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**From:** andrew eggleston [REDACTED]  
**Sent:** 20 November 2009 08:10 [REDACTED]  
**To:** Director.General  
**Cc:** Michael Byrne; Info  
**Subject:** Guernsey Post Survey

Dear Mr Curran,

Having been given so little time by Guernsey Post to respond to the questionnaire regarding proposed postal tariff changes, the Alderney Chamber of Commerce circulated the question to all members requesting a speedy response.

Almost half our membership (full membership 120) has responded within the past 48 hours with most giving interesting reasoning.

The result was that 69.5% were against the proposed tariff changes.

If you would like further feedback, please let me know.

Kind regards,

Yours sincerely,

Andrew Eggleston

President, Alderney Chamber of Commerce



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

17 November 2009

Dear Mr Curran

**Response to Guernsey Post's proposed Tariff Changes – Draft Decision**

The Commerce and Employment has considered the Office of Utility Regulation's Draft Decision on Guernsey Post's Proposed Tariff Changes published in October 2009.

The Department is of the view that the draft decision represents a balanced approach that takes into account the role of Guernsey Post Office in providing the Universal Postal Service and the requirement to meet the more specifically commercial requirements of the Bailiwick's fulfilment and bulk mail sector. **In this regard the fulfilment sector has developed to be a significant sector of the Island's economy, providing an essential element of economic diversification including employment for persons outside of the financial services sector.**

The Department has noted however that the draft decision has resulted in significant controversy, although some of the comments made may not have taken into account the proposals in their entirety, and indeed may have been based on a misunderstanding of these proposals. In making public comments, Guernsey Post's principal aim would appear to have been to emphasise the risks it perceives as resulting from the proposals for the future of the company, and for the Universal Postal Service

Given this controversy the Department has met with a number of key stakeholders to help inform the Board's response to the consultation. Interested parties have also been requested to supply additional information to help inform the Board's response.

A meeting was held at officer level with a representative of the Facebook campaign. The Department also organised a meeting with the Guernsey Fulfilment and Mail Order Group on 12<sup>th</sup> November which was attended by the members of the industry and Guernsey Post representatives as well as some Policy Council Members<sup>1</sup>.

<sup>1</sup> Deputies Flouquet, McNulty Bauer, Parkinson and Steere. The meeting was chaired by C&E Deputy Minister Laine and C&E Board Member Deputy Gillson also attended the meeting.

The Department also requested Guernsey Post to provide the evidence it provided to Policy Council on 2<sup>nd</sup> November that bulk mailers would not leave the island due to high postal prices. Specifically the first question on the last page of the Q&A handout states *“The Regulator is saying that if postal charges rise then bulk mailers will leave the island effecting employment and prosperity on the island? Is this true?”* and Guernsey Post’s response is that *“No it is not true..... What keeps bulk mailers on the Island is the lack of VAT, lower taxation and low labour costs. No bulk mailer will be making a relocation decision based on postal charges.”*

These meetings and all supporting information provided to the Department have been taken into account by the C&E Board in drafting this response.

Before entering into the detail of the proposals the Department would like first of all to comment on the background to the Draft Decision in the following two areas:

- A number of references are made in the Draft Decision to the 2006 Price Review. While the Commerce and Employment Department agrees that this is an appropriate starting point for the current price review it is important that the current review also takes into account any structural changes that have occurred to Guernsey Post’s business in the intervening period.
- The current price review is limited to one year and the Commerce and Employment Department would have preferred the review to be for the normal three-year period. In the current circumstances it is essential that the final decisions on the current review are taken within the context of the further, three-year review that will be undertaken in a year’s time.

Further comments are as follows:

#### **Poor Communication**

It would appear that there has been insufficient consultation between Guernsey Post and the fulfilment industry in order for the company to fully understand and meet the latter’s needs. More in depth discussions may have identified ways in which costs could have been restrained for the benefit of both parties. A case in point concerns delivery times for customers receiving their orders, where Guernsey Post appears to have assumed that more rapid delivery times are required than is actually the case for some customers. This has clear implications on the control of costs, for example the need to charter an additional aircraft. The issue of deadlines also has implications for the use or otherwise of Down Stream Access, where a more flexible approach may provide less costly alternatives for the fulfilment industry to the current arrangements. The Board is highly concerned that in its public comments Guernsey Post has either misrepresented or failed to understand its customers’ needs. **In light of the evidence provided by the Bulk Mailers, it would appear that the Guernsey Post has not had effective communication with its main customers which is of considerable concern the to C&E Board. The Board believes that Guernsey should take immediate steps to improve the channels of communication with its main customers and respond to their needs.**

Similarly it may be appropriate for the Director General to issue a direction to Guernsey Post to take steps to introduce Down Stream Access available to the bulk mail sector if the company fails to make substantial progress in responding to its customers’ needs.

As a further example, no reference has been made by Guernsey Post to the fact that the tariffs specified are the maximum that can be charged and that volume discounts can be granted provided that it is done on a fair and equitable basis ensuring consistency of treatment between different customers.

## Diversification

The Department is far from convinced by the case put forward by Guernsey Post for its proposals to diversify into the provision of financial services. As stated in the Lord Hunt's "Success and Stability – A Strategic Review of Guernsey's Banking Industry" it would be inappropriate for Guernsey to have an indigenous bank without a "Lender of last resort."

*"This raises the question whether the GFSC should licence an indigenous banks to offer retail services. The answer to this is plainly that it should not."*

and

*"Avoiding such moral hazard and its attendant financial and reputational risk would be a wise move."*

The Department believes it is imperative that Guernsey Post's postal customers do not pay for the Guernsey Post's Board's diversification strategy as this would be an abuse of its dominant position<sup>2</sup>.

Guernsey Post's Chief Executive has stated that this investment is funded by the company's Philatelic business which is earning profits of around £300,000 year. The Department would seek reassurances from the Director General that the Philatelic business is profitable once all overheads are allocated to the Philatelic division of Guernsey Post. **The Department agrees with the principle, and with the approach taken by the OUR that it is entirely inappropriate for these diversification costs to be met by postal customers.**

## Increase in Overheads

The Department shares the OUR's concern with regard to the significant increase in overhead levels, and agrees that steps should be taken to reduce these to absolute levels in real terms that are similar to those at the time of the last review in 2006. While there is a need to ensure that Guernsey Post has sufficient resources for it to be able to manage the business efficiently and meet its obligations, the recent increases appear to be beyond those which are essential for the operation of the business and to be of limited value to postal customers.

The Board has considered Guernsey Post's argument that overheads are at the same percentage of total costs as in 2006 and should therefore be accepted. This however ignores the fact that the significant increase in costs since 2006 have been due to the increase in terminal dues charged by Royal Mail i.e. costs that should not generate significant increases in overheads. While it is for the OUR to balance the needs of Guernsey Post and its customers, **the Board agrees with the approach that unless increases in overheads can be justified on the basis of their essentiality to the business and the benefit of postal customers they should not be taken into account in determining increases in tariffs.**

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<sup>2</sup> Unless it was an inter-division loan from the postal business to the banking service. However the Department is aware that if Guernsey Post has to adopt a Joint Venture approach to realise its banking operation aspirations the profitability of its banking operations may not be sufficiently high to justify the investment and repay the loan from the postal business. There are alternative funding options which could be considered by the Guernsey Post Board 1) an investment (e.g. dividend foregone by the Shareholder i.e. the States of Guernsey) and 2) capital restructuring and the acquisition of debt finance.

### **Cost control and Non-Core Activities**

The OUR has paid particular attention to issues such as payroll costs where there has been an increase in overtime payments, and Royal Mail charges, air conveyance costs, retail network costs and overheads. Comments have been made above about overheads and air conveyance costs. In general terms, the Commerce and Employment Department recognises the efforts that Guernsey Post has made to control costs, but concurs that there are, as detailed, significant areas still to be addressed, and it is essential that this is done prior to the next price review. One specific issue relates again to Guernsey Post's "diversification" strategy, where the Department considers that the commercial justification for Guernsey Post to provide a stationery outlet at its Smith Street premises is far from evident, especially given that similar outlets already exist in close proximity. **The Department concurs that it is essential that the non-core costs related to this outlet are not met by postal customers.**

### **The implementation of Pricing in Proportion**

The Department welcomes the introduction of Pricing in Proportion by Guernsey Post and supports the Director General's position on this matter. The Department is aware of Guernsey Post's concerns about some of the pricing issues and therefore recommends that the Director General should consider these concerns before finalising his proposals. **The Board would encourage the Director General to ensure that the Pricing in Proportion mechanism does meet the bulk mailers' needs.**

### **Non-UK Distribution**

However, it should be noted that some of the fulfilment operators are developing markets in Europe and Overseas and it will be essential that the criteria used for pricing do not hinder developments in these broader markets. Diversification into other markets will be a key part of the growth of Guernsey's bulk mail industry for the future and Guernsey Post should concentrate on this opportunity as a matter of urgency. **The Board believes that the whole issue of distribution to markets outside the UK should be given much greater attention by Guernsey Post in its future development plans.**

### **The future of the Reserved Area.**

The Commerce and Employment Department notes the Direction given to the Director General by the States:

*"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"*

It has noted in particular that this Direction is in line with developments that are occurring, or have occurred in postal services markets elsewhere, and in particular endorses the view that in the longer term the postal customer will obtain the best value and quality service through the introduction of competition where this can be achieved. Within this objective the best methods of ensuring that an effective universal postal service is maintained include the promotion of efficiencies, including a close control of costs within Guernsey Post, and accounting practices that ensure that costs are correctly allocated to, and fully reflective of the specific services provided. This will be essential to ensure that efficiencies can be correctly identified and addressed.

In coming to a final decision it is, in particular, essential that the interests of the bulk mail sector are taken fully into account. As stated above the bulk mailing sector provides significant benefits for the Island, yet operates in a highly competitive part of the UK and international markets where the effective control of costs will be crucial to optimising its contribution to the Bailiwick. Through the

internet it is comparatively easy for customers to change suppliers, and given the worldwide interest in developing internet business other jurisdictions are competing to meet the sector's requirements. The Bulk Mail sector currently provides employment for more than 700 persons (350 FTE's), and injects approximately £12m annually into the local economy. A number of scenarios indicating the possible effect of a reduction in the sector are attached for information. **(NB. IT IS IMPORTANT TO NOTE THAT THESE SCENARIOS ARE BASED ON CONFIDENTIAL INFORMATION AND ARE NOT FOR PUBLICATION.)** The Board believes that these wider considerations are vital and that decisions on the size of the reserved area based purely on the objective to generate profits and dividend payments to the States are not in the long term interests of Guernsey's economy. Indeed, the broader interests of the Island's economy are paramount and it is not just the profits of Guernsey Post that should be taken into account.

The Board believes that if Guernsey's bulk mail companies do not have access to competitive prices there is a real danger that companies may either relocate (fully or partially) or even exit the market completely in order for them to remain competitive in their markets. The Commerce and Employment Department recognises the importance of the bulk mail sector as highlighted in its original response to the first consultation and as emphasised again. **Introduction of competition will be a mechanism for Guernsey Post to improve its efficiency and control its costs.**

The Department does not share Guernsey Post's view stated to Policy Council on 2<sup>nd</sup> November and at the meeting held with the bulk mailers on the 12<sup>th</sup> November that bulk mailers would not leave the island due to high postal prices. The first question on the last page of the Q&A handout tabled by Guernsey Post stated "*The Regulator is saying that if postal charges rise then bulk mailers will leave the island effecting employment and prosperity on the island? Is this true?*" and Guernsey Post's response is that "*No it is not true..... What keeps bulk mailers on the island is the lack of VAT, lower taxation and low labour costs. No bulk mailer will be making a relocation decision based on postal charges.*"

The Department asked Guernsey Post's Chief Executive, Mr Gordon Steele to provide the research and evidence to support this assumption to help inform the Board's consideration of this matter. Guernsey Post provided the following evidence:

***Why Bulk Mailers might or might not leave Guernsey***

*A Bulk Mailers decision to stay on Guernsey or relocate is based on a number of factors not on postage prices alone. These factors include, amongst other things, the availability and cost of labour and premises, introduction of a minimum wage and taxation. Postal prices are clearly important as one component of total costs.*

*One way to put postal costs into an overall context is to look at bulk mail products from an end customer's viewpoint – the price they pay for a product will reflect the total costs of producing and posting that product.*

*Based on a sample of 10 products offered by Guernsey Bulk Mailers ranging from DVDs to flowers and pipes GPL postage costs amount on average to about £1.50, approximately 10% of the total customer price – in other words costs other than postage represent 90%.*

*Obviously Bulk Mailers do not all have the same cost profile – for individual products in this sample the postage element ranges from less than 3% to 22% of total price.*

*On average the increase in postage costs for Bulk Mailers will be 14% - an increase of 1.4p, just less than 1% of total costs.*

The Department believes that this evidence is weak and fails to take account of Guernsey's actual circumstances (e.g. land and labour scarcity, introduction of a minimum wage etc). It also fails to consider the real threat of competitor jurisdictions and how individual businesses can remain competitive in their markets. Most significantly the company's poor communication with the bulk mail sector leads to the question of how well Guernsey Post understands the business models of its main customers who contribute over £20m of its revenue.

The proposal to reduce the Reserved Area has caused significant comment and it will be up to the Director General to take the final decision on this subject bearing in mind the representations received. The Department has noted however that more than 54% of Guernsey Post's income and more than 69% of postal volumes would still come within a Reserved Area of £0.65. It is not convinced that in the medium term the continuation of the Reserved Area is essential to maintaining an effective universal postal service, which can best be achieved through efficiencies and cost reflectivity as outlined above.

However, the Commerce and Employment Board is of the view that it would be advisable for any proposal to remove the Reserved Area completely to be referred to the States for consideration, and any such proposal should also give consideration as to whether it would be advisable to introduce a licensing system for potential competitors as already exists in the Jersey legislation

I hope that these comments are helpful.

Yours sincerely



Carla McNulty Bauer  
Minister, Commerce & Employment Department

Enc: Possible impacts on the Bulk Mail Industry as a result of changes to GPL's tariff structure  
**(THIS DOCUMENT IS CONFIDENTIAL AND NOT FOR PUBLICATION)**



# CUSTOMS AND EXCISE IMMIGRATION AND NATIONALITY

CUSTOMS & EXCISE DIVISION

Customs and Excise  
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R. Prow MIPI, MCMI.  
Chief Officer

Office of Utility Regulation

Suites B1& B2

Hirzel Court

St Peter Port

Guernsey

GY1 2NH

13 November 2009

Your ref: Document No: OUR 09/20

Dear Sir or Madam

Re: **Guernsey Post's Proposed Tariff Changes - Draft Decision**

Thank you for your e-mail dated 29 October 2009 regarding the Director General's draft decision. I have read the report.

You asked for any responses to the report before 20 November 2009.

Guernsey Customs' involvement in this area is restricted to an audit and compliance role within the UK Import VAT Accounting Scheme, a role carried out on behalf of HM Revenue and Customs. Bulk mailers may apply to join the scheme and export their goods under the terms and conditions of the scheme as set by HM Revenue and Customs. Local exporters are under no obligation to join the scheme and may export their goods through Guernsey Post using standard mail procedures.

