

Director General
Office of Utility Regulation
Suites B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

8 September 2009

Dear Mr Curran

Response to Guernsey Post's Proposed Tariff Charges

The mandate of the Commerce and Employment Department is wide ranging and includes responsibility for promoting the interests of all sectors of the economy. Guernsey Post is a key service provider for the Bailiwick's bulk mail and fulfilment businesses. The Commerce and Employment Department is, therefore, grateful for the opportunity to comment on the OUR's Consultation Paper "Guernsey Post's Proposed Tariff Charges".

The Department has a limited number of comments which are provided below cross referenced to the relevant Sections in the OUR Consultation Paper:-

4.5 GPL's Approach to Pricing

The Department recognises the advantages of Size Based Pricing (SBP), in particular the need for cost reflective prices driven by the increase in terminal dues charged by Royal Mail. The Department is conscious that the Bulk Mail Sector will be particularly affected by these charges and the ability of certain types of customers to mitigate the cost of increases by switching packing and postage processes will be limited. The Bulk Mail Sector is a small but important element of the Guernsey economy, particularly in that it contributes towards a diversified economy. The Department, together with Policy Council, has been actively taking steps to ensure this Sector is sustainable in the future and would encourage the Director General to scrutinise closely the reasonableness of Guernsey Post's fixed and variable costs to ensure that price increases are minimised as far as possible.

The Department notes the Director General's observation that Guernsey Post proposes to introduce many more weight steps than introduced in the UK and shares the Director General's concerns regarding the additional complexity this will introduce to all consumers.

The Department notes that Guernsey Post proposes significant increases in Intra Bailiwick mail with large letters up to 100g increasing from £0.36 to £0.66 and packets increasing from £0.36 to £1.71. It is unclear why Guernsey Post is proposing such significant increases as the SBP based contract does not affect Intra Bailiwick mail. The Department would encourage

the Director General to satisfy himself that the new Intra Bailiwick tariffs are indeed cost reflective.

The Department notes that Guernsey Post is proposing to introduce SBP for International mail to reflect the underlying contract with Royal Mail despite Royal Mail itself not offering SBP for international mail to its own UK customers. The Department would expect the Director General to ensure that this is an acceptable charge in pricing and that:-

- (a) Guernsey Post has achieved as good a deal from Royal Mail as the Bailiwick's competitor jurisdictions.
- (b) these new rates are indeed cost reflective and are not being used to cross subsidise other postal products or fund non core activities.

Finally, the Department is aware that there was a significant lead in period for SBP in the UK to allow customers to understand the radical change in pricing structure. It would appear that Guernsey Post would intend to only have a three month period for public information and education which may be possible but would require a comprehensive promotional campaign by the Company, particularly if Guernsey Post is proposing to include more weight steps in its SBP structure compared to the UK. The Department, therefore, encourages the Director General to ensure that the Company establishes an effective communications and educational strategy if SBP is to be introduced.

5 The Reserved Area

The Department welcomes the Director General's review of the reserved area in accordance with the original States Directions to the Director General in 2001, namely:-

"To request the Director General to review and revise the award of exclusive rights from time to time with a view to opening up the Bailiwick postal services market to competition, provided that any such opening up does not prejudice the continued provision of the universal postal service."

The relevant part of the Policy Letter in 2001 stated:-

7.13 The Board (of Industry) is concerned with the need to ensure the maintenance of the universal service with the potential benefits of the competitive provision of services. It is also important that Guernsey keeps abreast of developments elsewhere and is not seen to be restrictive or unnecessarily slow in developing the postal sector, as this would not enhance the image of Guernsey as a vibrant place to do business. Therefore the Board recommends that the States issue a Direction to the Regulator at this time to set the reserve sector at a time that is sufficient to ensure that the universal postal service is met and to review the reserve area from time to time and make amendments to bring about the gradual opening (emphasis added) of the postal market consistent with that aim."

Arguably the market has been gradually opened to competition since 2001 as the reserved area has been fixed at £1.35/item since 2001 so it has fallen in real terms. However, the Department's view is that if the Director General does propose to remove the reserved area in its entirety in a single decision then it would be prudent to obtain a States Decision to that effect.

The Department recognises the importance of competition in the postal market for the Bulk Mailers and notes the liberalisation of postal markets in other jurisdictions.

The Department's view is that the inclusion of 'and revise' in the Direction permits the Director General to take relevant action without further reference to the States which in this case would in legislative terms, be an amendment to or revocation of the 2001 Reserved Postal Services Order.

However, the power to take action is made subject to the closing condition "provided that any such opening does not prejudice the continued provision of the universal postal service." This is, of course, key and at this stage the Department is not aware of the cost of the USO and to what extent it is funded by the reserved area. The Department, therefore, expects the Director General to fully assess the costs of the USO and the revenue associated with the reserved area before coming to a decision.

6 Approach to Reviewing the Tariff Charge Application and Next Steps

The Department welcomes the Director General's thorough examination of Guernsey Post's operating costs and capital expenditure to ensure that postal prices are cost reflective and, most importantly, those costs are those costs which would be incurred by an efficient postal operator.

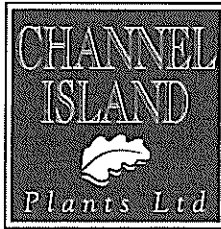
In particular the Department would wish the Director General to ensure that postal customers are paying prices which reflect the costs of postal services and not contributing towards the costs of non core activities.

Finally the Department notes that Guernsey Post's tariff application is for a one year period which means that a similar tariff application will be needed to be submitted next year. The Department recommends that price controls should be for longer periods to save resources and more importantly provide certainty to customers.

Yours sincerely



Carla McNulty Bauer
Minister



SPECIALIST PLANT PROPAGATORS

Office of Utility Regulation
Suites B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

September 9th 2009

Dear Mr Curran

I am writing in response to the proposed price rises by Guernsey Post from April 2010. Our company is a small locally based growing company which employs 6 permanent local staff and 17 contract non-local employees. Over our last financial year which runs from July 2008 till end of June 2009 we spent approximately £36,000 with Guernsey Post. The service we use is the special delivery service which has proved to be a very reliable service with probably 97% of our product arriving the next day which is what we need. We export unrooted cutting material of high value plants which has a limited shelf life. We also use the service operated by Ferry speed for deliveries direct to our larger customers.

At the moment our cost per box is £12.10 as the weight falls in the category of 1 – 2 kgs. The proposed increase is to £13.20. I have recently found out that the price of Royal Mail to send the identical package to Guernsey is only £8.15. Why such a huge discrepancy in price please? As a company we have been unable to increase our product price for many years and have had to absorb the increase in freight prices too. We are now actively pursuing sending all of our cuttings by ferryspeed direct to our sales company in the U.K. We will then organize delivery of our product from there to our customers without using Guernsey Post. Guernsey Post would only be used for any late orders.

I look forward to a response on the huge differential in pricing between Guernsey Post and Royal Mail and also the proposed increases. I believe in many instances that Guernsey Post is pricing itself out of the competitive market place and that there will be other companies like us looking for alternatives.

Yours sincerely

A handwritten signature in black ink, appearing to read "J M Scott".

Judith Scott
PRODUCTION DIRECTOR



CHANNEL ISLAND PLANTS LTD

DES MARETTES VINERY, RUE DES MARETTES, ST. MARTIN'S, GUERNEY, GY4 6JH

TELEPHONE: NURSERY 01481 236133 FAX 01481 239220

OFFICE 01481 235635 FAX 01481 239735

EMAIL: judy.scott@idosnet.co.uk

REGISTERED IN GUERNEY NO. 39792

Dear Sir,

Citipost DSA Ltd has applied for a licence in the Jersey postal market and is interested in doing so in Guernsey. We have contacted the officer for postal regulation in your department and have been told that a licence application might be possible from mid-December this year.

In the meantime we would like to briefly respond to comments within the 2010/2011 Price Control Application submitted by Guernsey Post, and which is attached to your Consultation Paper OUR 09/16 .

Guernsey Post state they have spoken with customers about the alternative service that might be offered by a Downstream Access (DSA) operator. They state that such an alternative will involve a loss of service and involves onerous pre-advice requirements.

Citipost DSA Ltd would question these assumptions based on investigations and research we have already undertaken with regard to mailings from the Channel Islands to the UK. We have met with Her Majesty's Revenue and Customs and agreed mailing and clearance procedures to the UK that are fast and effective. Rather than be "onerous" we believe customer's mail preparation and pre-advice via Citipost will provide a customer focused, cost effective service, giving the client real choice in how they distribute their postal items. Once we are able to engage with customers we will explain how we access Royal Mail networks so they can decide for themselves whether there will be any diminution of delivery service.

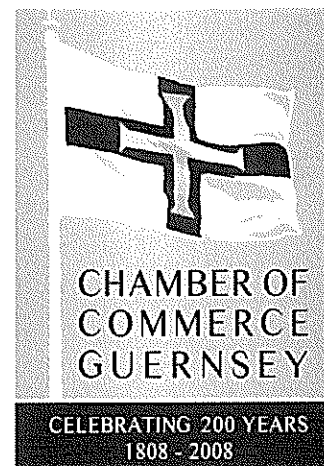
It is also important for you to understand that we have had, and are continuing discussions with Guernsey Post with the objective of possible joint working to offer alternatives for postal services out of Guernsey. Although at this stage nothing has gone beyond conceptual discussions.

In conclusion we invite any bulk-mailer currently operating in Guernsey to find out directly from us how they can off-set the extremely high tariff changes proposed by Guernsey Post next April.

Yours Sincerely

17/09/2009

J Curran Esq
Director General of the Office of Utility Regulation
Suites B1 & B2, Hirzel Court
St Peter Port
GY1 2NH



27 August 2009

Dear Director General

Guernsey Post's Proposed Tariff Changes

In response to your consultation paper ref. OUR 09/16 dated August 2009 the Guernsey Chamber of Commerce would like to respond as follows; please note that following advice from Guernsey Post Limited, the term Pricing in Proportion (PIP) has been used rather than Size Based Pricing (SBP).

Guernsey Post Limited (GPL) does have a monopoly position in its core function and, as a general principle, monopolies are not ideal models to optimise price and service. However, on an island like Guernsey with small scale volumes, unit costs will inevitably be disproportionate to similar costs in larger jurisdictions. GPL has, over recent years, successfully re-invented itself by overcoming its industrial relations difficulties and consequent adverse service delivery. It appears to have resolved many core issues and anomalies whilst diversifying its trading position. All this, coupled with a cost efficiency drive they have in partnership with the Unions, made a real marked improvement to the business. We consider it essential that this efficiency drive continues to improve the efficiency of GPL.

Royal Mail (RM) has in the past few years been changing its relationship with GPL from one of benevolent partnership to a much more aggressive commercial customer-supplier agreement where they are the only supplier able to offer the quality of service required by GPL. Of this they are obviously aware and are aggressively demanding what seem at face value to be unreasonable charges from GPL. However when the rates proposed by GPL are compared with the inland rates currently charged by RM, the rates, apart from packet charges, do not seem too disproportionate. Whilst a pure application of the proposed charges to GPL's current mail mix shows an overall increase of over £8m pa; by applying Pricing in Proportion (PIP) this can be mitigated to approximately £3.8m. PIP now forms the basis of all RM's charging structure and unless GPL follow their example, customers will have to accept the penalty of higher prices. It is considered there is no option but to accept PIP as it is in the best interests of the customer. It is noted that Jersey Post (JP) currently do not PIP and their rates on initial glance look extremely advantageous. However, we understand that, within the coming months, RM will apply the same model to their charging structure which will inevitably bring JP's rates closer to those of GPL.

