels each week. 40% of respondents receive 3 or more parcels each week, and the number of parcels received increases with incomes. In contrast to letters, most respondents expect to receive about the same

amount or more parcels in three years' time, for example 43% of respondents expect to receive 'slightly more' or 'much more'.

- 4.8 Respondents were also asked who delivered their last parcel, with 65% of respondents naming Jersey Post, DHL delivered 19% and DPD 6%. Further, over 50% of respondents used Jersey Posts secure drop service, with 10% using Jersey Post's postal locker boxes to receive deliveries.

Overall consumer perception and satisfaction

- 4.9 The consumer survey suggests that overall, respondents are satisfied with the postal service in Jersey. There is a strong focus with both sending and receiving letters and parcels that reliability and consistency of delivery is more important than speed.
- 4.10 In terms of experience for sending or receiving letters customer service rated highest with a score of 7.72 out of 10 and cost rated lowest with 5.73/10. In terms of postal service experience for sending and receiving parcels, the respondents rated good customer service as most important with cost rated least important. This was reflected in the receiving and sending of parcels where customer service scored 7.36/10 and cost 5.49/10.
- 4.11 In terms of key features, 96% of respondents valued postal delivery to their door for letters and parcels. Having an alternate delivery point such as secure drop or lockers was also appreciated as an alternative. It was also clear from respondents that good customer service and reliability are important to them.

Supply-side overview

- 4.12 Jersey Post is the largest provider of postal services in Jersey, this is reflected in it holding the USO. It also has a strong market position in parcels. The other licensed provider of postal services, Hi-speed has a very small market share in letters (<1%), consistent with the limited Licence granted to it. With respect to the wider parcel market, this appears to be well developed, with several companies, including franchises of UK firms present.
- 4.13 This section is split into three areas:
- The nature of supply to Jersey;
 - Jersey Post financial performance; and
 - Market share estimates.

The nature of supply to Jersey

- 4.14 Consistent with similar small jurisdictions, Jersey Post operates postal services both outward (sending) and inward (receiving) from a single location (Rue de Pres). This requires keeping the flows of mail separated and having to multi task equipment and personal to carry out different functions depending on the time of day.
- 4.15 There is a need to provide adequate access to the network for both consumer and business users. This is done through a network of Post Offices, roadside collection boxes and in the case of larger businesses, timed daily collections from them. All of this mail received has to be processed according to its final destination and dispatched accordingly. Mail collected for

delivery to the UK and international destinations will be sorted to those locations and dispatched from Jersey:

- UK mail will leave the Island on a charter aircraft each evening (as set in paragraph 3.20 this plane will be removed from August 2023, with mail moved to the ferry);
- International mail leaves by sea on a ferry each evening and is then transported to a consolidation facility (operated by a third party) for onward global distribution; and
- Mail for local delivery will be sorted to the individual rounds ready for delivery.

4.16 Jersey Post currently receives its inward mail from off Island in two ways:

- By air, on a charter aircraft; or
- By sea on a ferry

4.17 Once the inbound mail is collected and transported to the processing facility, it follows the same process as locally collected mail for local delivery. The exceptions will be goods on which GST is due (which will be held until that is paid) and goods which Customs requires further sight of (which are held prior to release).

4.18 The sorted mail for local distribution is taken out for delivery by postal operatives using vans, cycles and hand trolleys. The delivery of letters is across five days, Monday – Friday, consistent with the USO requirements. Delivery of packets and parcels can be up to seven days a week, depending on the relevant commercial agreement.

4.19 The supply chain has a number of interconnected parts. Jersey Post has a commercial contract with Royal Mail for delivery of Jersey sent mail in the UK and UK sent mail in Jersey. Also, this covers the transit of inward international mail through London which arrives to the Island on the inbound charter aircraft. Jersey Post dispatches its international mail directly to other destinations using its global agreements through its membership of the UPU. In addition, Jersey Post has agreements in place with various other parties who provide the global distribution service for the outward international mail. There has been a 26% increase in 2022 for inbound items coming from commercial carriers. This is reducing Jersey Posts reliance on Royal Mail and is reflective of the issues Royal Mail is facing.

4.20 A high level overview of key operational statistics for Jersey Post is included in the Table below, adapted from Jersey Post’s 2022 Annual Report.

Table 2: Key operational statistics for Jersey Post 2018-2022

Operational statistic	Units	2022	2021	2020	2019	2018
Turnover	£000	76,886	79,892	68,124	53,607	52,510
Operating profit (loss)	£000	(7,487)	586	(400)	(1,449)	467
Mail volumes	Million	21	26	27	29	31
Number of post offices	Number	19	19	20	21	21
Number of staff (FTE)	Number	494	460	376	366	357

4.21 With respect to Hi-Speed, consistent with its Licence it only provides a very limited outbound international service to a small set of business customers. International mail is collected from these customers. The mail is processed and sorted by country and dispatched on the evening DHL charter flight.

Jersey Post financial performance

4.22 Consistent with postal operators across the world, there is an increasing fall in volumes, as highlighted in Table 2 above, with a five year reduction of nearly a third in mail volumes. Within this there has been a change in mail mix, with increased parcels, but declining letters. However, given the impact of industrial action from Royal Mail workers in 2022, which had knock on effects on both consumers and commercial delivery contracts, even parcel volumes fell by 9% year on year for 2022. Similarly, Jersey Post in 2022 also stated their on-Island logistics volumes dropped by 73%. This is mainly due to the change in EU tax thresholds which makes Jersey less attractive for online retailers to base themselves on Island. In 2022, circa 10% of Jersey Posts revenue was generated by letters.

4.23 Reflecting these and wider challenges within the Jersey Post Group, the 2022 results shows turnover reducing slightly to £76.8m with an operating loss of £7.5m (this can be compared to reported turnover of £79.8m and an operating profit of £586k for 2021).⁹ Looking forward, the Annual Report notes that 2023 is also expected to be loss making, but *“we will reduce these losses over the next two years and our business will deliver a positive EBITDA figure throughout.”*¹⁰

Market share estimates

4.24 With respect to letters, Jersey Post has 100% share of the inward letter market and close to 100% of the outbound letter market. The only other letter carrier is Hi-speed, which provides a very limited outbound service to a small set of business customers.

4.25 The parcel market has a wider number of players and as noted in the background, to delivery parcels on Jersey does not require a Licence from the Authority. Therefore the consumer survey was used to gain a better understanding of the parcel market.

4.26 For sending parcels, 90% of respondents sent their parcels via Jersey Post. Other suppliers noted included DHL and Evri. For receiving parcels, 69% of respondents last received a parcel from Jersey Post, with again Evri and DHL noted as the other largest suppliers. For Jersey Post a large percentage of the parcel volume comes via Royal Mail and ParcelForce, with others being brought under direct commercial contracts with retailers, for example Amazon.

⁹ Note the Jersey Post annual report does not report performance across its divisions.

