Purpose and type of consultation

This paper puts forward options for change and seeks the views of members of the public and interested parties.

Closing date: 11th March 2011

The Commerce and Employment Board would like your views about the possible revision of the extent of the Universal Postal service which Guernsey Post Limited is obliged to provide under the terms of its licence.

Information received from the consultation will assist the Board in preparing a States Report with recommendations.

Responses & Requests for further information

Please send your comments to:
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Circulation

This consultation paper is available to view at:

Guernsey Postal Headquarters, Envoy House
Sub Post Offices in Guernsey, Alderney and Sark
Guille Alles Library
and

online (including an online response facility)

http://www.gov.gg/ccm/navigation/commerce---employment/

It has also been sent to the following individuals / organisations:

Members of the States of Guernsey.
Treasury and Resources Department, States of Guernsey
The Chief Minister, States of Guernsey
The States’ Economist
The Office of Utility Regulation
Guernsey Post Limited
Citipost DSA
DHL
TNT
The Bulk Mailers Association
The Communications Workers Union
PostWatch
States of Alderney
Chief Pleas Sark
Chamber of Commerce
Institute of Directors
Confederation of Guernsey Industry
Guernsey International Business Association
Introduction and Executive Summary

The basic principle of a universal postal service is that everyone – meaning every residential and business address – receives a defined level of service and pays the same price for it, whatever the distance and difficulties there may be in collection or delivery. Thus the extra expense of serving more difficult addresses is balanced by the lower cost of serving easier addresses and this is achieved at what is considered to be an acceptable cost.

The Universal Service for Guernsey is set by the States and Guernsey Post is obliged to provide under the terms of its licence from the OUR. The Universal Service Obligation and has three major elements:

- One collection per day from access points (principally post offices and post boxes) on six days each week;
- One delivery per day of letter mail to the home or premises of every natural or legal person in the Bailiwick on six days each week including all working days;
- An adequate density of access points and contact points (post offices and post boxes) to take account of the needs of users.

Guernsey Post has the exclusive right (a monopoly) to provide services within a “Reserved Area” of the market to ensure that it can generate sufficient revenue to fund universal postal service.

Market and other trends both within and external to Guernsey over recent years have resulted in an increase in the unit costs of providing the current USO and those trends are likely to continue.

Through the sale of stamps Guernsey Post’s revenue is proportionate to the volume of mail posted in the island. However the cost of basic collection and delivery services are the same whatever the traffic: delivering two letters to a house costs no more than delivering one letter, and collecting 50 letters from a post box costs little more than collecting one letter. The existence of such fixed costs makes postal services vulnerable to a decline in traffic.

Key factors have been:

- Changes to commercial relationship with Royal Mail which have resulted in increased cost being borne by Guernsey Post.
- A decline in volumes in core postal services due to changing social, technological and economic circumstances that is common to most postal operations around the world.
- A rebalancing of the charges that Guernsey Post make for bulk mail fulfilment activities in order to keep this important economic exporting sector competitive such that each market, core and fulfilment, covers their direct costs and make a contribution to GPL’s overheads.

As the cost of providing the USO is borne by all customers receiving services within the reserved area it is appropriate to review whether or not the current defined level of Universal Postal services, and the cost to customers of providing it, is proportionate to today’s social, technological and economic circumstances.
Three broad options are discussed for revising the USO regime:

- **Maintaining the current scope of the USO whilst seeking to increase income and/or reduce costs** - it is taken as a given that Guernsey Post will achieve the cost efficiencies that it has proposed to the OUR and that appropriate opportunities to increase income and/or the contribution to overheads of core postal activities will be pursued.

- **Maintaining the current scope of the USO but introducing alternative funding arrangements** - including reverting to the cross subsidisation of core postal services by bulk mail services and the introduction of a grant from taxpayer revenues. An alternative arrangement, which is currently subject to separate consultation processes by Commerce and Employment* and the OUR*, would involve contributions to costs from additional licensed postal operators.

- **Reducing the current scope and hence costs of the USO** – this consultation process is seeking the views of the community on a possible reduction in the frequency of collections and deliveries and/or a reduction in access points to the postal system.