Turning now to the Reserved Area (RA), if the RA was removed GPL would still be required to provide the universal service obligation throughout the Bailiwick, provide a First Class Day B delivery service to



Suite 1, 16 Giategny Esplanade, St Peter Port, Guernsey, GY1 1WN
Tel: 01481 - 727483 Fax: 01481 - 710755
Office hours: Monday - Friday 09.00 - 16.00
e-mail: office@guernseychamber.com web: www.guernseychamber.com
The Guernsey Chamber is a company limited by guarantee. Reg No 37792

the UK as well as other discrete but essential services which make up a postal service. Any removal of the RA would inevitably open up the service to companies who will "cherry pick" those discrete areas they consider would offer opportunities. This will subsequently reduce the volume carried by GPL and will therefore lead to an increase in their unit price.

JP currently does not have a RA and we understand that a private mail supplier, City Post, is currently investigating the provision of a service for a Jersey fulfilment house (play.com). If the RA was removed GPL would be open to direct competition from City Post and JP plus other Down Stream Access (DSA) providers. The competition from City Post and JP will continue to be there even after any future price rises are inflicted on them. Economies of scale will make JP charges to Guernsey businesses very competitive whilst giving JP a comfortable profit.

There is therefore a dilemma, do we go for a complete removal of the RA and encourage competition thus making GPL extremely exposed or do we maintain the RA which could force an artificially high price for users of the service? It is our opinion that the RA must be retained but not necessarily at the level proposed by GPL. Whilst considerably more modelling still needs to be done we would consider a RA of around £1.71 to be reasonable. Also, we would actively and enthusiastically encourage GPL to investigate providing a cheaper alternative service possibly by partnering a DSA who, although probably would not be able to provide the same level of service, would give the customer the option of a cheaper, second class service. Whatever the outcome, it is imperative that the fulfilment business and bulk mailers do not lose any market advantage which could force them to reconsider the location of their operation.

Many Chamber members, and for that matter many non members, have already expressed concern as to the significant impact any further cost base increases would have on their business viability. We would reiterate that wherever possible every effort should be made by GPL, the OUR and the States of Guernsey to engage with Royal Mail to negotiate, at the very least a long lead in time for any tariff or profile changes, and preferably to settle at a more appropriate level of cost for postal services supplied.

Perhaps it is best summed up by a comment from one of our members:

"Our small island needs the OUR to keep the monopolies truly accountable, yet maintain their enthusiasm (and financial ability) to improve. The whole island will then benefit".

Yours sincerely



Barry Cash
Director
Guernsey Chamber of Commerce

COMMUNICATION WORKERS UNION

Headquarters 150 The Broadway, Wimbledon SW19 1RX
Tel 020 8971 7200 Fax 020 8971 7300 www.cwu.org
General Secretary Billy Hayes www.billyhayes.co.uk

GUERNSEY

Union Room
Guernsey Post Office
GY1 1AA
Tel : 01481 733589
Mob ; 07781107058
Fax : 01481 713025

e-mail: georgej@guernseypost.com
Branch Secretary
George Jennings

1st September 2009

Mr John Curran
Director General - Office of Utility Regulation.

Dear Sir,

The Guernsey branch of the Communication Workers Union views with alarm your recent report that you are minded to allow competition into the present reserved sector of the mail market in Guernsey.

As the Union that represents over well over 200 Postal Workers in the Bailiwick, I believe that not only have we the right to be represented in this matter, but that also the contribution that we have made to the success of Guernseypost (GPL) should not only be recognised, but allowed to continue to represent an example of how good Industrial Relations are essential for good business.

One only has to look at the Industrial unrest in the United Kingdom, which has been brought about not only by Royal Mail's refusal to enter into meaningful dialogue with the Unions but also to honour previous agreements, coupled with a damaging downstream access policy which has allowed private companies to cherry pick large areas of the mail market, to see the dangers of removing the reserved sector. Similarly Royal Mail's negotiation strategy with GPL, appears to be very similar to its approach to Industrial Relations.

The new pricing in proportion (PIP) proposals being sought by GPL are directly as a result of huge increases sought by Royal Mail. Even then GPL has worked with us in order to lessen the impact on its customers, to the point where the general public will see little increase and some of the bulk mailers only a small proportion.

GPL is required under its USO (Universal Service Obligation) to deliver to every address in the Bailiwick on 6 days a week. Under your public consultation paper (09/16) you state that you believe that there is no longer a need for a reserved area for GPL to fund its USO. However this is quite simply not true. If under your proposals

the 3 largest bulk mailers were to be cherry picked by external competitors it would result in a very significant reduction in GPL's revenue. Although you may say that this would be offset by a reduction in costs, this would still result in a shortfall of some £4m. This would then place your proposals in direct contravention of the 2001 Post Office Bailiwick of Guernsey Law, which states that "the Director General may make or amend or revoke an order in relation to reserved postal services, where he believes that the making of the Order is necessary so as to enable the provision of a universal service: or so as to comply with States Directions".

The States then resolved on the 31st January 2001 "To give a direction to the Director General in accordance with section 3 (1) (b) of the Regulation of Utilities (Bailiwick of Guernsey) Law 2001, to award to Guernsey Post the **exclusive** right to provide postal services in the Bailiwick to the extent that such exclusive right is necessary to ensure maintenance of the universal postal service *and* to request the Director general to revise and review the award of the exclusive rights from time to time with a view to opening up the Bailiwick postal service to competition, **provided that any such opening up does not prejudice the continued provision of the universal postal service.**

Although you may argue that the opening up of the postal markets would not restrict GPL's ability to provide the USO, the loss of the bulk mail industry in the Island to GPL, would require such a huge increase in the cost of general postage in order to fund the USO that the Director general would be in contravention of section 5 of the postal law.

If we consider other Postal Islands, Jersey although technically open to competition is subject to a judicial review, given the very significant impact of JPL losing its monopoly.

The Isle of Man post office is fully state owned.

If we consider the wider market we can look further afield to Europe (EEC) and to the larger countries in the world. In the European Union only 5 member states out of 27 have fully opened their markets, and even in most of those that have been fully liberalised, there is little actual competition. The vast majority of this, results in cherry picking of the large mail customers with the States own mail business having to provide their USO with reduced income.

The USA has the United States Postal Service (USPS) which is the only provider obliged under statute to provide aspects of universal service at an affordable rate. USPS has the monopoly on the delivery of non urgent letters and access to customer mail boxes.

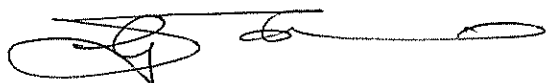
Canada post has a monopoly over its domestic letter mail market and is obliged to provide service at uniform rates across the country

Australia Post provides all letter services at a single uniform rate of postage within Australia and has a monopoly for all postal items up to 250 grams.

Japan Post Holdings was created in 2007 as part of a privatisation process for Japan's mail market, however recent reports suggest that Government support for privatisation is wavering and in November 2008 a project team was put in place to review the plan for privatisation.

However, any comparison with any other mail market including the UK, are not only inappropriate but misleading as Guernsey is unique. We have a small island with a relatively large population. The monopoly that GPL has over the mail market is essential in order that it is able to continue to provide the USO required of it under the Postal Law. That is why we firmly believe that not only would your proposals be contrary to the 2001 Law and States Directions, but would also only allow the USO provided by GPL to continue by being either heavily subsidised by the States of Guernsey or at a far reduced level of service.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'George Jennings', with a long horizontal flourish extending to the right.

George Jennings
Guernsey Branch Secretary



STATES OF GUERNSEY

Deputy Al Brouard

Member of the States of Guernsey

Office of Utility Regulation
Suites B1 and B2
Hirzel Court
St Peter Port
GY1 2NH

La Collette
Rue des Brehauts
Les Buttes
St. Pierre du Bois
Guernsey
GY7 9TN

Telephone +44 (0) 1481 263618
Facsimile +44 (0) 1481 263618

received
29 Sept 2009

Dear Sir

Comments on Guernsey Post's proposed Tariff Changes

First of all my apologies for the late submission I am still catching up from the August recess !!

Reserved Area

My main concern is to ensure that the post boxes are maintained and more importantly that Rural Post Offices are maintained. I have no issue with different parts of an operation not necessarily making a profit as it is all part of the service to the public.

I do have a lot of sympathy with the request from Guernsey Post to increase its reserved area, as I do not want other operators coming into this market who will cherry pick the bits they like, leaving Guernsey Post to pick up what is left over. The left over bit will probably be less profitable, if at all, and Guernsey Post will then struggle to provide the service we have now. (I appreciate they only have to meet certain USO's but in fact do more than that.)

I am also conscious of the 5000 petition who wished the post boxes and Rural Post Offices to remain, and they agreed to pay the extra stamp cost to do so. This stamp increase is still there, in every stamp sold, so I expect the boxes and counters to remain as "we" have taken a decision to pay a little more to keep them.

Now I look on the Post Office as a service, not every thing will be as profitable as every other part of the operation but overall it is profitable (I am the first to acknowledge that on the 9th of Jan 2010 at 14.25 hours it may not be worth while emptying the post box on the Saline road --- *Fictitious*--- but it does not matter as it is costed out in the service provided and paid for deliberately in the stamp)

Any new operator I believe will look at, maybe say the bulk mail or mail delivered to one point (i.e. not from 150 odd boxes) by customers etc, but what I can not see them doing, is opening new post office type counters around the Island or providing post boxes. The effect will be to take business away from the Post Office and put in jeopardy the existing service. Guernsey Post is offering a service which has to be looked at in the round.

In concluding I have no problem in increasing the Reserved Area

Size Based Pricing

With regard to **Size Based Pricing**, I do not have a problem, but for local deliveries I would wish to see the **same tariff for A4 envelopes of 100gms or less as that of a letter**. The rationale is that a lot of post is sent unfolded i.e. estate agents details, which is light in weight, and I would have thought capable of going through the mechanical sorters ? so of little inconvenience to the Post Office. Also A4 if from a private household has the address written in larger writing or if from a business is typed all of help to the postman. It would be a good service to keep i.e. under 100 gms the same rate for local deliveries. Heavier weights can be charged accordingly.

Tariffs

The local increase looks reasonable but against a negative RPI looks high but I have no information to prove the cost. Like wise with the substantial UK increase, I do not have details to the Royal Mails increases.

Once again my apologies for the late submission, and hope my comments add to the debate.

