

STATES OF JERSEY

Economic Affairs Scrutiny Panel Jersey Post and Competition Sub-Panel

FRIDAY, 24th SEPTEMBER 2010

Panel:

Deputy D.J.A. Wimberley of St. Mary (Chairman)
Deputy M. Tadier of St. Brelade

Witness:

Chief Executive, Jersey Choice Limited

Also present:

Mr. D. Scott (Scrutiny Officer)

[11:14]

Deputy D.J.A. Wimberley of St. Mary (Chairman):

We will do the normal thing, which is to introduce ourselves for the purposes of the tape and then we can crack on. I am the chairman of this hearing because the proper Chairman Shona Pitman is bereaved. I am Daniel Wimberley, Deputy of St. Mary.

Deputy M. Tadier of St. Brelade:

I am Montfort Tadier, Deputy of St. Brelade.

Chief Executive, Jersey Choice Limited:

I am the Chief Executive of Jersey Choice.

The Deputy of St. Mary:

That is what it is now.

Chief Executive, Jersey Choice Limited:

A substantial user of Jersey Post. Previously I was Chief Executive of Flying Flowers, latterly Flying Brands.

The Deputy of St. Mary:

Okay. Darren Scott is our Scrutiny Officer. If you would like to just have a look at that but, as you say, you have probably seen that in a previous incarnation. Tim says he used to be on this side of the table.

[11:15]

Deputy M. Tadier:

Did you?

Chief Executive, Jersey Choice Limited:

I was the initial chairman of the Shadow Public Accounts Committee. I held the very first practice scrutiny session with Tom McKeon.

Deputy M. Tadier:

Right. Was that back in 2004 or so?

Chief Executive, Jersey Choice Limited:

Whenever we started.

The Deputy of St. Mary:

Whenever, yes. So he knows what he is letting himself in for if he was on the Audit Committee.

Chief Executive, Jersey Choice Limited:

We never looked at Jersey Post. Because of the fact that I was a heavy user of Jersey Post I always refused to say any information relating to it.

The Deputy of St. Mary:

Well, I think if we could start maybe by looking at, in a sense, your history; you know, Flying Flowers and how that evolved and how it used the post and so on. That would probably be a good way to ... or have you got something else that you want to say at this time? I think that would help to get the context; you know, how it developed.

Chief Executive, Jersey Choice Limited:

I went through the transcript of your meeting with Jersey Post and I think you may have been slightly misled in certain areas. I would like to try and ensure mainly the things I say are facts rather than opinions, because I think it is important to distinguish between the 2. But, yes, it does fit out with the history of Low Value Consignment Relief, given that I was there basically at the very beginning in that it was my business that found out it existed. The first issue is the Memorandum of Understanding between Jersey Post, Jersey Customs and U.K. (United Kingdom) Customs; I would like to comment on.

The Deputy of St. Mary:

Yes, okay.

Chief Executive, Jersey Choice Limited:

The Chairman of Jersey Post, I thought, made some inappropriate comments in talking about a very significant list of non-compliance; because of non-compliance with the Memorandum of Understanding; talking about the loophole. The Memorandum of Understanding arose because there were businesses in the Channel Islands that were dispatching goods that would have had to have had green labels put on them and they would have had to go through Offices of Exchange in the U.K. They would have been held up in the U.K. and, because they were perishable at that time because basically it was all people sending flowers, a relationship was set up such that effectively those goods were pre-examined in Jersey and, therefore, they did not have to go through Offices of Exchange and could just go out as normal post.

The Deputy of St. Mary:

That was with Jersey Post, when you were working through Jersey Post?

Chief Executive, Jersey Choice Limited:

That was Jersey Post, U.K. Customs and Excise and Jersey Customs and Excise. So the original complete purpose of the Memorandum of Understanding was to enable goods to be Customs-inspected to the satisfaction of the U.K. in Jersey. If we sent anything that was V.A.T.-able (Value Added Tax) we used to have to put V.A.T. stamps on the box. We used to go and buy V.A.T. stamps and stick them on the box. So the Memorandum of Understanding was then extended to include the collection of V.A.T. on anything that was over the limit. But it is not a special thing that has been put in place to stop people in Jersey trying to send things through the post that they should not, which is the way it is sort of being portrayed, I think, by Jersey Post. When this entire limit came in, in each country there was one postal operator and so the limit was a function of posting something. That has all now altered because of deregulation throughout and, therefore, the limit has changed from being something that related to when you posted something to being a Customs clearance procedure. So Jersey Post were protected, historically, because basically you could only take advantage of the £18 limit if you posted something. Now there is this bulk low-value consignment clearance procedure, which is a Customs procedure. They have effectively lost the monopoly anyway because you can clear the stuff as freight. It is not a loophole to clear it as freight. The U.K. Customs and Excise (and I have spoken to them) have no concerns whatsoever about people using the bulk low-value consignment clearance procedure. It is something that is used throughout any third country that is transferring individually packaged goods of less than £18 into the U.K. and they would have been perfectly happy to licence us to do it ourselves.

The Deputy of St. Mary:

Who would have been happy, Customs here?