¹⁰ EBITDA is a measure of a business’s core profitability after stripping out factors that are not in the company’s control or that may distort earnings, such as interest, taxes and depreciation and amortisation.

5. The call for information

- 5.1 The call for information set the out the background for the review and the key areas where views and evidence were sought. It was issued in October 2022 and closed in January 2023. Alongside the formal consultation, the Authority also issued an initial consumer survey, to gather consumer views on the important issues facing them, this was supported by a consumer factsheet and media engagement.
- 5.2 The Authority received two formal responses to the call for information, from Jersey Post and a confidential respondent (Respondent A). These responses have been published alongside this document. The initial consumer survey received approximately 25 responses. A summary of both the formal responses and the initial consumer survey is set out in this chapter, with the feedback integrated into the policy proposals set out in chapters 6 to 8.
- 5.3 This chapter is split into four, covering each of the themes set out in the call for information:
- Theme 1 The interests of postal service users
 - Theme 2 The universal service obligation
 - Theme 3 The future regulation of postal services
 - Theme 4 Wider influences on postal services
- 5.4 The Authority would like to thank all stakeholders for their input to the call for information.

Theme 1: The interests of postal service users

- 5.5 Jersey Post's view is that it is set up to ensure that the interests of postal service users are met. Its response set out its key products, resources, logistics, and customer feedback. For example, the response noted that its Net Promoter Score¹¹ was 23: this can be compared to the average for utilities, which is much lower at 8.
- 5.6 Respondent A's high level view was that for the most part, the interests of postal service users were currently being met. However, a concern was raised that the diversification and investment by Jersey Post into areas where it has less expertise (e.g. freight logistics) – seem to have resulted in the core postal product being neglected.
- 5.7 The responses to the initial consumer survey highlighted the importance of postal services:
- the majority of respondents used postal services for both personal and business needs, with all respondents receiving letters, and a majority (80%) sending letters and parcels. While some send mail often (weekly), others send on an ad-hoc basis;
 - most respondents had a good view of the postal services, nonetheless some indicated a desire for a future increase in delivery speed; and
 - a number of specific consumers were raised, for example over VAT collection mechanisms and the choice available. Concerns were also raised around the mail link to Guernsey.

¹¹ Net promoter score (NPS) is a market research metric that is based on a single survey question asking respondents to rate the likelihood that they would recommend a company, product, or a service to a friend or colleague. It is often used in management consulting.

Theme 2: The universal service obligation

- 5.8 Jersey Post's response set out how it meets its current obligations, explaining the role of the mail plane and ferry services and noting that online shopping is predominantly serviced by the ferry, reflecting both cost and reliability. Jersey Post then went on to propose changes to USO, these include, (1) an introduction of choice of mail routes to the Island (to remove reliance on the Royal Mail charter plane); (2) alignment to the ferry timetable, with subsequent realignment of collections to ensure mail can be dispatched on the evening ferry; and (3) to limit the next day service to local mail only (to reflect reliance on third party transport links).
- 5.9 Respondent A did not comment on this question.
- 5.10 In the initial survey, a number of freeform comments raised concerns on matters linked to the USO. For example, one respondent set out a view that Jersey Post prioritised Amazon parcels over letters. Similarly it was noted that Jersey Post had prioritised international expansion over serving the local community and a number of respondents had concerns that insufficient attention was being paid to the USO.

Theme 3: The future regulation of postal services

- 5.11 Jersey Post welcomed the role of regulation to protect consumer and business needs. It was noted there is an increasing focus on parcels over letters, letters now accounting for only 40% of mail processed. The response further noted how the focus of the Jersey Post business has changed, with a strong role for commercial contracts. It was stated that it is important that Jersey Post remains commercially viable so that it can absorb the cost of the regulated part of its business within its entire operation, while at the same time remaining profitable to allow investment to keep up with industry needs.
- 5.12 Respondent A suggested that greater restrictions should be placed on Jersey Post so that a focus is made on 'postal services'. It is noted that restrictions are currently placed on the Class I Licensee and there should be a level playing field in this respect.
- 5.13 In the initial consumer survey comments linked to future regulation noted the need to end the disparity between inbound and outbound parcel pricing, and a call by some for more competition to be 'allowed in'. Another respondent noted that there is plenty of choice in services but wanted greater diversification of postage speed. This is understood to mean higher postage options for high speed delivery, with options for low-speed, low-price products.

Theme 4: Wider influences on postal services

- 5.14 Jersey Post's response noted key areas where it faces future challenges as being the change in mail composition (parcels versus letters), alongside the geopolitical and economic landscape. Royal Mail was identified as a key actor and influence on Jersey Post operations, for example its business strategy with respect to the charter flight for mail. Within this context it was noted that Jersey Post seeks to drive efficiencies while supporting its staff and maintaining the business through investment.
- 5.15 Respondent A noted the increasing crossover of mail services with the courier industry. The respondent called for a wider consultation with companies in this space. In particular a key

concern of the respondent was that Jersey Post, with the Government of Jersey as shareholder, had a financial and competitive advantage over other local businesses. This could result in a loss of competitors and reduction in consumer choice.

- 5.16 In the initial consumer survey, a constant theme was Amazon and there was a recognition that parcels are increasingly prevalent in the postal mix. Other areas raised were tax policy, for example the challenges involved in receiving VAT rebates, while wider concerns were raised about the reduction in the GST de minimis value in July 2023 and the impact this could have on the market.

6. Updating the regulatory framework

- 6.1 The postal market has undergone significant change in recent years, for example with the change in consumer demand from letters to parcels. Through the Law and the Licencing regime the Authority helps support the postal market, and so it is important the regulatory framework remains relevant, effective, and fit for purpose.
- 6.2 This chapter focuses on setting out proposals to help update the regulatory framework. Four areas are covered:
- The Law and Government Policy;
 - Postal Service Licences;
 - User Council; and
 - Reporting requirements.
- 6.3 For each area this chapter sets out:
- Current framework;
 - Authority analysis; and
 - Authority proposals.

The Law and Government Policy

Current framework

- 6.4 The Law that covers postal services was given effect in 2004, with further detail set out in Postal Services (International) (Jersey) Order 2005. At the present time there is no Government Postal Policy.

Authority analysis

- 6.5 There have been significant market and regulatory changes since the Law was first developed, which increases the risk that the framework is out of date and this may have unintended consequences in the future. For example, Article 7(1)(a) of the Law exempts from regulation any letter in respect of which the postal charge exceeds £1.30. The current (as at the date of this document) cost of sending a letter via Jersey Post to the UK is £0.96 and a large letter costs £1.62, bringing it within the exemption. Without an increase to the figure in Article 7(1)(a), it is foreseeable that, in practice, the Law will cease to apply to ordinary letters to the UK and conceivably those within Jersey. Consideration could be given to replacing the hard-coded figure with one to be determined by the Minister within a defined timeline which will provide greater certainty and will avoid the same issue arising at a later date.
- 6.6 Further, consideration over whether wider operations, such as parcels, should also be captured in part under regulation, is another area which would be for Government to consider. For example, the UK Postal Services Act, empowers Ofcom to impose Consumer Protection Conditions on every postal operator, or postal operators of a specified description (so captures parcel only firms). There is no equivalent obligation in the Jersey Law, and the parcel operators are outside the remit of the Law assuming they meet the exemptions. Article 7(1)(b) exempts from regulation any letter weighing more than 500 grams whereas the definitions of 'letter' and

'postal packet' apply to items up to 20 kilograms in weight. Parcels over 20 kilograms do not currently fall within the ambit of the Law.

