



The Board of Industry Award
for Achievement

The Guernsey Post Office Award
for Exporter of the Year

The Cable & Wireless Award
for Innovation in Business

Office of Utility Regulation
Suites B1 & B2
Hirzel Court
St Peter Port
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Comments on Guernsey Post's Proposed Tariff Changes

It appears that GPL's proposals for tariff increases for the year 2006-2007 are substantiated by the changing relationship between themselves and Royal Mail. The changes being that the impact of terminal dues payments are now considerably increased due to the volume of mail leaving the island. In essence the Royal Mail is now getting a bigger cut of the profit being made from bulk mailers. Therefore reducing the profit that GPL has been making from this sector.

Headline Rates

Overall the headline rates of 34p (2p increase on the UK tariff) and 29p (3p on the local tariff) for the first 60gms may seem palatable to the general public, particularly as these are below Jersey's proposed increases. However these still do not reflect the true costs for providing a Universal Service Obligation, and once again the proposals look to cross-subsidise this service from the bulk mailers revenue stream.

If a closer charge to the true costs of delivering local mail were to be made to the public, then there would not be the requirement to subsidise this service at its current level. This after all, is what Jersey Post is attempting to do by raising their price to 34p.

In addition the revenue obtained from charging Royal Mail for the delivery on island would increase substantially, due to the terminal dues payment working to GPL's benefit.

Changes in UK Postal Market

It is noted that Royal Mail is being allowed to rebalance prices, which are to be cost reflective. One of the key changes being the introduction of Price in Proportion from September 2006. This fundamental change will actually substantially reduce their rates for "letterbox friendly" items.

Healthspan is in the process of changing the postal sizes of its products, to ensure that they are letterbox friendly and can be delivered first time. This obviously has benefits to the customer and to the delivery postman. However this is not being achieved without considerable capital expense to ourselves.

Why therefore is GPL not adopting the same proposals for PIP within the next twelve months?

If they continue with a weight based tariff then by comparison, to post an item weighing 250g will cost 61p first class or 53p second class with Royal Mail PIP and at cheapest 76.8p with Guernsey Post (UK Bulk Sea Economy) or at worst £1.00 (UK Bulk Sea Customs) with an additional premium for unsorted mail.

Would it not therefore be in the customers' interest to have PIP introduced at the same time as Royal Mail as without doubt Royal Mail will charge GPL according to the presentation of their mail in line with PIP in due course?

Mail Pricing formulae for Bulk Mailers

The proposed pricing for bulk mailers attempts to offer a range of options for the poster. However these increases are phenomenal when you analyse the actual rates proposed.

The different tariffs reflect the amount of work the poster has to perform to post their products. The proposals do not offer a 1st Class next day delivery for all mail, because they are unable to handle the volumes that currently exist. They are however trying to offer Economy rates, which in effect is a 2nd Class service, but at 1st Class rates.

Whilst some bulk mailers require next day delivery for perishable goods, others like us would be willing to accept a 4-5 day service. Therefore why cannot GPL offer a 2nd Class service at rates competitive with Royal Mail?

The actual contribution in terms of resource and administration made by GPL to bulk mailers' post is minimal as has been previously documented; in fact the "work-share" element hardly exists. The scale of rates offered, we do not believe to be a true reflection of the work-share concept. After removing the freight and terminal dues costs, there is an extraordinary amount of clear profit remaining.

The GPL bulk mailers menu of options is structured in such a way that Healthspan would have to sort all products to the full 120 way sort to obtain the "cheapest" rates. This would result in a significant rise in labour costs and is shown separately. Such a sort process is obviously of benefit to GPL as the charges set them by RM and therefore reduced. But again these savings are not truly reflected in the rates offered to the mailer.

The minimum price increase that Healthspan would incur would be 21% rising to a maximum of 59% depending on the level of sorting undertaken, based on current proposals. This clearly illustrates the imbalance of the proposed tariffs. It is of further concern that GPL states they are supporting the "States agenda to maintain a diverse economy and encourage its indigenous horticultural businesses on the island". But this is certainly not reflected in the proposed tariffs for other indigenous light industry on the island.

In addition there is no incentive for any growth of business from bulk mailers who may exceed Band F in the qualification for volume discounts.

VAT Issue

It is naïve for GPL to "bury their heads in the sand" believing that the VAT issue will go away. It will not as both Jersey with Tesco and now Guernsey with HMV have highlighted the issue even further. They are looking for short term "windfalls" rather than long-term stability. When the UK government takes action, then these mail order businesses will relocate overnight, and GPL's profits will go with them.

European tariffs

Healthspan is actively looking to expand into the European market place. However in order to compete with other brands, the postal rates must again remain competitive. The proposed rates do not offer any advantage to post from Guernsey, therefore we must consider relocating this business within Europe, or seek alternative carriers for this traffic.

In conclusion Healthspan strongly objects to the proposed tariff increases by GPL, which are once again targeted at the bulk mail industry on the island. This area of light industry is being actively encouraged and supported by Commerce and Employment. But increases such as these, will only serve to force this industry out of the island. The eventual outcome being that GPL will once again return to a loss making business, which the tax payer will have to support.



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