Yours sincerely



A H Brouard



**Response to Office of Utility Regulation Consultation Paper
Document: OUR 09/16**

ABOLITION OF RESERVED AREA AND PROPOSED TARIFF CHANGES

Contents

Clause		Page
1	Executive Summary	3
2	Background.....	5
3	Legal Framework	7
4	Explanation of Issue.....	10
5	Negative impact on USO	13
6	Mischaracterisation of cross-subsidies	15
7	Inapplicability of close comparisons with other jurisdictions	17
8	Unique benefits of GPL to the Bailiwick	19
9	Overstatement of the likely benefits from competition	20
10	Misunderstanding of the downstream access market.....	24
11	Unique benefits of GPL to customers	25
12	Increase to reserved area	26
13	Explanation of issue.....	27
14	Conclusion	30

1 EXECUTIVE SUMMARY

- 1.1 The Guernsey postal market has a number of unique features because of its island location. A balanced consideration of the special features of the Guernsey postal market is of critical importance in properly assessing GPL's proposals for an increase to the reserved area and the adoption of Pricing in Proportion and the Director General must take such considerations into account when reaching his decisions.
- 1.2 The States of Guernsey have sought to ensure the continued provision of an adequate and affordable postal service within the Bailiwick through the implementation of a universal service obligation, which is funded, in part, by a reserved area in which the universal service provider has exclusive rights.
- 1.3 The obligation to ensure the continued provision of this universal service is paramount. The Director General does not have the power to make any order prejudicing the provision of this service. Further, to do so would be contrary to the express direction of the States.
- 1.4 Should the reserved area be abolished, the ability of GPL to meet its universal service obligation will be prejudiced. This is because of the high fixed costs involved in providing the universal service and the need to continue to cater for 'cherry picked' bulk mail customers. If the reserved area were abolished, the price of a first weight letter stamp to the UK would rise to at least 65p.
- 1.5 Any comparisons with the introduction of competition in other jurisdictions, particularly the UK, are likely to be inappropriate and fail to take account of the unique nature of Guernsey's island location and its niche postal market. In particular, such comparisons inevitably fail to take into account the very high proportion of total postage costs that are attributable to Royal Mail and conveyance charges. In fact, there is very little room in the Guernsey postal market to reduce costs in order to reduce prices. To the extent that there is room, GPL is already seeking to do this.
- 1.6 Accordingly:
 - 1.6.1 It is unlikely that significant benefits will be realised in Guernsey by the introduction of competition within the reserved area. The only attractive target customers for any competition would be a handful of commercial bulk mailers. Ordinary customers and small businesses would pay more;
 - 1.6.2 Apart from a handful of customers it is unlikely that the majority of mailers would receive significant discounts from GPL's proposed tariffs. To the extent that significantly lower prices can be achieved it is likely that these will be predatory, loss leading and ultimately anti-competitive. Such an outcome would be destructive for the long term future and sustainability of GPL and its customers.
- 1.7 GPL is best placed, because of its established position with the postal services market, to realise any efficiency savings. GPL proactively seeks out opportunities to do this, both through direct approaches to large bulk mail customers, and in service wide reviews and improvements designed to benefit all customers. A refusal to increase and/or a decision to reduce the reserved area would also mean a restriction on the training, development and social support GPL currently provides to enhance the general well being of the island community.

- 1.8 GPL acknowledges that the initial calculation of the proposed increase in the reserved area, as set out in the Price Control Application, was based on an incorrect assumption. GPL have revised their requested reserved area to £1.75 - £1.80, and have presented calculations in support of this level of tariff at Annexure 1.
- 1.9 The increase in tariffs by Royal Mail has forced GPL to revise the structure of its own tariffs, which will inevitably mean some prices rises for GPL's customers. However, GPL sees the introduction of Pricing in Proportion as a key factor in enabling customers (including bulk mail customers) to mitigate the impact of the increased charges from Royal Mail and in extending to all customers a greater choice between format and price.
- 1.10 The introduction of the Pricing in Proportion methodology will affect different users in different ways. For all mail streams, the tariffs under Pricing in Proportion will be less than tariffs without the introduction of Pricing in Proportion. For many local mail users, tariffs will be even cheaper than they are currently. Otherwise, subject to several discrete matters that are highlighted, the pros and cons analysis of Pricing in Proportion, as set out in the Consultation Paper, provides a fair and accurate summary, provided that the other elements of GPL's proposals are agreed. GPL welcomes the OUR's in principle agreement to implement Pricing in Proportion.

2 BACKGROUND

- 2.1 The Guernsey postal market has a number of unique factors, which are an inherent product of Guernsey's island location and the structure of its wider economy. Notably:
- 2.1.1 The market is not large enough to produce the degree of economies of scale that might be realised in a mainland market;
 - 2.1.2 Local mail deliveries, where the local provider receives 100% of the tariff paid by the consumer, represent only about 10% of the overall market.
 - 2.1.3 Conversely, international deliveries represent an extremely large segment of the market. The destination postal service provider receives the bulk of the tariff paid by the consumer for this mail;
 - 2.1.4 In particular, 87% of all mail is delivered to the United Kingdom. Accordingly, the United Kingdom postal service (invariably Royal Mail) has an unusually significant influence on the Guernsey postal market; and
 - 2.1.5 Bulk mail, including GPL's largest customer (who post bulk public tariff mail), represents an extremely large segment of the total market. In particular, in 2010-2011 five customers will represent about 70% of the volume of mail sent to the UK.
- 2.2 As a result of these unique factors, the Guernsey postal market is strictly controlled by legislation that is intended to ensure that residents receive an acceptable standard and range of postal services at acceptable tariffs. This is achieved by:
- 2.2.1 Awarding a licence to provide certain basic 'universal postal services';
 - 2.2.2 Protecting the licensee's exclusive right to provide those services, and certain other limited services, by the imposition of a reserved area (currently delimited by the level of tariff). This protection is intended to fund the provision of the universal service; and
 - 2.2.3 Controlling the level of tariff that can be charged by the licensee for certain types of postal services.
- 2.3 Currently, Guernsey Post Limited ("**GPL**") is the only postal service provider in Guernsey and provides universal postal services to the Bailiwick. The Director General of Utility Regulation is responsible for the supervision of GPL in relation to its provision of postal services.
- 2.4 On 15 May 2009, Guernsey Post submitted a price control application in relation to the period 2010 - 2011 ("**Price Control Application**"), with supporting submissions and statistical evidence. The Price Control Application dealt substantively with three matters:
- 2.4.1 Increase of the reserved area in which Guernsey Post enjoys exclusive rights to provide postal services;
 - 2.4.2 An increase in tariffs driven by increased Royal Mail charges; and
 - 2.4.3 Implementation of the Pricing in Proportion ("**PiP**") method of calculating tariffs.

- 2.5 As discussed substantively at paragraph 13 below, the need to introduce PiP and increase tariffs was a direct result of changes to Royal Mail's pricing structure and tariffs. Royal Mail is by far Guernsey Post's largest downstream supplier. GPL notes that it submitted the Price Control Application only after substantial negotiation with Royal Mail (for which Guernsey Post retained a leading London law firm to act on its behalf), and Guernsey Post bearing increased Royal Mail costs in the current year 2009-2010.
- 2.6 In response to the Price Control Application, the Office of Utility Regulation ("**OUR**") issued public consultation paper number OUR 09/16 ("**Consultation Paper**"). In the Consultation Paper, the Director General or the OUR did not express a concluded view as to GPL's application. However the Director General did express an initial view that:
- 2.6.1 There is no longer a need for a reserved area to enable GPL to fund its USO;
- 2.6.2 On balance, the introduction of PiP (or Size Base Pricing ("**SBP**") as referred to in the Consultation Paper) has the potential to be a positive development for postal users; and
- 2.6.3 Significant further work is required before a view can be expressed on the level of tariffs GPL has requested.
- 2.7 The purpose of these submissions is to respond to several discrete issues arising from the Consultation Paper. Full submissions in support of GPL's proposals are set out in the Price Control Application. Accordingly, reference should also be made to that document when considering GPL's submissions. Should the OUR or the Director General require any further information from GPL prior to making any determination, including substantiation of any figures, models or assumptions presented in the Price Control Application of this response, the OUR and/or the Director General should contact GPL directly. Failure to address in this response any query, criticism or suggestion raised by the Consultation Paper should not be taken as GPL's acceptance of the Director General's or the OUR's views in relation to that query, criticism or suggestion.

3 LEGAL FRAMEWORK

Reserved Area

- 3.1 The provision of postal services in Guernsey is regulated by the *Post Office (Bailiwick of Guernsey) Law, 2001* (the "**Postal Law**"). Pursuant to Section 9(2) of the Postal Law, the Director General may make (or amend or revoke) an order in relation to reserved postal services:
- (a) *where he believes that the making of the Order is necessary so as to enable the provision of a universal service; or*
 - (b) *so as to comply with the States' Directions.*
- 3.2 On 31 January 2001, the States of Guernsey resolved (concerning Billet d'Etat No.1 dated 12 January 2001) ("**States Directions**"):
- '15. *To give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Post the exclusive right to provide postal services in the Bailiwick to the extent that such exclusive right is necessary to ensure maintenance of the universal postal service specified by States' directions under section 3(1)(c) of that Law.*
 - 16. *To request the Director General to review and revise the award of the exclusive rights from time to time with a view to opening up the Bailiwick postal service market to competition, **provided that any such opening up does not prejudice the continued provision of the universal postal service** [emphasis added]*
- 3.3 In the present circumstances, the first limb of the Director General's power under section 9(2) does not appear to be relevant as the proposed directions do not seek to enable the provision of a universal postal service, and in any event are not necessary to do so.
- 3.4 Effectively, the Director General's power to make, amend or revoke a direction under section 9(2) of the Postal Law is ultimately constrained by the States Directions and in accordance with the overarching requirement to protect the continued provision of the universal postal service. If the proposed order (in this case the amendment of the order relating to the reserved area) would in any way prejudice the continued provision of the universal postal service, then the States Directions effectively prohibit the Director General from making or amending the order. Any subsequent order that purported to prejudice the continued provision of a universal postal service, or would have the effect of doing so, would be:
- 3.4.1 contrary to the express instructions of the States, as set out in the States Directions; and
 - 3.4.2 beyond the power of the Director General, or ultra vires, and subject to being overturned on appeal of the decision to make that direction.
- 3.5 The universal service obligation ("**USO**") is set out in the States Directions as including:
- 3.5.1 One collection from access point on six days each week;

- 3.5.2 One delivery of letter mail on six days each week (reduced in the event of public holidays);
- 3.5.3 Collection of all postal items up to 20kg;
- 3.5.4 Delivery of postal items of up to 20kg on at least five working days; and
- 3.5.5 Registered and Insured mail.

Control of Tariffs

- 3.6 Pursuant section 5 of the Postal Law, the Director General may determine that a licensee is dominant in a postal market. Where this occurs, the Director General has the right to control the prices charged by the licensee for those postal services in which the licensee is found to be dominant. This right and obligation is reflected in condition 18 of GPL's licence. The Director General has designated GPL as being dominant in the following markets:
 - 3.6.1 Regular letter and parcel services;
 - 3.6.2 Priority (special delivery) letter and parcel services; and
 - 3.6.3 Outbound bulk mail services.
- 3.7 Section 5 of the Postal Law provides that in exercising its powers in relation to a licence, the Director General must have regard to the general objectives, set out in the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, being:
 - (a) *to protect the interests of consumers and other users in the Bailiwick in respect of the prices charged for, and the quality, service levels, permanence and variety of, utility services;*
 - (b) *to secure, so far as practicable, the provision of utility services that satisfy all reasonable demands for such services within the Bailiwick, whether those services are supplied from, within or to the Bailiwick;*
 - (c) *to ensure that utility activities are carried out in such a way as best to serve and contribute to the economic and social development and well-being of the Bailiwick;*
 - (d) *to introduce, maintain and promote effective and sustainable competition in the provision of utility services in the Bailiwick, subject to any special or exclusive rights awarded to a licensee by the Director General pursuant to States' Directions;*
 - (e) *to improve the quality and coverage of utility services and to facilitate the availability of new utility services within the Bailiwick; and*
 - (f) *to lessen, where practicable, any adverse impact of utility activities on the environment.*

- 3.8 Section 10 of the Postal Law provides that a universal postal service provider may make a 'scheme' in relation to the provision of the universal postal service (or with the approval of the Director General, other postal services), which provides for the terms and conditions, including tariffs, upon which the universal postal services will be provided. The Director General can require the licensee to justify the provisions of any such scheme in order to establish whether it is fair and reasonable. If a scheme is not found to be fair and reasonable, the Director General may direct the licensee to adjust or withdraw the provisions of the Scheme. The implementation of a pricing scheme is one way in which GPL may seek to continue to fund the USO obligation should the Price Control Application not be approved and the reserved area abolished. It is difficult to see how the OUR could reasonably not approve the Price Control Application, abolish the reserved area and refuse to work with GPL to develop such a scheme. GPL considers that such a scheme would fairly lead to the same position as is current being proposed.