This consultation document and process has been developed by Commerce and Employment in close consultation and with, and has the support of Guernsey Post and the Director General of the OUR.

*For the avoidance of doubt*: The OUR Consultation Paper on Guernsey Post’s Proposed Tariff Changes (OUR 10/12) which closed on 22nd November 2010 refers to possible future licensing arrangements and contributions to the cost of the USO as does the Consultation Paper on the Review of Guernsey’s Utility Regulatory Regime issued on 9th November by Commerce and Employment and which closed on 24th December 2010. This consultation document deals primarily with the extent of the USO under whatever funding arrangements are in place.
1. What is the current defined level of Universal Postal Service in Guernsey, who sets it and who is obliged to provide it?

In September 2001, the States issued Directions to the Director General of Utility Regulation (the “DG”) that required the DG to issue the licence to provide universal services to Guernsey Post Limited (“GPL”). At the same time the States set out the minimum level of universal postal service that GPL is obliged to provide – the Universal Service Obligation (“USO”):

The following universal postal service shall be provided (. . .) throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- One collection from access points on six days each week;
- One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;
- Collections shall be for all postal items up to a weight of 20Kg
- Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20kg;
- Services for registered and insured mail.

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users, “access point” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

2. How are the costs of providing the USO covered?

Having defined the extent of the universal service obligation, in 2001 the States then directed that GPL should be provided with the exclusive right to provide reserved services insofar as this is needed to enable and ensure that the universal postal service is delivered – this created a “reserved area” within which only GPL was licensed (had the “exclusive right”) to provide services.

The award of an exclusive right protects the designated services from competition. In particular, it excludes the possibility of a competitor entering the market to compete for only the most profitable parts of the operation and thereby leaving the less profitable, or unprofitable parts, to GPL.
3. Why does the USO need to be reviewed?

Market trends both within and external to Guernsey over recent years have resulted in an increase in the unit costs of providing the current USO and those trends are likely to continue. As the cost of providing the USO is borne by all customers receiving services within the reserved area it is appropriate to review whether or not the current defined level of Universal Postal services, and the cost to customers of providing it, is proportionate to today’s social, technological and economic circumstances.

In addition to reviewing the extent of the USO it is appropriate to comment on ways in which the costs of providing it may be reduced or funded in some other way.

4. What factors have led to the need to review the USO?

4.1 The cost structure of the postal sector

The cost structure of the postal sector is very different from its revenue structure. Revenue tends to be collected when individual products or services are sold (stamps) and follow the movement of traffic volume closely. However, a significant proportion of the costs of maintaining a postal network are fixed, at least in the short term, and do not depend on the traffic volume it carries. The existence of fixed costs is particularly true for the costs associated with the USO. For example, the cost of basic collection and delivery services are the same whatever the traffic: delivering two letters to a house costs no more than delivering one letter, and collecting 50 letters from a post box costs little more than collecting one letter. The existence of such fixed costs makes postal services vulnerable to a decline in traffic.

In addition postal services are relatively labour-intensive. Because generally over time the cost of labour tends to increase faster than the cost of living the cost of efficiently-provided postal services is less likely to fall in relation to the price of goods and services than in capital-intensive sectors.

4.2 Royal Mail Charges

Since the extent of the USO was set by the States in 2001 the nature of the relationship between GPL and Royal Mail has been moved onto a commercial footing.

Historically, the Bailiwick’s postal consumers had benefited from the fact that whilst GPL delivered all mail received from Royal Mail and Royal Mail in turn delivered all mail received from GPL, the companies did not charge each other but assumed that the costs “balanced out”. This contractual arrangement implicitly assumed the same volume and type of mail flows in each direction.

In the past, Royal Mail operated on this basis with the three postal operators in Guernsey, Jersey and the Isle of Man. However, there was significantly more mail going from Guernsey to the UK than in the other direction and this imbalance has increased with the development of the fulfilment sector. In addition Royal Mail has been put under greater pressure to improve its own financial performance.