The only comment I wish to make on behalf of Guernsey Customs is that I am aware that the UK Import VAT Accounting Scheme, as designed and sanctioned by HM Revenue and Customs, is only available to handle post arriving in the UK sent by Guernsey Post Ltd – as the authorised postal operator. Bulk mailers have the option of exporting their goods from Guernsey to the UK as freight consignments rather than as post, although I believe none presently use that route. If goods were to be sent as freight, those goods would need to be cleared through customs controls at the first point of entry into the UK in the same way as all other freight shipments. Some simplified customs clearance procedures are currently available to assist in these matters; however the method and

efficiency of this import route would need to be assessed following discussions with HM Revenue and Customs.

If you require any further information please contact me at the above address.

Yours faithfully

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

Tony Robin

Assistant Chief Officer – Head of Customs and Excise

**Changes to the Guernsey Postal Market Proposed—21<sup>st</sup> October, 2009**  
**Comments on OUR draft decision—Guernsey Post.**

The importance of a profitable service

I am not in favour of the OUR's proposals to further liberalise the postal market from April 2010. Guernsey Post calculations suggest a loss with the draft decision of OUR. We need to continue to strive for a profitable postal service. Otherwise there is the inevitable danger of valued elements of the service being withdrawn, post boxes and branch postal offices lost to communities and deliveries reduced to five days.

Reserve area to be increased

I don't agree to cutting Guernsey Post's reserved area down from £1.35 to 65p. The reserved area was introduced to support the USO, the 6 day working week and customer service generally. The £1.35 limit was set in 2001—and costs have increased quite significantly since then. It is only reasonable that there should be a hike upward in the reserved area threshold.

Price rises to customers expected

The significant price increases served on Guernsey Post by Royal Mail next year could have a serious impact on Guernsey Post operations and bottom line. Therefore some price rises to customers are justified. Guernsey Post has stated that half of the £8m Royal Mail increases will be recovered through the introduction of further efficiencies-including the provision of new services and changes in packaging to bulk mail customers. Cutting payroll costs and overhead costs can only go so far without affecting core service levels.

Breaking the monopoly could undermine the postal service

We need to retain a healthy Guernsey Post. Bringing in competitors could seriously undermine Guernsey Post and would not necessarily improve the service that we have now. Guernsey Post provides a comprehensive service while others are likely to cherry pick the most profitable elements such as bulk mail and leave the high cost, loss making elements to Guernsey Post.

The need for new lines of activity and R&D support

As postal volumes decline it is important that Guernsey Post not only holds onto their existing business but also develops new lines of activity. Diversification is important to the sustainability of the local postal service. Postal users should bear some of the costs of R&D to support the introduction of new postal services.

Deputy David De Lisle  
November, 2009



19 November 2009  
Office of Utility Regulation

- Further, not only will Guernsey Post's contribution towards the States coffers reduce, if one accepts that any significant competition will be provided by non-Guernsey businesses then under the present Zero-10 regulations a significant part of any profit will not be subject to Guernsey Tax. It would be naive, to say the least, to believe that all profits arising would be subject to tax under the relevant sections relating to regulated activities (this having regard to the ability of multi-national companies to transfer price (however legitimately) and whatever one's views of this might be).

I have no doubt that others will more lucidly express their support for Guernsey Post but I shall be grateful if you will kindly count this letter amongst those apposed to your proposal.

I have not considered within this letter any argument as to whether the Office of Utility Regulation should or should not interfere in the successful running of an important and unique business as quite clearly you are mandated to so do by our States.

Yours faithfully

MICHAEL J FATTORINI



**From:** John Gollop [REDACTED]  
**Sent:** 24 November 2009 19:49  
**To:** Director.General; Rosie Allsopp  
**Subject:** POST 24th November 2009

Dear Mr. Curran,  
Congratulations on your Institute of Directors diploma which has been well deserved.

The Post Office has seen significant 10 per cent or better rises in revenue, operating and after tax profit with a better dividend back for the States,

Achievements have included a Guernsey Green Award, Investors in People standard, and Global mail awards commendation. There has been a £1m efficiency improvement with best ever service results according to CEO Mr Gordon Steele.

They have 5 key strategic objectives in place to be more commercial and efficient and customer focused despite having the tariff set for them and a 20 per cent tax rate. They need a tariff increase because of having to cope with a Royal Mail cost demand of another £8mn, Pricing in Proportion is an operating system linked to the Royal Mail, and the reserved area acts a cross-subsidy to Guernsey post with the Universal Service Obligation to meet. The only alternative would be a bus style tender subsidy put upon the tax payer. The plans to reduce the reserved area to 65pence would be a prelude to abolition but the bog standard postal market cannot benefit from competition.

The optimistic fulfillment market is under political scrutiny from the UK at many levels, and in any event is demand fluctuated and may not have a long term future here

Guernsey Post have already reduced a headcount by 23 people, and reduced customer complaints by three quarters and curbed excessive overtime demands. The huge success of the flying MOONPIG demands have put a constraint on plans and Post have invested heavily in training and health and safety infrastructure issues.

It would be a more useful approach if the bulk mail consumers could work together in partnership with Guernsey Post, the States, and the OUR (Commerce & Employment) to ensure that Jersey Post does not adopt a predatory approach to cherry picking but instead works together for a better and broader CI mail service with joint isle regulation- a kind of two wives solution!?

Yours sincerely, John Gollop

*David & Jo Grimshaw*

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

18<sup>th</sup> November 2009.

Dear Sir,

Re: Guernsey Post's proposed tariff changes.

I am very worried about the impact which would result from your decision to:

- 1) reduce the level of the Reserved Area and
- 2) refuse to accept Guernsey Post's proposed commercially viable tariff changes.

The massive reduction in Guernsey Post's income which would result from these actions would have profound consequences upon its profitability and undoubtedly lead to an overall degradation of service to its non-commercial customers.

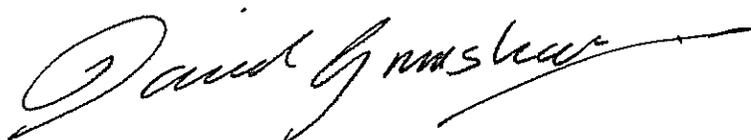
At present, Guernsey Post is able to perform a uniquely efficient and personal service to its non-commercial clients which of course comprise the actual **majority** of its customers.

It is therefore logical and ethical that such proposals - in particular that of reducing the Reserved Area - should be debated by the States and a decision made by them.

My experience (in both Guernsey and overseas) is that we are very lucky to have such an efficient and responsive postal service. This is especially true in times such as these where the many areas of the private sector have proved - at the very least - unreliable.

It would be very easy to destroy forever the profitability of Guernsey Post and I would therefore counsel against the implementation of such potentially devastating changes.

Yours Faithfully,



David R Grimshaw.



**Guernsey Consumer Group**  
Member of The National Consumer Federation

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

17 November 2009

Dear Sir

**Guernsey Post's Proposed Tariff Changes - Draft Decision**

Although there has not been a recent meeting of the Guernsey Consumer Group on this subject it is quite clear that the principles followed earlier need to be sustained now. Having read the Draft Decision report I am satisfied that your final decision will be fair and concentrate upon the interests of Islanders as a whole.

There are five issues that I find to be of great concern:

1. The rise in overheads against a stated reduction in postal business – is 'post charge' funding being used for other purposes?
2. The vast rise in Directors' fees – Islanders should be told what Non-Executive Directors are paid.
3. The "investment" of £840,000 in seeking a possible entry into "banking". – Philatelic 'profits' are 'post charge' funding and should not be spent on wild-goose chases. Stamps are promissory notes and for the most part return to be used to pay for postal services.
4. Mr. Steele has said that all but 6% of bulk mail charges go to Royal Mail. Surely that 6% cannot have such a vast influence on the funding of the remaining postal service.
5. The establishment of a plethora of 'timed' post collection and delivery services, and package delivery companies is a result of the failure of Guernsey Post Limited to grasp those opportunities in its core-business sector. No doubt its eye was off the ball.

As you are aware Guernsey Consumers fought for the establishment of regulation in the island and have supported the OUR.

I am certain that Islanders can see that there is only room for a single service fulfilling the Universal Service Obligation and there is a widespread wish to retain 6 day services.

Yours faithfully

Roy Bisson  
Chairman

**RESPONSE TO OFFICE OF UTILITY REGULATION DOCUMENT NUMBER OUR  
09/20 – PUBLIC VERSION - 211209**

**DRAFT DECISION CONCERNING GUERNSEY POST'S PROPOSED TARIFF  
CHANGES**

**December 2009**

## 1. PURPOSE AND STRUCTURE OF THIS DOCUMENT

- 1.1. This document has been prepared by Guernsey Post Limited ("**GPL**"), and constitutes its submissions in response to draft decisions made by the Director General of the Office of Utility Regulation ("**Director General**") concerning certain aspects of Guernsey's postal service, as set out in a document published by the Office of Utility Regulation ("**OUR**") entitled "Guernsey Post's Proposed Tariff Changes - Draft Decision" and identified as document number OUR 09/20 ("**Draft Decision**"). Capitalised defined terms used in this document have the same meaning as in the Draft Decision, unless otherwise defined.
- 1.2. As noted at page 1 of the Draft Decision, that document was preceded by a 'consultation' published in August 2009, in relation to some of the matters set out in the draft decision. GPL submitted a detailed response to the August 2009 consultation ("**Consultation Response**"). The August 2009 consultation was itself preceded by a Price Control Application, submitted by GPL, in which the Reserved Area, Tariffs, and the introduction of PiP were considered by GPL ("**Price Control Application**").
- 1.3. It is not proposed to repeat in full the matters set out in the Price Control Application and the Consultation Response; however GPL repeats and relies on each of those documents. The Price Control Application and the Consultation Response should be considered by the Director General in full with this document when making any decision or determination. To the extent that any matters stated in either of the earlier documents are inconsistent with this document, this document prevails. Should any person require a copy of either document, they should contact GPL directly. This document considers what GPL believes to be the three main issues, as set out in the Draft Decision:
  - 1.3.1. The Reserved Area;
  - 1.3.2. The Proposed Tariffs; and
  - 1.3.3. The number of weight steps in PiP.
- 1.4. The issues set out in the Draft Decision involve, for the most part, consideration of detailed financial and statistical matters. This document will set out a summary of GPL's submissions, with reference to supporting information and analysis contained in the enclosed appendices. The entire document, including appendices, should be considered in full prior to making any decision or determination.
- 1.5. Finally, GPL notes the disclaimer set out at the bottom of page 1 of the Draft Decision and further notes that, notwithstanding the disclaimer, GPL intends to rely on the Draft Decision as evidence of:
  - 1.5.1. the expressed views of the Director General with respect to the matter set out therein at the time of publication of the Draft Decision; and
  - 1.5.2. the process adopted by the Director General in forming a view with respect to the matters stated therein

- 1.6 This public version of GPL's response to the Draft determination omits some confidential analysis contained in the formal response to the OUR.

## 2. RESERVED AREA

### *Power of the Director General*

- 2.1. In section 3.3 of the Draft Decision, the Director General asserts that "the States has devolved responsibility for assessing and amending the Reserved Area and that it is, under the States Directions given to the [Director General] in September 2001, his responsibility alone to make such a decision, including setting the Reserved Area at zero."
- 2.2. GPL submits that:
  - 2.2.1. The Director General's ability to make decisions in respect of the matters that are the subject of the Draft Decision, including the Reserved Area, are constrained by:
    - 2.2.1.1. relevant laws, and in particular sections 2 and 3 of the Regulation of Utilities (Bailiwick of Guernsey) Law ("**Utilities Law**"); and
    - 2.2.1.2. directions made by the States, pursuant to section 3 of the Utilities Law.
- 2.3. The States Directions, upon which the Director General purports to rely in making his decision to amend the Reserved Area, actually restrict his ability to do so, such that he may only make an order amending the Reserved Area where he has determined that the making of the order would not prejudice the provision of the USO. This argument is set out in full at section 3 (paragraphs 3.1 to 3.4);
- 2.4. The Director General cannot ensure that the decision with respect to the Reserved Area, as set out in the Draft Decision, will not prejudice the provision of the USO by GPL because:
  - 2.4.1. The Director General has not performed any investigation or analysis of what it actually costs GPL to provide the USO. Such analysis as has been conducted by the Director General is based on high level assumptions which may or may not be accurate; and/or
  - 2.4.2. The Director General's decision to amend the Reserved Area is based upon forecast information based on a range of assumptions as to volumes and costs that the Director General cannot be sufficiently certain will eventuate; and/or
  - 2.4.3. The Director General's decision to reduce the Reserved Area is explicitly based upon an assumption that GPL will operate even more efficiently than it currently does, which assumption may or may not come to fruition and therefore there is no guarantee that any efficiency savings will be realised by GPL (even if such savings were in fact presently possible).

- 2.5. Further and alternatively, the making of the decision with respect to the Reserved Area will in fact result in GPL being unable to service the USO and thereby prejudice the provision of the USO and result on the Director General failing to ensure the maintenance of the USO.
- 2.6. Accordingly, any decision of the Director General amending the reserved area based upon the analysis contained in, and/or for the reasons expressed in, the Draft Decision would be directly contrary to the express direction of the States and beyond the power of the Director General.
- 2.7. Further, GPL is of the view that the Director General has misrepresented the nature of his powers with respect to amending the Reserved Area, and in particular GPL considers that the Director General may have misled himself as to the text of the States Direction upon which he purports to act.
- 2.8. At section 3.2 of the Draft Decision (page 5), the Director General purports to quote (without reference) the relevant states direction as providing that:

*"The Regulator shall reserve services to be exclusively provided by the Universal Service Provider to the extent necessary only to ensure the maintenance of universal service, and shall review and revise the reserved services from time to time with a view to opening up the Guernsey postal market to competition consistent with the need to maintain the Universal Service."*

- 2.9. The actual text of the relevant States Direction is markedly different and is set out at Items 15 and 16 of the record of resolutions made by the States on 7 September 2001, a copy of which is:
  - 2.9.1. enclosed at Appendix A
  - 2.9.2. was set out in full in GPL's Consultation Response; and
  - 2.9.3. is published on the internet site maintained by the OUR.
- 2.10. GPL has asked the Director General to supply the source of this text but this request has been refused. GPL remains concerned that the Director General has misconstrued the nature and extent of his powers and is further concerned that any decision based on such a misleading or incorrect understanding may be invalid.
- 2.11. GPL has obtained opinion from leading Queen's Counsel, Mr Stephen Morris QC in relation to the key issues raised with respect by the Director General's proposed decision to amend the reserved area. Queen's Counsel's advice supports GPL's submissions that:
  - 2.11.1. The Director General is only permitted to review and revise the award of exclusive postal rights if such reviewing and revising does not prejudice the continued provision of the USO;
  - 2.11.2. The Director General cannot take into account speculative 'efficiency savings' when determining the level of the Reserved Area in accordance with the States Directions; and

- 2.11.3. If the Director General cannot be satisfied to the requisite standard that prejudice to the universal service will be avoided by "efficiency savings" (because he cannot be satisfied either that such savings can in fact be made or that, even if made, prejudice would be avoided), then such a decision would contravene the States Direction. There is nothing in the States Direction which allows "efficiency savings" to be balanced against prejudice to the universal service; and
- 2.11.4. The Director General has the burden of being satisfied that there is no prejudice to the universal service; there is no burden upon any person objecting to the opening up to competition to show that there is prejudice to the universal service. GPL has made a high level assessment of the impact of the Director General's proposals – this is shown at Appendix B
- 2.11.5. The Director General has inexplicably misrepresented the text of the States Directions in the summary text included in the Draft Decision

#### *Downstream Access*

- 2.12. The Director General expressly states, at section 7.3 of the Draft Decision, that he took into account his findings in relation to Downstream Access, set out at part 5 of the Draft Decision, for the purpose of making his draft decision in relation to the reduction of the reserved area. GPL submits that because:
- 2.12.1. the Director General's findings in relation to Downstream Access appear to be based upon a number of incorrect assumptions about GPL's interest, motivation and ability to source Downstream Access opportunities for its customers;
- 2.12.2. the Director General's findings in relation to Downstream Access appear to be based on several pieces of inherently unreliable evidence, or in some cases no objectively verifiable evidence at all; and
- 2.12.3. the Director General took into account irrelevant information, such as the Downstream Access market in the United Kingdom which has a number of significant structural differences from the Guernsey market;
- the Director General should not rely on his findings in relation to Downstream Access for the purpose of making any decision, including with respect to the Reserved Area, and that any such reliance is in all the circumstances unreasonable.
- 2.13. GPL's specific concerns in relation to the Director General's findings in relation to Downstream Access are set out in detail at Appendix C, together with references supporting GPL's submissions. It is GPL's submission that each of the matters listed at Appendix C should be taken into account individually and collectively for the purposes of assessing the validity of any decision made on the basis of the matters set out in the Draft Decision.