Summary of Legislative framework

- 3.9 Accordingly:
- 3.9.1 GPL, as the only licensed postal service provider, is obliged to provide the postal services covered by the USO;
 - 3.9.2 The Director General can control the provision of postal services by GPL (including specifically with respect to tariffs), but in doing so must have regard to the Director General's general objectives, together with any specific requirements provided in relation to any particular power;
 - 3.9.3 Specifically, as applied to the present circumstances that are the subject of this response, the Director General can only amend the reserved area if it is necessary to comply with the States Directions;
 - 3.9.4 The relevant States Directions request the Director General to review and revise the award of the exclusive rights from time to time, **on the explicit proviso that such opening up does not prejudice the continued provision of the universal postal service**. As discussed in this response, it is inevitable that the opening up of the reserved area will prejudice GPL's ability to provide the universal service. We note, with some concern, that the emphasis in the text of the actual States Directions is substantially different from the précis of the same directions that is set out on page 6 of the Consultation Paper.

RESERVED AREA

4 EXPLANATION OF ISSUE

- 4.1 Currently, GPL has a reserved area in respect of all mail up to a tariff of £1.35 in order to be able to provide the USO. This level was based on the 2001 Guernsey to UK tariff of 27p, multiplied by a factor of five. The 27p baseline tariff was artificially low because at that time Royal Mail subsidised the cost of UK delivered mail from Guernsey by 35 - 36p. Under the former methodology, using the unsubsidised price as a base would have resulted in a reserved area of between £1.75 and £1.80. In its Price Control Application, GPL sought an extension of the reserved area to increase it to £2.15 (although subsequently GPL has revised its request to a level between £1.75 and £1.80 (see paragraph 12.1 below). In the Price Control Application, GPL requested this increase for the following reasons:
- 4.1.1 To continue to fund the USO;
 - 4.1.2 To recognise the artificially low baseline tariff;
 - 4.1.3 To compensate for the impact of inflation since the initial level of the reserved area was set in 2001; and
 - 4.1.4 To recognise that it will be difficult for the Guernsey market to support more than one full-service postal operator who is capable of providing a universal postal service to Guernsey
- 4.2 The Director General has expressed an initial view that, rather than increasing GPL's reserved area, it is minded to abolish the reserved area entirely. The reasons provided for this view are:
- 4.2.1 If tariffs for all postal services are cost reflective, there is no need to maintain a reserved area to fund the universal service obligation;
 - 4.2.2 Most countries are now abolishing or greatly reducing exclusive postal services, and that the States had an expectation that over time GPL's reserved area would reduce;
 - 4.2.3 GPL's commercial customers wish to explore alternate options which would allow them to maintain a competitive position in their own markets, however the reserved area effectively prevents them from doing that; and
 - 4.2.4 GPL has not provided any costs information in support of its proposed increase to the reserved area.

Guernsey Post Response

- 4.3 GPL is concerned that the Director General's initial view, as expressed in the Consultation Paper, does not adequately take into account the following matters:
- 4.3.1 Negative impact on GPL's ability to service the USO, and thereby prejudicing the continued provision of a universal postal service in Guernsey;
 - 4.3.2 Mischaracterisation of cross-subsidies;
 - 4.3.3 Inapplicability of close comparisons with other jurisdictions;

- 4.3.4 Unique benefits of GPL to the Bailiwick;
 - 4.3.5 Overstatement of the likely benefits from competition;
 - 4.3.6 Misunderstanding of the downstream access market; and
 - 4.3.7 Unique benefits of GPL to customers.
- 4.4 For these reasons, GPL submits that that the Director General's initial view is misconceived. Whilst these issues are explained and explored in detail below, by way of summary, and in response to the Director General's reasons as expressed above:
- 4.4.1 Reflective pricing and the USO. The USO applies to all mail, both bulk and public tariff mail; it covers both high margin and low margin customers. Should the reserved area be abolished, it is likely that the more profitable mail will be 'cherry picked' by a competitor. GPL will not receive any contribution to the USO from this lost business. Servicing the USO involves high fixed costs, a low level of scalable costs and requires GPL to maintain some capacity to handle mail lost to competition in the eventuality that customers choose to return to GPL. Accordingly, without the contribution to the USO from any lost mailers, reflective pricing at affordable tariffs for remaining users will not be possible. GPL has scoped a number of scenarios to show the impact that removal of the Reserved Area would have upon the USO. . For public tariff mail, under the most optimistic scenario, the price of a first weight step letter sent to the UK would rise to 65p. For bulk mail, price increases of at least 8-16% would be required.
 - 4.4.2 It is inappropriate to consider that bulk mailers are 'cross-subsidising' the provision of the USO at present. They are paying for their share of the USO, because most, if not all, bulk mail falls within it.
 - 4.4.3 Competition in other jurisdictions. Guernsey is unique, and accordingly there is a limit to the extent that 'precedent' from other jurisdictions can be used to support arguments in relation to the Guernsey postal market. In particular, the UK is an inappropriate comparison because Royal Mail still gets a 'last mile' tariff contribution that would not be available in practice to GPL because most mail is sent offshore. In any event, the Consultation Paper is somewhat selective and does not consider successful jurisdictions where a single postal service provider has been retained, or for example, Sweden where "liberalisation" of the postal market has seen a large rise in the price of social mail. Additionally, the Consultation Paper does not consider the broader contribution that GPL makes to the island community.
 - 4.4.4 Customer benefits of competition. There is little scope for the realisation of additional downstream service benefits because Royal Mail effectively controls the entire downstream market. GPL is best positioned to realise what potential benefits there are and is committed to working with commercial customers to seek to achieve these. GPL already achieves outstanding quality of service ratings as evidenced by performance against the OUR's own service standards. In terms of efficiency benefits and consequential tariff savings, there is very little scope to realise these because of the dependency on Royal Mail. To the extent that these can be realised, GPL has proactively demonstrated a commitment to doing so. In realising these benefits, GPL relies on its position as a trusted provider on the Island being part of the very fabric of the economic, business and wider community, which would not be available to any competitor.

4.4.5 Supporting Costs information. GPL provided substantial information in the Price Control Application. That information has been supplemented by the additional information provided with this response. Nevertheless, as acknowledged below (paragraph 12.1), the requested reserved area tariff has been revised to a level between £1.75 and £1.80 after GPL has reviewed its calculation methodology. GPL invites the Director General to consult it directly in relation to any query it has in relation to any figure, assumption or model discussed in this response or the Price Control Application prior to making any further assumptions or reaching any views which may be incorrect or misinterpret GPL's position.

5 NEGATIVE IMPACT ON USO

- 5.1 Removal of the reserved area would have dire consequences for the ability of GPL to ensure the continued provision of the USO. The USO at present covers the delivery of all mail (up to the respective weight limits), regardless of whether it is a bulk mailer or social customer. Obviously, the USO applies to mail within or outside any reserved area. As intended by the States Directions, the USO is funded by all customers within the reserved area. As indicated above, GPL has scoped the impact on the USO of the Reserved Area being removed – the consequences are severe with the impact being borne, in the main, by social and small business customers.
- 5.2 Clearly, any loss of mail from the current reserved area as a result of competition will lead to a loss of contribution from that mail towards meeting the costs of funding the USO. However, it is unlikely that any potential competitor will seek to enter the market for the entire postal service within the reserved area. Instead, it is likely that the segment of the market that would be most attractive would be the high volume/high margin mail market. This volume would be attractive to competitors because it is the most profitable, for example it is easily machine sorted due to the standard size of mail, requiring little investment in infrastructure and has comparatively low barriers to entry. This is particularly the case for providers such as Royal Mail or Jersey Post (compared with other private operators), which, like GPL, have established connections with the UK postal service to enable them to provide the 'next day' downstream access required by the largest customers. The loss of only very few of the largest customers would reduce revenue by over £20m.
- 5.3 However, because of the nature of the USO, comparatively very little reduction in GPL costs would be realised as a result of that loss of business. The USO costs in relation to both direct delivery and collection, are largely fixed. These include not only labour costs but also such things as maintenance of sorting machinery and premises, as well as vital support functions such as human resources and billing systems. Whilst there will be some reduction in overall costs as result of the loss of these few customers, the costs savings would be no more than £16m.
- 5.4 Further, however, it is unclear whether this comparatively small reduction in actual costs should properly be accounted for in determining the true cost of the USO. GPL takes the view that its obligation to provide the USO extends to maintaining capability to provide those services in respect of all mail, whether or not that mail is currently being delivered by a competitor. Accordingly, the cost of the USO should not properly be reduced by the additional cost of providing services to those customers. Whilst this may reflect GPL's legal obligations, as a matter of practice it would be prudent for GPL to adopt this approach in determining its tariffs as the bulk mail customer would be free to stop using the competitor's services at any time (subject to any contract between them) and resume using GPL's postal services. GPL would be obliged, pursuant to the obligations under its licence, to provide such services as part of the USO.

- 5.5 In order for GPL to continue to service the USO after any reduction or termination of the reserved area it would be required to increase public tariffs by at least 45% from the currently proposed levels, as sought in the Price Control Application. This would mean that the cost of sending an ordinary letter to the UK would be at least 65p. The segment of the market that would pay these prices would be the ordinary consumer, rather than the bulk mailers. Initially, GPL would seek approval of tariffs in accordance with a scheme implemented pursuant to section 10 of the Postal Law in respect of services within the USO. These tariffs, in accordance with the Director General's intention as set out in the Consultation Paper, will be reflective of the cost to provide that service. However, should the Director General still determine that those tariffs were not fair and reasonable the question would arise as to whether or not any service provider could meet the USO without substantial additional funding from the States.

6 MISCHARACTERISATION OF CROSS-SUBSIDIES

6.1 The Consultation Paper (at paragraphs 5.3-5.4) justifies the removal of the reserved area by reference to:

6.1.1 A desire to eliminate 'cross-subsidy' of social mail by bulk mailers; and

6.1.2 A related intention to ensure that tariffs are cost reflective so that the USO could be funded from those non-bulk mail postal users who use the service.

6.2 GPL is of the view that the Director General has mischaracterised or failed to correctly articulate the true position. GPL takes this opportunity to correct several misapprehensions as follows:

6.2.1 There is no cross subsidy of the USO by bulk users. The USO incorporates bulk mail, within and outside the reserved area. Bulk mail and public tariff mail together fund the USO and together they share the benefits. Through both previous and current tariff proposals, GPL has sought to ensure that prices for individual products reflect the costs incurred and profit generated. The net margin generated by bulk mail is in fact less than that generated by public tariff mail, reflecting the relatively low level of GPL cost inputs within the total costs of handling bulk mail.

6.2.2 As discussed above, it is necessary to maintain a reserved area (which includes both bulk and public tariff mail) to ensure that the USO (funded by **all** mail covered by the reserved area) can be maintained. If competition were allowed, GPL would most likely lose the most profitable mail to competitors who have no wider service obligation. This would mean that GPL would very quickly become unable to provide the USO and maintain profitability.