Chief Executive, Jersey Choice Limited:

U.K. Customs and Excise. Customs here are only involved as part of the Memorandum of Understanding with pre-inspection of goods that go through Jersey Post. I asked them would they pre-inspect my goods if I sent them by an alternative route to Jersey Post but they said: "No," that is not their role.

The Deputy of St. Mary:

So what alternative routes would you envisage?

Chief Executive, Jersey Choice Limited:

I was looking (and I will come on to it later) at sending my goods directly into Royal Mail at Bristol.

The Deputy of St. Mary:

I see. Then they would distribute and you would have to pre-inspect ... who would pre-inspect the goods here then?

Chief Executive, Jersey Choice Limited:

Well, I was trying to ...

The Deputy of St. Mary:

Get them to inspect them in Bristol?

Chief Executive, Jersey Choice Limited:

... get them to be pre-inspected so that there was not any hold up. The J.C.R.A. (Jersey Competition Regulatory Authority) people alluded to the fact that both Hub and Citipost clearly are trying to make sure that the goods are not held up because the advantage of using Jersey Post to those of us that dispatch perishable goods, which all mine are, is that there is pretty much no chance of being held up by U.K. Customs because they are being sent through under this Memorandum of Understanding. The last time we had an employee of Jersey Post at our premises or an employee of Customs and Excise at our

premises ... I am not sure, since we have moved to our new premises, we ever had. So what they do, they have paper-based procedures where you report to them where you have sent over a certain amount but I am not sure there is a great deal of inspection.

The Deputy of St. Mary:

No, because they trust you, Mr. Dunningham.

Chief Executive, Jersey Choice Limited:

The reality is, yes, if anybody wants to do business here and they know that there is a chance of them being inspected, on what basis are they possibly going to take the chance of their business completely being closed down?

The Deputy of St. Mary:

Yes.

Chief Executive, Jersey Choice Limited:

It is not a practical-based risk.

The Deputy of St. Mary:

So the inspection is a threat of action.

Chief Executive, Jersey Choice Limited:

There is no risk as far as anyone I have spoken to in U.K. Customs and Excise and I have spoken at quite senior levels. They are not concerned about people filling in these Low Value Consignment Relief documents. It is a Customs clearance document. There are thousands of different Customs clearance documents that are filled in every day and people are compliant with them. So I think that was a red herring. Similarly, the risk to the Low Value Consignment Relief limits is also, I think, a red herring. If you read the *Guardian* or the *Independent* you will believe that it is at risk of disappearing all the time

but it is an E.U. (European Union) rule. It is not applied on a country-by-country basis. So the U.K. Government cannot say: “We are going to change the rule for goods coming from here, here and here but not from these countries because they do not send very much through to us.” We had this whole issue 10 years ago when Colin Powell was around and it was made very clear to U.K. Customs, and they understand the position, that they cannot police only goods coming from certain places. Therefore, the compliance cost for them, if they try and change the rule, is horrendous. I think they might tinker with the amount of the limit but there is absolutely no risk whatsoever to it disappearing because physically people are not transporting the goods and so it cannot ever be considered a device.

Deputy M. Tadier:

But that kind of leads on to one of our questions, does it not? Question 3 really.

The Deputy of St. Mary:

Yes. Can I just pursue that with L.V.C.R. (Low Value Consignment Relief)? My understanding was that the U.K. Government derogate. They can make up their own rules basically, within a band. They can go down to 10, for instance.

Chief Executive, Jersey Choice Limited:

They can change the banding.

The Deputy of St. Mary:

Ten euros instead of 22.

Chief Executive, Jersey Choice Limited:

Yes.

The Deputy of St. Mary:

Without having to say so at all.

Chief Executive, Jersey Choice Limited:

Yes. But they must police it.

The Deputy of St. Mary:

Yes, sure. They have to do it as a compliance issue, which is why they run shy. But they are doing scenario studies according to some documents which I have read.

Chief Executive, Jersey Choice Limited:

Yes, I saw that as well. Yes.

The Deputy of St. Mary:

I think it is in here, the impact ...

Chief Executive, Jersey Choice Limited:

I am sure they might well be and they have been for ...

The Deputy of St. Mary:

They keep looking at it.

Chief Executive, Jersey Choice Limited:

Yes.

The Deputy of St. Mary:

Computers keep getting more powerful. So, sooner or later, they are going to say: "This is worth it," particularly in the present climate. I just put that to you, that this is a risk.

Chief Executive, Jersey Choice Limited:

Yes. But they cannot change the law to a lower amount and then only check that Guernsey, Jersey and Switzerland are complying with the law and not check Ghana, Nigeria. That is illegal. They cannot do that and the Jersey authorities need to ensure, if there is the risk of them doing that, that they make the U.K. Government aware of their legal responsibilities. That is what happened when they tried to attack it when Colin was here but Colin made it clear to them that they could not introduce something that they only policed the goods coming from Jersey. Pretty much it was Jersey at the time.

The Deputy of St. Mary:

Yes. But if you are a public authority you go for the 95 per cent, do you not, or the 98 per cent? You do not bother with Ghana who is sending 2 consignments a week.