This has resulted in the implementation of a proper commercial contract between the two postal operators to reflect normal commercial arrangements with regard to the payment of ‘terminal dues’ between USO providers in two separate jurisdictions. This commercial arrangement, which sees both Royal Mail and GPL charge each other for the actual volumes of mail in each direction, has resulted
in significant increases in charges to GPL for the services provided by Royal Mail and to GPL’s underlying cost base.

At this point it is useful to distinguish two postal sectors:

- A general postal service – often referred to as a “core” postal service – serving the needs of smaller businesses and individuals (social mail) and delivering to all addresses. USO services fall squarely into this core postal sector.
- A postal sector serving the needs of the fulfilment industry and large bulk mailers.

4.3 Decline in volumes in core postal services due to changing social, technological and economic circumstances

Up until recently, increasing volumes in core postal services mitigated pressures on costs with the result that costs per item – and, therefore, postal charges - have been kept at levels generally considered to be reasonable. This situation continued until approximately 2005-2006. Since that date however, postal volumes have declined in almost all jurisdictions: for example, UK mail volumes declined by 7.3% in 2009/2010 having peaked in 2005. France experienced a 3% decline in 2008, followed by a 5.3% decline in 2009. From 2006 to 2009, in the United States volumes declined by 17%. More locally, in Jersey, mail volumes have declined since 2003 by 4% per year, and in Guernsey the volumes of mail received from the UK in 2009/10 declined by 16% compared to the previous year.

The reason for this generalised decline is of course the development of the internet and the use of mobile technology, which is increasingly becoming the accepted medium for communications for a range of different purposes. Postal users also are using electronic means to by-pass Guernsey Post even if they continue to use the postal system. For instance, large mailers in Guernsey can send all their mail electronically to the UK, where it is printed and posted, and some of this postal traffic may even come back to Guernsey where GPL delivers it.

For social purposes, the advent of cheap telephony, the growth of social networking sites, e-mail and facilities such as picture messaging mean that there is a decreasing need to use letters as a means of social communication. In particular, e-mail has now become the norm for many persons, and the process towards electronic communications is likely to intensify with the further development of mobile technology, including the tablet computer. For the moment, greetings cards remain a more secure market although this may change in the future. For example, in addition to changing social attitudes, the use of postcards is likely to be eroded by the ability to send images by mobile phone or over the internet.

For business purposes, there is an increasing use of the internet for many functions, including banking, the sending of bills and their payment. Given the greater efficiencies for companies of such processes compared to the traditional method of sending out invoices, the use of the internet is likely to be developed further in the future, thereby reducing further the use of printed communications. In addition, person-to-person advertising is now increasingly achieved using e-mail and the internet. And many journals and advertising circulars are now produced electronically instead of in hard copy, which means they can be delivered both more cheaply and more promptly by the companies and agencies concerned.
It is clear that declining postal volumes are an international trend and one that can be expected to continue into the future. The following table, taken from a recent update by Richard Hooper of his 2008 report about the UK Royal Mail, demonstrates the international decline in addressed letters.

### Table 4 - Reduction in addressed letter volumes 2008-09

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth in 2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>-7.3%</td>
</tr>
<tr>
<td>France</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>-6.5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Italy</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Belgium</td>
<td>-4.0%</td>
</tr>
<tr>
<td>United States</td>
<td>-12.7%</td>
</tr>
</tbody>
</table>

*Source: ‘Saving the Royal Mail’s universal postal service in the digital age - An Update of the 2008 Independent Review of the Postal Services Sector’ by Richard Hooper CBE, September 2010*

#### Guernsey Post Volumes

![Graph showing Postal Volumes](image)

**4.4 Fulfilment and the Reserved Area**

While core postal traffic has declined because of internet competition, a significant compensating factor for both Guernsey and Jersey is that the internet opens up access to markets for locally based businesses. The islands’ business environment and its excellent telecoms links has enabled a range of local and off-island businesses to establish operations whereby orders placed over the internet are “fulfilled” through the “bulk mail” dispatch of goods through the postal system. Examples include Healthspan, HMV, Moonpig and others.
The reality of the fulfilment market is that it is highly competitive because of the immediate ability of customers to compare prices on the internet. This means that minimising costs is an important factor affecting fulfilment companies’ profitability. If postal charges are too high there is a very significant risk that these companies will relocate from the Island to an alternative jurisdiction. Fulfilment companies in Guernsey currently make a significant contribution to the Island’s economy and employ in excess of 700 persons. Their loss would therefore be highly detrimental to the Island’s economic and social interests, including the maintenance of the USO.