- 6.7 With respect to postal regulation, although the functions of the Minister and the Authority are different, their duties are the same under Article 8 of the Law. Indeed, the Law does not draw a distinction between the duties of the Minister as policymaker and the Authority as the body in charge of regulating the sector subject to government policy for the sector. This, lack of clarity around duties increases the importance of having a clear Government Policy in this sector. This was recognised in the 2015 Jersey Regulatory and Competition Framework Review which has as one of its recommendations:

*"20. The government should develop a clear policy for each of the sectors regulated by the JCRA, including its policy for promoting competition or direct regulation"*¹²

- 6.8 This recommendation was followed up by the Office of the Comptroller and Auditor General in 2019 in its Report into 'The States as Shareholder' where it recommended that:

*"R3: Prioritise the development of the Ports Regulation Policy and Postal Services Regulation Policy and reflect timescales and responsibilities in the agreed action plan."*¹³

Authority proposals

- 6.9 As set out under 'Authority analysis' there is likely to be a need to update the Law. The scale and scope of this is for Government to consider, however, at a minimum, changes are required to ensure regulation does not fall away by default.
- 6.10 With respect to the Government Postal Policy, the Authority proposes to recommend that one is developed. This will help provide clarity on Government policy and ensure a common position between Government (as both policymaker and shareholder), regulator and industry that would enable the identification of a clear vision for postal services.

Postal Service Licences

Current framework

- 6.11 Under the Law, to convey letters and to provide a Postal Service (as defined in the Law) requires a Licence from the Authority. Jersey Post has a Class II Licence, which expires in July 2024. The Licence was developed in the early 2000's and first granted in 2004. It contains a set of conditions that set out the obligations on Jersey Post, this includes being the provider of the USO. There is also one Class I Licensee and the proposals for this Licence are set out in Annex 1.

¹² See:

<https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20A%20review%20of%20the%20Jersey%20regulatory%20and%20competition%20framework%2020151123%20VP.pdf>

¹³ See: <https://www.jerseyauditoffice.je/wp-content/uploads/2019/03/States-as-Shareholder-Follow-up-Report.pdf>

Authority analysis

6.12 The current Licence framework is well established, having been in place since the inception of the regulatory regime. Reflecting this, it is consistent with the framework set out for other ‘dominant’ providers, for example in telecoms regulation.

6.13 The Authority notes that, in other jurisdictions and regulatory areas, there has been a move away from the structured Licence format, for example towards a ‘General Conditions’ based approach. However, a major change such as this would have significant resource and cost implications, for both the Authority and Jersey Post, and this is unlikely to be proportionate to the type of the challenge faced in the postal sector. In particular, the Authority notes that all the policy proposals set out in this Draft Decision can be accommodated in the existing Licence framework.

Authority proposals

6.14 The Authority proposes to maintain the existing broad Licence framework, with minor amendments made to ensure it is consistent with the outcomes of the strategic review. The updated Licence will be issued alongside the Final Decision and the required statutory processes followed to implement it.

User Council

Current framework

6.15 Under the Consumer Protection Licence condition, condition 16.9 of the Jersey Post Licence sets out:

“The JCRA may require the Licensee to set up, at Licensee’s expense, a User Council or Councils for the specific purpose of obtaining and representing the views of Users”

6.16 Jersey Post does not currently have a User Council. Instead a key focus for engagement with customers is their annual customer survey, this asks among other questions:

- How would you rate Jersey Post’s post office network?
- How would you rate the service provided by your postman/woman?
- How would you rate Jersey Post’s Delivery service overall?
- What is your priority for the island’s postal service?

6.17 The results of this are published in Jersey Post’s quality of service report.¹⁴

Authority analysis

6.18 The consumer survey highlighted the important role of postal services for consumers. For example, in the consumer survey, 96% of respondents agreed that they value postal delivery to their door and the open ended questions highlighted that value consumer place on both

¹⁴ For example, see pages 12 and 13 of the 2021 Quality of Service Report, available at: <https://www.jcra.je/media/598585/jersey-post-quality-of-service-report-2021.pdf>

customer service and the postal service. Given this importance, it is essential that consumers are a key consideration in the decisions Jersey Post take in running their business.

- 6.19 The importance of consumer voice is highlighted by how this has been incorporated in other jurisdictions. For example, in the UK there is a strong role for Consumer Councils, which are used as an intermediary between consumers and the regulated entity, to ensure direct communication as well as for engagement purposes. This goes over and above regular consumer surveys.
- 6.20 Specifically, in post in the UK, the Citizens Advice Service and the Consumer Council for Northern Ireland, are the statutory representative for consumers of postal services. This means they maintain constant engagement with Royal Mail and Ofcom (the UK regulator) and, for example, respond to consultations and more widely help influence decisions on policy and regulatory framework.
- 6.21 Given the increasing scope of future challenges in the postal sector and the likelihood of future changes, the importance of good quality customer engagement will only increase. This means it is important that there is a more formalised approach to consumer engagement through which Jersey Post carry out direct local engagement with their customers. This will enable it to understand their priorities, needs and requirements, which should then drive decision-making.

Authority proposals

- 6.22 The Authority proposes that Jersey Post should set up a User Council to help put consumers at the heart of the way it runs its business. The aim of the User Council will be to provide independent challenge to Jersey Post and independent assurance to the Authority on the quality of Jersey Post's consumer engagement.
- 6.23 For example, it would be expected that key changes that affect local postal services would be discussed with the User Council in the first instance. This could include changes to the postal network or, as discussed in chapter 7, changes to the USO, with the focus of the discussions on areas that impact and matter to consumers. For key decisions it would be expected that the User Council would engage in the Consultation process and may, for example, submit an independent report to the Authority on the consumer engagement undertaken to support the proposed change.
- 6.24 The User Council membership should reflect local circumstances and challenges. For example, it could include a representative from the Jersey Consumer Council (JCC). The Chair of the Council should be independent and not represent particular organisations or groups of customers.

Reporting requirements

Current framework

- 6.25 The framework for reporting requirements is set out in the Licence, the key conditions for this are set out in the Table overleaf.