## *Efficiency Savings*

- 2.14. The Director General has expressly based his draft decision on GPL "operating efficiently." Presumably, efficiency in this context refers to the Director General's findings in relation to efficiency savings expressed elsewhere in his Draft Decision. GPL submits that it is unreasonable of the Director General to base any decision with respect to the reserved area based on his purported 'efficiency savings' because the Director General's views in respect to GPL's efficiency, and the scope for further efficiency savings to be realised are themselves unreasonable.

## *Reserved Area - Summary*

- 2.15. GPL is concerned that any decision by the Direction General in relation to the Reserved Area which is made for the reasons, and in accordance with the process, as set out in the Draft Decision will be:
  - 2.15.1. beyond his power;
  - 2.15.2. unreasonable in all the circumstances; and accordingly
  - 2.15.3. ultra vires.

## **3. PROPOSED TARIFFS**

- 3.1. GPL opposes the Director General's determination of proposed tariffs from April 2010, as those tariffs are based on perceived 'potential' efficiency gains which have been identified as the result of a review which was itself flawed because of the reviewer's:
  - 3.1.1. reliance on incorrect factual material, notwithstanding correct information being made available;
  - 3.1.2. failure to consider all relevant information; and
  - 3.1.3. failure to adopt and adhere to a sound and reliable process.
- 3.2. In particular, GPL submits that:
  - 3.2.1. the Director General and his advisers failed to take in to consideration GPL's granular 'bottom up' explanations of its costs, and instead applied an inherently inaccurate 'high level' estimate in the assessment for efficiency of GPL's overheads;
  - 3.2.2. the Director General and his advisers applied different assessment criteria to that applied during the baseline period without warning to GPL, and further that the financial ratios applied are inappropriately adapted to GPL's business;
  - 3.2.3. the Director General and his advisers failed to ascertain and consider the source of funding for GPL's diversification activities, which consequently resulted in the OUR understating the allowable cost base in respect of overhead costs for postal activities; and

- 3.2.4. the Director General and his advisers overstated the scope for further efficiencies to be realised in GPL's day to day operations, particularly a failure to properly consider the need to manage risk by ensuring sufficient resources are available to enable GPL to meet its service obligations.
- 3.3. The issues of concern to GPL are detailed at Appendix D.
- 3.4. GPL is concerned that any decision by the Direction General in relation to GPL's proposed tariffs which is made for the reasons, and in accordance with the process, as set out in the Draft Decision will be:
  - 3.4.1. beyond his power;
  - 3.4.2. unreasonable in all the circumstances; and accordingly
  - 3.4.3. ultra vires

#### **4. PRICING IN PROPORTION AND TARIFF STRUCTURE**

- 4.1. GPL notes the Director General's proposed decision with respect to the introduction of PiP. Whilst GPL, as the proposer of PiP, support its introduction, GPL remain concerned that the Director General's proposed weight steps:
  - 4.1.1. do not accurately reflect the costs that GPL is being charged by Royal Mail in respect of each mail type; and
  - 4.1.2. result in an increased level of cross-subsidy between different mail types which would be inconsistent with the stated aims of the Director General and GPL.
- 4.2. The PiP weight steps proposed by the Director General reflect the weight steps being charged by Royal Mail to its customers. It is more appropriate for Royal Mail to charge its customers according to fewer weight steps because of the different cost inputs faced by Royal Mail, than those faced by GPL (which, as referred to in the Consultation Response, are uniquely directly referable to Royal Mail costs).
- 4.3. However, whilst GPL is also charged by Royal Mail on a PiP basis, Royal Mail charges GPL using different weight steps than Royal Mail charges its customers. Royal Mail uses a greater number of smaller weight steps when calculating charges for GPL, or more broadly expressed, it uses a more 'linear' model. This more linear model was the basis for GPL proposed weight steps when it sought to introduce PiP, in order that GPL's costs, and the prices it charged its customers were kept as proportionate and reflective as possible.
- 4.4. The inevitable effect of GPL being required to charge its customers on a materially different basis from the basis upon which its costs are incurred, is that the degree of cross-subsidy between users of different types and weight of mail will be increased. Further analysis in support of GPL's submissions in this regard, and underlying these graphs, is enclosed at Appendix E. GPL notes that in its response to the August 2009 consultation paper, Postwatch, which has the mandate to "act in the best interests of all users of the services offered by Guernsey Post", supported

GPL's proposed weight steps. Whilst noting that the number of weight steps was much larger than that used in the UK, Postwatch concluded that "the impact on customers was likely to be minimal and possibly fairer" than Royal Mail retail weight steps.

## **5. CONCLUSION**

5.1. For the reasons set out in its Price Control Application, as expanded upon in its Consultation Response, GPL submits that:

5.1.1. The Reserved Area should be increased to £1.80;

5.1.2. GPL's tariffs should be set at the level requested by GPL; and

5.1.3. PiP should be introduced at the weight steps proposed by GPL.

5.2. In any event, GPL submits that in respect of each of these matters, for the reasons set out above, the Director General should not make final the proposed decisions as set out in the Draft Decision. In particular, GPL submits that:

5.2.1. Any decision of the Director General in accordance with the Draft Decision to reduce the Reserved Area to 65p will prejudice the ability of GPL to maintain the USO, and accordingly is contrary to the will of the States and is ultra vires;

5.2.2. The Director General cannot be sufficiently sure, based on the matters set out in the Draft Decision, that the ability of GPL to maintain the USO will not be prejudiced. In particular, the Director General cannot be sufficiently sure because he does not know the true cost to service the USO with any degree of certainty, and he has based his Draft Decision in this respect on GPL achieving speculative efficiency savings, which he cannot be sufficiently sure that GPL will achieve. Accordingly, any such decision will be contrary to the will of the States and will ultra vires;

5.2.3. The factual findings and assumptions upon which the Director General proposes to rely in making the decisions set out in the Draft Decision, particularly concerning Downstream Access and GPL's purported opportunities for efficiency savings are riddled with errors of fact and process. To rely on such matters in the making of any decision would be unreasonable and would not be a valid exercise of the Director General's powers; and

5.2.4. The Director General's proposals in relation to PiP weight steps are directly contrary to the proposed aims of the Director General and GPL in introducing PiP.

5.3. Should the Director General make final decisions in accordance with his Draft Decision, GPL will not hesitate to seek such remedies as are available to it on the bases of the deficiencies and concerns set out above, amongst others.

## **APPENDICES.**

- A States Direction to the Director General of Utility Regulation dated 7 September 2001
- B. Impact of proposed reductions in the Reserved Area (RA)
- C. Director General's Draft Decision concerning Downstream Access
- D. Director General's Draft Decision concerning efficiency savings
- E. Director General's Draft Decision concerning PiP and tariff structure.

**Appendix A**

States Direction to the Director General of Utility Regulation dated 7 September 2001.

Attention is drawn to items 14-16

"the provision of regulated postal, telecommunications and electricity services".

STATES BOARD OF INDUSTRY

REGULATORY FRAMEWORK FOR UTILITY SERVICES  
IN GUERNSEY

- XIII. After consideration of the Report dated the 24th August, 2001, of the States Board of Industry:-
1. To approve the draft Ordinance entitled "The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (Commencement) Ordinance, 2001", and to direct that the same shall have effect as an Ordinance of the States.
  2. To approve the draft Ordinance entitled "The Telecommunications (Bailiwick of Guernsey) Law, 2001 (Commencement) Ordinance, 2001", and to direct that the same shall have effect as an Ordinance of the States.
  3. To approve the draft Ordinance entitled "The Post Office (Bailiwick of Guernsey) Law, 2001 (Commencement) Ordinance, 2001", and to direct that the same shall have effect as an Ordinance of the States.
  4. To approve the draft Ordinance entitled "The Regulation of Utilities (Exclusion of Liability) Ordinance, 2001", and to direct that the same shall have effect as an Ordinance of the States.
  5. To approve the draft Ordinance entitled "The Regulation of Utilities (Utility Appeals Tribunal) Ordinance, 2001", and to direct that the same shall have effect as an Ordinance of the States.
  6. To approve the draft Ordinance entitled "The Post Office (Bailiwick of Guernsey) (Amendment) Ordinance, 2001", and to direct that the same shall have effect as an Ordinance of the States.
  7. To appoint Ms. Regina Finn as the Director General of Utility Regulation in accordance with section 1(2) of The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001.
  8. To give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

*"Identity of the First USO Telecommunications Licensee The Director General of Utility Regulation shall issue the first licence to contain a telecommunications Universal Service Obligation to Guernsey Telecoms Limited, the company established to take over the functions of the States Telecommunications Board pursuant to*

*the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet."*

9. To give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

**"Identity of the First USO Electricity Licensee**

*The Director General of Utility Regulation shall issue the first licence to contain an electricity Universal Service Obligation to Guernsey Electricity Limited, once that company is established to take over the functions of the States Electricity Board."*

10. To give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

**"Identity of the First USO Postal Licensee**

*The Director General of Utility Regulation shall issue the first licence to contain a postal Universal Service Obligation to Guernsey Post Limited, the company established to take over the functions of the States Post Office Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet."*

11. 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 Electricity Limited an exclusive electricity conveyance licence in respect of the conveyance of electricity in Guernsey for a period of 10 years once that company has been formed.
12. 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 Electricity Limited (once that company has been formed) an exclusive electricity supply licence in respect of the supply of electricity in Guernsey for a period of one year.
13. To request the Director General to investigate the impact of the introduction of competition into the electricity supply market further and to provide a recommendation and advice to the States Board of Industry on the introduction of such competition.
14. To give the following direction to the Director General in accordance with section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

**"Universal Service in Post**

*The following universal postal service shall be provided by at least one licensee 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; except in any week where there are one or more public holidays (including Christmas Day and Good Friday), in which case the number of days on which delivery must be made shall be reduced by the number of public holidays in that week."*
- \* *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.*

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 Limited 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 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.
17. To approve an increase in the States Board of Industry budget for the year 2001 by £10,000 and to increase the cash limits for the year 2002 by £250,000 to meet the cost of specialist consultancy projects and advice and assistance to the States as described in section 3 of that Report.

K.H. TOUGH,

## APPENDIX B

### IMPACT OF PROPOSED REDUCTIONS IN THE RESERVED AREA (RA)

1. In support of his proposal to reduce the Reserved Area the Director General has introduced a concept of net revenue. Contrary to normal accounting practice it appears that this is defined as “gross revenue minus Royal Mail charges and sea conveyance costs”. The Director General has put forward 6 different scenarios assessing the impact on volumes, gross revenue and net revenue of differing levels for the reserved area. GPL has asked for, but has been refused, sight of the detailed calculations which underpin these scenarios.
2. In the absence of the detailed calculations it is impossible for GPL to assess the accuracy of the proposed scenarios. We wish to point out that the Director General's estimate of gross revenue at the £1.35 level differs very significantly from our own estimate - indeed, if the Director General's estimate were correct (and 40% of gross revenue was out-with the reserved area it would contradict his assertion (paragraph 7.3) that the present level of reserved area was a barrier to competitors entering the market. If the Director General's estimate is inaccurate, perhaps based on inappropriate assumptions about the weight step distribution of bulk mail, it would call into question the validity of his scenarios. The table below provides a high level assessment of the impact of the Director General's proposed 65p scenario but based on GPL's cost information:

	£m	£m
Gross revenue (from Draft Decision)		17.4
“Net revenue”		10.2
Less: air conveyance	3.2	
Un- avoidable Sea conveyance	0.1	
		(3.3)
Available for all operational costs, overheads and profit		6.9

This analysis assumes an inability to recover all sea conveyance cost.

The £6.9m left to cover, in 2010-2011, all GPL direct costs compares to £8.9m spent in 2006 on postal operations alone (@ 2006 prices)

3. GPL put forward its tariff submission on the basis of no reduction in the reserved area. Had the Director General made it clear that a reduction was proposed GPL would have put forward different proposals.

## APPENDIX C

### DIRECTOR GENERALS DRAFT DECISION CONCERNING DOWNSTREAM ACCESS (DSA)

#### 1. GPL's Approach

1.1 In the Draft Decision the Director General criticises GPL's approach to DSA. It is our experience that traditionally customers have not wished to pursue DSA and GPL accepts that it could, in the past, have been more proactive. We do not accept that we have not explored it properly with those customers who have expressed an interest. We have worked with three customers in order to identify viable DSA opportunities for our customers and are currently running DSA price proposals for several more bulk mailers. We have also facilitated customers talking directly to DSA operators. In every case so far the customer has not opted to go down the DSA road. We are continuing to work with customers, DSA operators and Royal Mail to see if further opportunities can be found. The pace of change, if there is to be any, will be driven by customer needs and GPL continues to work with its customers to develop solutions that meet those needs. DSA has not been the answer for the three companies where we have explored the DSA option.

1.2 The Director General also expresses a concern that GPL has not shown enough engagement with DSA operators. This is not the case. GPL has had and continues to have extensive discussions with two operators and has had preliminary discussions with two others. Our work over the past year indicates that none of the other DSA operators currently serving the UK market has a developed packet offer. Out of the four major operators currently serving the UK market at the present time only one operator actually has on the ground capability to process DSA packets.

#### 2. Financial Benefits

2.1 GPL has never understated the financial benefits that can arise from DSA as suggested by the Director General. As we have informed the Director General and his advisor in writing, we believe that there are likely to be potentially significant savings from DSA although it has to be recognised that these are to some extent offset by additional costs that customers will have to incur.

2.2. However, the Director General's (or his advisors') calculations of the financial benefits to customers are flawed as they are based on out of date assumptions on the level of traffic migrating from packets to Large Letters and do not allow for the increased costs within the customer's own operation incurred to meet the access criteria.

#### 3. Quality of Service

3.1 In the Draft Decision the Director General seriously misrepresents GPL's position on the quality of service afforded to the bulk sea product. GPL does not, as the Director General misleadingly states, believe (or tell its customers) that "DSA does not offer the level of service bulk mailers in Guernsey require".