It has probably been the case in the past that profits made in the bulk postal market – which were artificially boosted by the absence of Royal Mail charges and by higher tariffs for bulk mail than were justified – were used to compensate for loss-making activities in the core postal market, thereby supporting the USO. However, the long-term survival of the fulfilment industry now requires that there should be no cross-subsidy from this part of the postal market to the core one.

In successive reviews of postal prices the DG has ensured that, progressively, each market was brought in balance. The situation in Guernsey is now that each of the two postal markets, core and fulfilment, covers their direct costs and makes a contribution to GPL’s overheads that are shared by both markets.

This was reflected in the August 2010 announcement (OUR 10/10) of a proposed (subsequently confirmed in OUR 10/11) amendment to the reserved area of postal services which stated: “The Director General proposes to revise the reserved area ... to exclude packets\(^1\) from the reserved area but to retain the price point for all other services at £1.35. Guernsey Post Ltd supports this proposal.

The DG believes that this proposed decision will balance the interests of consumers and other postal users in the Bailiwick of Guernsey, with those of Guernsey Post Ltd. In particular, the Director General considers that the exclusion of packets\(^1\) will offer considerable benefits to the bulk mailers who operate in Guernsey but will also permit Guernsey Post Ltd to maintain Guernsey’s universal postal service.”

Thus GPL continues to enjoy exclusivity in a reserved area of postal services that is considered to be sufficient for it to be able to generate sufficient revenues to fund the provision of the USO. With the phasing out of any cross subsidy between core postal services and bulk mail services, which is necessary to ensure the competitiveness of the fulfilment sector, competition in the bulk mail market should have no direct impact on the ability of GPL to fund the provision of the USO. Indirectly, the more bulk mail business that GPL can secure then the greater will be the contribution to the overheads of postal services as a whole.

4.5 Increased Competition outside the Reserved Area

There is some competition in the core postal market outside of the Reserved Area. On the one hand, this competition may be compounding the effect of the traffic decline noted above but, on the other hand, it may encourage the use of postal services by making them more attractive, better designed for end-users, better priced, etc.

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\(^1\) For the purposes of the reserved services definition, a postal packet is an item: with a length over 353 mm, or a width over 250 mm, or a thickness over 25 mm, or a weight over 750 g.
Areas of competition include the delivery of urgent items that cannot be delivered by e-mail and involving companies such as TNT and DHL and others. Traditional providers of postal services such as GPL have the options of withdrawing from these areas, competing or possibly entering into partnerships with other companies to benefit from the increased market size that competition can stimulate.

5. How might the factors impacting on the USO be addressed?

The options may be considered under 3 broad headings:

- Maintaining the current scope of the USO whilst seeking to increase income and/or reduce costs
- Maintaining the current scope of the USO but introduce alternative funding arrangements
- Reducing the current scope and hence costs of the USO

5.1 Maintaining the current scope of the USO whilst seeking to increase income and/or reduce costs

Reducing costs in the provision of core postal services and hence the cost of providing the USO – these measures are being put in place by Guernsey Post as part of its continuing drive to improve its efficiency in both fulfilment and general markets and as part of the Office of Utility Regulation (OUR) successive price controls which have required improved efficiencies.

In its application for tariff changes to come into effect 1 April 2011, GPL is proposing to reduce its overhead costs by more than £1m in 2013-14 and to reduce its operational costs by £2m over the same period. These reductions will be reflected in the costs of providing the USO.

Increases in Charges to cover the increased costs of meeting the Universal Service Obligation - while there may be some scope for increasing charges in this way, it is unlikely to prove an effective policy in the longer term, given the alternative methods of communication that are now available and have been described above. In particular, increasing charges may simply hasten moves to greater use of the internet and e-mail.