Chief Executive, Jersey Choice Limited:

That is not ...

Deputy M. Tadier:

I am sure they would have a way to ...

Chief Executive, Jersey Choice Limited:

It is illegal.

The Deputy of St. Mary:

That is how policing works, though. You can say you are doing it but the fact is the police are trying to police ...

Chief Executive, Jersey Choice Limited:

That is how it works with Jersey Post and us but you cannot deliberately do it.

The Deputy of St. Mary:

No. You will once a year at Ghana and 10 times a week at Jersey because that is the nature of the volume of risk and the revenue.

Chief Executive, Jersey Choice Limited:

No, but you must do it.

The Deputy of St. Mary:

Yes. Anyway, you had a question?

Deputy M. Tadier:

Yes. It relates to a question previously. You are probably sceptical about the way that the Economic Development Department audited their policy in the past to restrict the scope of the ...

Chief Executive, Jersey Choice Limited:

I think politically for Jersey it is exactly the right thing. It is perverse that Jersey's entire finance industry pretty much is based on exploiting loopholes or genuine differences ...

Deputy M. Tadier:

You will have to say that carefully because this is on record.

Chief Executive, Jersey Choice Limited:

Genuine differences in fiscal systems between different countries. The reason that this has had such a high profile is that it has got a physical embodiment in that you are physically transporting goods.

Deputy M. Tadier:

Yes, indeed.

Chief Executive, Jersey Choice Limited:

The Small Business Association, or whatever they are called in the U.K., has been very vocal in it; has found a few M.P.s (Members of Parliament) to support them. It clearly is not in Jersey's political interests to be seen to be exploiting this opportunity unfairly, although clearly it exploits many, many other opportunities.

Deputy M. Tadier:

It is important to exploit it but not to be seen to exploit it, I think is probably ...

Chief Executive, Jersey Choice Limited:

My understanding is Jersey spends its whole time looking for areas of business that it can persuade people to relocate them to Jersey by making it fiscally beneficial for them to do so, because that is in the interests of the Island because it generates revenues which it can use to pay for public services rather than take those revenues from its residents. So clearly that sort of thing is what Jersey should do. This area, fiscally, is not very attractive to Jersey, particularly with Zero/Ten if any of those businesses are not Jersey-owned. So I wholeheartedly agree ...

[11:30]

Deputy M. Tadier:

I was going to say it is probably not correct to get involved with Zero/Ten at this stage.

Chief Executive, Jersey Choice Limited:

Yes. Well, I have got a view on that. I thought it was the wrong thing from the beginning and I told Senator Ozouf, or Deputy Ozouf as he was when he was talking about it.

The Deputy of St. Mary:

So to wrap up on the L.V.C.R., do you see any risk or do you think the risks are overstated?

Chief Executive, Jersey Choice Limited:

Well, there are no risks to the limit being removed. There has only ever been one derogation granted and that was for some magazines being shipped from some island into Germany or something. It is very difficult to get a derogation and, therefore, the only tool that they have is to alter the limit. Personally I would not have that much of a problem with that, because that is their right if they choose to do it. But if they change it then they need to police everywhere equally.

Deputy M. Tadier:

Just out of interest, what is the average consignment value for your shipments?

Chief Executive, Jersey Choice Limited:

For me personally, 80 per cent of my products are £9.99.

Deputy M. Tadier:

Okay. So you have got a lot of scope anyway.

Chief Executive, Jersey Choice Limited:

Yes. But I am trying to not be commercially selfish in the comments that I am making before you today.

Deputy M. Tadier:

Sure.

Chief Executive, Jersey Choice Limited:

They can vary the limit but they would do that irrespective of whether competition is introduced, et cetera, et cetera, et cetera. I think the 2 are entirely unconnected.

Deputy M. Tadier:

True.

Chief Executive, Jersey Choice Limited:

Pricing. Can I ...

The Deputy of St. Mary:

Yes.

Chief Executive, Jersey Choice Limited:

The Chairman of Jersey Post said: "It is the sheer volume of fulfilment customers in Jersey that enables Jersey Post to cross-subsidise the losses on the Universal Service Obligation. It is not an issue that the fulfilment customers are paying excessive prices for that service." That is untrue. Jersey's fulfilment customers are paying excessive prices for the service. I am not necessarily saying that Jersey Post are excessively profiting from that, because I have got a point I want to make later, but they are charging excessive prices. Rather than read out numbers for you to jot down, I did ...

Deputy M. Tadier:

Make some copies.

The Deputy of St. Mary:

That is good.

Chief Executive, Jersey Choice Limited:

I do not know how many ...

The Deputy of St. Mary:

Well, yes, definitely. If you can do one for the Scrutiny Officer, too.

Chief Executive, Jersey Choice Limited:

I have got loads of them. Jersey Post put our prices up substantially at the beginning of the year. I was not happy. They made up a reason for it. That made me start to look at alternatives. So the service that we use, we sort everything to a sortation called Mail Sort 1400 Residue. We sort to about 130 postcodes.

