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Jersey Competition Regulatory Authority
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8 September 2023

Jersey Post response to Postal Services Review Draft Decision:

Thank you for the opportunity to respond to the Draft Decision published on 12 July 2023 following a professional and collaborative process between our two teams.

First, some context to Jersey Post, our role within the Jersey economy and some of the challenges we now face:

- We follow and support GoJ policy, working with GoJ to deliver for the Island and playing an integral part in the supply chain resilience for the Island. Jersey Post is a major employer with 300+ staff on above-living wage salaries with sick pay, annual leave and pensions, contributing circa £12m p.a. to the wider Jersey economy in salaries alone.
- USO applies to 'single item' mail:
 - o The USO aims to ensure a single tariff and service delivery promise for mail for single-piece mail items. It was designed originally for correspondence mail, including gifts between family members, for example. The scope of the USO has not evolved even though the market has changed substantially, and it now covers a wide range of items including commercial goods ordered online and returns. Jersey Post is transitioning from a letter to parcel business, 30% of deliveries are now packets and parcels with letter deliveries declining by 17% over the last 2 years and set to continue. Royal Mail items, which are a mixture of online shopping and consumer mail, has seen a 30% decline in volumes over the last 2 years as consumer mail has declined and Royal Mail have lost commercial contracts due to their strike action in 2022. Jersey Post believe the needs of our customers are now very different from when the USO was first introduced.
- The changing nature of the business means there are now large powerful customers who can dictate the price per parcel. Jersey Post must compete on an equal basis to unregulated competitors yet bears the overhead costs necessary to deliver a daily delivery service to every address each day in line with our licence. Unregulated competitors do not have any obligation to meet this level of service. We suggest that it is time to review the USO in line with the changing business and market requirements to check whether regulation is still fit for purpose and linked to what the government wants.
- Jersey Post is not comparable to most other Postal Authorities due to our island status:
 - o This creates an inherent cost pressure over which we have limited or no influence, e.g., cost of moving goods by ferry / logistics operators who set their own price. Lack of competition, or competition stifled due to a single ferry operator and a dominant logistics operator where Royal Mail control the contract.
 - o We are reliant on a single supplier for ground handling at the Airport for security processing of postal items before these can be loaded to a commercial airline.

Registered Company number: 88764

Registered Office: Postal Headquarters, La Rue Grellier, La Rue des Pres Trading Estate, St Saviour, JERSEY, JE2 7QS

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- This takes the decision away from Jersey Post as to whether we can create a viable next day service to the UK.
- As a result, we have a higher ratio of cost base to revenue - and limited opportunity to grow revenue or reduce costs.

In the context of these challenges, I'm happy to provide a formal response to the Draft Decision as below:

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.

We agree the licence should continue unchanged and that to change it would involve a lot of work and analysis for little gain.

We note that it is unclear what constitutes a USO item in the old and proposed new licence. Whilst this position does not currently cause issues, we cannot isolate the relevant costs and revenues associated with this part of the business. In line with the proposed requirement to provide volume and revenue reports annually by product, Jersey Post agrees to provide such information by format, i.e., letters /large letters, packets, and parcels.

Table 4. lays out the new reporting requirements. We believe the purpose of both number 5 "Cash headroom" and number 3 "Viability statement" is from a sustainability perspective. If so, we believe that the Viability statement would be sufficient.

Jersey Post Annual financial statements are approved by the Board in May, so this would be a more appropriate target date for the provision of annual data.

We agree that it would be helpful to set up a User Council to put consumers at the heart of how we run our business. We suggest that an independent, credible, island-wide body such as Citizens Advice or Jersey Consumer Council sponsors the setting up of such a body to ensure that it properly and independently represents the different needs of postal consumers.

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.

We note the JCRA's proposals based on the work of Copenhagen Economics, however:

1. Building a counterfactual of what Jersey Post would look like without any USO is difficult, subjective, and impossible to cost objectively and robustly. A counterfactual cannot properly be created without an understanding of the changes in costs and benefits from different potential operational networks to understand what Jersey Post might look like without a USO and therefore what the profit maximising network might be in that scenario. Therefore Step 1 is interdependent with Steps 2 and 3 and there could potentially be multiple stable profit-maximising counterfactuals. It is likely to be difficult / impossible to robustly estimate how the product mix, competitive pricing responses, volumes etc would change in response to counterfactual scenarios involving the absence of the USO.
2. It is also unclear whether JCRA are suggesting a 'scorched node' approach i.e., what would the network look like if you removed the USO from the operations as they currently stand, or a 'scorched earth' approach i.e., if you started with no network, what would you build if you didn't need to meet the USO.
3. The approach takes no account of how competitor postal operators might react to a counterfactual Jersey Post operating without a USO, their dynamic reactions would influence what the counterfactual would look like in the first place.

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4. The reality is that the question(s) really only applies to removing specific elements of the USO rather than the entire USO. Therefore, it is the net cost of those specific elements rather than the whole USO that is relevant to the policy question of whether the USO should be relaxed in that area - this is also a potentially more tractable problem.
5. The counterfactual depends not just on the USO, but also on the quality of service targets - many aspects of the products and operations of Jersey Post are designed to meet the combination of USO and regulatory quality of service requirements. Removing the USO without adjusting quality of service targets is an unrealistic counterfactual scenario. JCRA needs to consider how these two regulatory requirements interact in proposing an approach for costing the USO.

The JCRA analysis also begs a number of questions:

- What do you do if Jersey Post becomes unprofitable not because of the burden of the USO, but because of the general decline in the postal market (i.e., it would be unprofitable without the USO rather than because of it - as is the case for The Post Office in the UK¹).
- If specific aspects of the USO impose significant/disproportionate net costs on Jersey Post, this will not be picked up by the JCRA approach, however it still might be appropriate to relax the USO to avoid those costs.
- There are positive and negative externalities associated with operating a USO postal service that will not be captured in this analysis but should still be considered in a welfare-maximising decision about the definition of the USO.
- There are elements of the USO that are not clearly defined ('reasonable access', 'affordable price' etc) which makes it difficult/impossible to define the net cost of such restrictions.

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.

We fully agree this, but need to propose our measurement method as this will need to be an element of independent measure and self-measure to expose the end to end to and from the UK vs the Jersey performance elements.

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.

None.

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.

Agreed.

Julie Thomas
Managing Director
Jersey Post Ltd

¹ The UK Government has committed to providing £50m per year subsidy to the Post Office until 2025
<https://wearecitizensadvice.org.uk/the-government-has-announced-it-will-continue-to-subsidise-rural-post-offices-but-is-it-enough-to-c9a939b75407>

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