Table 3: Key conditions in the Jersey Post Licence related to reporting

Condition	Summary
2.9	Obligation to submit to the Authority Jersey Post’s annual return, on the date filed and its annual report and accounts on the date circulated to shareholders (in practice the annual return is provided in advance of filing);
4.1	Obligation to provide the Authority, in the manner and time specified, ‘Documents ¹⁵ , accounts, returns, estimates, reports or other Information ¹⁶ (whether financial, operational technical or otherwise’ to enable the Authority to monitor compliance with the Licence and the Law;
4.2 – 4.4	Entitle the Authority to require or undertake examinations, investigations and audits and to charge the costs to Jersey Post;
13.4	Obligation to file postal schemes ¹⁷ with the Authority in advance of publication;
15.6	Obligation to submit to the Authority every six months a report on progress under Jersey Post’s Postal Development Plan ¹⁸ ;
15.7	Obligation to submit quality of service measurements as directed by the Authority;
16.7	Obligation to submit to the Authority every six months a report on Jersey Post’s meeting of agreed targets relating to the number of complaints and on compensation paid to Users in relation to complaints;
23.2	Entitles the Authority to require reports on Jersey Post’s accounting records and/or activities, on the basis and timing specified.

6.26 Within this framework, the current approach is light touch and the key reporting mechanism each year is the annual quality of service report – for which reporting is discussed in chapter 8. The Authority does not routinely request detail financial data from Jersey Post, and instead a focus is on understanding the information in Jersey Post’s annual reports. Where further detail is required this is then requested either informally or through the use of the formal information powers under Licence Condition 4.1.

Authority analysis

6.27 The Law specifies that the Authority is jointly responsible, with the Economic Development Minister, to ensure that “*persons engaged in commercial activities connected with postal services in Jersey, have sufficient financial and other resources to conduct those activities.*” This is both for general purposes as well as for purposes of ensuring the USO is delivered. With this duty in mind and in light of the challenges Jersey Post is facing, as illustrated by its 2022 performance, reporting requirements may need to be strengthened.

¹⁵ Recorded in any form, whether or not legible to the naked eye

¹⁶ Includes information in any form and forecasts and estimates

¹⁷ See paragraph 3.12

¹⁸ To be prepared and submitted pursuant to Licence Condition 15.2

- 6.28 This is consistent with the trend in postal regulation in other markets. For example, in July 2022 Ofcom announced the strengthening of their monitoring regime for Royal Mail. This now includes annual reporting on the financial sustainability of the universal service over a five-year period. Further information is also required on efficiency metrics and Royal Mail is expected to publish its progress against these expectations.¹⁹
- 6.29 With respect to the Jersey Post annual report, this does include the key information at group level and also reports on the financial sustainability of the USO (looking at a three year horizon). However, as noted by the Comptroller and Auditor General, *“Although Jersey Post’s Annual Report does disclose the scale of off-Island activities, its audited accounts do not include reporting of performance by major segments, including geographical segments”*.²⁰ It goes on to note that such reporting is required for UK listed companies but not for Jersey Post and that greater disclosure in this area and business risks, would provide increased transparency into the operations of Jersey Post.

Authority proposals

- 6.30 The Authority proposes to strengthen the reporting requirements placed on Jersey Post, using its powers under Licence Condition 4.1. The increased level of reporting has two objectives, which are consistent with the Authority’s remit, which is to:
- Monitor the financial sustainability of the USO; and
 - Monitor the efficiency of universal service provision.
- 6.31 The proposed reporting requirements are set out in the Table overleaf. For each requirement the scope of the submission, the frequency and deadline for submissions are set out. As a matter of course the information will not be disclosed to third parties or the public and will be confidential. This reporting is additional to that already included in the Licence, as set out in the current framework section above.

¹⁹ See: <https://www.ofcom.org.uk/consultations-and-statements/category-2/royal-mail-regulatory-reporting-requirements>

²⁰ See footnote 13

Table 4: Proposed reporting requirements for Jersey Post

Requirement	Scope	Frequency	Timetable
1. Group level information	Income statement, statement of capital employed and cash flow statement	Annual	April of the following financial year
2. Reconciliation with Postal business accounts	Reconciliation of Group level accounts to Postal and Logistics division accounts	Annual	April of the following financial year
3. USO Viability Statement	The data and assumptions underpinning the USO sustainability statement in the annual report with supporting narrative	Annual	Alongside Annual Report
4. Business Plan	Business Plan, to include annual budget	Annual	Before start of financial year, and once approved
5. Cash headroom	Cash headroom projections for the Jersey Post group	Annual	Before start of financial year
6. Postal volume and revenues	Volume and revenue report, to cover actuals and forecasts by product for the Postal and Logistics division	Annual	April of the following financial year
7. Methodology Manual	The document which gives a detailed description of the methodology and sources of data used by Jersey Post to prepare the regulatory data supplied to the Authority. This will allow a consistent approach to the understanding of and reporting of costs through time.	Annual	April of the following financial year

Question 1: Do you agree with the Authority’s proposals to update the regulatory framework? If you do not agree you should provide all of your analysis and assessment.

7. Safeguarding universal service provision

- 7.1 The aim of the USO 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. As noted, Jersey Post is the designated public postal operator for Jersey and has the USO.
- 7.2 This chapter focuses on setting out proposals to help safeguard the provision of the USO. Three areas are covered:
- The definition of the USO;
 - The net cost of the USO; and
 - Changes to the USO.
- 7.3 Each area is structured as follows:
- Current framework;
 - Authority analysis; and
 - Authority proposals.

The definition of the USO

Current framework

- 7.4 Jersey Post's USO is set out in Jersey Post's licence in Condition 12(3) and means the following set of obligations:
- a) "To provide at least one collection of mail, generated within the Island of Jersey, which should be made from each Access Point on each Collection 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, on each Delivery 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"*

Where both Collection Day and Delivery Day is Monday to Friday.

- 7.5 In other jurisdictions, such as the UK, the USO is set out in the relevant statute, with further detail set out in an order by the relevant regulator. In Jersey by contrast, the Law provides, in Article 17(1), that a licence can impose requirements relating to:

"the provision of postal services at uniform tariffs or subsidised tariffs ... of a universal postal service..."

- 7.6 When the Law was first introduced, the Authority completed a thorough process to define the USO and this definition has broadly been maintained to the present day.

Authority analysis

- 7.7 As noted in paragraph 7.5, the Jersey USO is defined at a higher level than it is in the UK. For example, Royal Mail is subject to a comprehensive order of 14 pages, which includes significant detail on the services and products that should be delivered.²¹ There is also supplementary regulation, for example with regards to access with Royal Mail required to provide access such that *"in each postcode area where the delivery point density is not less than 200 delivery points per square kilometre, not less than 99% of users of postal services are within 500 metres of a letter box."*²²
- 7.8 However, it is not clear that additional detail in the definition of the USO would be beneficial and benefit Jersey consumers. For example, the consumer survey showed a relatively high satisfaction with postal services and did not identify areas where potential clarification of the definition would be in the interests of consumers.
- 7.9 Moreover, all the potential changes identified by Jersey Post in their call for information response – namely (1) an introduction in the choice of mail routes to the island; (2) alignment to the ferry route, with subsequent realignment of collections to ensure mail can be dispatched on the evening ferry; and (3) to limit the next day service to local mail only - can be accommodated within the current definition of the USO. The USO does not specify the form of transport and or specify a requirement for a next day service.