The Deputy of St. Mary:

Go into a little bit of detail about that because this is really important, this not being satisfied with their pricing. So what do you have to do, 130 postcodes? But there are many more than that. So it is a batch of postcodes?

Chief Executive, Jersey Choice Limited:

It is Royal Mail's Mail Sort 1400 Residue sortation, which is pretty much one label per postcode. It is not exactly that but ... so you have to sort to about 130 blocks.

The Deputy of St. Mary:

It is the first 3 letters, by Birmingham or Glasgow or London, West London, South London.

Chief Executive, Jersey Choice Limited:

Yes. Some of the Scottish postcodes are grouped together. There is only one label for them. So Jersey Post give us labels.

The Deputy of St. Mary:

Yes.

Chief Executive, Jersey Choice Limited:

We sort them and we attach a label. You know, just for your interest, as I said earlier, we do not see any Jersey Post employee. No Jersey Post employee is involved in any way, shape or form in handling any

of our post.

The Deputy of St. Mary:

Is that mechanically done or done by people going: "Glasgow" ...

Chief Executive, Jersey Choice Limited:

We are different to the fulfilment companies who have hard goods in a warehouse. They have to pick and pack. We have perishable products in a glasshouse and, therefore, we sort our labels to the sortation and stick the label on as it goes along the conveyor. So it is not a complex process for us, sorting. But Jersey Post charges us for that service 91.49 pence per unit plus 0.1406 pence per gram, which comes to, if it is a 700 gram package, just under 190 pence; a 500 gram package, 162 pence; a 300 gram package, 134 pence. That is my wholesale price from Jersey Post because I am doing the sortation. So that is their discounted price to me as a commercial user.

The Deputy of St. Mary:

That is assuming you do so many thousand a week or ...

Chief Executive, Jersey Choice Limited:

Yes. Now, similarly, if I was a user of Royal Mail in the U.K. and I could be, legally ... the reason I am not is because of operational risks rather than any other reason but I could be.

Deputy M. Tadier:

Sorry. What do you mean by operational risks? What are those?

Chief Executive, Jersey Choice Limited:

Operational risks are that if I fill a container of my perishable plants and there is £100,000 worth of plants in that container, if I send it to Royal Mail, Bristol - which is what I would do were I to do it - and there was some problem with the paperwork when they received it and I have got no people working for

me on the mainland, it could cost me £100,000. So it is too big a commercial risk for me to take.

Deputy M. Tadier:

Yes. That is just useful for the context.

Chief Executive, Jersey Choice Limited:

I have asked Jersey Post to do this for me but they tell me that legally they are not allowed to.

The Deputy of St. Mary:

To do what for you?

Chief Executive, Jersey Choice Limited:

To deliver the post for me to Royal Mail in Bristol.

The Deputy of St. Mary:

I see. Yes.

Chief Executive, Jersey Choice Limited:

So just to understand the numbers, because I think most people would find it staggering that the difference is so great. So I can access, with the same quantities I am sending, Royal Mail and I can present the post in exactly the same way I currently present it and I can get first-class service from Royal Mail at a cost of 67.14 pence per unit plus 0.1086 pence per gram, which comes to those prices, and I could access a second-class service at even less. Now, the points are cost to get my product to Bristol is 11 pence an item and the service that Jersey Post currently give me is the equivalent of Royal Mail second-class service.

The Deputy of St. Mary:

Does that mean they are buying Royal Mail second-class or ...

Chief Executive, Jersey Choice Limited:

No, it is because they have completely messed up the way they access Royal Mail. I cannot understand why this has not been the major focus of debate and it is one of the main points I want to make. So putting aside legal issues, Jersey Post should not, in any sensible world, be paying Royal Mail more to deliver these products than I, as a small retail user, would pay Royal Mail.

The Deputy of St. Mary:

No.

Chief Executive, Jersey Choice Limited:

Logic tells you that that should not be the case. So Jersey Post's costs of delivering my mail, even if they access first-class service, should be roughly 20 per cent less than the amount they are charging me.

The Deputy of St. Mary:

Well, if Jersey Post were buying first-class then you would expect it to be 20 per cent less than these figures.

Chief Executive, Jersey Choice Limited:

Yes.

The Deputy of St. Mary:

Per unit or per gram.

Chief Executive, Jersey Choice Limited:

But it does not make sense. None of this makes sense to me; that I, as someone who has no logistics expertise whatsoever, would be able to buy, effectively, the identical service, or even a slightly better service than I am getting, at retail with no ability to negotiate price with Jersey Post at a price far less

than they are charging me and they are telling me they are not making excessive profits on providing with me with this service. I think I know the answer as to why that is the case; it is because they have been extremely poor in negotiating the access price that they pay to Royal Mail and they are paying Royal Mail for delivering my mail more, materially more, than Royal Mail charges retail customers in the U.K.

The Deputy of St. Mary:

Is there any way out of that for Jersey Post, given that Royal Mail have a complete monopoly as to final mail? So how often does Jersey Post ...