Of more immediate consequence, many small businesses still use postal services to a significant extent and increasing charges could significantly increase their costs. In addition, if charges were increased, larger businesses may seek ways to circumvent the local postal system by, for example, forwarding mail items in quantity to the UK by e-mail, with them being posted back to the Island by Royal Mail at a lower fee. Scope to raise charges further may therefore be limited.

Increase the contribution to overheads from other activities (diversification) - in general terms, diversification into other activities is not without its own difficulties and within the Island there must be a question as to whether, given the competition that is already in place, the likely scale of such activities will ever be able to make a contribution to income that would be sufficient to significantly offset the effects of the decline in postal volumes.
Moreover, there is the question of whether diversification is justified in principle to support the USO. It makes a great deal of sense to use the asset that is the postal network for other purposes than postal services as it spreads the fixed cost of this network on a greater range of services.

However, it is also open to question whether diversification should achieve more than contributing to overheads and whether, in principle, the USO should be financed by extraneous activities unrelated to it. In terms of sound public policy, it is a better guide to action to assume that the USO has to be self-financing.

5.2 Maintaining the current scope of the USO but introduce alternative funding arrangements

Revert to the cross subsidising of core postal services, including the provision of the USO, by increasing charges to bulk mailers – however as has already been commented, because of the high level of competition in the sector from other jurisdictions any attempts to load bulk mail charges could result in loss of business to local operators and ultimately the relocation of those businesses away from the island. Not only would this be counter-productive to GPL, but it could also have a highly detrimental effect on the Island’s economy, particularly give the number of local persons that the fulfilment industry now employs.

Securing a public sector grant - to “compensate” GPL for having to provide the “unprofitable” elements of the USO. There are however problems with this approach:

a. It would largely be an academic exercise to try and identify which elements were profitable and which were not within an integrated network of services. In large countries, deliveries to remote rural areas are often considered to be uneconomic compared to urbanised areas. However, in Guernsey this distinction may not be useful.

b. The Reserved Area protects GPL from competition in order to enable it to generate sufficient revenue to fund the provision of the USO. Granting a cash “subsidy” to fund the unprofitable parts of the USO would raise questions as to whether GPL should continue to benefit from any protection and whether or not receipt of a subsidy should be open to a tendering process.

c. The most powerful argument against such an approach is the current fiscal circumstances of the Island which mean that it is unlikely that the States would agree to what would be an additional call on general revenue expenditure.

Subsidising of the USO from a ‘Compensation Fund’ paid for by a levy on all licensed postal operators - under present legislation only Guernsey Post requires a licence to operate but this is under review following the amendment to the reserved area of postal services referred to in 5.4 above. Requiring other postal operators to be in possession of a licence could provide a framework for introducing more competition into the core postal market whilst providing funding of the USO from all postal operators.

Possible future licensing arrangements and how support for any net cost of the USO was considered in the separate consultation process on the Review of Guernsey’s Utility Regulatory Regime undertaken by Commerce and Employment but which closed on 24th December 2010.
Introducing a “Compensation Fund” to subsidise the cost of the USO has at least two implications:

- It implies that all postal services, including USO services, will be opened up to competition from additional licensed operators;

- It implies that if GPL is not able to retain a market share of postal services sufficient for it to be able to fund the maintenance of the USO then the additional licensed operators will pay a contribution to making up the shortfall.

To achieve further liberalisation the extent of the USO would need to be defined in far more detail than the high level collection, delivery and access standards set by the States and the costs of efficiently delivering each element would need to be established.

In the Consultation Paper on Guernsey Post’s Proposed Tariff Changes (OUR 10/12) which closes on 22 November the DG discusses possible future licensing arrangements and contributions to the cost of the USO but comments: ... it therefore seems appropriate to the DG that explicit USO funding arrangements by competitors would be considered only where any potential USO funding shortfall is caused by competition. This is not considered a material risk at this stage of market opening.

This consultation document deals primarily with whether or not, under whatever funding arrangements are in place, the extent and hence cost to customers of the USO is proportionate to today’s social, technological and economic circumstances.