Authority proposals

- 7.10 The Authority proposes that the definition of the USO would remain as defined in Condition 12.3 of the existing Licence (set out at paragraph 7.4 above). This is a proportionate regulatory approach, and consistent with the consumer research and current practice, because, as defined, it does not appear to be constraining Jersey Post's business.

²¹ See: https://www.ofcom.org.uk/data/assets/pdf_file/0027/71784/annex6.pdf

²² [Regulation of the provision of post boxes - Ofcom](#)

The net cost of the USO

Current framework

7.11 Condition 12.2 describes how the USO should be funded:

“The Licensee shall defray the full cost of the USO set out in this Condition from profits generated by the Licensed Services, except when otherwise permitted by Condition 24.1 (Cross-subsidisation)”

Condition 24 sets out that cross-subsidisation for the purpose of providing the USO is permitted.

7.12 The net cost of the USO can be understood as the impact of the USO on the profits of a postal operator that arises from the requirements to deliver the universal service. These requirements mean the business is structured in a way which it would not be without the USO. As a result, the profit earned with the USO may be lower than the profit which should have been earned without the USO. The difference in profit with and without the USO, is the USO net cost.

7.13 As a matter of course neither the Authority or Jersey Post estimates the net cost of the USO. It was last fully considered as part of the 2012 review, this found that *“Jersey Post’s own estimates and forecasts suggest that providing the USO is profitable, and does not impose a net cost on Jersey Post.”*

Authority analysis

7.14 For the purposes of the strategic review, the Authority requested data from Jersey Post to better understand its cost structure and at a high level the cost of the USO. This data showed that under a number of scenarios provided to it by Jersey Post, the Postal and Logistics division, which is the division that delivers the USO, is profitable. However, this findings is sensitive to the allocation of fixed and shared costs. Further, the 2022 annual report shows Jersey Post made a substantial loss in 2022 and faces a number of commercial challenges in the coming years. Albeit, the report, included the following viability statement:

“The Board considers that the strategy it has approved, coupled with the track record of the business in dealing with the historic loss of letter volume, including the loss of fulfilment business, gives it a reasonable expectation that the Company will be able to continue in operation and meet its liabilities, including its Universal Service Obligation, over the three-year period ending 31 December 2025.”

7.15 That said, the European Postal Services Directive sets out that a postal universal service provider can ask the government in its country for compensation of the USO net cost. Given this, many universal service providers calculate the net cost on a regular basis. Drawing on this experience, and in considering how the net cost could be calculated in future, the Authority has considered the best practice approach in Europe and the proposals for this area set out in the next section.

Authority proposals

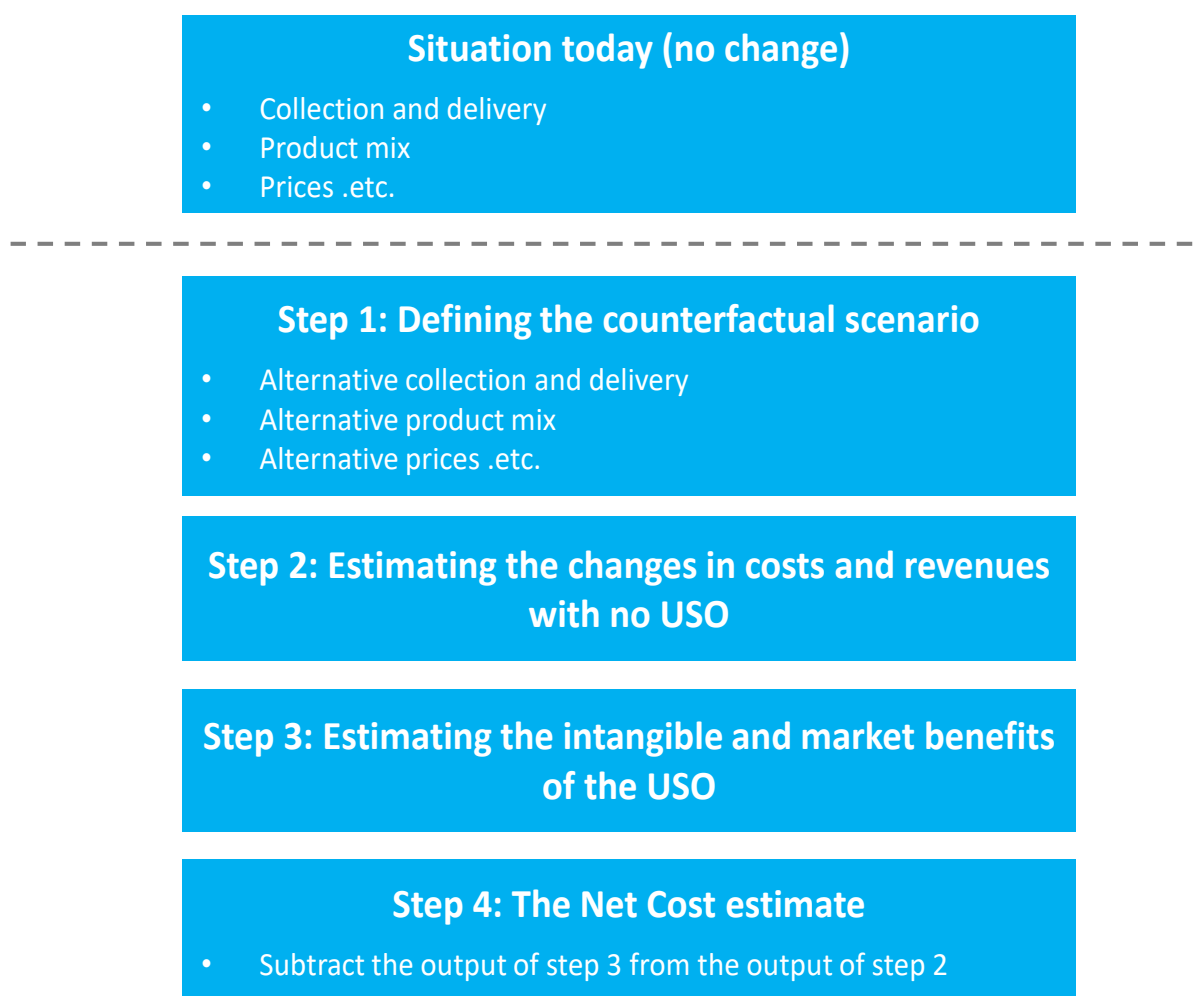
7.16 It is the Authority’s preliminary view, that future changes to the USO would be subject to an understanding of the net cost of the USO, estimated using the commercial approach.