3.2 Nor, as the Director General's advisor states, does GPL regard or represent this service as "unequivocally characterised as J+2". GPL does regard

it as having a high assurance of J+2 (about 71%). Later in the same paragraph the advisor states that GPL views the bulk sea product as “clearly a J+2 product rather than a J+3 product”. This is untrue and given that we have explained this to the OUR and to the Director General’s advisor at a number of meetings, we regard it as wholly unacceptable for GPL’s position to be misrepresented in this way in the Draft Decision.

3.3 The quality of service figures that the Director General’s advisor uses do not provide a valid basis for comparison. They are based on letter mail and not packets. The quality of service for packets (which, because of their size, often cannot be delivered through a letter box) is worse than that for letters. GPL’s bulk sea product is predominantly a packet product. This has previously been explained to the Director General and his advisor.

#### 4. Industrial Action

4.1 The Director General suggests that DSA might provide more robust service levels in the event of industrial action (IA) in Royal Mail based on an analysis of Royal Mail’s own performance. This is incorrect.

4.2 First this would only be true in the event of localised IA and not in the event of the all-out strikes. Second, it is irrelevant to Guernsey Post and its customers because in instances of IA GPL takes action to ensure that its mail is moved further down the Royal Mail pipeline so as to be nearer the “head of the queue” when normal working resumes.

#### 5. Access Requirements

5.1 GPL does not suggest to customers that the access requirements that DSA imposes on customers are “likely to be prohibitive”. GPL would be failing in its duty to customers, however, if it did not explain exactly the access requirements of DSA that only the customer can fulfil in the case of pre-sorted mail. GPL does explain the access requirements openly and fully, as the requirements are a matter of fact and available for all to see. For the sake of completeness we have set out at Annexe 1 to this appendix the access requirements for DSA and how these compare with those for our existing products.

5.2 GPL does not regard the cost to customers of meeting the DSA access requirements as necessarily prohibitive. The cost will vary from customer to customer and only the customer can decide which option offers the best deal. We have been working with DSA operators and Mosaic, the company that operates the IT interface with Royal Mail Wholesale, to identify and if possible mitigate these costs.

#### 6. Customs Clearance

6.1 In the Draft Decision the Director General dismisses the issue of customs clearance as being “not a significant concern”. It is a matter of fact that HMRC have confirmed that they will not extend the terms of the MoU to items sent to the UK via DSA. GPL provided evidence of this to the Director General’s advisor and find it surprising that no mention is made of that in the Draft Decision. The MoU is

not the only means of effecting customs clearance but it offers our customers significant benefits. These include:

- As the VAT is being collected on behalf of HMRC UK the mail goes directly into the Royal Mail network. It is pre-cleared by Guernsey Post and Guernsey customs on behalf of HMRC UK.
- The mail can be pre-sorted by customers who have signed up to the MOU and they can therefore benefit from work-share discounts which Guernsey Post has negotiated with Royal Mail.
- Customers submit their VAT payment to Guernsey Post, who is collecting it on behalf of HMRC UK, monthly in arrears.

The Director General makes reference to one DSA operator having received agreement on “fast and effective” customs clearance. We have spoken to the only DSA operator that we are aware of that has had detailed discussions with HMRC. They confirm that they do have an agreement with HMRC. The operator has been given a Low Value Bulk Import Licence by HMRC UK which allows for items under the current de-minimus of £18 to be imported to the UK without a CN22. Details of items being sent, including address of recipient, value and type of goods, are recorded on an electronic manifest, which is provided to HMRC on despatch of the items to the UK. This is intended to allow speedy processing of consignments through UK Customs. It is different from the MoU in that it is only for items below the VAT *de-minimis* and therefore does not cover all traffic sent to the UK.

## 7. Alternative DSA providers

7.1 GPL was fully aware of the DSA rates before agreeing to Royal Mail’s proposed charges, contrary to what was suggested in the Draft Decision. GPL had undergone the research and used the DSA rates as a benchmark in negotiations with Royal Mail. GPL has spreadsheets sent by Royal Mail in October of 2008 setting out their Retail rates compared with the DSA rates. It is therefore inaccurate for the Director General, or his advisor, to say we had not taken this into account before finally being presented with a fait accompli by Royal Mail.

The fact is that Downstream Access, whilst possibly being acceptable for some bulk mail customers (but yet to be proved) could not then, and to date still cannot, provide J+2 delivery for our public tariff mail. GPL could not put at risk that service by rejecting Royal Mail’s final offer. The Director General’s advisors have subsequently acknowledged that the rates obtained from Royal Mail are “competitive against all available RM benchmarks”.

7.2 In any event this is not the key issue, as we have explained on numerous occasions to the Director General and his advisors, GPL had no option other than to accept the Royal Mail charges. To have done otherwise would have been, in postal terms, to cut off Guernsey from the UK for public tariff mail as well as for bulk mail. This is not acceptable. The decision was taken after months of hard negotiations (which resulted in prices for public tariff and bulk air mail regarded by the Director General’s advisors as being “competitive against all available RM benchmarks”) and after incurring considerable costs in legal fees.

## APPENDIX D

### DIRECTOR GENERAL'S DRAFT DECISION CONCERNING EFFICIENCIES

#### 1. Director General's process

1.1 GPL has no in principle objection to the Director General's decision to adopt a top down approach to reviewing overheads. However, we believe that in this instance the review has not been satisfactorily undertaken and that quite arbitrary and unreasonable decisions have been made. This is for a number of reasons:

- We do not accept that the benchmarking measure should arbitrarily be changed from that used previously. The measure proposed is flawed -
- First it is incorrect that "overheads are driven to an overwhelming degree by local activities alone". This is patently wrong. For example, the difficulties with the Royal Mail negotiations (the single biggest cost driver for GPL) not only incurred much senior management time and expense on consultants but also directly caused overhead costs in the form of additional legal fees. Similarly there are a number of risk based overhead activities, such as revenue protection and internal audit, where revenue rather than cost is the driver of the activity. Such activities cover both bulk mail where direct costs are low and public tariff mail where direct costs are a relatively high, as a proportion of total costs. Other necessary non-local work includes such things as product development
- Second, the bench mark approach of overheads as a percentage of total costs was applied by the Director General in the previous tariff review and was based on a detailed review of overhead costs. No indication was given by the Director General or his staff of any proposed change to this measure until October of this year. That is 10 months into the 12 month process of setting the 2010-2011 tariff. Changing the benchmarking measure so late in the process is inconsistent and undermines the integrity of the benchmarking process. Measured against the former benchmark calculation, GPL's overheads represent 11% of its total costs, which compares favourably with the OUR's 2006 review of GPL's own performance at that time which showed overheads to be 12% of total costs. The Director General commented in 2006 that a figure of 12% indicated that overhead costs were not excessive. It is, therefore, GPL's view that its overheads are proportionate and justifiable.

1.2 The Draft Decision states that there are only 3 criteria against which overhead cost increases would be justifiable. However, the Director General and his advisors have previously agreed with GPL that a fourth criterion was appropriate as a justification of expenditure, that is, investing to avoid risk. This criterion was accepted by the advisor at the meeting but is not included in the criteria contained in the Draft Decision. No explanation is provided to explain this change of emphasis and accordingly, GPL has thus approached its expenditure in the basis that it was appropriate and necessary to incur expenditure to avoid risk.

1.3 It is inappropriate to justify a cursory examination of GPL's expenditure on the basis that this is a one-year price control application. The OUR has, in fact, had the same amount of time to look at GPL's overheads as it would have had

for a three-year price control. At no stage in the process until October 2009 has it indicated that it would not have enough time to review overheads. GPL, conservatively, asked for a one-year price control because of the uncertainty surrounding the Royal Mail contract, but it did not expect that this would lead to a superficial and arbitrary evaluation of GPL's overheads, and the damaging consequences this may have for the business and the individuals it employs. In any event, regardless of the reasons why the top down approach has been adopted, such a cursory examination is an inappropriate basis for the Director General to make such far reaching decisions for the Guernsey Postal market as amending the reserved area based on supposed efficiency savings identified.

1.4 The OUR has determined GPL's 2010/11 overheads using the submission that it made for 2009/10 back in 2006, adjusted for inflation and the proposed increase in rates. Such an assumption is simplistic and unjustifiable given the changes in the postal industry since then and the deficiencies the board and management have since discovered in the company. Examples of these deficiencies include inadequate risk management, weak IT systems, poor industrial relations and little investment in people and physical infrastructure.

1.5 It is unclear to GPL how the Director General, based on "Brockley Consulting's direct experience of the business ", can determine that there were not significant weaknesses in 2006 that had to be addressed. GPL is of the view that the advisor is not in a position to, nor competent to make such a judgement. It is the view of the Chief Executive, his executive team, the Chairman and of the Board of Guernsey Post that there were significant problems to be addressed. It is also the view of the then current Chief Executive. These weaknesses manifested themselves in a number of ways including flaws in basic information systems which are still being corrected, inappropriate customer agreements resulting in loss of revenue and lack of proper revenue control procedures again resulting in lost revenue. The Director General's comment that most service targets were being met in 2006 is too simplistic and suggests only superficial analysis. GPL's postal service quality performance has significantly improved since 2006:

1.5.1 The targets have increased on all five of the standard mail end to end measures, as has performance.

1.5.2 We have maintained a perfect achievement record on all seven of the measures relating to internal efficiency.

1.5.3 Complaint handling performance has improved.

1.5.4 Significant progress has been made on all service KPIs relating to complaints. Specifically total complaints have fallen by 74% over the period.

1.5.5 We have maintained a perfect record in terms of compliance with our USO.

## **2. IMPACT OF DIVERSIFICATION**

2.1 The Director General states that he and his advisors believe that one reason behind the increase in overhead costs is GPL's diversification strategy. This is based on a misunderstanding of how the Director General's pricing model works. Whilst it is true to say that GPL has incurred costs as a result of its attempt to diversify its business these do not impact at all on the overhead costs analysed by the Director General's advisor. The analysis carried out by the advisor and shared with GPL relates to cost assumptions in the model for 2009-10 based on the 2009-10 budget. Apart from the sum of £92k for professional fees this budget contains **no** provision for diversification.

2.2 It is the intention that the costs incurred will be accounted for through past profits from our Philatelic business and will not be funded by postal users. The expenditure relating to the Savings Bank has been capitalised in the Balance Sheet until the launch of that business, when it will be recognised as an inter-company loan in GPL's books and expenditure in the new company's books.

## **3 THE RATIONALE BEHIND INVESTING IN OVERHEAD COST**

3.1 GPL submits that its overheads are not out of control. GPL is a profitable, successful, commercial business that takes responsibility for its cost base very seriously. It has various checks and balances in place to ensure its expenditure is authorised and managed transparently and competently. Overheads are scrutinised annually by the management and board as part of the budget setting process. Any decision to increase overheads outside this process is governed by the company's scheme of delegated authorities. All directors are responsible for their overheads and receive monthly reports detailing their expenditure against budget, for which they are held accountable.

3.2 GPL does not accept the assertion that it "has not provided the Director General with any information to support its view that its increased expenditure on overheads has improved the service quality of postal services" nor "provided information to support its view that its increased expenditure on overheads has improved the cost effectiveness of its front line operations". GPL has provided the Director General with a detailed explanation setting out the areas of investment and the rationale behind them including, for example, information provided to the Director General on 5 October showing £164k saved by the revenue protection manager by the recovery of missing postage docketts. This explanation has been totally ignored.

## **4. OPERATIONAL EFFICIENCIES**

4.1 The Director General has acknowledged substantial improvements in postal operations since the previous efficiency review in 2006 largely based on headcount reduction, the absorption of additional volume, the quality of services and a focus on the implementation of productivity systems. In acknowledging these achievements the Director General has also highlighted the opportunity for further improvements, a view which is entirely consistent with GPL's own plans. From the outset GPL has embraced an open and transparent relationship with the Director General's advisors in terms of determining the opportunity and level of future savings.

4.2 In responding to the efficiency review of postal operations it is important to consider the immediate challenges facing the organisation:-

- Unprecedented volume growth of northbound letter mail requiring processing within GPL's sorting office, generated by one key account customer.
- Changes in despatch arrangements due to the commencement of Pricing in Proportion.
- Later and additional air despatches to the UK.
- Changes to the despatch arrangements for international mail.
- Possible introduction of DSA despatches, dependent on customer demand.
- Full duty revisions based on new productivity measurement systems.

4.3 From the model supporting the draft determination GPL understands the effect of the Director General's efficiency review to be:

- A saving of about £272k over the financial year.
- Achieved by a reduction in total hours amounting to 1.3% and a change in pay mix.

4.4 In assessing the future opportunity for savings, GPL believes that the efficiencies contained within its original tariff submission were of a sensible level particularly given the significant challenges described above. Furthermore there are a number of conclusions within the efficiency review with which GPL disagrees, particular those based on productivity calculations. GPL will embrace the financial target set by the Director General, although the actual operational achievement may in some cases be different to those recommendations within the efficiency review. This is of course entirely a matter for GPL to manage, although if these targets are not achieved, invariably the service level provided by GPL, or GPL's return to its shareholder, will be impacted upon.

## APPENDIX E

### DIRECTOR GENERAL'S DRAFT DECISION CONCERNING PRICING IN PROPORTION (PIP) AND TARIFF STRUCTURE

In general GPL welcomes the Director General's proposal to allow it to introduce PiP from April 2010 both for social and business customers. However, GPL has a number of serious concerns about the tariff structure proposed.

#### 1. Paragraph 6.3

1.1 The Director General misrepresents GPL's views in suggesting in the Draft Decision that GPL "wants to introduce PiP and be consistent with UK formats". This is not true – as stated in its original Tariff submission GPL wants to introduce PiP "to ensure that we maintain cost reflective prices". It is the way in which Royal Mail charge us that must be reflected in our pricing structure not the way that Royal Mail charge their customers in the UK. This point was again made abundantly clear in the Consultation Response when we said that we wished to introduce PiP "in order to ensure our tariffs better reflect the costs of providing each different postal service". The disparity in tariffs between the Director General's proposed tariffs and GPL's costs will lead to disproportionate cost increases for some customers. For example, it is for that reason that 20mm was chosen as the maximum thickness for International large letters. The impact of the Director General's decision to use 25mm would be to increase Royal Mail charges to GPL and, therefore, to customers by £40k.

#### 2 Paragraph 6.4

2.1 GPL agrees that the number of weight steps is an integral part of PiP. As already indicated above and in our earlier submissions GPL's proposed tariffs reflect, as far as is possible, our underlying costs. We have already demonstrated to the Director General that Royal Mail charges to us and conveyance costs are broadly linear. Clearly, unlike bulk mail, it is not possible to have a public tariff on a straight line basis. The nearest we can get to a straight line is to have a number of small weight steps. In doing this GPL has maintained simplicity by:

- 2.1.1 ensuring that between each weight step the increment in weight is the same
- 2.1.2 keeping the price increase at each weight step the same

As noted in the body of this response this approach was supported by Postwatch in their submission in response to the Consultation Paper.

2.2 In contrast the Director General's proposal is illogical and it is not simple. It has one weight step of 100g, another of 150g and then steps of 250g. It is openly based on Royal Mail's pricing which reflects Royal Mail's own cost structure and has no relevance for Guernsey – crucially the tariff proposed by the Director General does not reflect GPL's cost structure. The Director General's draft decision to impose 250g weight steps for the UK public tariff is in direct contradiction to his stated intention to introduce cost reflective pricing.