Chief Executive, Jersey Choice Limited:

Well, because they are paying considerably more than Citipost pay. They are paying considerably more than a Direct Access person pays. They are, at the moment, desperately trying to ... it is related to the fact that they are a post office and so they access Royal Mail through Royal Mail International. The method of access for Jersey Post into the Royal Mail network has not changed in any way, shape or form since deregulation. What should have happened, and I have pointed it out to Jersey Post on numerous occasions over the last 10 years, is that when deregulation came in they should have had a point of access through that route. They have not done that.

The Deputy of St. Mary:

Through which route?

Chief Executive, Jersey Choice Limited:

Through Direct Access. There is a wholesale Direct Access price which is far less than these rates, which is the rate that Citipost access.

The Deputy of St. Mary:

So how come Royal Mail are running 2 ways into Royal Mail? They are running a Direct Access

route ...

Chief Executive, Jersey Choice Limited:

They are only running one route into Royal Mail.

The Deputy of St. Mary:

... and they are running an international route.

Chief Executive, Jersey Choice Limited:

No, all their mail goes in through Royal Mail International; all of Jersey Post's mail.

The Deputy of St. Mary:

Yes, Jersey Post goes through Royal Mail International. But if Citipost get a licence then they will be going through this Direct Access course that you are talking about.

Chief Executive, Jersey Choice Limited:

Yes.

The Deputy of St. Mary:

How come Royal Mail are running 2 separate ways into their network?

Chief Executive, Jersey Choice Limited:

Because they are running one route into their network because of deregulation to the Direct Access providers and they are running a separate route for foreign postal authorities.

Deputy M. Tadier:

Why do they do that?

Chief Executive, Jersey Choice Limited:

Well, I do not know.

The Deputy of St. Mary:

It seems off that a competitor to Jersey Post can access Royal Mail at a totally different rate than Jersey Post can.

Chief Executive, Jersey Choice Limited:

I understand the answer is that the senior executives in Royal Mail International's bonus is based around the profit that they make from handling Jersey Post's mail and, therefore, they do not want to pass that over to another part of Royal Mail. There is another issue in that Jersey Post's access into Royal Mail International means that they can send mail tonight that will get delivered tomorrow. If Jersey Post accessed through direct service access they would lose a day.

The Deputy of St. Mary:

Okay. So they are buying the best service.

Chief Executive, Jersey Choice Limited:

Well, they are buying an antiquated service that I am sure at some point in the future will disappear. But I do not know how FrenchPost, GermanPost access.

Deputy M. Tadier:

So basically you are saying that the Royal Mail's business model is set up to discriminate or be biased against other postal services and to favour private industry?

Chief Executive, Jersey Choice Limited:

Jersey Post should have started 5 years ago ...

Deputy M. Tadier:

Yes. But what I am saying is that I find it very hard to believe that Jersey Post would not have tried to do this.

Chief Executive, Jersey Choice Limited:

They have not.

Deputy M. Tadier:

It sounds to me like there is a vested interest from Royal Mail International because they want to keep their profits up and the figures up.

Chief Executive, Jersey Choice Limited:

The reason that Jersey Post were happy with the arrangement of going into Royal Mail International is that up until recently the rate that they were paying was less than the market rate. It was only 7 or 8 years ago that Royal Mail started to increase the rate up to more sensible levels. Jersey Post's answer, whenever I said: "You need to have an access into the Direct Access arrangements," was: "We pay less than that and, therefore, it is not necessary." The management error that they have made is waiting until now. So they are now having meetings with Royal Mail, which my understanding is that they are not getting very far, in trying to access Royal Mail for certain parts of Jersey Post mail in a different way.

[11:45]

What they should have done is set up, 4 or 5 years ago, a separate entity, 100 per cent owned by Jersey Post, that became a Direct Access partner of Royal Mail so that they would have the choice, with all of their mail leaving the Island, whether to send it through the regulated Jersey Post or through the deregulated side as an access provider. That is what they should have done 5 years ago. Then there would never have been a gap in the market for any competitors to enter the market because Jersey Post have millions of items of mail that they are sending into the U.K. That would be manna from heaven for

any Direct Access person in the U.K. to partner with. How on earth does an incumbent who has got a 100 per cent monopoly and has all the advantages of sending that mail into the U.K. get into a position where the price they are charging can be hideously undercut by people who do not have any of those advantages? Commercially, it makes no sense that they have been able to get into that position.

Deputy M. Tadier:

Obviously this is fairly new to us. We have got the Ministers in this afternoon, I think. It is probably something we can address to those Ministers.

The Deputy of St. Mary:

We could try that.

Chief Executive, Jersey Choice Limited:

I would certainly ask why they have such an inefficient and expensive access route into Royal Mail. These are retail prices. The wholesale access prices are much less.

Deputy M. Tadier:

I suggest there is probably some missing link here that we are not aware of. It could be a valid reason or it could be a slightly more insidious reason.

The Deputy of St. Mary:

Can I ask, picking up on that, in our file there is a letter from Customs to J.C.R.A. Have you read this?

Chief Executive, Jersey Choice Limited:

I think it is criminal that they sought to put artificial barriers in place to the granting of new licences and the person that wrote it should be ashamed of themselves.