5.3 Reducing the current scope and hence costs of the USO

Whatever measures may be taken to increase income, reduce costs or introduce alternative funding arrangements the extent of the USO will determine the ultimate costs of providing it efficiently. As the cost of providing the USO has to be borne directly or indirectly by the users of core postal services it is appropriate to review whether or not the current defined level of Universal Postal services is proportionate to today’s social, technological and economic circumstances.
6. **Comparison with USO in other jurisdictions**

It can be seen from section 2 that the USO for Guernsey contains the following three major elements:

- One collection per day from access points (principally post offices and post boxes) on six days each week;
- One delivery per day of letter mail to the home or premises of every natural or legal person in the Bailiwick on six days each week including all working days;
- The density of access points and contact points (post offices and post boxes) to take account of the needs of users.

The situation is broadly similar in other jurisdictions in Europe and the same pressures as those that apply in the Channel Islands are likely to lead to changes. It is worth noting that European legislation is progressively doing away with reserved areas and the granting of exclusive rights to the incumbent postal operator in its jurisdiction, while expecting the USO to be maintained.

**Jersey** – The Postal Services Law provides for the Minister of the Economic Development Department to issue the Jersey Competition and Regulatory Authority with Directions and Guidance on the level of services provided under the USO. The current Guidance is that deliveries and collections should be made every working day or 5 days a week. However Jersey Post’s licence requires it to provide those services six days a week. The Jersey Economic Development Department has undertaken a consultation exercise looking at various possible changes to the USO. The States of Jersey has yet to consider the report on the results of that consultation process but the Minister of the Department has commented that 5 day deliveries is the most likely outcome as part of a general efficiency drive at Jersey Post.

**UK** – The current USO is that collection and deliveries take place across the UK six days a week.

**Ireland** – Deliveries take place five days a week

**Cyprus** – Deliveries take place five days a week

**Malta** – Deliveries are six times a week but postal legislation actually require 5 times a week only

The following table shows the density of post offices (whether owned by the USO provider or run as a postal agency).

**Table 1 – Density of post offices**

<table>
<thead>
<tr>
<th>Country</th>
<th>Postal outlets per 10,000 inhabitants</th>
<th>Movement in last ten years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guernsey</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Jersey</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>2.2</td>
<td>Reduced by a third</td>
</tr>
<tr>
<td>Ireland</td>
<td>3.2</td>
<td>Reduced by &gt; a third</td>
</tr>
<tr>
<td>Cyprus</td>
<td>14.8*</td>
<td>Increased by &gt; a quarter</td>
</tr>
<tr>
<td>Malta</td>
<td>1.5</td>
<td>Increased slightly</td>
</tr>
</tbody>
</table>

* Figure not comparable as postal agencies also carry out collections and deliveries

Source: Guernsey and Jersey data calculated by the Office of Utility Regulation (OUR); information from ITA Consulting & WIK Consult, ‘The Evolution of the Postal Market since 1997’ for DG Internal Market at the European Commission, 2009 for other countries.
### Table 2 – Delivery points and delivered traffic in Guernsey

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Households (a)</th>
<th>Core Postal traffic m (b)</th>
<th>Traffic per household (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>60,382</td>
<td>22,882*</td>
<td>7.6</td>
<td>334</td>
</tr>
<tr>
<td>2006</td>
<td>61,029</td>
<td>23,127*</td>
<td>7.8</td>
<td>337</td>
</tr>
<tr>
<td>2007</td>
<td>61,175</td>
<td>23,182*</td>
<td>8.6</td>
<td>371</td>
</tr>
<tr>
<td>2008</td>
<td>61,726</td>
<td>23,391*</td>
<td>8.4</td>
<td>359</td>
</tr>
<tr>
<td>2009</td>
<td>62,274</td>
<td>23,599*</td>
<td>6.9</td>
<td>294</td>
</tr>
</tbody>
</table>

*Source: Guernsey Facts and Figures, Policy Council, States of Guernsey and OUR calculations*

*Estimates based on household size in 2001 (Census year)*

(a) Household number taken as proxy for number of delivery points; including business addresses, there are more than 27,000 delivery points (GPL Customer Charter, 2008)

(b) Local postal traffic in million items

(c) Local postal traffic: No of items per household
7. Options for Reducing the current scope and hence costs of the USO

7.1 Reducing frequencies of collections and deliveries

Reducing the USO number of collections and deliveries to five, or even three days a week would reduce significantly the workload of Guernsey Post and would therefore result in a significant reduction in costs.