7.17 It is important to calculate the net cost of the USO using an appropriate method as if the net cost is calculated incorrectly it would distort any decisions made about changing the USO.

Consistent with best practice, the Authority proposes that any future calculation of the net cost of the USO should follow the approach known as the ‘commercial approach’.²³

7.18 A key focus of the commercial approach is understanding the difference between the current scenario (with the USO in operation) and the counterfactual situation, which is the scenario with no USO, where the operator acts on a purely commercial basis. An high level overview of the approach is shown in Figure 1 below.

Figure 1: Overview of the commercial approach



7.19 As shown in the Figure, the commercial approach has four steps:

- Step 1: Defining the counterfactual situation
In this step the counterfactual scenario (what would happen with the absence of the USO) is set out. This is then tested and challenged by means of cross-checks, benchmarking, and an in-depth analysis of its pros and cons.
- Step 2: Estimating the changes in costs and revenues with no USO

²³ A discussion of the alternative approaches and an explanation of why the commercial approach is best practice is set out in ‘Box 6 Methods for calculating USO net costs’ on pages 151 to 152 of the Copenhagen Economics report, ‘Main Developments in the Postal Sector’. See: <https://copenhageneconomics.com/wp-content/uploads/2023/01/Main-Developments-in-the-Postal-Sector-2017-2021-volume1-and-2.pdf>

In this step the cost changes from not having to deliver the USO are estimated, considered across the value chain. This should include both direct cost changes and any cost changes caused by changes in demand for postal services, stemming from removal of the USO. Further, direct and indirect revenue effects for the alternative commercial offering should be identified and quantified i.e. what revenue would be lost.

- Step 3: Estimating the intangible benefits derived from the USO?

In addition to cost and revenue effects, the USO provides intangible and market benefits to the USO provider. These need to be estimated as well. For example, among others this could include legal privileges, brand enhancement and the benefits that derive from ubiquity across Jersey.

- Step 4: The net cost assessment

To estimate the net cost, the estimate generated in step 2 should have the estimate from step 3 subtracted from it. The outcome of this step provides a view as to whether changes are required to the USO to help ensure the net cost is sustainable/met.

Changes to the USO

Current framework

7.20 Condition 12.2 of the licence sets out the approach for changing the USO:

“in the event that the provision of the USO can be demonstrated to represent an unfair burden on the Licensee, the JCRA may, with a view to reducing the burden associated with providing the USO, review the extent and frequency of the services comprising the USO and, in addition or as an alternative, may introduce a mechanism for Other Licensed Operators to contribute to the net cost of the USO.”

7.21 The licence also contains provisions for a scenario when the Licensee intends to stop fulfilling the USO or other related service.

7.22 The USO has been changed before, as originally Jersey Post’s licence required it to deliver at least six days a week, and to make at least one postal collection from post offices, sub-post offices and post boxes on at least six days a week. In late 2010, due to the decline in demand for traditional mail, and in an effort to cut costs, Jersey Post applied to remove Saturday deliveries. Following public consultation on the matter, the Authority agreed to Jersey Post’s request and Saturday deliveries were removed from service in May 2011.²⁴

7.23 A change to the USO could only be effected by modifying Jersey Post’s licence, which would involve the exercise by the Authority of a specified regulatory function. Therefore, at a minimum, the appropriate statutory process would be followed, that is the issuing of an Initial and Final Notice.

²⁴ See: <https://www.jcra.je/cases/2009/p48409-jps-request-to-reduce-delivery-days-from-6-to-5-days-pw/>

Authority analysis

- 7.24 The Authority recognises that across multiple jurisdictions the USO has been subject to change, for example either with respect to delivery days or what products are included. As set out above, the changes that Jersey Post have requested in their call for information response, do not require a change in the definition of the USO, however that is not to say that a change may not be required in future. Therefore, to provide regulatory certainty, the Authority's view is it would be appropriate to set out clearly the expectations for future changes.
- 7.25 As a starting point, the Authority view is the focus should be on the changes that can be made to the USO to help ensure it is not a financial burden on the USO operator. This could be changes to frequency, services and/or quality requirements. There is an expectation that, these changes, if required, should be suggested by Jersey Post, drawing on their understanding of the costs of the USO derived from the using the commercial approach to calculate the net cost i.e. it is not expected that a change would be requested if it cannot be demonstrated the USO is imposing a net cost on Jersey Post.
- 7.26 The Authority's view is that customer engagement in this process will also be key. As set out in chapter 6, the Authority proposes a more active role for a User Council, to seek consumer views. As shown by the consumer research the USO is valued by Jersey consumers, and the Authority would expect any changes to be discussed with the User Council, with their feedback incorporated into the process.
- 7.27 With respect to support for costs, the Jersey framework envisaged a mechanism for Class I Licences to contribute to the cost of the USO. However, as there is only one Class I Licensee, with a small amount of direct revenue from licensed services, it is highly unlikely that this approach would be viable in practice.
- 7.28 One area that has seen development in Europe is the role of 'compensation' for the USO provider, that is if the USO is shown to represent an unfair financial burden. The compensation takes different forms and can either been direct from public funds, a compensation fund or another approach, such a tender process to run the USO service. However, across the countries attempting this approach, compensation mechanisms and the inherent challenge of establishing a relevant funding base for compensation funds have led to several challenges.
- 7.29 If there was to be a scenario where compensation was requested (i.e. potential changes to the USO were either not sufficient to reduce the financial burden, or not viable from a consumer service perspective), this would be a matter for Government. It is outside the remit of the Authority, who nevertheless would be available to provide advice, within its remit as the Postal Services regulator.

Authority proposals

- 7.30 The Authority proposes that any future changes to the USO, should, if required, be proposed by Jersey Post, drawing on its net cost estimate, which is calculated using the commercial approach. There is an expectation that this process would help identify changes to the USO which could reduce the financial burden. In the first instance these changes should be tested with the proposed Jersey Post User Council.

- 7.31 On receiving the request, the Authority would engage with Jersey Post and other key stakeholders on the proposals, before following the required process to make a change to the USO. At a minimum, the appropriate statutory process would be followed, that is the issuing of an Initial and Final Notice. For more major changes, a more thorough approach may be taken, which would see more extensive consultation ahead of the statutory process, and this would be at the Authority's discretion.
- 7.32 As noted above, given there is only one Class I Licensee, offering a very narrow set of regulated services, it is not credible to assume that funding for the USO could be obtained from them. Therefore it is proposed to remove this requirement from the Licence.
- 7.33 Instead, as noted above, if the scope of potential changes to the USO is either insufficient to alleviate the financial burden, or not viable, then a question of compensation could be applicable. This would be a matter for Government, with the Authority able to provide advice, within its remit as the Postal Services regulator.

Question 2: Do you agree with the Authority's proposals to safeguard universal service provision? If you do not agree you should provide all of your analysis and assessment.