The Deputy of St. Mary:

Right. Well, at least that is clear because I have got my copy here and it is underlined all over the place and it does seem to suggest that it is not so easy ... it is a shot across the bows of J.C.R.A.

Chief Executive, Jersey Choice Limited:

It is.

The Deputy of St. Mary:

It is saying: "Be careful because there are reputational issues here. Jersey Post employs one, or possibly 2, people to go round checking things or not going round but checking things anyway and the others are going to have to do this. We cannot provide that service. So just be careful when you do issue licences, if you do, that this is covered." That is what they are saying: "Make sure this is covered."

Chief Executive, Jersey Choice Limited:

But the issue is that Memorandum of Understanding is for post and the post gets pre-inspected. If it is not posted with Jersey Post, everything else that leaves the Island is freight and all freight is potentially inspectable by Customs in the U.K. The Jersey Royal potatoes; tomatoes when they left here, when we used to have a tomato industry; all of that freight gets inspected and if anybody is trying to do anything dodgy they get caught.

The Deputy of St. Mary:

Possibly, yes.

Chief Executive, Jersey Choice Limited:

But it would be the individual that would be ... you would not say the Island should do anything. It is not the Island's responsibility. It is the responsibility of whoever is sending those goods to the U.K. So it was a letter written, I would imagine written with the complete knowledge of Jersey Post, solely to try and stop the action. It is suggesting an illegal act there; that if you use Jersey Post for part of your dispatches you could not send any of your dispatches by any other route. You know, that would not

stand up in any international court of law. It is written by somebody who is 20 years out of date in how business should be done, is my considered opinion.

The Deputy of St. Mary:

We will have to compare those ...

Deputy M. Tadier:

It is nice to have a straight-talker here.

Chief Executive, Jersey Choice Limited:

I will try and be brief on my other issues.

The Deputy of St. Mary:

Yes.

Chief Executive, Jersey Choice Limited:

This is one where unfortunately I do not have the facts but you will have when you get the Frontier Economics documents. Jersey Post in their annual review said, in the 2009 Business Review - and this was quoted in this consultation document and I am disappointed that Economic Development did so without verifying it was true - that: "The £5 million annual loss incurred by the U.S.O. (Universal Service Obligations) can no longer be supported by earnings from the rest of our business going forward." I find it very, very hard to believe that in 2009 the annual loss from the U.S.O. was £5 million. I emailed E.D.D. (Economic Development Department) asking them to forward it on to Jersey Post. In Jersey Post's 2007 accounts they said that the loss from the U.S.O. was £1 million but the J.C.R.A. said that the loss from Jersey Post's 2007 regulated accounts was £100,000 to 150,000. Presumably Jersey Post has to produce regulated accounts and, therefore, there will be some 2009 regulated accounts and you will be able to ask the J.C.R.A. what they think the Jersey Post losses from the U.S.O. in 2009 are. But I certainly cannot, with any numbers I work out, see how on earth they

could have lost £5 million and I do not believe that that is the case. I believe, as the Chief Executive said before you: “The J.C.R.A. have engaged consultants called Frontier Economics who have now agreed that the funding gap is £5 million.”

The Deputy of St. Mary:

£5 million, yes.

Chief Executive, Jersey Choice Limited:

Now, that is the same £5 million but it is expressed in a completely different way.

The Deputy of St. Mary:

Well, they are now saying that ... I think it is in this Economic Affairs Scrutiny Panel thing where it says that there are different ways of working out the loss.

Chief Executive, Jersey Choice Limited:

Anyway, I do not have any of the facts.

The Deputy of St. Mary:

It is using gap accounting and it is probably more a streamlined ...

Chief Executive, Jersey Choice Limited:

I just believe that that is not true.

The Deputy of St. Mary:

It is a major question because it determines the whole attitude to how much it costs for ...

Chief Executive, Jersey Choice Limited:

I have got 2 other substantive points, one of which I have partially made. Jersey Post, in my view, is 2

businesses. It is an Island post office providing a service to people that live on this Island and it is an export logistics business. I went to the States Bookshop and I got Jersey Post's 1990 accounts yesterday. I have 2 copies. In 1990, that was when we were just starting out, they had virtually no export fulfilment business and this is something I think you should ask Jersey Post. So in 1990 they delivered, locally, 36.7 million letters and exported to the U.K. 18.5 million. So total letters: 55.2 million. They had 322 staff. In 2009 they delivered, locally, 30.3 million letters and exported to the U.K. 9 million and I do not know how many they had in 2009 because they did not publish that figure. In 2008 they had 362, excluding the ones at Offshore Solutions.

The Deputy of St. Mary:

The pick and pack, yes.

Deputy M. Tadier:

They have not said, though, whether they are part-time or full-time staff.

Chief Executive, Jersey Choice Limited:

Yes. This is just some facts for you to cogitate on and, if you wish ...

The Deputy of St. Mary:

Yes.