6.2.3 In the Consultation Paper the Office of Utility Regulation makes reference to only one form of cross subsidy. This is potentially misleading. There are three other more relevant "cross subsidy" issues that underpin the need to retain a Reserved Area, being:

6.2.3.1 Within the Bailiwick, the unit costs of delivery and collection vary significantly according to geography and volume of mail. The main purpose behind the reserved area is to prevent competitors 'skimming' the high volume, easy delivery/collection and therefore profitable mail (such as bulk delivery) leaving GPL with low volume high unit cost delivery and collection (for example delivery and collection in Alderney and Sark);

6.2.3.2 Although the current pricing proposals provide for appropriate contributions across different streams and formats there is inescapably some variation in contribution within a particular stream. For example a first weight step letter that can be handled by machine sorting costs less to process than one of the same weight that has to be sorted by hand and

6.2.3.3 Within any tariff stream the mail posted by some customers can be handled more efficiently than other mail either because of economies of scale, time of posting or ease of handling. This inevitably results in some cross-subsidisation between individual mailers, but it is not possible to accurately reflect the different costs of such mail in differing tariffs, by say having a lower price for a bulk delivery compared to a single item delivery or a bulk collection compared to collecting one or two items.

6.2.4 Further, removal of the reserved area would force GPL to seek to reduce tariffs for some USO customers, most likely bulk mail customers, in order to remain competitive. There is very little scope for GPL to reduce prices for these customers as a result of the limited cost savings which can be realised, as discussed elsewhere in this paper. In any event, assuming GPL was able to selectively reduce prices for some customers; in order to fund the USO, GPL would be required to increase tariffs for other customers, inevitably ordinary social mailers and small businesses. This could, in effect, lead to the result that social customers are in fact subsidising bulk mail customers.

7 INAPPLICABILITY OF CLOSE COMPARISONS WITH OTHER JURISDICTIONS

- 7.1 In the Consultation Paper the Director General makes reference to the opening up of postal markets in the EU and other jurisdictions, including the UK. Whilst recognising that comparisons with other similar jurisdictions can be helpful it is essential to recognise that there are significant postal market differences between Guernsey and countries such as the UK. For example:
- 7.1.1 Most basically, Guernsey is a small market; GPL does not have the economies of scale opportunities available to larger postal administrations such as Royal Mail;
 - 7.1.2 Guernsey is not part of the EU and is not bound by the Postal Services Directive, which requires opening up of postal services. Indeed, the whole bulk mail market located in Guernsey is almost entirely dependent on Guernsey not being in the EU and the ability to take advantage of the market distortion currently available in the form of Low Value Consignment Relief;
 - 7.1.3 Royal Mail faces no competition on “the last mile”, that is the delivery of mail to every business and residence. Mail lost to competitors during processing must at present be injected into the Royal Mail network at the inward sorting stage. Royal Mail is, therefore, able to retain some tariff contribution from this mail to support its USO. In Guernsey, virtually all the mail posted on the island is delivered to the UK, meaning that GPL, unlike Royal Mail, would lose all the tariff contribution to its USO from this outbound mail;
 - 7.1.4 Similarly, it might be suggested that competition grows a market place driving up volumes to a level higher than would otherwise be the case, reducing unit costs (particularly delivery costs) and thereby supporting the USO. This may be the case in the UK for example, but conversely with the introduction of competition in Guernsey all the benefits would flow to Royal Mail customers and to their USO and not to Guernsey customers because almost all the mail posted on the island is delivered in the UK. A reduction in mail prices, and as set out above any such reduction is likely to be small because of the comparatively low cost base for these customers, is unlikely to encourage additional bulk mail customers to establish themselves in Guernsey; and
 - 7.1.5 Alternatively, it may be suggested that competition would help Guernsey to remain competitive with jurisdictions such as Jersey, thus ensuring that Guernsey retains its current level of mail business and is therefore able to retain its current pricing scheme (or something close to it) for all customers. However the logic underpinning this argument is incorrect. As demonstrated elsewhere in this response, the small handful of customers who may be attracted to a competing jurisdiction contribute to the funding of the USO and thereby help keep mail prices affordable for all Island residents. Allowing competition would remove this contribution, realise comparatively little costs savings and increase ordinary mail costs beyond an affordable level. In effect, for other ordinary customers, the ultimate outcome of competition will be the same as if that handful of large customers had relocated to Jersey i.e. higher prices.

7.2 GPL is also concerned that the Consultation Paper makes somewhat selective comparisons with other jurisdictions. Whilst reference is made only to those who have adopted mail liberalisation successfully, there is no reference to other jurisdictions that have maintained single public mail. A more balanced consideration would have mentioned that other developed countries such as the USA and Canada that determined not to follow such an approach, or countries such as Sweden (the first country to fully open up its postal market) where the price of social mail has risen steeply since liberalisation.

8 UNIQUE BENEFITS OF GPL TO THE BAILIWICK

- 8.1 GPL notes that the Director General's broader objectives when making a determination includes ensuring that utility activities are carried out in such a way as best to serve and contribute to the economic and social development and well-being of the Bailiwick. In this regard, GPL notes that:
- 8.1.1 GPL is profitable and its profits remain in Guernsey. It does not require subsidy and indeed pays a significant dividend each year to its shareholder, the States of Guernsey that invests those profits for wider community benefit;
 - 8.1.2 GPL employs, directly and indirectly, more than 300 people who between them pay around £2m in taxes and social security payments. GPL itself pays around £1m in taxes and social security payments;
 - 8.1.3 If competition is permitted the most likely competitors will be UK or Jersey based. Any residual contribution to Guernsey's economy will be lost;
 - 8.1.4 GPL has fostered a learning culture. By investing in the training, development and employment of local people GPL positively touches the lives and prospects of those individuals and their families, as well as contribution to the skills base, well-being and marketability of the Bailiwick community as a whole; and
 - 8.1.5 Further, GPL is active in the local community working with schools and supporting local charities. External competitors may be less likely to contribute to or care about the local community. GPL's own ability to fund such activity will be reduced by any loss of contribution.

9 OVERSTATEMENT OF THE LIKELY BENEFITS FROM COMPETITION

- 9.1 The benefits of competition as set out in the Consultation Paper have been overstated. In the Consultation Paper the Director General argues that customers would benefit from competition through either improved services not available through GPL or through reduced prices, because retention of the reserved area:
- 9.1.1 Limits postal users choice as there is little incentive for a monopoly supplier to provide different price/quality trade-offs; and
 - 9.1.2 Removes the incentives to become more efficient, which would benefit users through lower prices.

Service Levels

- 9.2 GPL submits that there are two separate aspects of service to consider:
- 9.2.1 Range of service; and
 - 9.2.2 Improvement in service level.
- 9.3 In relation to the range of services available, whilst it is possible that upstream add – on benefits might be found (by GPL as well as a competitor) it is difficult to see where there is scope for a competitor to offer a significant improvement in end to end service, because:
- 9.3.1 Virtually all bulk mail and a very large proportion of public tariff mail posted in Guernsey is sent to the UK and the range of services available is essentially dictated by what Royal Mail offers. Although the bulk mail market is large in the context of GPL it is tiny in the context of Royal Mail's market (approximately 1.0%). Accordingly, there is no effective leverage on Royal Mail from Guernsey with or without competition;
 - 9.3.2 GPL already offer bulk customers the flexibility of trading off service against price through the choices such as air or sea conveyance, pre-sorting of mail and, if required, through downstream access. Further, where it makes operational and commercial sense we can and do locate GPL employees on customers' premises;
 - 9.3.3 With the implementation of PiP (discussed elsewhere in this paper), GPL will be introducing more products and customer choice; and
 - 9.3.4 At present GPL has the ability to access Royal Mail via Royal Mail International (ensuring next day availability) as well as through Royal Mail Wholesale. As discussed at paragraph 10 below, a commercial competitor such as TNT or Citipost can only gain entry to Royal Mail via downstream access at the cost of a one-day delay in service.
- 9.4 In relation to any improvement in service level which might come out of competition:
- 9.4.1 As noted above, any mail posted via a competitor, such as TNT or Citipost would suffer a delay of one day and therefore see a reduction in service levels;
 - 9.4.2 GPL currently achieves an internal performance (measured from aircraft to delivery frame for inward mail and post box to aircraft for outward mail) of 99%; and

9.4.3 The main causes of 'end to end' service failure are outside GPL's control, such as failures by Royal Mail (for example service disruption caused by the current industrial action) and transport failures (such as aircraft unable to fly because of fog). It is difficult to see how a competitor would be able to avoid these problems.

Prices

9.5 In relation to lower prices, these can only be realised if a competitor could operate more efficiently than GPL or would be prepared to accept lower margins (or operate at a loss). However, it is conceivable that a competitor may charge lower tariffs than GPL for selected bulk mail customers in the short term. However, this is more than likely to be a form of 'loss-leading' or 'predatory pricing'. Such pricing and competition does not lead to long term sustainable competition in price or service and would be damaging to the long term sustainability of GPL, inevitably to the detriment of Guernsey both economically and socially. For example, it is likely that Guernsey will be attractive to a large global competitor who is seeking to build up delivery volume and market share within the UK. Initially, they may offer lower than cost prices to Guernsey customers to do so and take short-term losses. Over time Guernsey will become less important for the competitor as they become established in the true target market. Accordingly, Guernsey prices will inevitably be corrected and Guernsey customers will end up paying more for lower service levels.

9.6 There is a limit to which efficiency gains may be made by any competitor. In relation to bulk mail, GPL costs, including contribution to network and support costs and to bottom line profit, amount to approximately 8% of the total cost. The other costs are supplier costs, which are either already open to competition (air and sea conveyance) or fixed by the supplier (Royal Mail) – competition could not provide any efficiency savings reducing these costs. However, GPL already realises certain efficiency savings that are not available to competitors. For example, GPL's bulk mail account management infrastructure ensures that, as far as is possible, containers are fully loaded limiting the number of partially filled containers. Having more than one operator collecting from customers will inevitably result in more part filled containers. The cost of two additional containers per day could lead to an increase in conveyance costs of up to £500,000 per annum. It would also have a detrimental impact on the environment with more partly filled containers being conveyed on land and by sea.

9.7 Further, to the extent that any further efficiency gains become available, it is expected that GPL will be best placed to realise these. However, whilst GPL is fully committed to identifying, implementing and passing on any such cost saving and efficiency opportunities to customers, what is apparent is that such opportunities are fairly insignificant within the total costs. It would be incorrect to suggest that there is sufficient unrealised cost savings to enable a competitor to achieve substantive tariff reductions whilst maintaining realistic margins, or to suggest that GPL could replace significant lost business (in funding the USO) by means of efficiency savings. Such future efficiency savings as there are, are likely to be realised though:

9.7.1 Anticipating current and future mail volume trends and capitalising on future delivery operations efficiency opportunities; and

9.7.2 Enhancing processing productivity.

Current and future mail volume trends

9.8 The key to managing an efficient mails operation is an understanding of mail volume trends and their impact on productivity.

9.8.1 In relation to delivered mail, southbound mail (i.e. UK to Guernsey) represents a significant proportion of GPL's delivered traffic and mail volumes in the UK are massively down year on year. GPL is currently experiencing a 16% drop in southbound mail – this is in part a reflection of a permanent reduction in the use of postal services. Postal administrations generally are seeing the impact of e-substitution not being offset by sufficient growth elsewhere. The pattern will not be reversed. Falling volumes will put a severe strain on delivery productivity both in the tariff year and in the years to come – this point is explained in more detail below.

9.8.2 Posted public tariff mail trends in GPL at the present time are good with significant growth year on year. This growth in volume together with the nature of this mail (it can be easily machine sorted) enables GPL to make productivity improvements through absorbing some of this growth at marginal cost and these improvements are built into our original submission. This contribution to overall productivity is reflected in lower prices for UK mail than would otherwise be the case.