GPL estimate that savings on going down to five days a week collections and deliveries could be in excess of £500,000 per annum and on going down to three days a week could add at least that sum again to savings.

To achieve the savings from a reduction to five days a week collections and deliveries, the sorting of inward mail from the UK, and the dispatch of local mail to the UK would also need to reduce to five days a week. Many postal administrations already only deliver on five days a week and if Royal Mail reduce to this frequency, as seems a possibility, it would be impractical for GPL to maintain a sixth day service for local mail only.

GPL is unable to establish the volume of business deliveries and collections on a Saturday but the use of PO boxes on Saturdays is considered to be less than 20% of that on weekdays, possibly as low as 10%. A more definitive assessment of the Saturday use of PO Boxes will be gained from surveys to be undertaken by GPL. If Saturday collections and deliveries are discontinued, access to the PO boxes on a Saturday will be maintained to continue to allow adhoc users to collect mail at their convenience.

If USO collections and deliveries were reduced to three days a week, sorting, dispatch etc. of mail would be undertaken more frequently. For those individuals or businesses that wished to receive a service over and above that of the USO GPL could introduce an additional premium service. As an example, it would be possible through the USO to provide a service on a reduced number of days per week funded through the stamp price with a supplementary monthly charge on those persons or services who wished to have deliveries more frequently.

While this may be appear to be against the principles of the USO, it may now be felt that given the alternatives that are available for urgent items, including the use of e-mail, daily deliveries are no longer necessary to meet general business and social needs.

7.2 Reducing number of Access Points

It should be noted that in the USO states: ... in providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users thus there is no requirement for a specific number of post offices or post boxes. The current number of access points is currently determined by Guernsey Post in reference to its own Customer Charter. However, when the earlier review of the Universal Service Obligation took place in 2006, the suggestion that the number of post offices could be reduced met with considerable controversy.

Nevertheless, there are now other options available for obtaining access to some of the traditional post office services that could either supplement or replace the role of the post office itself, depending on the nature of each premises. These include:

- An ability to pay for postage on line through the printing of special labels.
- The installation of stand-alone “kiosks” for the sale of stamps and other services both in post offices and other locations which are frequented by the public.
• Further integration of post offices with other retail outlets in the Island, in order to increase the availability of postal services to members of the public.

These possibilities, and others, clearly require further research into their feasibility. However, notice should be taken of the fact that Guernsey Post operates in a competitive market and postal services will only be used by customers in preference to the internet and e-mail if it is convenient for them to do so. Ensuring convenient access for the public may therefore be part of the crucial mix for the future.

Nevertheless, if it were wished to reduce costs by reducing services, the following are ways this might be achieved:

• Reducing the number of access points for collections. However, any reductions in cost by doing so would be likely to be minimal and would be offset by a reduction in convenience to the public.

• Reduce the number of post offices in the Island. As detailed above, if this were felt to be appropriate this might be best achieved through a broader review of the current access arrangements to postal services by members of the public, which might reduce the demand for individual post offices through the introduction of alternative services.

A survey conducted for the Guernsey Post early in 2010 found that more than half the people surveyed thought six deliveries a week were ‘not that important’ or ‘unimportant’, and just over a third of households believed that they were actually receiving deliveries six days a week.

This consultation process is seeking views on a possible reduction in the number of access points but it would not be necessary to change the terms of the current States Directions on the USO to enable this to happen.

7.3 Long term development of the USO

The States determined the USO in 2001 and might determine to change it after responses to this consultation have been received. However, the USO that society wants and can afford will change as technology develops and customer needs evolve – as they have for instance on the declining necessity for public payphones which used to be a significant consideration in the telecoms equivalent of a USO. Moreover, the cost of providing a defined USO changes with market developments e.g. changes in postal volumes and make up.

The definition of the USO set by the States and which GPL must provide should therefore be capable of adjustment to react to changing customer needs and market conditions without involving the States at every occasion but with appropriate arrangements for scrutiny of any proposed changes.