8. Meeting consumer expectations

- 8.1 The quality of service regime for Jersey Post is the key regulatory tool for ensuring consumer expectations for USO services are met. The Authority requires Jersey Post to achieve certain performance targets in the delivery of USO services and monitor its performance against these targets. However, the regime was last fully reviewed in 2013 and since then there have been significant changes in both consumer expectations and within the postal market. Therefore, this chapter sets out proposals for a refined quality of service regime and sets out the:
- Current framework;
 - Authority analysis; and
 - Authority proposals.

Quality of service regime

Current framework

- 8.2 The basis for the existing quality of service regime is condition 15 of Jersey Post's licence, Development of postal facilities and services. Condition 15.1 sets out:

"The Licensee shall develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice during the Term, and in particular, the Licensee shall achieve and comply with such established international standards and benchmarks as the JCRA may direct from time to time."

- 8.3 Further, Condition 15.7 allows the Authority to issue directions relating to 'quality of service indicators' and to require Jersey Post to monitor and report on its compliance with those indicators.
- 8.4 The regime currently in place was last comprehensively reviewed as part of the last postal review and set in April 2013. The regime includes targets for:
- the delivery of postal services locally;
 - mail to and from the UK; and
 - mail to and from Guernsey.

As well as these performance measures, Jersey Post is required to monitor and report on its response to complaints, and to monitor the extent of any mis-deliveries by its staff.

- 8.5 For the transit of mail items a performance measure is set, while the more qualitative areas, such as complaints, the focus is on reporting so trends can be understood. To provide an example of transit targets, for a letter posted in Jersey to another address in Jersey there are currently two targets. The first is that 95% of local mail must be delivered one day after being posted, with the target set at 99% of the letters being delivered two days after being posted.
- 8.6 The targets are measured independently by Research International, who use sample items of mail posted and received by a team of panellists and are reported on an annual basis (from April – March). The quality of service report is provided to the Authority on an annual basis and after review, published on the Authority website.

Authority analysis

8.7 In this section the Authority sets out its analysis of current quality of service regime and includes a discussion of:

- Regulatory best practice;
- Insights from the consumer survey;
- Jersey Post's performance against the current targets; and
- Operational constraints.

Regulatory best practice

8.8 To help inform the refined quality of service regime, Copenhagen Economics completed an exercise reviewing the Jersey Post regulatory service targets against other jurisdictions. Their research showed that quality of service targets are a well-established regulatory approach, with almost every jurisdiction using them. Indeed, the Postal Services Directive establishes the setting of quality of service standards for national and intra-EU cross-border services.

8.9 Jersey Post was found to have higher targets than other operators, for example both for delivery speed, that is how fast the items should be delivered, and for the level the percentage target was set at. With respect to the percentage target, the European average was a target level of 90%, whereas Jersey Post's targets go as high as 99%.

8.10 This analysis supports the Authority retaining a quality of service regime but highlights the need for it be refined.

Insights from the consumer survey

8.11 A key aim of the consumer survey was to better understand consumer expectations around postal services to help the refinement of the quality of service regime. The research highlighted:

- Reliability, daily deliveries as well as a trustworthy delivery are, in this order, the three key aspects consumers value most the about postal service in Jersey;
- While there has been a clear decline in letter volumes, the majority of households surveyed (50%) still receive between 3 and 6 letters a week, with the majority of respondents expecting this service to continue to its current service level;
- Many consumers have traded speed against reliability. For example, some respondents in the qualitative work were willing to trade 1-2 days added to their delivery against certainty over expected delivery date;
- Consumers continue to be focused on mis-deliveries, with a focus also on inbound parcel safety; and
- Just 8% of respondents send letters or parcels to Guernsey through postal services in Jersey. For context, this is much lower than the 36% of respondents posting letters to Europe, and 34% of respondents occasionally posting to the rest of the world, excluding Europe and the UK.

Jersey Post's performance against the current targets

- 8.12 In recent years Jersey Post's performance against the targets has been mixed, and in a number of years several targets have not been met. The largest divergence between actual performance and the target are with the measures for the UK and Guernsey, with lesser issues for Jersey performance. In their quality of service reports, Jersey Post regularly cite issues with the broader mail supply chain as being a reason for targets not being met. This is alongside other challenges, such as the impact of the Covid-19 pandemic, which significantly affected performance in recent years.
- 8.13 The mixed level of performance and the extent to which this is within Jersey Post's control, strongly supports the need for a refined quality of service regime, with appropriate targets, against which Jersey Post can be held to account.

Operational constraints

- 8.14 Certain transit time targets are challenging, when considering the operational constraints arising from reliance on other operators and the configuration of mail flows. A good example of this is for Guernsey, where currently outgoing mail from Jersey to Guernsey is loaded onto the mail plane, and then later consolidated at East Midlands Airport, to be returned to Guernsey the day after. The same is true for Guernsey to Jersey mail flows and this complexity raises challenges for the delivery against the target. This complexity could potentially increase with the proposed move from the mail plane to ferry.
- 8.15 The other key operational constraint is Royal Mail, which is the key source for Jersey Post's mail volumes. This has been challenging, in particular, during industrial disputes. Therefore a key focus of the refined regime is to focus on Jersey Post's performance, rather than the performance of a collection of firms in the mail delivery chain, while noting that Jersey Post have the responsibility to ensure the supply chain works effectively.

Draft decision proposals

- 8.16 Box 1 sets out the proposals for the refined quality of service regime. The proposals would be implemented by the Authority following the statutory process and issuing an Initial Notice. It is expected this would be issued alongside the Final Decision and allow the refined regime to be in place from January 2024, with the first results published in April 2025.

Box 1: Draft proposals for the quality of service regime

Definitions

- Day of dispatch – This corresponds to the UPU’s measure ‘J’. It is the day from which the counter starts on time taken to deliver an item. It starts when an item is either posted in a postbox or handed over at a post office counter.
- Day of Jersey Post receipt – This corresponds to the UPU’s measure ‘D’. It is the time of receipt by Jersey Post of locally collected mail and mail coming from the UK at its main sorting centre at Rue de Pres. The target applies to the number of days before clearance to a delivery officer; for instance, day of Jersey Post receipt + 1 means mail is processed and cleared to a delivery officer on the next day after receipt.

Proposed transit targets

Origin-Destination	Proposed day of dispatch targets	Proposed day of Jersey Post receipt targets
Jersey-Jersey (Local to local)	Day of dispatch + 2 Quality target: 95%	Day of Jersey Post receipt + 1 Quality target: 95%
United Kingdom- Jersey (Inward Mail)	No formal target, but maintain monitoring and reporting on transit time	Day of Jersey Post receipt + 1 Quality target: 90%
Jersey-United Kingdom (Outward Mail)	No formal target, but maintain monitoring and reporting on transit time	Day of Jersey Post receipt + 1 Quality target: 90%

Additional quality reporting

- Consumer satisfaction – To continue to report on consumer satisfaction, which is based on Jersey Post’s internal survey.
- Number of complaints – The number of complaints and its breakdown by type of complaint are to be reported as well. This is to include mis delivery.
- Number of refunds – Information on number of refunds issued through Jersey Post’s compensation scheme, broken down by month.