2.3 In the December 2006 decision, the Director General examined the potential impact for arbitrage in the 2006 draft decision proposals (paragraph 4.4). At that point he concluded:

*“The Director General considers that it is worth remembering that arbitrage opportunities only really arise when prices are out of line with costs. If all products are priced in a cost-reflective manner, at all weight steps, then any incentives to move from one product to another are simply efficient price signals, not arbitrage.*

*The only proper way to ensure that no perverse incentives, including arbitrage, exist, is to ensure that all tariffs are fully cost reflective at all weights.”*

GPL agrees that this is the correct approach. However for the 2009 draft decision it would appear that a contrary approach has been taken.

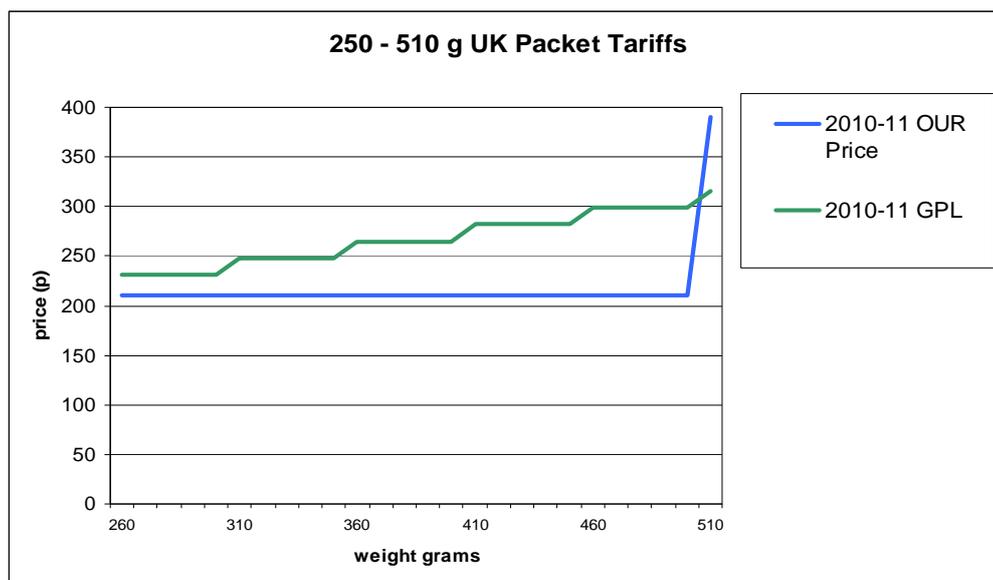
Force fitting the Royal Mail weight steps onto GPL costs means that cost reflectivity is abandoned. This in turn gives rise to unnecessary and unwarranted cross subsidy between posting customers and a real risk of volume growth at loss making prices.

2.4 There are a number of anomalies with the Director General’s proposed tariff which support our view that it is seriously flawed. These include (amongst a number of other of other examples):

2.4.1 In the previous decision, the Director General agreed a price of £2.14 for a packet between 451g and 500g for the 2009-10 year. Now RM charges are to increase by 19p, but the Director General proposes to decrease prices to £2.11.

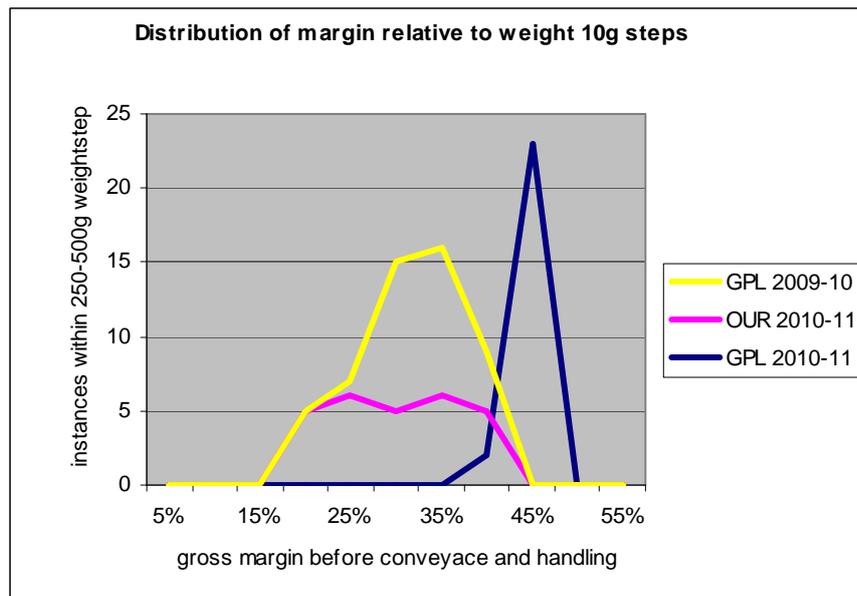
2.4.2 The Director General’s proposed tariff structure means the end of straight line pricing for the bulk air products. Public Tariff packet rates under 500g have been so significantly reduced as to be below the proposed bulk air rates. The price reduction caused by the weight step broadening has created such a distortion to cost reflectivity that consequently these products will need to be offered at discount to public tariff, and can no longer be offered through Straight Line Pricing.

2.4.3 The Director General proposes price increases from £2.11 to £3.90, (an increase of £1.79) when the weight increases by 1 gram from 500g to 501g



2.5 Examining cost reflectivity within the weight step (“fully cost reflective at all weights” as recommended at the last tariff review), a further divergence from the principles of cost reflectivity emerges. The GPL proposal delivers a gross margin of 31.2 % after RM charges, before conveyance, handling costs, or contribution to overheads. The standard deviation in 2009-2010 (based on current prices) is 3.9%. GPL proposals improve this to 1.1% - the Director General’s proposal has a lower contribution of 26.6% but has a much higher standard deviation of 6.8%. Another way of looking at this reveals that the Director General’s proposal is less cost reflective for 96% of the comparisons made, sometimes by more than 10 gross margin percentage points.

This point is illustrated by the graph below:



2.6 GPL is of the view that the issues with tariff structure are potentially more fundamental than the level of tariff increase allowed. GPL agrees with view taken in the previous decision “that arbitrage opportunities only really arise when prices are out of line with costs.” and notes that this is also true in facing competition. Where prices fall outside the RA, GPL should be not be restricted to a pricing structure which is not cost-reflective and will inevitable attract cherry picking or other arbitrage activity.

### 2.7 UK public tariff price comparisons

Royal Mail’s price for a first class letter for UK delivery will rise to 42p in April. GPL’s proposed price for a UK item is 45p. The typical cost for air conveyance to the UK for a small letter is 5p; thus GPL’s price at 45p represents good value against a comparative Royal Mail (RM) indicative price of 47p ( 42p plus 5p conveyance).

Comparisons for some other products are given in the table below:

<b>Large Letter</b>  <b>DVD (125g)</b>		2009-10	2010-11
	GPL	1.09	<b>0.87</b>
	OUR	1.09	0.91
	RM	0.90	0.94
	RM (+conveyance)	1.13	<b>1.27</b>

<b>Packet</b>  <b>BOX (200g)</b>		2009-10	2010-11
	GPL	1.24	<b>2.14</b>
	OUR	1.24	1.62
	RM	1.62	1.70
	RM (+conveyance)	1.99	<b>2.22</b>

These show that GPL's proposed prices compare favourably with Royal Mail prices when adjusted for the additional costs of air conveyance that GPL incurs. For a 200g packet the cost to GPL of air conveyance is 52p yet the Director General is proposing a price that is actually lower than Royal Mail will charge in the UK.

## 2.8 Business Tariff

In its original submission GPL proposed reduced prices for meter franked and postage paid mail. The Draft Decision makes no comment on these and no account appears to have been taken in the financial calculations. It is possible that these products are covered by the words in Annexe B where the Director General says that he is minded to accept those GPL prices that are not specifically included in the Annexe. This would mean, however, that UK meter franked and postage paid mail prices would be higher than those for other public tariff mail.

## 3. Bulk mail prices

3.1 GPL notes that the Director General proposes no change to the bulk mail tariffs put forward by GPL in its original submission apart from changes to bulk air products. GPL has already written to the Director General pointing out that his prices are incorrect and do not reflect the BPM. The impact of this is to increase the loss on the already loss making bulk air products by over £100k. Also, as noted above, the Director General's proposed UK tariffs now sit below bulk air tariffs at some weight steps. This means that straight line pricing (SLP) is unworkable for this product and means that there will be further revenue dilution. The proposed tariff also has the impact of reducing the headroom between the public tariff and the cheapest bulk tariff (sea 120 way sort). This opens the possibility of switching either from sea to air (with possible air capacity problems) or from sorted products to unsorted (with possible operational capacity issues).

3.2 GPL notes the DG's comments about the possibility of bulk mailers leaving Guernsey because of the high level of postal costs. GPL is of the view that a bulk mailers decision to stay on Guernsey or relocate is based on a number of factors not on postage prices alone. These factors include, amongst other things, the availability and cost of labour and premises and taxation. Postal prices are clearly important as one component of total costs. One way to put postal costs into overall context is to look at bulk mail products from an end customer's viewpoint – the price they pay for a product will reflect the total costs of producing and posting that product. Based on a sample of 10 products offered by Guernsey Bulk Mailers, ranging from DVDs to flowers and pipes, GPL postage costs amount on average to about 10% of the total customer price – in other words costs other than postage represent 90%. Obviously Bulk Mailers do not have the same cost profile – for individual products the postage element ranges from less than 4% to 33%.

#### 4 International prices

4.1 The Director General proposes to allow introduction of format based pricing as requested by GPL but not in a manner which is cost reflective for Large Letters and at lower prices than GPL had suggested for public tariff products. The impact of the proposed decision to increase the width limit to 25mm rather than 20mm, as requested by GPL, would be an increase in Royal Mail charges of £40k pa. GPL recognises that this may give some customers problems in packaging International items in a separate format and that they will only be able to post 25mm thick items – these will attract the additional charges. GPL submits that it would be fairer to retain the 20mm limit to provide price benefit to those customers who can take advantage of it than to have a single 25mm limit. Prices are between 5p (Letters) and up to 28p (Packets) less than requested. The headline impact of his appears to be £56k yield reduction from what was requested.

4.2 The impact of the Director General's price changes as calculated in the BPM is £144.8k yield reduction, where weight step pricing can be determined (i.e. below 140g). This impact is disguised as the Director General has re-assessed the revenue value to be attributed to heavy weight items, creating an apparent increase for these, from the GPL submission, of £89k. However the £89k benefit is illusory, as the underlying tariff proposal is for price decreases to packets to Europe above 200g, and to the Rest of the World (RoW) above 100g. At an average weight of 576g, 24k items would amount to a further £30k hit versus 2009-10 revenues. Thus the international yield reduction could be £175k and not £56k.

4.3 Some packet prices, especially to Europe are now too low. Though the BPM does not record packets below 140g, this does not mean to say they may not arise as a result of PiP, or be attracted in because of the low price. It would seem that lightweight packet prices may now not even cover cost.

4.4 The differential between Europe and RoW prices and margins has been largely maintained; because Europe has now been reduced to minimal margin levels, there is now little scope to move quickly to one overall international rate, which had been GPL's strategic intent

4.5 GPL's International public tariff prices are now even further below Royal Mail. There is a risk that when this becomes obvious to Royal Mail, they will use it as an excuse to increase their charges to GPL.

**ANNEX 1**

DSA access requirements compared to existing GPL requirements

<p>DSA requires detailed forecasting, with actual postings having to be within 15% of the forecast. The initial forecasting at 7 days, then 24 hours before the posting, and then details of the actual posting by 2:30pm on the day of receipt by Royal Mail.</p> <p>Below is set out a comparison of the data/mail preparation requirements for DSA (left column) and GPL Bulk Mail (right column).</p>	
<p>Royal Mail Wholesale - DSA posting requirements</p>	<p>Guernsey Post 120 Way posting requirements</p>
<p>Bagging Requirements</p>	
<p>The Customer must ensure where possible that Mailing Items of a similar weight, shape or size are securely bundled within bags. The number of Mailing Items in each bundle will depend on the nature of the Mailing Items. This will normally be determined by their size and thickness.</p> <p>Each Selection may consist of a number of bundles. The Customer must ensure that all Mailing Items for a single Selection are included in one bag unless the maximum weight is exceeded. Where possible all Mailing Items within each bag should be of a similar weight, shape or size. The Customer must ensure that more than one bag is used if the weight of a bag, bag tie and label would exceed 11kg.</p> <p>The bag neck should be securely tied/strapped with a Royal Mail provided bag tie. Bags must not be tied through the 'D' rings.</p>	<p>The Customer must ensure that all Mailing Items for a single Selection are included in one bag unless the maximum weight is exceeded. The Customer must ensure that more than one bag is used if the weight of a bag, bag tie and label would exceed 11kg. The bag neck should be securely tied/strapped with a Guernsey Post provided bag tie.</p>

<p>The minimum number of Mailing Items accepted in a bag is 25 Letters or 5 Large Letters, 5 A3 Packets or 5 Packets (as set out in Section 6.2). In general, however, bags must be filled to capacity within the Selection, subject to meeting accurate bag fill.</p>	
<p><b>Bag Labelling</b></p>	
<p>The Labels are bag specific and are populated with data from the customer</p> <ol style="list-style-type: none"> <li>1. Unique Bag/Tray Identification Number - The same unique number is to be printed on the Manifest against the description of that bag's/tray's contents.</li> <li>2. Unique Originating Customer/Customer Identification Number – This is an optional identifying number unique to the Customer or the Customer's Originating Customer</li> <li>3. Format – This indicates the type of Mailing Item contained within the bag/tray. All formats shall be identified in the manner set out below and shall always be in uppercase e.g. : <ul style="list-style-type: none"> <li>• Large Letters LGE LETTERS</li> <li>• Packet PACKETS</li> </ul> </li> <li>4. Standard Selection Code – The Standard Selection Code for the Selection name as per the Access Database.</li> <li>5. Customer type indicator – This indicates the type of customer; <ul style="list-style-type: none"> <li>• DSA for Access by Postal Operators</li> <li>• CDA for Customer Direct Access</li> <li>• AGY for Schedule 7 Schedule 6</li> </ul> </li> </ol>	<p>The labels are pre-printed by Guernsey Post with the routing details and supplied to customers</p>

<p>6. Customer Name – The Customer</p> <p>7. Destination Office - The destination office is the Inward Mail Centre at which the bag/tray is to be handed over.</p> <p>8. Selection Name –The name of the Selection as listed in the Access database (e.g. Paisley). This is only applicable for Access 1400 and Access Walksort.</p> <p>9. Selection Description- This field defines the Postcode group or plan number within the bag/tray and this information can be obtained from the Access final labelling database:</p> <p>10. Zonal Agreement Identification – When posting using any one of the Zonal Agreements an identifier ZONAL must be included on the bag/tray label.</p>	
Posting Dockets	
<p>The Customer must supply an electronic Posting Docket in respect of each Daily Posting.</p> <p>Electronic Posting Dockets Posting Dockets and supporting data to enable the creation of Manifests must be submitted electronically using Royal Mail's E*pro system (or other system that Royal Mail may develop and make available), and, after processing by E*pro, confirmed and received by Royal Mail no later than 06:30 on the day of handover of the Mailing Items to which the Posting Docket refers.</p>	<p>GPL requirement –Apr 2010 onwards</p> <p>Hard copy Posting docket, giving the format and total number of items, and total weight.</p> <p>Mail is deemed as being handed over to Guernsey Post when the collection driver signs for the items.</p>

The Posting Docket(s) generated electronically must represent the sum of the information provided in the Manifests, and will be automatically generated by E\*pro. A Manifest or a summary manifest, is required for each Inward Mail Centre accessed for each Posting and may be produced by manual input into E\*pro, or by electronic interface with mailing software.