One way of achieving this would be for the States to set a minimum frequency of collections and deliveries but with Guernsey Post’s licence from the DG stipulating the actual number days in relation to current circumstances. Any revision of licence conditions would be subject to a consultation process by the DG.

If the States Directions stipulated a minimum frequency of (say) three days a week but it was considered that current circumstances merited 5 days a week then the initial licence stipulation would be that frequency. If it was considered that customer needs and market conditions had changed such the frequency should be reduced then this would be subject to a full consultation process undertaken by the DG within which every interested party could have their say.
Questions to be addressed in consultation responses:

Please tick only one box for each of the questions below unless requested to do otherwise.

1) Do you agree that the analysis of the postal market given in Section 5 of this document correct?

☐ Yes

☐ No

(Please explain why in your response to question 8 and provide any evidence you have to support your view.)

☐ Don’t know

2) Do you agree that it would be inappropriate for the States to assist in the funding of the USO from public funds as discussed in Section 6.2 of this document?

☐ Yes

☐ No

(Please explain why in your response to question 8 including your justification for the taxpayer funding the USO as against other spending priorities?)

☐ Don’t know

3) Do you agree with the analysis in Section 6.2 of this document of why cross subsidisation from other postal services, such as bulk mail, to fund the USO is not viable?

☐ Yes

☐ No

(Please explain why in your response to question 8 and provide any evidence you have to support your view.

☐ Don’t know
4) Bearing in mind the changing social, technological and economic circumstances discussed in Section 5.3 of this document and the possible cost implications discussed in Sections 6.1 and 6.3 do you:

☐ Believe that the current 6 days a week frequency of collections and deliveries currently required under the USO must be maintained

☐ Believe that the current 6 days a week frequency of collections and deliveries could be reduced (if you tick this box please go to question 4a (i) and (ii))

☐ Not have firm views either way on the USO

4 a (only answer this question if your answer to question 4 was that you believed frequencies could be reduced)

4 a (i) Do you believe that the frequency of collections should be reduced to a minimum of:

☐ 5 days a week

☐ 3 days a week

☐ Other, please explain in your response to question 8

4 a (ii) Do you believe that the frequency of deliveries should be reduced to a minimum of:

☐ 5 days a week

☐ 3 days a week

☐ Other, please explain in your response to question 8

5) If the USO frequencies of collections and deliveries were reduced to below 5 days a week do you believe that those customers who wished to receive a 5 days a week service should be able to do so by paying a standing monthly or some other charge as discussed in Section 8.1 of this document?

☐ Yes

☐ No

(Please explain why in your response to question 8.)

☐ Don’t know
6) Do you agree that changing the way postal services are accessed and improving availability could justify reducing the current number of access points (including the number of traditional post offices) in order to reduce the costs to customers of core postal services as discussed in Section 8.2 of this document?

☐ Yes

☐ No (Please explain why in your response to question 8.)

☐ Don’t know

7) Do you agree that, in future, the States should give Directions for a low minimum frequency of collections and deliveries (say 3 days a week) under the USO with Guernsey Post’s licence initially requiring a higher frequency (say 5 days a week) and any further reduction in frequency being subject to a full consultation process but not requiring States approval as discussed in Section 8.3 of this document?

☐ Yes

☐ No (Please explain why in your response to question 8.)

☐ Don’t know

8) Please provide on additional sheets any expansion of your responses to questions 1 to 7, any alternative options you may wish to put forward and any other points you may wish to make.

Thank you for taking part. Your comments will assist Commerce and Employment in preparing a States Report with recommendations. Please note that consultation responses may be made public, sent to other interested parties on request, quoted in a published report, reported in the media, published on www.gov.gg etc. Please tick one of the following as appropriate:

☐ I agree that my comments may be made public and attributed to me

☐ I agree that my comments may be made public but not attributed (i.e. anonymous)

Name:

Address:
**Universal Postal Service & Obligation**

**Closing Date:** 11\textsuperscript{th} March 2011

### How to respond

**PLEASE SEND COMMENTS TO**

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