Chief Executive, Jersey Choice Limited:

They should be much more efficient in 2009 because they have got all that sorting equipment down at Rue des Prés. In 1990 the directorate costs were £258,680. In 2009 the board costs only were £779,000 and that would exclude some people who were, in 1990, included as part of the directorate I am sure. I do not know but you would be able to find out. Their staff costs in 1990 were £6.07 million and in 2009 are £16.558 million.

The Deputy of St. Mary:

Whereas if you added R.P.I. (Retail Price Index) or ...

Chief Executive, Jersey Choice Limited:

It is 108.3 off the Jersey website.

The Deputy of St. Mary:

Yes. So it is 3.5 million in truth, roughly.

Chief Executive, Jersey Choice Limited:

Yes. So these are figures ... I would investigate them further. Unfortunately I am not in a position to do so. In 1990 they made a profit of £1.7 million on £10 million turnover. In 1990 they were making no payment to Royal Mail but then Royal Mail did not pay them anything for delivering stuff in the Island.

The Deputy of St. Mary:

It was just a friendly arrangement in those days.

Chief Executive, Jersey Choice Limited:

It was roughly, you will see, U.K. to local ... you know, they received more mail than they sent out. So that was disadvantageous to them.

The Deputy of St. Mary:

They roughly balanced.

Chief Executive, Jersey Choice Limited:

So the fact that they now pay Royal Mail should not make any difference. So my contention is on the £20 million of turnover that they roughly get from mail, how on earth can they claim that they lose ... they cannot possibly lose £5 million. I cannot see how they could possibly lose money. I do not

understand, as a business person, how Jersey Post can possibly not make a profit on their traditional business if their management structure for that business is the right management structure for that business. What I believe they have done is they have a bloated management structure because they have got not only the traditional post office, they have got the export business, which needs no management structure at all because they do not handle very much, but they have also got Ship2me and MeMo. That is the other thing. I do not understand why the shareholder believes that if MeMo is a fantastic idea how it could possibly be exploited better by Jersey Post than Jersey Telecom. I cannot understand how that ever saw the light of day and the amount of investment and cost, I believe £1.6 million in Ship2me and MeMo in 2009. For the life of me I cannot understand how ... I believe the instruction to Jersey Post to go out, create new businesses to fund U.S.O. is a completely insane suggestion.

The Deputy of St. Mary:

Because your analysis is the U.S.O. does not need to cost so much anyway.

Chief Executive, Jersey Choice Limited:

If there is a cost to the U.S.O. and Jersey, as a government, wants that to be paid somehow, a government does not go out and start new businesses to generate revenue. That is not what governments do. Well, you know, they own 100 per cent of ... so it is the Government, because we own 100 per cent of it, saying ... the Government does not set up businesses to fund the costs of education or social services. Why should they?

The Deputy of St. Mary:

Especially to compete with other businesses also owned by the Government.

Deputy M. Tadier:

The trouble is though is that it has been one step removed now from being a direct Government department. They have incorporated it and that is why you get some of these follies, which I tend to agree with you on.

Chief Executive, Jersey Choice Limited:

If I was a director of Jersey Post, particularly if I was an independent director of Jersey Post, I would like to think that I had the business intelligence and integrity to say: “This is ridiculous. You know, Jersey Post is an Island postal authority. The reason the Government owns 100 per cent of it is because we want to control the things that are important to the people that live on the Island.”

Deputy M. Tadier:

To be fair, there is a mixed message though coming from Government.

Chief Executive, Jersey Choice Limited:

I agree.

Deputy M. Tadier:

They have been incorporated ...

Chief Executive, Jersey Choice Limited:

But any board worth its salt should tell the Government that it is an incorrect message.

Deputy M. Tadier:

Should it not be the other way round? Should it not be the Ministers, and particularly the Minister for Treasury and Resources who is the shareholder, who comes across with a strong message saying: “Look, this is a nonsense”?

Chief Executive, Jersey Choice Limited:

“Stick to your old core business,” yes.

Deputy M. Tadier:

Particularly when it competes with another incorporated business like Telecom.

Chief Executive, Jersey Choice Limited:

Yes. I would say that he has given them completely the opposite instruction to the one that he should have given them.

Deputy M. Tadier:

Yes.

The Deputy of St. Mary:

MeMo has certainly raised eyebrows in the States. Where do you get the £1.6 million investment in costs?

Chief Executive, Jersey Choice Limited:

I think I saw it as the investment in Royal Mail International, in their accounts. I think so.

The Deputy of St. Mary:

Then Ship2me, is that not boosting their ... because I noticed quite recently you said: "Jersey Post is 2 businesses, the Island post office and the export logistics business."

[12:00]

Chief Executive, Jersey Choice Limited:

Yes.

The Deputy of St. Mary:

I thought there was a third business, which was bringing in parcels for local people who are buying on the Internet. I mean that is going up and up and up.

Chief Executive, Jersey Choice Limited:

Yes.

The Deputy of St. Mary:

So the parcels business; okay, it is for local residents but it is a nice little earner.

Chief Executive, Jersey Choice Limited:

Yes. So it would appear, would it not, that if you have got that infrastructure it would seem sensible to utilise that infrastructure?

The Deputy of St. Mary:

Yes.