In addition:

A Manifest is the Customer's declaration of the details of the Posting to be handed over by the Customer to Royal Mail at each Inward Mail Centre. The Customer's data that creates a separate Manifest per Posting must be submitted and confirmed by the Customer electronically via E\*pro to DSACC no later than 06:30 on the day of handover to Royal Mail. In addition, two physical copies of either the Summary Manifest or the Manifest must accompany Postings handed over at an Inward Mail Centre.

The handover of Mailing Items and the signing of the Manifest does not constitute acceptance of the Mailing Items by Royal Mail. Acceptance of a Posting by Royal Mail only occurs after revenue protection and mails verification checks have taken place and any issues resolved with the Customer. A Posting will be deemed to have been accepted by Royal Mail within 1 Working Day from handover by the Customer unless Royal Mail has raised any issues about the Posting with the Customer.

**From:** Graham Guille [REDACTED]  
**Sent:** 18 November 2009 07:31  
**To:** John Curran  
**Subject:** Re: Guernsey Post

Dear John

Thank you for your email ref the GPL review of charges.

I have read your paper thoroughly and have attended a briefing given by GPL. It would be fair to say there is little common ground between the two positions. It is not possible for me to determine the matter based on the information presented by either side such is the gulf that is between them.

Having said that I did spend a period on the GPL board when a member of Treasury so have some understanding of the issues.

Having been a firm supporter of the concept of competition and having been a prime mover in the introduction of competition legislation in Guernsey I am also fully 'au fait' with the benefits and dis benefits of monopolies in the Bailiwick.

In practical terms market dominance in any sector of the economy only becomes a problem when that dominant position is abused. I have to say I can see little evidence that GPL has abused their dominant position in the postal market.

From my perspective I am left having to choose who I think has the best grasp of the realities and practicalities of running a postal service. What concerns me is that either you or GPL are in error over this issue, there is no middle ground. If GPL is wrong the worst that can happen is that everyone ends up paying more than they should. That is a situation that can be rectified at a later stage.

If on the other hand you are wrong and GPL goes bankrupt, what then? What is your fallback position in that event?

So in simple terms, unless you can assure me that the Bulk mailers will not be siphoned off in any restructuring of the postal business in Guernsey and that GPL will not be left with an unprofitable 'rump', I must side with GPL on this issue.

To do otherwise will leave the islands vulnerable to predatory 'cherry picking' of the profitable bits and the ordinary customer with no service, unless the States want to step in and subsidize one. Or have I got it all wrong.

I cannot forget that this was how the long sad saga of Guernsey Telecomms all started and we all know where that ended up.

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Sorry we may not see eye to eye on this one but having lived through the last couple of decades I cannot forget what has happened to some of our major undertakings or ignore what it has cost us.

Best regards, Graham

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



20th November 2009

Dear Sirs

## **Response to OUR Doc 09/20**

In response to the OUR proposed liberalisation to the Guernsey Postal Market and the changes to postal tariffs, we have the following comments:

### **(1) GPO failure to recognise the value of the OUR analysis**

In our opinion the postal workers, postmen and drivers at GPO are doing a terrific job for our Island. They turn out in all weathers collecting, processing and delivering our mail. They have our wholehearted thanks and deserve all of our support.

Regrettably the actions of the senior management at the GPO and their attack upon the OUR cannot be equally applauded. If they are successful in ignoring the challenges that the OUR has set them, then the result will be significant more job losses in the future than need be the case, not only amongst postal workers but also amongst middle management. We believe that the GPO are failing their staff, failing our business community and failing our island.

Perhaps the biggest disservice of the attacks by the GPO on the OUR to Guernsey is that it will persuade some politicians to ignore the dangers that exist to our economy if their recommendations are not implemented. The GPO in its current form will no longer be viable and many more staff at the GPO will lose their jobs than would otherwise be the case.

Failure to implement the OUR recommendations will result in the people of Guernsey being left with the burden of an impoverished loss making GPO in the years to come.

### **(2) Loss of de minimus - the biggest threat:**

The one overriding truth that appears to be lost in the GPO 'spin' is that the Post Office has been the recipient of golden eggs from the 'Direct Marketing' (**DM**) sector, referred to incorrectly in the GPO as the 'bulk mail' industry for many years.

If this had not occurred then the Post Office would have been forced to cut costs dramatically many years ago. The greatest threat to the Post Office remains the loss of the VAT 'de minimus' concession, which could disappear at the stroke of a pen from Whitehall. If this should go, then within three months £20 million of DM turnover will be distributed from somewhere else other than Guernsey. This is beyond question.

It does not mean that the parent companies will leave Guernsey, just that GPO postal revenues will vanish in an instant.

/continued...

**If that should occur then the remaining £22 million of traditional business will have to carry the management overheads of £8.6 million (please see below for detail)**

The other threat to GPO revenue is quite simply that if the GPO is not competitive then DM will move their distribution centres elsewhere, with the same loss of business to the GPO as the effect of the loss of 'de minimus'. This will result in the GPO having to make the same drastic management overhead savings to remain viable.

Many hundreds of jobs in the Island will be lost with the loss of the distribution sector within the fulfilment industry.

**The OUR deserve thanks for forcing the GPO to evaluate these realities now.**

### **(3) Payroll and overhead costs**

The DM sector contributes £21 million to Guernsey Post Office (**GPO**) out of their total annual revenue of £43 million. The top four companies make up 80% of this contribution, of which Healthspan will contribute over £5 million for GPO revenue this year.

In order to obtain current 'bulk mail' tariffs, Healthspan pre-sort their mail on their own computers, then physically sort to a 120 way sort, involving physical processing to 109 post code regions within the Royal Mail (**RM**) network. We then put it into RM mail-bags and put these into yorkies (trailers)

GPO postal van simply collects the trailers of mail from the Healthspan Pitronnerie depot up to five times a day, five days a week 8.30 - 4.30 and take them down the road to postal HQ where it is loaded with other mail into 13 metre trailers, which are then taken to the ferry for shipment to the UK. This involves only two postal workers. The GPO receives turnover of £5 million pounds for this minimal effort and cost!!

Guernsey Post's entire labour force for 'bulk mail' consists of only 10 men costing £370k (10 times £37k) to service all of this £21 million DM revenue.

#### **Total operational labour costs of £4.81 million:**

There are 130 total postal workers in operations with average earnings of £37k per annum each according to GP figures. Total operations costs are therefore £4.81m.

#### **Total 'Office staff' labour costs of £8.6 million:**

The remaining 'office staff' – 141 people earn £8.6 million (£12.5 million salaries, plus directors at £900k, equals £13.4 million less £4.8 million operational costs - source GPO 2009 annual accounts) this represents £61k per annum for each non-operational worker.

#### **Total overhead costs:**

It is noted from the OUR reports that overhead costs have also doubled in the last four years to £5.9 million; this hardly represents a cost efficient organization.

#### **(4) Labour costs of GPO's business without Bulk Mail**

**Another way of looking at this is that ALL of GPO's £22 million traditional (non-bulk mail business) has total combined labour costs of £13 million (£13.4 million less £370k)**

This is where in our opinion the OUR analysis is utterly correct. The GPO is a highly inefficient, mismanaged and **over-managed** entity that needs to change its business model. **How can any very simple business (delivering letters) with only £22 million turnover have £8.6 million of management labour costs? Plus £4.8 million of operational labour costs.**

The GPO has seen a drop in traditional mail and we are advised that this has dropped even faster in 2009 by 16%. This drop is due to the changing nature of communications with increasing volumes going electronically. What has the management of GPO done to react to this fall off in business? What reductions have they made in costs?

#### **(5) The role of the DM Industry**

Historically the natural business decline at the GPO has been countered by the growth of the DM industry.

The GPO has been blessed with an entrepreneurial and dynamic DM industry that has generated new businesses for Guernsey. These include HMV, Healthspan, Moonpig and Thompson and Morgan.

The GPO has not been instrumental in bringing any of these businesses to Guernsey. It has also done very little to support the growth of these industries. In many cases it has been argued by the DM innovators that the GPO has been positively antagonistic to their needs.

**In the future, the GPO's failure to be competitive with other jurisdictions such as Jersey will mean that future new businesses will not be coming to our Island, it will go elsewhere. That is a tragedy that has yet to happen.**

Healthspan have certainly found the GPO to be reactionary and incompetent negotiators on behalf of the fulfilment industry. They have been slow in reducing their costs in their traditional business in the face of declining demand and slow in working closely with their customers to innovate and find new ways of meeting future challenges. In all of his years at the GPO I have only met the CEO three times! It is our opinion that the OUR has been far too generous in their criticism of the GPO. Their criticism of the GPO's failure to address their escalating costs could have been much harsher.

Guernsey Post has declared that the loss of bulk mail business to the island would result in a loss of profit to GP of £3 to £4 million per annum. This implies that the total gross margin that they are generating from bulk mail are £3 to £4 million plus transport costs (aircraft and sea freight) plus labour recovery etc to result in the loss they forecast.

The GPO has argued that if they lose bulk mail that it could result in a loss of perhaps 18 jobs. The fulfilment industry itself employs 700 people. These jobs losses would be a far greater loss to Guernsey when set against possible losses at GPO.

#### **(6) Failure to recognise business mobility**

The GPO has been complacent in the belief that DM will simply stay in Guernsey for the foreseeable future. This is not correct. As far as Healthspan is concerned, we will keep the head office in Guernsey, but our postings will be based where the prices are most competitive so that Healthspan can continue to grow and flourish as a Guernsey tax payer and employer. The need to use GPO does not exist. We can ship our goods, which are made in Switzerland, Germany, the UK and India directly into a despatch centre anywhere. Jersey is the closest. We would prefer to stay in Guernsey but only if the GPO can be efficient and competitive which currently it is not. The same applies to all of our Island's DM industries except perhaps for flowers and those that cannot move will cease to exist.

The knock-on effects are job losses in despatch centres, the loss of tax revenues in Guernsey and the likely loss of further significant investment in Guernsey as the centres of operations are forced to relocate. The senior management of the GPO are only concerned with their own highly paid jobs, privileges, bonuses and profit shares rather than the wider community that it is mandated to serve.

#### **(7) Failure to introduce Pricing in Proportion - PIP**

We welcome the opportunity to be allowed to post within a weight and size based postal tariff (PIP) This service has been available for several years in other jurisdictions and Healthspan Group Ltd has been actively changing its packaging for the last three years in readiness of such a change. We advised and involved Guernsey Post at the outset of our plans and showed them the packaging formats we were moving towards in early 2006. We also asked them to actively and energetically negotiate with The Royal Mail in this regard. We are now both disturbed and concerned to be advised of Guernsey Post seeking to adopt a 20mm thickness restriction, which is for International traffic, rather than the UK 25mm recognized size, a size which Guernsey Post had been previously been recommending to us and to which we have committed considerable resource and costs. We consider this request by GP to be a cynical and deliberate attempt to restrain our ability to take advantage of PIP savings to the benefit GPO rather than to the customer.

#### **(8) Reducing the Reserved Area to 65p**

The non-existence of a Reserved Area in Jersey has helped create a more competitive market for their DM sector but has not resulted in lost business to the Jersey Post Office because they have been efficient and competitive. Guernsey Post need have no fear of "cherry picking" from competitors if indeed their rates are as competitive as they claim because DM would have no reason to move.

We believe that the OUR has been over generous to the GPO by not recommending the complete elimination of the Reserved Area. Had this been done, then the GPO would have been forced to step up to the commercial mark even more speedily.

**(9) Failure to negotiate Down Stream Access (DSA)**

The GPO made the following statement that was reported in the OUR report:

**“We are looking at DSA but there does not seem at present to be any customer prepared to sacrifice a day’s service in exchange for lower price – it’s a lack of demand rather than a lack of offering”**

This was a categorically dishonest statement. Healthspan made it quite clear that they wished to pursue DSA. We do not have a concern regarding an additional day in transit for our goods, so J+3 would be acceptable. Guernsey Post has not actively sought to find ways of creating DSA with Healthspan nor have they been able to offer any pricing structure. Their claim at a recent meeting that “there was little interest” from “bulk mailers”, was clearly untrue in our case.

The massive increases in the packet tariff are also of major concern. DSA should be able to offer reduced costs for packet delivery.

**(10) Universal Service Obligation**

The USO was last reviewed in 2005/6. Since then Guernsey Post advise that traditional mail has been in decline. Local to local mail is also reducing. Therefore with such a dramatically reducing workload, is it not time to look at the genuine need for a five-day delivery service? It certainly is of little benefit to the islands’ business community and socially is there really a requirement for it? Those businesses that require a Saturday delivery could collect from the GPO.

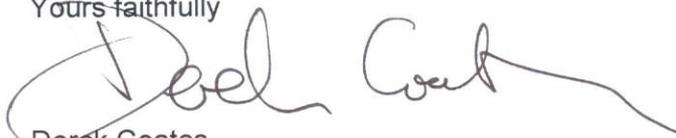
It would appear that Guernsey Post are failing to reduce their costs in the wake of falling demand by simply allowing the USO to remain unchallenged, rather they seek to protect it. This is not the action of a company striving to be cost effective and maximising its efficiency.

**(11) Failure in contract negotiations with RM**

Unlike Jersey, Guernsey Post has failed to negotiate a contract beyond a one-year term with Royal Mail. This has resulted in uncertainty and difficulties in our own long term planning. In April 2011, RM could seek further significant rises in charges and Guernsey Post will simply seek to pass them on to the customer. If the Reserved Area remains in place then we can do little to challenge it.

On behalf of our industry, please accept our thanks for being tenacious in your efforts to improve the efficiencies at the GPO.

Yours faithfully

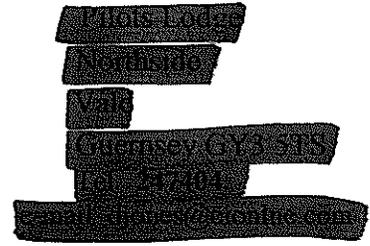
A handwritten signature in black ink, appearing to read 'Derek Coates', written over a white background.

Derek Coates  
Chief Executive



STATES OF GUERNSEY.

Deputy David Jones.  
Member of the  
States of Guernsey.



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Mr John Curran  
Director General  
Office of Utility Regulation  
Suites B1 & B2  
Hirzel Court  
St Peter Port.

By E-Mail 17/11/09

### **O.U.R : Review of Guernsey Post**

Dear John.

I place before you my personal view on your current review of **Guernsey Post**.

I make no apologise for expressing my views forcefully as I feel passionately that our utilities must be protected from those who would destroy them. I will however keep this brief as we have already gone through the different detailed arguments during your recent visit to the Policy Council.

As you may know I was totally opposed to the commercialisation of our utilities as I never thought that there was anything in it for the consumer and several of the predictions I made at the time have now come true. We have ended up with a very expensive regulatory office as a result of this process which many believe have added costs rather than saved very much. Since commercialisation prices to islanders have been going in one direction only, which is upwards? We were also promised that any regulation would be "light touch", when the reality is that it is becoming more authoritarian every year.