Processing Productivity - Delivered Mail

9.9 The delivery operation, like collection work, contains a significant element of fixed costs. Whilst some activities such as inward sorting and walk preparation are fairly linear (costs vary almost in proportion to volume changes) this is not the case for the largest activity, delivery of the mail. Outdoor delivery costs are broadly made up of four elements:

9.9.1 travel to and from the start/finish of delivery;

9.9.2 street time;

9.9.3 'garden path' time; and

9.9.4 the delivery transaction (typically putting letters through the letter box).

9.10 These elements are, within a fairly wide range of volume movement, fairly fixed. Overall on outdoor delivery the relationship is 1:0.18. That is, for every 1% traffic falls, only 0.18% of costs can be removed. In times of mail volume growth this relationship means that unit delivery costs reduce (the so called "virtuous spiral of growth") whilst at times when delivery volumes are falling it drives unit costs up (referred to as "the graveyard spiral"). The OUR is aware that earlier this year GPL commissioned a full review of letter deliveries. The study looked at two aspects:

9.10.1 An efficiency assessment by industrial engineers of the current delivery structure, Following guidelines defined by British Standards 3138:1992, the International Labour Office and the Institute of Management Services. This included a review of average work rates compared with standard performance (100 BSI), an analysis of the activities that are employed in the delivery tasks such as the profile of the delivery points, drive length, steps, and access, and implementation of a range of standard times for delivery activities to be used for performance measurement or planning.

9.11 The second element of the project looked at the identification of potential method improvements and opportunities for travelling time acceleration. The key findings within the report supported the savings already identified by Guernsey Post and included in the original submission.

Processing productivity - Posted Mail

- 9.12 In 2008, GPL commissioned the development of an activity based productivity management system, a key recommendation with the 2006 OUR efficiency review. The system provides:
 - 9.12.1 Production of Standard Times for the key indoor processes
 - 9.12.2 Production of Standard Operating Procedures for the key indoor processes
 - 9.12.3 Development and implementation of resource productivity measurement software
- 9.13 GPL will use this system to ensure that processing cost are correctly and efficiently aligned to workload and, as outlined in our original submission, will continue to look for method improvements which may improve productivity. An initial estimate of potential savings was included in our original submission and was taken into account in determining our proposed price increases.

10 MISUNDERSTANDING OF THE DOWNSTREAM ACCESS MARKET

- 10.1 It is possible that the Director General's overstatement of the benefits of competition stems from a fundamental misunderstanding of the downstream access market for Guernsey postal servicers.
- 10.2 First, it is implied in the Consultation Paper (at paragraph 5.4) that the removal of the reserved area is necessary to enable Guernsey customers to obtain downstream access to Royal Mail. This is incorrect. GPL can and will, if customers wish to go down this route, provide downstream access solutions through Royal Mail Wholesale using appropriate agents (such as TNT or Citipost). For example, GPL has been working over the past few months with one bulk mailer and with TNT and Citipost to see if an attractive solution can be worked up. Indicative figures, based on those consultations, suggest that the cost of accessing Royal Mail Wholesale is likely for some customers to be less than GPL's tariffs via Royal Mail International (which is only available to Guernsey Post) for the same items, whilst in other cases it is likely to be more.
- 10.3 Second, downstream access via Royal Mail Wholesale involves mail being sorted to an agreed specification (either by the customer, GPL or an agent) and then being input into 65 mail centres in the UK at an agreed time. This inevitably results in a day delay in the delivery of mail. Customers are also required to meet strict access requirements imposed by Royal Mail Wholesale, including the provision of very detailed information relating to each posting. Until very recently all our bulk customers have indicated to GPL that they were not prepared to accept the delay and would find it difficult to provide the information. Use of a commercial competitor other than Royal Mail or Jersey Post would still incur the same information requirements and result in the same one-day delay. However, for any customer who is prepared to go down this route GPL would look to facilitate this.

11 UNIQUE BENEFITS OF GPL TO CUSTOMERS

- 11.1 Put simply, because of GPL's place within the Guernsey community and long-standing tradition of service within the Bailiwick, GPL adds value that competitors cannot. These benefits may or may not be directly reflected in lower tariffs, although can often result in time and cost savings for all customers. For example, such benefits include:
- 11.1.1 Customs clearance. The Low Value Consignment Relief, the existence of which underpins the whole bulk mail industry in Guernsey, can not be taken for granted – again recently we have seen reports in the local and UK press that suggest it may be under threat. GPL provides stability and control over compliance with the MOU helping to ensure its existence. Guernsey Post, Guernsey Customs and HMRC have a tripartite Memorandum of Agreement (MOU), which enables bulk mail customers who are part of the Guernsey Post VAT scheme to certain advantages in terms of customs clearance and payment of VAT. Loss of the MOU will cause considerable problems for our customers;
- 11.1.2 Guernsey mail being sent under the terms of the MOU is cleared for UK customs entry by Guernsey Customs, in conjunction with Guernsey Post, and must then be handed to Royal Mail as the USO provider in the UK. Royal Mail will not accept mail through the MOU unless it has been despatched by an authorised member of the UPU (which Jersey and Guernsey Post are). One of the obligations of being a UPU member (and which is why they have been given the simplification of the MOU as opposed to a full customs declaration) is that they have a legal obligation to accept mail from another UPU member from any country in the world and are also obliged to deliver it to any household in the UK; and
- 11.1.3 A freight agent or fast parcel operator does not have these obligations and can 'pick and choose' their customers. The terms of the MOU do not apply to freight companies and therefore unless Guernsey Post is handing mail over to Royal Mail, either direct or via a ferry company/air freight company, and possibly a transport company in the UK who are acting as agents for either GPL and or RM, the MOU will not apply.
- 11.2 GPL provides a “one stop shop” for its customers. On their behalf we deal with Royal Mail, both Royal Mail International (competitors can not), with Royal Mail Wholesale and with HMRC.

12 INCREASE TO RESERVED AREA

- 12.1 GPL acknowledges that the calculations underpinning the requested reserved area tariff of £2.70 were based on an incorrect assumption. GPL has recalculated the proposed reserve area tariff and seeks to amend its request to a level between £1.75 and £1.80.

PiP PRICING

13 EXPLANATION OF ISSUE

- 13.1 As explained in the Price Control Application, Guernsey Post currently levies tariffs on a weight basis. Historically, this method of calculating tariffs was aligned with the method that Royal Mail charged GPL. As stated elsewhere in this response, Royal Mail is by far the largest of GPL's 'downstream providers' of mail services.
- 13.2 Royal Mail introduced PiP in 2006 to better reflect the costs to them of handling different formats of mail. Since 2006, Royal Mail have not been charging GPL on a PiP basis for all weight classes of ordinary letters. However starting from April 2009 and with further increases from April 2010, Royal Mail will pass on the higher charges for packets and large letters to GPL. This has resulted in substantial cost increases for GPL, although for 2009-2010 these have been absorbed without passing on that increase to GPL's customers.
- 13.3 Accordingly, and in order to ensure our tariffs better reflect the costs of providing each different postal service, GPL has also sought to introduce PiP based tariffs. PiP also provides additional products and choice for GPL's customers. Full particulars in relation to the features of PiP are set out in the Price Control Application. However, whilst PiP does provide these additional benefits and savings, GPL's decision to introduce PiP is entirely as a result of the introduction of PiP by Royal Mail and the dramatic increase in the tariffs charged by Royal Mail to GPL.

Director General's view

- 13.4 In the Consultation Paper, the Director General provided substantial analysis of PiP, (although it was referred to as SBP) as it has been adopted in the UK and how it might be adopted in Guernsey. The Director General also produced a summary list of advantages and disadvantages of PiP. Without expressing a definite view on the topic, it appears broadly that the Director General is in favour of introduction of PiP.

GPL Response

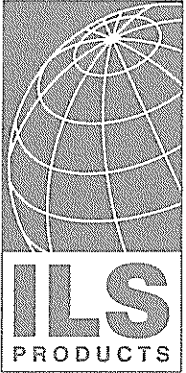
- 13.5 GPL welcomes the Director General's thorough and thoughtful analysis of the PiP issue. In general GPL takes the view that the Director General's conclusions of the advantages and disadvantages of PiP provide a reasonable, accurate summary of the matter.
- 13.6 However, GPL wishes to clarify one matter that it submits the Director General should take into account in making any determination in relation to this matter. That is, there appears to be some confusion in the Consultation Paper as to whether or not the introduction of PiP would result in an overall increase in postage prices. GPL submits that overall tariffs will be no higher, and in some cases will be lower, because of implementing PiP than would otherwise be the case. No stream of mail will see a price increase as a result of GPL introducing PiP. The reason for this is:
- 13.6.1 Royal Mail has imposed huge increases in charges. These higher charges require GPL to impose a large increase in its tariffs. In particular, there is a disproportionate increase in the tariffs for large letters and packets that reflects a similar disproportionate increase in Royal Mail large letters and packet tariffs.
- 13.6.2 The implementation of PiP by GPL will help mitigate the impact of the increase in Royal Mail charges by at least providing customers with the choice to access lower prices through posting items in a different format. The alternative would be to continue to charge a weight based tariffs which would result in customers not having the option to choose smaller, but otherwise appropriate, postage options which would have been cheaper under PiP.

- 13.7 GPL have analysed the likely impact of PiP on each customer class and have determined the following:
- 13.7.1 Bulk mail to the UK. GPL are currently working with our bulk mail customers to mitigate the impact of the increases through switching mail to cheaper streams. As a result of this we estimate that the impact of the increased Royal Mail charges will be reduced from about £7.4m to about £3.4m before taking account of the volume drop from price deterrence. An example of this is a large bulk mail customer who anticipates that it will be able to switch about 80% of its mail from packets to large letters.
- 13.7.2 Public tariff mail to the UK. A similar profile for Royal Mail charges applies here as for bulk mail and again GPL need to implement PiP in order to provide customers with choice and the ability to access cheaper mail streams. Although the scale of opportunity is likely to be less than for bulk mail, if PiP is not implemented the price for a first weight step letter would have to rise to 46p in order to provide the same revenue yield. However, under GPL's proposed tariffs and projected outcomes:
- 13.7.2.1 Approximately 50% of UK mail will see a price increase of 2.3%;
- 13.7.2.2 Approximately 42% of UK mail will see a price increase of 4.7%; and
- 13.7.2.3 Approximately 8% will see a significant price increase reflecting the higher Royal Mail charges
- 13.7.3 Local mail. Local mail (and mail to Jersey) is not impacted by increased Royal Mail charges. GPL have proposed to implement PiP for these services for largely operational reasons. For example, GPL will be required to alter processing and despatch arrangements for UK mail and it would be expensive and difficult to maintain separate arrangements for local mail. However, it is also in line with cost reflective pricing and provides customers with the option to choose a less expensive format. Overall, GPL estimates that the proposals will be price neutral. If PiP is not introduced the price of the first weight step letter would have to be increased to 37p in order to provide the necessary revenue yield. Under our proposals for local mail:
- 13.7.3.1 about 53% of local volume will see a price drop of 1p
- 13.7.3.2 about 40% of local volume will see no price increase
- 13.7.3.3 about 7% of local volume will see a price increase.
- 13.7.4 International. In contrast to the domestic mail streams, Royal Mail charges increase substantially more for international letters than for the other international mail formats. Again, GPL's proposed pricing reflects the Royal Mail structure. For social mail, GPL anticipates that the pricing will be "PiP neutral" but for contract customers who will now be able to access 'Straight Line Pricing' we propose discounting prices in the order of £0.4m to reflect the competitive nature of this market (see Annexure 4).
- 13.8 GPL also takes this opportunity to draw several other matters to the Director General's attention:
- 13.8.1 The use of 'Size based pricing' or SBP may potentially be misleading and confusing to GPL's customers. GPL uses the term 'Pricing in Proportion' because that best describes the basis of its proposals, that is prices based in proportion to size, weight and method of access;