Reporting approach

- Reporting from January to November (December to be excluded as peak month).
- Sampling to be maintained as the basis for reporting, as is the current approach it should be completed independently, albeit overseen by Jersey Post.
- Performance against targets and narrative report for the previous period under consideration to be submitted to the Authority in the following February for review.
- The non-confidential report to be published on Authority website in the following April.

8.17 Each element of these proposals has drawn on the analysis set out in this chapter. In particular:

- Definitions – these proposals do not use the “J” and “D” targets used in the current regime, but instead use their plain English equivalent. This proposed change should help ensure better understanding of the targets both in the industry and by wider stakeholders. This will also help support any future consumer messaging about this area.
- Proposed transit targets – the transit targets have been simplified and streamlined:
 - the Guernsey target is no longer applied, this is in line with the consumer research and as it is recognised that when first set, symmetric targets were set on Guernsey Post as post was regulated on a pan-Channel Islands basis and this no longer applies.
 - With respect to Jersey services, binding targets for day of dispatch have been maintained and this is in recognition that Jersey Post have full control over this service. This target is complemented by measuring Jersey Post’s performance once local mail is received at its main sorting centre.
 - For UK mail, there is a recognition that the UK leg of mail journey is outside Jersey Post’s control, therefore the focus and binding targets apply to Jersey Post’s performance once UK mail is received at its main sorting centre.²⁵ For inward mail this measures the speed at which it is cleared for delivery and for outward mail, this measures the speed at which it is cleared for onward transit to the UK. Recognising the importance of the UK mail link the Authority expects Jersey Post to continue to monitor performance from a day sent perspective, but this would not be subject to a binding target.
- Additional quality reporting – Many of the measures contained within the additional quality reporting are already being reported on voluntarily by Jersey Post. These help provide a comprehensive picture of Jersey Post’s performance, allowing the Authority and wider stakeholders to more fully understand the customer experience and how their needs are being met so it is important they continue to be reported in future.
- Reporting approach – The reporting approach builds on current practice but has been reset for the new reporting period. A key point to note is that, as is the case now, December has been removed from quality of service reporting, to avoid skewing the results from what is the peak month for the postal network, and therefore not reflective of performance over the year.

Question 3: Do you agree with the Authority’s proposals for a refined quality of service regime? If you do not agree you should provide all of your analysis and assessment.

Question 4: Do you have any other comments on any other matter relating to the Draft Decision? Of yes, please provide all of your analysis and assessment.

²⁵ Note, international mail is also received via the UK so would also be captured under this category.

Annex 1: Proposals for Class I Licences

A1.1 The Authority has, under the Law, the ability to issue Class I Postal Operator's licences to businesses wanting to offer a postal services from Jersey. There is currently one active Class I Licensee, Hi-speed, and this annex sets out policy proposals specific to it.²⁶ That said, the principles set out in this annex would also be applied to any future Class I Licensees were an application to be made.

Future Class 1 Licence framework

Current framework

A1.2 The Hi-speed licence is specific regarding the range of postal services that can be offered, which are limited to:

- Business clients located in Jersey;
- For the Letters to be conveyed and delivered to recipients in international destinations; and
- The Licensee is not able to provide a service to deliver letters to Jersey or UK based recipients.

A1.3 The Class I licence has a financial limit imposed on the revenue generated from licenced services in any calendar year set at £310,000. This cap was set to mitigate any potential adverse effect on Jersey Post, the Class II Licence holder and USO provider. The licence also includes a clause which allows the Authority to direct the Class I license holder to contribute to the funding of the USO if required.

A1.4 Similar to the Class II Licence, Hi-speed have obligations for the safeguarding of mail, this includes a requirement to safeguard the privacy and confidentiality of all Licensed Letters and comply with all applicable laws. The Licence also allows the Authority, to direct the Licensee to provide to the Authority with information relating to its activity, to allow compliance with the obligations in the Licence and of the Postal Law to be assessed.

Authority analysis

A1.5 The Class I Licence framework has been in existence since the Law was enacted in 2004. It came into being to enable other operators of Postal services to apply to operate from Jersey and offer an alternative, but limited service, to Jersey Post. As set out in chapter 3 at one point there were multiple Class I Licensees, however with the removal of low value consignment relief, all the other Licensees, except Hi-speed, relinquished their Postal Licences.

A1.6 A key part of the design of the framework was the consideration of the potential impact of Class I postal licences on the Class II licence holder, and the USO. Consistent with this, the Hi-speed licence has protection built in to ensure that the Class II licence holder is not left disadvantaged. This includes geographical restrictions, a limitation to business only customers

²⁶ Note, alongside the draft report the Authority has also issued an Initial Notice to reconcile the Hi-speed Freight Licence with its activities. The Licence will be further updated to reflect the outcome of the review.

and the implementation of a revenue cap. Hi-Speed has been operating under this framework now for several years, with no adverse impact on the market.

Authority proposals

- A1.7 Overall, the Authority's preliminary view is that the current Class I licence framework is fit for purpose, and proportionate to both the scale of any potential Jersey operation and regulatory burden. Therefore it is proposed to maintain the broad framework, with restrictions maintained to ensure the Class II licence holder is not disadvantaged (e.g. maintain the geographic and customer restriction, alongside the revenue cap). These restrictions have been in place for several years, with no adverse impact on the market.
- A1.8 With respect to USO funding, given there is only one Class I Licensee, the clause for contributing to funding of the USO is unlikely to ever be enacted. As set out in chapter 7 there are wider issues with the USO and reflective of this, it is proposed to remove this condition from the Licence.
- A1.9 Consistent with the broader work on updating the regulatory framework set out in chapter 6, it is important for the Authority to continue to monitor developments in the market and the operation of Hi-speed and its compliance with the conditions in the Licence. Therefore it is also proposed to introduce formal annual reporting requirements, with a focus on demonstrating compliance. The reporting would be on an annual basis and include data on mail volumes, by type, revenue and high level quality of service reporting and would be submitted in the April of the following financial year.

Question 5: Do you agree with the Authority's proposals for Class I Licences? If you do not agree you should provide all of your analysis and assessment.

Annex 2: Consultation questions

Question 1: Do you agree with the Authority's proposals to update the regulatory framework? If you do not agree you should provide all of your analysis and assessment.

Question 2: Do you agree with the Authority's proposals to safeguard universal service provision? If you do not agree you should provide all of your analysis and assessment.

Question 3: Do you agree with the Authority's proposals for a refined quality of service regime? If you do not agree you should provide all of your analysis and assessment.

Question 4: Do you have any other comments on any other matter relating to the Draft Decision? Of yes, please provide all of your analysis and assessment.

Question 5: Do you agree with the Authority's proposals for Class I Licences? If you do not agree you should provide all of your analysis and assessment.