— As far as this current review goes, I do not believe that your office has fully understood how dearly held our utilities are in this small but very special community. This however is not unusual for people coming to Guernsey from elsewhere, who often scoff at the idea that we are different in anyway from anywhere else, if you believe that to be true then you unfortunately have not learnt very much about us at all and if you don't feel it for yourself after a relatively short period of time living in Guernsey, then I am afraid you will probably never understand what I am saying.

Guernsey Post belongs to the people of Guernsey, it doesn't belong to the OUR or C&E and I can tell you this, the public will not forgive anybody or any regulatory body that destroys their local postal service, certainly not on the spurious grounds of some fanciful experiment disguised as competition, which in my view will lead to the financial ruin of their postal service.

Guernsey is different and we often protect the things we hold dear, our dairy industry is one example, our local airline is another, which at least ensures we control one carrier in the interests of islanders. We bought our own fuel ships for the same reason and we need to protect our utilities from the carpet baggers who would put their financial viability at risk, which in the end can only lead to much higher prices and reduced services for the public.

The UK Royal Mail was destroyed by enforced competition by the ever insidious European Union directives; companies like TNT, HDL, and Deutsche Post together with others moved in and creamed off the profitable parcel business leaving RM with the unprofitable parts of delivering letters to small villages the length and breath of the country. (I have attached an article making this point.)

You are now advocating we do the same here and to that I could never agree. We are, as a community prepared to sacrifice a little efficiency for a special service you may think that statement is contradictory, I do not. To allow competitors to come into our postal market, who will cherry pick the profitable parts of the business leaving the unprofitable bits for islanders to live with is not a sensible way forward and unless you can give us as elected representatives of the people a cast iron guarantee that GP will grow and prosper as a result of your recommendations, then I simply cannot support them. If you have got it wrong it will be too late to try and shove all the pieces back together, it would in my view be gamble of such folly that GP would never recover.

We are custodians of these utilities and although it is important that government and the regulators respect each others position, we do have a duty as a government to step in when we believe the actions of others are reckless or perilous to the continued good service to our people.

The abolition of the Reserved area is a decision that in my view can only be made by the States of Deliberation, with any debate being led by T&R who hold the shares of Guernsey Post on behalf of the people of Guernsey. While the baulk mailers are important they are mostly made up of companies who have moved to Guernsey and while their business is valuable, their concerns should not be allowed to override the needs of others in this community whose labour and support built Guernsey Post in the first place over many years.

Many of the baulk mailers are only here to get under the UK VAT threshold and if the UK decided to collect VAT at a lower rate tomorrow, they would be gone like snow on a summers day, to Switzerland and the Far East without a single thought for the local community.

I would therefore implore you to think again and not go down this route, to get together with Guernsey Post to try and resolve some of the areas of dispute, if you force the States to debate this issue, you will loose the argument I am convinced of that and following that debate will be the future of the OUR its costs and its perceived benefits to the community, a debate I know many States members are eager to have. It might be useful for instance to compare the salaries and costs of the OUR to see if the consumer is getting value for money.

Some monopolies are in the best interests of small communities and in many ways give them the protection they need for essential services. It is always the predators that do the damage; Guernsey post simply is not big enough to withstand the cherry picker trundling up its corridors.

Guernsey Post are already forecasting a 3 - 4 million pound shortfall in revenue, I do not believe that we should compound the situation by forcing GP into a situation where those losses would increase, leaving the tax payer to bail out a company that is currently showing a small profit. GP also needs to retain some income for training and in house H&S initiatives, also for the essential maintenance of the building from which it operates.

In conclusion I believe the OUR draft proposals needs significantly more work, You could of course choose to ignore mine and others concerns on this matter and just press ahead regardless, If you do, then I think there would undoubtedly then have to be a debate not only on the future of the Utilities but also on the future of the OUR and whether Guernsey any longer could afford to have one. I would dearly love to see at least one political member return to these boards and I do not believe that given the present climate with the unease some States members have over this issue it would be too difficult to get through the States.

Yours

A handwritten signature in black ink, appearing to be 'DJ' with a flourish at the end.

Deputy Dave Jones.

## **"Comments on Guernsey Post's Proposed Tariff Changes"**

19 November 2009

### **Reserved Area**

The argument is whether or not the OUR's proposed reduction of the Reserved Area, to open up a competitive market, will result in Guernsey Post being unable to fulfil its obligation to maintain the Universal Service. In other words it is a question of sustainability.

The truth is we are only going to know the effect, on the Universal Service's sustainability, of reducing the RA level from £1.35 to £0.65 some time after the new level's introduction. There is a balance to be struck between the risk that the Universal Service will become unsustainable (without States subsidy) and the OUR's intended aim of cheaper postage costs for bulk retailers.

There appears to be one existing, fundamental constraint on the pricing of Guernsey Post services to bulk mailers (and, I assume, any possible competitors) which is not mentioned in the OUR's Draft Decision. That is, the OUR cannot allow differential pricing based on volume. It will cost a bulk retailer 142p to send a 60g unsorted packet by air whether he sends 500 or 50,000 a week.

Before embarking on the gamble of reducing the RA, in the expectation of competition, the OUR should be lobbying for the power to permit differential pricing based on volume. This would much more accurately model a completely unregulated postal service. Where competition could damage the service to customers in the medium to long term, accurate modelling is what the OUR is all about.

I do not know the rationale behind the current 'flat rate' bulk tariffs, it may be that there are overwhelming arguments supporting the current tariff system. However the matter was not addressed in the Draft Decision report and I cannot be the only person who finds the OUR's inability to set discounts for volume perverse. Surely introducing such discounts would be a very much less risky way of reducing the costs for major bulk retailers than lowering the RA level, which has already been eroded by inflation?

Deputy Shane Langlois



## Hannah Williams

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**From:** [REDACTED]  
**Sent:** 20 November 2009 16:50  
**To:** Info  
**Subject:** GPL Reserved Area

To the Director-General OUR

I am concerned that the proposal to reduce, rather than increase the £1.35 reserved area could prove damaging if it were introduced at this time or in the near future.

Whilst I generally favour increased competition in free markets which should lead to better choice and lower prices for consumers, I suspect that at this time GPL could lose business to large operators who might find it worthwhile to undercut on a short term basis in order to obtain business. It would be good if GPL could become more cost efficient and be able to resist this, but I fear that there could be quite a long period during which substantial losses would accrue, resulting in much higher prices for Guernsey consumers or losses to be met by them through taxation.

Not having access or the time to look in depth at GPL cost and margins, I cannot calculate the bottom line effects of the loss of some business, but any loss of turnover could result in higher costs than may be immediately apparent.

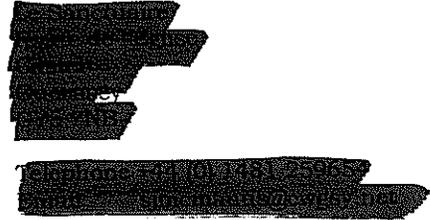
It would seem to me safer to defer any reduction in the £1.35 for some years, or even increase it a little, until there can be more confidence that a genuinely competitive market will operate.

Rhoderick Matthews  
People's Deputy for St Peter Port North  
Douzenier for St Peter Port



# STATES OF GUERNSEY

Deputy Sean M<sup>c</sup>Manus  
Member of the States of Guernsey



Mr J Curran  
Office of Utility Regulation  
Suites B1 and B2  
Hirzel Court  
St Peter Port  
GY1 2NH  
17<sup>th</sup> November, 2009

Dear Mr Curran.

## Re. Guernsey Post's Proposed Tariff Changes

Since the receipt of your letter in August 2009, and in common with many other islanders, I have followed the public progress of the OUR's consideration of Guernsey Post Limited's application of 15<sup>th</sup> May, 2009 to change the level and structure of its tariffs for the period April 2010 to April 2011.

You will, of course, be aware that the OUR response to that application has generated a decidedly mixed reaction locally. Indeed, it might be fair to suggest that the OUR response has generated concerns among many islanders who feel that the quality of a much prized service could be compromised by any outcome which is perceived to undermine the financial integrity or the sustainability of the Bailiwick's postal service.

My concerns can be subsumed under four headings:-

### Consequences for Service

It would seem to me that Guernsey Post is fundamentally to be regarded as a service as well as a utility for the Bailiwick's people. That is not to imply that the operation of that service should disregard the economic realities of the modern world but rather to contend that the notion of competition should not be reified in a jurisdiction of such modest proportions. Indeed, the special circumstances surrounding service delivery in the archipelago which constitutes our Bailiwick would appear to render our postal service particularly vulnerable to the aggressive competition which is likely to be characteristic of large commercial entities. It is perhaps unsurprising that Bailiwick based airlines argued vehemently in defence of the inter-island route in the face of the recent threat from a much bigger external operator. Regrettably, the ability of large-scale externally based operators to cherry-pick the most profitable segments of GPL's business could so easily erode the financial integrity of a flagship local enterprise.

There is a chance that a reduction in the Reserved Area, appealing as it might be to the bulk mailers in the short-term, could compromise the financial integrity of GPL. The consequence of such a compromise would represent a potentially embarrassing inconvenience for such international postal consultants as might advise your office but the potential consequences for local customers would be

far more profound and long-lasting, especially if the long-term outcome was the complete eradication of the Reserved Area.

### Consequences for Employment

If the unfortunate scenarios alluded to above were to materialise, a real threat to current levels of employment at GPL could arise. As an entity with a proven record of staff training and succession planning, GPL represents much that the States of Guernsey is trying to encourage in the area of workforce development. Of course, unlike their UK comparator, GPL would not benefit in employment terms by being able to deliver the final mile in the event of an expansion in the market share of potential competitors. A significant proportion of GPL employees are locally based with extensive familial and economic ties to our Bailiwick.

To many local observers, the likelihood that fulfilment operators or bulk mailers would afford appropriate replacement opportunities appears distinctly slim. Rather, there is a widespread belief that such operators would engender an employment profile characterised by low-wage, part-time employment for incoming labour. The contributions of such a workforce to the tax base and to the broader community might justifiably be regarded as modest by comparison to the demands placed upon existing Bailiwick infrastructure. There would exist the additional probability that income and profits would leak out of our local economic system.

### Consequences for Regulation

To the extent that claims that the OUR have failed to furnish GPL with a detailed response to the contents of their application have any validity, and this may be contested in the light of the regulator's final decision in this case, I would be concerned that the regulatory function could risk being discredited. In my considered opinion such an outcome would not be in the best interests of Bailiwick consumers. There also remains the perception that the OUR might appear infatuated with the principle of an almost unfettered free market in the provision of the most lucrative area of postal services. In this instance the OUR runs the real risk of seeming to be captured by the financial interests of a few key commercial operators. The overall legitimacy of the regulatory function cannot be taken for granted and political support could prove tenuous in the event of outcomes which could be perceived to run counter to the best interests of the Bailiwick as a whole.

### Diversification Issues

By contrast to the foregoing, there is one area of your regulatory consideration that I acknowledge may represent a shared concern for local residents. The issue of the appropriate diversification of GPL's business model might benefit from your continued vigilance.

I thank you for taking the time to consider the above remarks and trust that the OUR will truly be seen to be acting in the very best interests of our Bailiwick community.

Yours sincerely,



Sean McManus (Castel Deputy)

From:

I.F.C.PETCH, [REDACTED]

To:

THE DIRECTOR GENERAL, O·U·R, HIRZEL COURT, ST-PETER-PORT, GY1 2NH

19<sup>TH</sup> November 2009

Dear Sir,

I write regarding the idea of restructuring and introducing "competition" to the Island's postal service.

I do not know how experienced you are in Guernsey nor how long you have been in post, but I have lived here since 1976.

In 1976 BEAU SÉJOUR was about to open. It was splendid and Islanders had been told that of course it would pay its way; all the sums had been done. There is no doubt it is a valuable facility, but I don't think it ever it has ever paid its way. How could it, when there is such a restricted base of potential yearround users? So one is left to wonder where the financial forecasts had come from.

In the 80s the COMET WAREHOUSE appeared in Guernsey. Islanders were delighted at the prospect of *real competition* in the sale of household electrical goods. I presume the sums had again been done and satisfactory forecasts made. Yet after about two years, when all Islanders who had needed to update their white goods at bargain prices – even though these prices *had* to include an add-on to cover shipping-costs to the Island – and these Islanders had got what they needed, Comet folded. The Island population couldn't give rise to sufficient business.

Meanwhile the smaller independent retailers had been having a lean time. CURRY's came in and bought one up as an outlet but after a time they, too, withdrew.

Much later the franchise chain, OIL & VINEGAR, spread to Guernsey. Great site, lovely shop, fine stock, innovative ideas, yet it too folded, *before* the recession or economic downturn.

I note a branch of HOME-COOKING (?), another franchise I think, has opened up in the premises formerly occupied by an ANN SUMMERS shop. It looks good, but I genuinely wonder about its longer term viability.

Presumably all those involved with these foregoing enterprises had taken and heeded advice, and had drawn up business plans accordingly.

So why were the forecasts unrealised? Perhaps because Guernsey and her economy is constrained and contained by her limited size and the sea. Islands *do* differ from landmasses. Guernsey has no hinterland.

One cannot help feeling that business plans must fit the economic entity of destination, rather than "if it works *there* it will work *here* just as well". One wonders whether thoughts get coloured, however subconsciously, by models and experience based on greater landmasses.

I do not know how many staff we taxpayers fund for your office, but I do hope it might be possible for one to be detailed to look into this difference.

On another tack, one thinks of the provision of 'bus services. Some time ago there were three companies serving the Island. By the 80s this had dwindled for understandable economic reasons to one. Then it folded. Would the injection of vigorous competition have saved the situation?

Now because public transport is an *essential public service* the 'bus service is *of necessity* funded by the taxpayer; and I would add is rather better now than it was in the 70s when I first came here.

I am no economist and therefore it would be rash of me to comment on any potential financial impact; nor am I a socialist. Yet I cannot help but feel philosophically that a postal service is just as much an *essential public service* and as such should be checked over by using yardsticks appropriate to the task.

In the free market-garden, bindweed and ground-elder can easily outcompete and outgrow the other plants. It takes the experience of the gardener, who knows both the ground and the climate to make the most of the conditions to bring out the best in the plants.

Yours faithfully,



(Ian Petch)

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

23<sup>rd</sup> November, 2009

Dear John

**Re: GUERNSEY POST, TARIFF CHANGES, OFFICE OF UTILITY REGULATION,  
(‘OUR’) DRAFT DECISION, OCTOBER, 2009**

The Policy Council discussed the above matter this afternoon and agreed to provide the following response to the OUR’s Draft Decision Consultation which I am now sending to you on its behalf:

‘The Policy Council does not wish to comment on the OUR Draft Decision on allowable costs and tariffs.

It does however have some concerns with the manner of how the issue of the Reserved Area (RA) has been dealt with in the statutory process and the possible effects of the Draft Decision if implemented.

In its submission on the consultation process the Commerce and Employment Department suggested that if the Director-General (DG) was to propose to remove the RA in its entirety in a single decision then it would be prudent to obtain a States Decision to that effect. Chapter 3 of the Draft Decision of the DG sets out his remit under the relevant legislation insofar as they relate to the RA. He also sets out the States Direction, agreed by the States in 2001, to review the reserved services from time to time with a view to opening up the Guernsey postal market to competition consistent with the need to maintain the Universal Service.