- 13.8.2 It is not correct, as suggested in paragraph 1 of the Consultation Paper, that GPL is proposing a significant increase in tariffs for almost all services. As discussed above, based on GPL's proposed tariffs, 53% of local mail volume will see a **price reduction** and 40% will see **no price increase**. For public tariff UK destined mail, 50% of volume will see a price increase of 2.3% and 42% will see an increase of 4.7%;
- 13.8.3 As referred to at paragraph 4.3 of the Consultation Paper, the short timescale around implementation of PiP in order to help mitigate the increased Royal Mail charges is driven by the short notice given to GPL by Royal Mail. From April 2010 their charges to GPL will rise by more than £600,000 each month. GPL recognises that the timescale is short and is committed to working with organisations such as Postwatch to ensure that all users understand the new pricing structure well in advance of April 2010;
- 13.8.4 In relation to paragraph 4.5.1 of the Consultation Paper, whilst GPL has never been asked to explain the reason behind the need to have more weight steps than the UK, the reason is relatively simple. Royal Mail and conveyance charges to GPL for UK public tariff mail form nearly 80% of the direct costs of handling that mail. These charges are linear – the nearest approximation we can get with public tariff to a straight line is to retain a large number of weight steps. To have fewer steps would be simpler but would mean that there would be a greater element of cross subsidy between one customer and another; and
- 13.8.5 GPL has now introduced an “impact calculator” onto its website at www.postischanging.com. This service became available on 17 August 2009; and
- 13.8.6 If there is a delay in implementing PiP for public tariff mail, apart from the possible impact on yield, there is a risk of arbitrage by bulk mail customers.

14 CONCLUSION

- 14.1 Like Guernsey itself, Guernsey's postal market is unique. Thoughtful solutions are required to ensure that the Island and the Bailiwick can continue to enjoy its progressive, but secure, way of life. Comparisons with larger, more diversified, jurisdictions are not apposite.
- 14.2 The States have determined that certain measures need to be taken, and certain priorities placed above all others, in order to keep one of Guernsey's core links with the world, its postal system, affordable and accessible to all residents. Whilst the States appear keen to explore the benefits of competition in this area, the universal service obligation is sacrosanct.
- 14.3 The Director General's preliminary view that the reserved area should be abolished threatens to prejudice the ability of GPL, or any other operator, to provide the universal postal service. Accordingly, the implementation of the Director General's preliminary view would be directly contrary to the expressed will and direction of the States.
- 14.4 Instead of bringing the benefits of competition, such a determination would lead to the USO provider being vulnerable to losing the most profitable parts of the postal market, such as some of the bulk mailers, to cherry picking, by foreign operators. Ordinary Guernsey residents would be left paying much higher prices for their basic postal services. GPL already faces competitive threats both from Jersey Post and from e-substitution.
- 14.5 To the extent that any further savings can be achieved for Guernsey residents, GPL is best placed to achieve these because its established position with the postal services market. In fact, it is already doing this having achieved outstanding service ratings and continually seeking opportunities to reduce costs and improve efficiency for all Guernsey customers both large and small.
- 14.6 The introduction of the PiP methodology is another significant example of this. After GPL has borne the costs of Royal Mail increases for the current year it now seeks to restructure its tariffs in such a way as will provide all of its customers greater flexibility and well as ensuring its long term ability to continue to provide the basic postal services which have been entrusted to it by the States.



13 August 2009

Office of Utility Regulation
Suites B1 & B2
Hirzel Court
St Peter Port
GY1 2NH

Dear Sirs

Comments on Guernsey Post's proposed price changes

Amongst other locally-made products, we sell rubber stamps to customers in the UK through our website www.stampXpress.co.uk. Standard stock items sold on this site are heavily discounted.

Stamps are currently sent to customers by letterpost and the cost, in a padded bag, is £0.43. The proposed tariffs suggest that, since the smallest dimension of this featherweight item exceeds 25mm, the cost from 1.4.10 will be £1.80 – an increase of 318%.

As a web trader, it is impossible to absorb the £1.80 cost into an average sale price of £8.75 and adding £1.80 for post and packing is very likely to deter buyers altogether.

In some cases, the extra cost of postage will drive the CIF price over the *de minimis* VAT threshold and destroy the opportunity to be competitive on the VAT front.

Operating the website will also present problems. Whilst the maths of adding up multiples weights and pricing a transaction is straightforward, the calculation of weights *and dimensions* for multiple good shipped in the same package would be very complex.

I hope these comments are useful.

Yours faithfully

Chris Meinke
Managing Director

International Law Systems Limited Clifton House Clifton St. Peter Port Guernsey GY1 1JR
Tel +44 (0)1481 723494 Fax +44 (0)1481 711843 E-mail info@ils-products.com Web www.ils-products.com

Dear Sir/Madam, I have just read the front page of the Guernsey Press, and had a look at the document on your website. I must say that I don't find their proposed charges at all extravagant, and I would ask you please, please not to interfere with the wonderful service that we have in Guernsey Post. Why are we all so afraid of the term monopoly?

Surely you are there to keep a watchful eye on things, and if the service that the public receives is exceptional, then why spoil it just to have a free-for-all?

Please leave the Post as it is.

Yours, Lynn Ozanne

Until the States of Guernsey removes the Universal Service Obligation, some level of Reserved Area should remain in place. Imposing the Universal Service Obligation while removing the Reserved Area appears likely to lead to bankruptcy for Guernsey Post Limited.

MJ Bienvenu
retired book-keeper

Vidmar
Victoria Avenue
St Sampson's

17/09/2009

Guernsey Postal Flower Association

PO BOX 433

GY1 3ZF

Chairperson Mark Fletcher
Secretary John Rouillard Tel 263284
Tel 248185 Mobile 07781 148185
Fax 248582
E-mail gfreesia@fletchers-freesia.co.uk

Director General John Curran
Office of Utility Regulation
Suite B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

15.09.2009

Dear *John,*

I write with reference to the recent meeting with Commerce & Employment, held at La Trelade Hotel on 10th September 2009.

The proposed price increases which come into effect from April 2010 were discussed at great length. We are now in a better position to understand the magnitude of these proposals, thanks to the O U R.

I find it both extremely disappointing & insulting that we are facing such huge increases, from 8% to 40% depending on the package.

I fully understand the increases applied by Royal Mail have to be passed on to the customers by Guernsey Post.

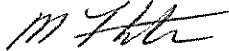
As you are well aware, the present economic climate is very challenging to say the least. Charles Parkinson recently announced that most Guernsey Companies would fare better than their UK counterparts, but let us not forget 90% of our customer base is UK based.

We have to contend with ongoing Lightning Postal Strikes which have a very serious impact on our businesses, with some companies seeing a 25% reduction in goods going out.

I have grave concern as how Royal Mail can apply this increase to Guernsey Post, not forgetting they are the dominant player for our Postal Service

I would ask that this is thoroughly investigated, it is total abuse of a monopoly position, we have to at the very least, have some sort of protection going forward.

Yours sincerely



Mark Fletcher
Chairperson for Guernsey Postal Flower Association

Cc

Boley Smiley & Gordon Steele (Guernsey Post)
Rodney Brouard (Bulk Mailers)
All Members of our Association

John Curran
Director General
Office of Utility Regulation
Suite B1 & B2
Hirzel court
St Peter Port
GY1 2NH

22 August 2009

Dear John

Please find enclosed the Postwatch Guernsey response to the OUR Consultation Paper regarding Guernsey Post's Tariff Submission.

Kind regards



Dennis H Le Moignan
Chairman

Mr John Curran
The Director General
Office of Utility Regulation
Suite B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

22 August 2009

Dear Sir

COMMENTS ON GUERNSEY POST'S PROPOSED TARIFF CHANGES

Postwatch would like to make the following submission in relation to the OUR's Consultation Paper (No: 09/16) on Guernsey Post's Proposed Tariff Changes.

Introduction

Postwatch is mandated to both develop the interests of all customers of Guernsey Post's services and to ensure that customers receive the best possible cost-effective service from Guernsey Post Limited (GPL).

The background is that apart from inevitable specific circumstances customers appear to be largely satisfied with the existing quality of service despite the previous unpopularity of the proposed reduction in retail outlets and reduction of collection boxes within the last 3 years. Cost savings, such as reducing the number of delivery rounds by amalgamation and voluntary redundancy, have been made to streamline and improve operational efficiency. The apparent smoothness with which they were implemented has been impressive, mainly due to Guernsey Post's senior management bringing on board representatives of the Postal Workers to discuss suggested changes within the workers operating systems. The co-operation between management and the workforce should be commended. Postwatch also welcomes the exploration and introduction of alternative revenue-generating services.

We feel that it is unfortunate that the tariff proposal is for a one-year agreement again, but accept that there are exceptional circumstances. The situation regarding renewal of the contract with Royal Mail (RM) has now obviously changed following the breakdown of negotiations between RM and GPL. The committee remain concerned about this sudden breakdown in the process and hope that this will not form the pattern for future negotiations with Royal Mail. However, Postwatch accepts that the Bailiwick size does not leave GPL in a strong bargaining position being a comparatively small player in RM's business. As RM's charges are now directly related to PiP it is inevitable that GPL has to conform and adopt the same system.

Guernsey Post had to absorb a 7% increase in costs in April of this year and further increases will come in from April 2010. GPL has been investigating the concept of utilising an alternative service provider, although this could lead to 2nd day delivery of mail, Investigation should continue, specifically as an alternative provider could offer a 2nd class post choice.

The main proposals from Guernsey Post to assimilate these changes are:

- Increase the 'reserved area' figure from £1.35 to £2.15
- Introduction of Pricing in Proportion (PiP)
- Introduction of new tariffs involving substantial increases in some areas

It is unfortunate that the progress of Royal Mail's negotiations with Jersey and the Isle of Man are unknown for commercial reasons, but a direct comparison might be difficult due to the differences in the use of postal services also the type of mail posted in each jurisdiction. In addition, Postwatch is denied access to details of the local negotiation for commercial reasons and is therefore denied the opportunity to make fully informed observations.

In framing this response Postwatch has borne in mind

- The need for Guernsey Post to fulfil the USO (Universal Service Obligation.)
- The need for Guernsey Post to remain competitive outside the USO

Postwatch perceives the public expectation is that Guernsey Post (being owned by the States on behalf of the people of Guernsey) should fulfil a social need and not simply be run on a commercial basis. Similarly it also feels that the benefit to customers must be balanced against any opening up of the monopoly.

The Reserved Area

Postwatch feels that the reserved area principle should be maintained at the current level of £1.35.

The 'social obligation' Guernsey Post works with demands some form of protection against additional operators 'creaming off' areas which could be profitable as 'stand alone' enterprises; an example could be a mailing house setting up in the town area for inter business mail, running a private courier/post office box operation.

Charter of an additional plane to accommodate Bulk Mailers

The primary difference between our Island and its nearest equivalents appears to be the sizeable bulk mail market. Guernsey Post forecasts that there will be an increase in this market, particularly in packets, and that the existing infrastructure may struggle to cope without considerable outlay, specifically on the charter of a second aeroplane.

There is a potential risk that some bulk mail companies might relocate if there was inadequate capacity to deliver the mail on time, but Guernsey Post is investigating this problem. Much of this market is based upon the 'Low Value Consignment Rate' (£18.00 or under) which is entirely under the control of the UK government. The rate could change or be withdrawn at short notice so it is important that this area is able to stand alone to prevent a knock-on effect on other types of post.