The Policy Council is not disputing the right of the DG to set the extent of the RA or that the current States Direction implies that the ultimate aim is to remove the RA completely. That Direction however dates back 8 years and until the current price control request of Guernsey Post there had been no previous indication from the DG as to the timescale and manner in which the competition would be introduced.

It is, however, incumbent upon the DG to set out how he would intend to manage competition in the postal market and to analyse and consider the possible long term effects on the postal sector. It is our view that the Draft Decision does not sufficiently cover these issues. The Policy Council would suggest that it would therefore be appropriate for the DG to provide a full report, for public consultation, addressing these specific issues before making any final proposals on the reserved area.

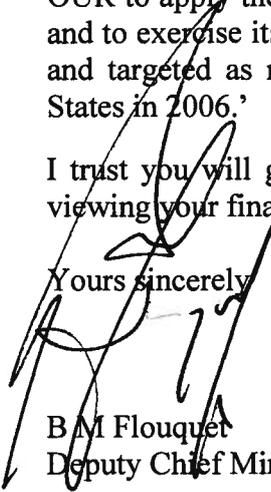
The OUR Draft Decision relates to tariffs for the period April 2010 to April 2011. The Policy Council would strongly urge the DG not to adjust the RA, either upwards as proposed by GPL or downwards as set out in the Draft Decision, in respect of this tariff period. The Policy Council's belief is that, once the DG has then provided the public reassurance that the introduction of competition will be done in a considered and managed manner, ensuring the long term sustainability of the USO, it would then be appropriate to begin to reduce the RA.

The OUR Draft Decision on allowable costs and tariffs will be processed through the statutory process, hopefully without but if necessary following a Royal Court appeal decision.

The Policy Council considers that it is then incumbent upon the Board and management of GPL, supported as necessary by the Treasury and Resources Department in its shareholder role, to implement the necessary efficiencies and apply the tariffs to generate the returns necessary to sustain the company and maintain service standards. It is also incumbent upon the OUR to apply the regulatory regime in a way that is proportionate to Guernsey circumstances and to exercise its functions and powers in a way that is accountable, proportionate, consistent and targeted as required in the amendments to the 2001 Regulation Law approved by the States in 2006.'

I trust you will give these comments your professional consideration. We look forward to viewing your final decision in due course.

Yours sincerely



B M Flouquet  
Deputy Chief Minister

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**From:** Cecilia Alflatt [REDACTED]  
**Sent:** 20 November 2009 15:50  
**To:** Director.General  
**Subject:** Guernsey Post

I wish to protest about the proposal to allow competition with Guernsey Post, this is madness. If you want to know why it is madness see what has happened already in the UK. Please do not do this. I am not in business now but it would have made life much more difficult then and will do so for others and also consumers like me. Please desist.

Cecilia Alflatt

**From:** Mr D.Bichard [REDACTED]  
**Sent:** 17 November 2009 08:32  
**To:** Director.General  
**Subject:** Tariff Changes

Dear Sir,

I am of the opinion that you leave the reserved area as it stands to ensure that Guernsey post continues to meet its obligations. However, non postal business should be examined closely to ensure it does not impinge on the postal profitably. They should be treated as two separate business each run separately and efficiently.

Yours sincerely ,

David Bichard

**From:** brox [REDACTED]  
**Sent:** 19 November 2009 19:16  
**To:** Director.General

Dear Sir

As a Guernsey Post customer I am shocked and concerned at the arbitrary way you are treating Guernsey Post.

Your decisions, as listed in [http://www.guernseypost.com/news/our\\_views](http://www.guernseypost.com/news/our_views) make no sense whatsoever.

Guernsey only has 60000 residents. Opening up the post to competition cannot possibly bring prices down or benefit the island.

There are plenty of other ways GP can bring down costs, and I can suggest them. But competition is just ridiculous!

I beg of you to rethink your ideas and open up the debate properly to the public!

Yours

Rob Brox

**From:** Mike De Carteret [REDACTED]  
**Sent:** 18 November 2009 20:37  
**To:** Director.General  
**Subject:** Re: Guernsey Post & Cable & wireless

Sir

I cannot see any benefit by you being their at all ,you wish to Change the Tariff Charges on the Post but fail to get us the benefits offered by Sky .Com on there charges for total service for Mobile + Broadband + HD TV.

I worked for the Post Office for 37 years so I feel sure I am aware of the problems , I left in 2002 having seen the Post Office Committee destroy the Flower Export Service by not working with the those that sent Flowers price increases . And a lack of forethought on reorganising killed off a very good profit maker .

Giving Mail Order companies the right to fill the mail bags with packages and not having a competent way of checking the weights relevant to the HIGH discounts , I think they the exporters were on the winning side If you only get caught once a month apologise and carry on . One company even lured a member of staff away , Head Hunting ?

You need to enforce the rules ,The Post Office is for the benefit of the People not a way of making money they tried that with stamps and could not regulate it .

Cable and wireless was supposed to like the Post Office to improve and reduce cost to the Tax Payer not Subsidise the States Alec Forty will have stated from both sides as Director of Telecoms

And Supervisor of the States . you should speak to him .

Yours Sincerely  
Mike de Carteret

**From:** bevor [REDACTED]  
**Sent:** 18 November 2009 23:19  
**To:** Director.General  
**Subject:** I am opposed to the OURs proposal to open the postal market to external competition

Dear Sir

I am writing in response to your proposal to open up the postal market to external competition.

I would ask you to reconsider these proposals for the following reasons.

Guernsey Post is owned by Guernsey, that includes me. All profit arising from its activities stays in Guernsey. Any external competition would not want to enter the market to deliver the small letters, they would only want what makes them money. We already have more than enough people hurtling around this island delivering mail order parcels. Although I use 'delivering' in the loosest sense of the word as parcels are left on doorsteps at any time of the day regardless of whether there is anyone at home. Of course it is more expensive to do it properly and return items to a safe place for collection. This island needs a postal service that fulfils its service duties properly. The important word here is service. As it stands now we islanders have a service, parts make money parts don't but overall money goes back to the States of Guernsey - us. Open this market up and the parts that make money are the only bits that another operator would have any interest in. They, of course would take their profit away so the States of Guernsey see nothing of it. The rest of the service would be left for Guernsey Post to provide, but of course that doesn't make a profit. If the island wants the service it has now it will have to pay. The net result is that tax payers are subsidising the users who choose the new 'cherry picking' operators. This makes no sense to anyone who can look at the whole picture of Guernsey, its society and most importantly the lives of the individuals within that society.

I hope that this situation will at least stir the States to discuss the role of the OUR so that its powers can quickly be limited to only those that serve all islanders, not just the usual greedy few.

I would like to point out that I do understand the situation having seen this disaster unfold before in places like Sweden. I am not hysterical and most importantly I am not wrong.

Thank you for taking the time to read this,

Beverley Domaille

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**From:** The Fuselliers [REDACTED]  
**Sent:** 17 November 2009 23:27  
**To:** Director.General  
**Subject:** Guernsey Post

Dear Sir

I understand the reasoning behind competition and usually consider this to be good for our Island, but I don't feel that changing the current system that we have in place with Guernsey Post will ultimately benefit the people of Guernsey. Guernsey Post appear to be making good headway in the modern world and I am content with the way my post in and out of the Island is handled at present.

To this end, I firmly believe that the situation should be left as is, until such time as needs to be reviewed again due to changes in circumstances.

Yours faithfully  
Julie Fusellier

**From:** John Gaisford [REDACTED]  
**Sent:** 17 November 2009 12:21  
**To:** Director.General  
**Subject:** guernsey post

Sir  
Thank you for your very clear statement in yesterday's Guernsey Press. It convinces me that some of the GPL's objections are emotive rather than logical.  
I believe that your recommendations are sound.  
Yrs  
John Gaisford

**John Gaisford**  
**Studio Eight**

**T:** [REDACTED]  
**E:** [REDACTED]

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**From:** Richard Gale [REDACTED]  
**Sent:** 18 November 2009 10:41  
**To:** Director.General  
**Subject:** I am opposed to the OURs proposal to open the postal market to external competition

Dear Sir,

I am totally opposed to the introduction of more competition to Guernsey Post by abolishing the Reserved Area particularly when, more than likely, the competition would be ultimately owned by non-Guernsey companies creaming off the most profitable business paying dividends away from the island on which no or little tax is paid here.

There is absolutely nothing wrong with Island monopolies so long as they are as efficient as they can be whilst fulfilling a service to the whole population of the Bailiwick in the knowledge that some services will subsidise others. That is the whole point of nationalised industries and island economies require this style of operation more than much larger economies. Even so, those larger economies are often left "holding the baby" as is the UK, having allowed Royal Mail see much of the commercially attractive business disappear and thus forcing general services to be stifled. That's not to say Royal Mail did not require to be made more efficient, but there are ways and means.

I would be content for the Reserved Area to be increased at least to absorb inflationary increases or an increase relative to the increased pricing being sought. Indeed, if there are opportunities to extend Guernsey Post's activities then I would urge that this be pursued since this ought to be undertaken more efficiently within the existing structures rather than see duplicate structures extended with increased costs and environmental considerations.

Further, so long as the overheads of Guernsey Post stand scrutiny and, relative to commercial and economic pressures do not proportionately increase year on year then I would be happy as would, I am sure most of the population of Guernsey. Unfortunately we have to increase costs due to Royal Mails treatment of our services, this a further consequence of the struggle that Royal Mail finds itself which, I am sure, will escalate.

With regards the PiP tariff, I would not know the most commercially sensible for Guernsey Post or, in my mind, what is most reasonable for the customers.

However, what is more important to me and most islanders is for our state controlled institutions to remain strong, viable and efficient (in and island context) and, if we need a regulator, for him to work with the institutions rather in conflict.

Yours faithfully,

Richard Gale  
[REDACTED]  
[REDACTED]  
[REDACTED]

**From:** doug hamon [REDACTED]  
**Sent:** 18 November 2009 14:21  
**To:** Director.General  
**Subject:** I am opposed to the OURs proposal to open the postal market to external competition

I am opposed to opening the postal market to competition because of the obvious financial impact on Guernsey Post which will undermine it's ability to maintain it's service to the islands of Guernsey and Alderney, in particular.

We need a reliable and stable postal service and if that comes with an increase in postage then I am prepared to pay more.

Before acting in haste the whole subject should be reviewed and debated with a decision from both the States of Alderney and Guernsey.

**From:** KJH [REDACTED]  
**Sent:** 20 November 2009 11:08  
**To:** Director.General  
**Subject:** I am opposed to the OURs proposal to open the postal market to external competition

Dear Sir,

I am strongly opposed to your proposition. You to cannot take away profitable parts of the service and give to competition. That does not make business sense. As long as there are competent people running the Post Office - leave it alone. The market here is much too small to have competition in this sector. They give an excellent service.

Why are you not looking at the vast charges being made for Broadband in Guernsey by Cable & Wireless? Just because we are one of the largest users per capita does not presume we like being ripped off. Please investigate you would have Islanders support here not HATE!!!!

Regards,

Keith Herring

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**From:** Eric Mahy [REDACTED]  
**Sent:** 18 November 2009 23:33  
**To:** Director.General  
**Subject:** I am opposed to the OURs proposal to open the postal market to external competition

Dear Sir

Creaming off the most profitable section of the Guernsey Post Office will surely mean that whatever service is left for them to provide, because no one else wants it, will not make any meaningful savings since we will still have to subsidise it for the remaining work which it may do but now to a possibly even greater extent. Competition is a good thing, however the Island is not big and we cannot necessarily operate in the same way as countries with populations of millions where there is plenty of room for several service providers to profitably coexist.

Our census shows that about 700 babies are born in Guernsey each year and people are surprised at the lack of choice locally regarding nursery goods. Half those people already buy off Island so what is left for local business.....do you get my drift?

Beware of killing the goose that laid the golden egg.

Eric Mahy

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**From:** Heather Mauger [REDACTED]  
**Sent:** 18 November 2009 14:27  
**To:** Director.General  
**Subject:** I am opposed to the OURs proposal to open the postal market to external competition

If you open the market up to outside competition you will effectively destroy the business of Guernsey Post Office which is too small to compete with the big operators. Sometimes you have to weigh up the benefits of what you have now against the possibilities of reducing post costs by a few pence. It is better by far to concentrate on looking at the way the GPO operate their business, because undoubtedly as a monopoly there is a tendency to get too fat and pass the costs on to the customers. However, to throw the baby out with the bath water seems somewhat ridiculous in a small state such as Guernsey.

Yours sincerely,  
Heather Mauger

**From:** Anne Sandwith [REDACTED]  
**Sent:** 19 November 2009 21:08  
**To:** Director.General  
**Subject:** I am opposed to the OURs proposal to open the postal market to external competition

Guernsey Post is locally owned and controlled and I do not want to see 'outside' operators coming in and creaming off the most profitable parts of the postal service with the profits going outside the island. It could also mean that the ordinary householder ends up with a worse service than at present and the marginal and unprofitable bits – such as deliveries to the outer islands, 6 days a week deliveries – could suffer accordingly.

Guernsey Post should do all in its power to keep costs down but I think that to implement all the proposed changes would be to the detriment of islanders.

Anne Sandwith  
[REDACTED]  
[REDACTED]  
[REDACTED]

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**From:** Peter Tagart [REDACTED]  
**Sent:** 23 November 2009 12:59  
**To:** Director.General  
**Subject:** I am opposed to the OURs proposal to open the postal market to external competition

Dear Sir,

I have been domiciled and resident in Guernsey since 1974 and have used the postal services both for business and domestic purposes. Being an international shipbroker my business required postal connections world wide.

The Postal Service here is one of the most efficient and best in the World and is certainly sufficiently competitive.

Opening it to external competition will destroy an excellent Utility that provides a first class service.

I am most strongly opposed to your proposal to make a reduction in the RA to 65p and do hope that upon careful reflection you will decide not to proceed with the matter.

Yours faithfully,  
Peter F. O. Tagart

**From:** IAIN TIMMS [REDACTED]  
**Sent:** 19 November 2009 11:12  
**To:** Director.General  
**Subject:** Guernsey post office

Dear Mr Curan

I am sorry to have to e-mail you but I left my postal response in a trolley whilst shopping yesterday.

However my response is :-

Guernsey is a very small community and as such does not attract large businesses for active competition, business often come in to cherry pick the cream of business, Eg:- Air Uk, Flybe, and Comet (CI) ltd which was here from Approx 1976 till the mid 80's then went bust.

I wholeheartedly support the Guernsey Post office and all it does for us at the present time.

Thank you for reading this e-mail

Iain D Timms

[REDACTED]

**From:** George [REDACTED]  
**Sent:** 17 November 2009 10:41  
**To:** Director.General  
**Subject:** Opposed to external postal competition

Firstly, my respects to your team.

Keeping Guernsey Post competitive / honest is good; introducing a new competitor in such as small market seems like 'Over Kill'

Seemingly, States of Guernsey are also making 'realistic' money, so let us not mess too much with what exists.

In broad terms Guernsey Post seems to be receptive to economy of scale, open to most constructive suggestions, plus it is working.

On a routine basis, who in your team routinely balances the theoretical calculations approach versus the changing practical influences?

Appreciate the fact that your Department exists, hopefully good for all concerned, also in 'teamwork' sense.

Is a mail delivery on a Saturday essential? I think not. Could that reduce cost of sorting hours on a Sunday?

Excuse my ignorance on latter two points.

We wish the States as a whole did not need outside experts to implement corrective action to implement structure & economy of scale.

George R. Timmer