It is worth noting that much of the bulk mail falls outside the restricted area so is open to competition. Businesses could already make their own arrangements for alternative service providers or even transport the items to the UK themselves, however, they have remained with Guernsey Post.

Potential for the introduction of second-class rate

There are several obstacles to the introduction of a more economical alternative to Royal Mail, and all appear to involve a delay in delivery times by at least a day.

For many businesses, whether in fulfilment or where the delivery of living plants or flowers is involved, speed of delivery is of primary concern. However, there are businesses and finance houses who might be able to tolerate a longer time-frame for a reduced cost.

Postwatch proposed the introduction of a second-class rate back in 2005 and continue to believe that this should be one alternative to consider in any future submission by Guernsey Post.

Pricing in Proportion (PiP)

Postwatch has concerns that the introduction of PiP for the local service appears to have come as a surprise to Guernsey Post. Even in 2006 we expressed our concern that no preparation appeared to have been made for the potential introduction of this system and we feel that contingency plans could have been made to allow for the smooth introduction of the scheme. We would note that it is strange that Jersey state that they have no plans to introduce it.

Although there is likely to be initial opposition to this change (or indeed any other) there appears to be no room for negotiation on the subject with Royal Mail. Our emphasis would be on what the committee consider would be a rather rushed introduction of PiP, that entirely changes the way some customers will use the post, although some, mainly on the social side, will be unaffected other than by the proposed tariff increases.

Social customers tend to be more common among the older population who can find it more difficult to understand and adapt to change. For example even posting a simple birthday card could be complicated by its size or weight, especially with the increase in designer or 'singing' cards. It is important they have plenty of time to assimilate change. Packages already have to be taken to Post Offices to be weighed, so change here will have less impact although the introduction of 'postage labels' rather than traditional stamps may cause initial confusion.

We have been informed that some bulk mailers may benefit from price reductions with redesigned packaging but it should be remembered that they do most of their business on the internet where changes can be made instantly. However there are other businesses that sell through catalogues that may already have been printed for 2010 and who would therefore have to absorb the increased cost of postage. A date for confirmation of new tariffs is not available and there will not even be a 'strong indication' from the OUR until October, and this would be too late for the production of catalogues for items to be delivered from April 2010. Another consideration is adequate notice for drawing up business plans to accommodate the introduction of new equipment that may be required.

We have queried why the number of weight steps to be introduced was much larger than that used in the UK, but accept that most post apart from standard letters would probably be taken to the post office anyway so the impact on customers is likely to be minimal and possibly fairer than adopting the UK's three weight steps.

Postwatch is keen to work with Guernsey Post to assist in the introduction of PiP, and are encouraged by some aspects of their implementation plan such as the introduction of PiP champions in each retail outlet and household delivery of sizing tools also information on their website.

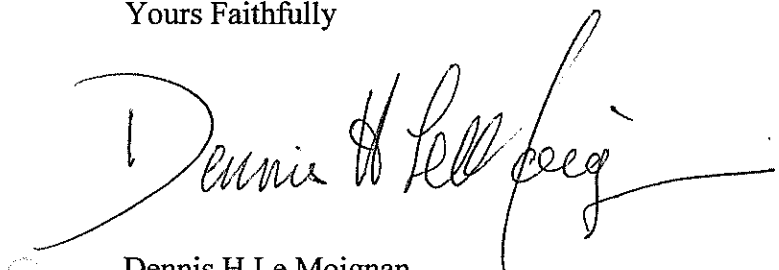
Postcomm demanded a one-year notice period for the introduction of PiP in the UK and Postwatch feel that this would be a more reasonable time-frame for Guernsey and would allow for a similarly smooth introduction.

Pricing

Postwatch supports the recent moves to make prices reflect the actual cost of providing each service so that each sector is insulated against the potential loss of any other, although this has led to a rise in local stamp prices as this sector had previously been partially subsidised by bulk mailers. However it was necessary to protect social mail if one of the business sectors were to be lost.

Guernsey Post verbally informed Postwatch of a substantial reduction by 16% in household mail, largely due to the impact of e-billing and e-banking. We accept that the infrastructure required remains largely unchanged and that this means that costs have increased proportionately.

Yours Faithfully



Dennis H Le Moignan
Chairman, Postwatch Guernsey



The Sigma Group

COMPLETE BUSINESS SOLUTIONS 20 August 2009

PO Box 302 Braye Road Vale Guernsey GY1 3SD
telephone 01481 241111 facsimile 01481 246391
email enquiries@sigmagroup.gg

Office of the Utility Regulation
Suites B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

Dear John,

Comments on Guernsey Post's Proposed Tariff Changes

Thank you for the opportunity to discuss the proposals for bulk mail tariff charges related to the Guernsey Post Office submission of 15 May 09 and OUR Consultation Paper 09/16 August 2009.

On behalf of the Sigma Group I offer the following comments as part of the consultation process. I would like the appendix to this submission to be kept confidential, as it gives commercially confidential information which must not be released to third parties.

In summary the views of The Sigma Group are as stated at the meeting:

Competitive edge of Guernsey fulfilment companies

The short duration, 1 year, of the proposals does not give the required security for long term investment. Without the edge provided by competitive rates for an extended period fulfilment clients will move to alternative jurisdictions.

In the current general economic situation, client companies are squeezing margins at every opportunity. The cost of post is a very significant contribution to costs and therefore to retain businesses on the island it is imperative to maintain the competitiveness of post rates against other jurisdictions.

The proposed rise in price of the packet rates against the current charges for the same weight is excessive, especially if the proposals are accepted unmodified, this will mean one huge jump in costs.

The introduction of sized based pricing (SBP), in a matter of months (compared with planned introduction in other jurisdictions over as much as 20 years) is potentially

destabilising for the fulfilment and bulk mailing industry in Guernsey. This can't be helpful to the island as a whole.

The introduction of SBP at the same time as separate major price increases effectively multiplies the impact of increased costs for our clients' products

The impact of SBP will mean that Guernsey fulfilment companies will be involved in additional work, i.e. a separate sortation of large envelopes and packages, this will increase labour costs and squeeze the margins of Guernsey companies.

The potential impact on the bulk mail sector is likely to be significant at a time of rising unemployment on the island.

Time is needed to adapt to the introduction of SBP for example:

- to modify product packaging to fit within the large letter limits, this requires significant gearing up by manufacturers,
- to change IT systems to denote the post information to differentiate between large letters and packets,
- to obtain different packing materials requires time to source
- possibly to have of uniquely cut delivery notes redesigned and ordered
- to research the introduction mechanisation, because the current hand packed padded envelopes are thought to exceed 25mm and hence attract a very high packet post charge.
- to obtain additional space for a second set of 120 sort frames
- time to order and have delivered a second set of post frames from the GPL to carry out the sort (last time this took several months)

All of these have lead times are greater than the few months available once the OUR decision has been confirmed for potential introduction on 1 April 2010.

International mail and competitive edge

Currently the public rates for international mail are uncompetitive with neighbouring jurisdictions. This will become a further deterrent to clients. Clients will not split businesses i.e. despatches to UK and international, instead will move from Guernsey completely, for example to Jersey, Switzerland or the USA.

International is the segment of the fulfilment business which Sigma is keen to grow because of the political sensitivities of posting to the UK and thus competitive international rates should be supported.

International post will also require splitting into 2 separate sorts namely large letter and packets. The GPL has indicated that further sortation of international mail by country is likely to be required over time adding further to fulfilment labour costs.

Currently the charges of international post rates are in steps which increase the costs for actual package weight against the calculations in other jurisdictions. A move to SLP would be supported preferably discounted for volume.

The quantity and complexity of the work by fulfilment companies is being increased with a lower service being provided by GPL but at a higher cost. Client companies will expect The Sigma Group (and other fulfilment companies) to absorb the additional overheads .

If post charges don't remain competitive then clients will move from Guernsey which would be detrimental to the islands economy.

Reserved Services

If the price rises in the submission of the Guernsey Post are accepted then it is essential that the reserved services area is not increased but, instead, removed. This would test the competitive of the GPL. Arrangements would have to be secured to access the Low Value Consignment Relief (LVCR) other than via the Guernsey Post Ltd.

From the Post Office submission it was interesting to note that the rates for Universal Service Obligation/ Non Reserved area (pages 38-41) have mostly not increased. An element of RPI might be expected across the board if there is no cross subsidy. There is also a lack of firm information on the international postage especially in the Non Universal Service Obligation sections.

General issues

The Sigma company carries the risk of the postage costs for client companies with no profit.

Other issues which we raised previously and would welcome consideration:

- Sigma would like to see discounts available based on volumes to the UK and for international post
- The lack of insurance for bulk mail is a contentious issue with our clients especially for items above £17.99
- The processing of recorded delivery and special items for bulk mailers needs automation by the GPL as this is especially important for items above the deminimus level, a market in to which we wish to expand.

Conclusions

The rate of price increase is higher than acceptable (as we must remain competitive with other jurisdictions). Time is required by companies to gear up to such a significant change in the structure of the post service products such as the introduction of SBP. The speed of introduction of SBP is unacceptable especially as the changes proposed are only for 12 months and hence do not provide sufficient stability or continuity on which to base long term development and

investment.. Fulfilment is significant for the maintenance of the island's infrastructure, employment, tax take and general economy.

We can provide additional specific information but this is a summary of the view of The Sigma Group.

Yours sincerely,



The Sigma Group

COMMERCIALY CONFIDENTIAL
Forecast information as requested in email of 17 August 2009

Appendix 1

Mr J Curran
Director General
Office of Utility Regulation
Suite B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

15 September 2009

Dear Mr Curran

Guernsey Post Limited - Proposed Tariff Changes

The Board of the Treasury and Resources Department has recently given careful consideration to the consultation paper that your office has issued in response to a price control application made by Guernsey Post Limited (GPL).

As the sole shareholder representative in GPL, my Department has a number of important comments to make on this matter to which, we trust, you will give equally careful consideration before making your decision. We do, of course, appreciate that in responding to GPL's application your office is required to take account of the existing legislation under which the OUR operates as well as current States directions. We also recognise that you must balance the requirements of GPL with the interests of consumers generally including, importantly, those in the bulk mail sector and that there is the potential for inter-island competition which could see GPL's income from this sector undermined.

It is, of course, abundantly clear that GPL's application has been driven principally by the recent and very large price increase that has been **imposed** on GPL by Royal Mail. It is essential that GPL is permitted to recover those additional costs in order to ensure the business remains viable, is able to provide good quality services at reasonable cost and remain profitable on an ongoing basis.

Furthermore, my Department is far from convinced that the introduction of further competition in the postal market particularly through the removal or lowering of GPL's current "reserved area", is in the Company's or more importantly, the Island's best, long term interests. My Department is very strongly of the view that GPL must never be placed in a position where it is unable to maintain the universal service obligation that is imposed on the company and that decisions made by the OUR, either now or in the future, must not lead to a public subsidy being required by GPL.

It is our view that any decision by the OUR which seeks, in particular, to remove or lower the reserved area, will eventually lead to a position where GPL is unable to maintain its universal

service obligation on an efficient and cost effective basis. As shareholder our primary interest is to ensure that GPL remains a profitable, well run and respected company which is able to continue providing quality services to the community of the Bailiwick. We trust those objectives will feature highly in arriving at your decision.

Yours sincerely

A handwritten signature in black ink, appearing to be 'C N K Parkinson', with a long, sweeping horizontal flourish extending to the right.

C N K Parkinson
Minister