Chief Executive, Jersey Choice Limited:

But I have set up businesses from scratch. It is very difficult to set up a business from scratch and it requires a lot of investment to set up a business from nothing. I have done that with my own business and while I am not sure Jersey Post has the management ... it brought in the management expertise it thought would enable it to do that. But I will just make one point in the case of Ship2me. If you have set up a business where you want to get every householder on the Island to partake in it, how do you think is the most cost-effective way of promoting to those people? You can either advertise it ...

The Deputy of St. Mary:

A mail drop.

Chief Executive, Jersey Choice Limited:

A mail drop. Direct mail. They go to every householder on the Island every day of the week. Therefore, the only cost to them of sending direct mail is the print cost, which is insignificant. I do

millions and millions and millions of pounds worth of direct mail. The bulk of the cost is the postage. They do not have that. Ask them how they spent their marketing budget for Ship2me between T.V. (television) advertising, advertising in the *J.E.P. (Jersey Evening Post)* and direct mail. I cannot say how ...

Deputy M. Tadier:

There would not be any restrictions on them, would there, from the J.C.R.A. as to whether they can do the direct ...

Chief Executive, Jersey Choice Limited:

There might be. There would be their saving grace, yes.

Deputy M. Tadier:

That is probably an unfair advantage, I would have thought.

The Deputy of St. Mary:

Or if they use their own processes to promote them.

Deputy M. Tadier:

That could be one of the reasons, otherwise I am sure they would have done that. We can ask them that.

Chief Executive, Jersey Choice Limited:

The key to all of this, I think, as well, is the access price that they pay Royal Mail. I think they have been completely legged over by Royal Mail in those negotiations. What is perverse is the person that led Royal Mail's negotiations now works for Jersey Post and so they are in quite a difficult position to renegotiate, I would imagine. But that, again, is the other key area that I would ask the shareholder what he has asked Jersey Post about; how they have negotiated with Royal Mail over the past 5 years to ensure that they have the best access arrangements. I suspect he will probably say he knows nothing

about it.

The Deputy of St. Mary:

We do come back to this problem that even if there is 2 ways in, which is the Direct Access thing and the Royal Mail International, the fact is you are still dealing with a monopoly. So how do you get round Royal Mail basically losing the people who come through the other port?

Chief Executive, Jersey Choice Limited:

They are not allowed to because the regulator sets the price. So it is a regulated price. All of Royal Mail's prices are regulated other than ...

The Deputy of St. Mary:

Royal Mail International.

Chief Executive, Jersey Choice Limited:

Correct.

The Deputy of St. Mary:

Okay. Right. Thank you.

Deputy M. Tadier:

We are almost done. You provided a useful ... and it has been very handy to have tangible figures in front of us. There is a lot for us to follow up. What I want to ask - our last question although Daniel may have one - is just this idea of the cross-subsidy. Are you comfortable with the theory of cross-subsidies?

Chief Executive, Jersey Choice Limited:

No.

Deputy M. Tadier:

No. Okay. What do you think the scenario should be?

Chief Executive, Jersey Choice Limited:

The scenario should be that the U.S.O., if there is a cost to the U.S.O., in my view, is no different from the cost of schools, health, social services, et cetera. It is a cost that should be borne out of Government expenditure and, therefore, covered by taxes. If this cross-subsidy is in some way a tax upon people who do have the opportunity of going anywhere else and I covered that point in my letter to States Members because, again ... I am a mathematician, an accountant. I deal with logic and it is, in my view, completely illogical. I can see how it is a neat solution because it does not have to come out of your budget. I understand from all my involvement with the Audit Commission how the States budgeting process is ... it is an art not a science for some reason but that is a whole different ballgame. So which pocket and pot you take it out of should not alter what business actions you take and that is what has happened here. Because they have insisted it comes out of a certain pot, it has led to dysfunctional decision-making on the case in Jersey Post.

Deputy M. Tadier:

Do you think that Jersey Post should be separated now; so you have Jersey Post, which is a corporation which deals with making profit, in the bulk section and then we just have a U.S.O. agreement which is done by the States?

Chief Executive, Jersey Choice Limited:

I think Jersey Post should be 2 entirely separate businesses; one which is the traditional post office that we all understand and, secondly, an export business for packets. There should be huge synergistic advantages in running those 2 businesses under one umbrella. We seem to have got it complete opposite and we have got bloated overheads.

Deputy M. Tadier:

As a businessman, one of the consequences of going to that scenario where it is funded by direct taxation is that it would be quite possible that they might need to increase the level of tax. So rather than have the 20 per cent flat rate they may say: "We need to move to a 30 per cent tax rate for higher earners."

The Deputy of St. Mary:

Not just to float the U.S.O.

Chief Executive, Jersey Choice Limited:

I do not think for one second that Jersey Post's core business should be making loss. Not for one second. You know, you would never ever convince me. You would have to show me the figures and ...

The Deputy of St. Mary:

Are you suggesting that is why the J.C.R.A. guy was so insistent on the levy?

Chief Executive, Jersey Choice Limited:

Yes.

The Deputy of St. Mary:

On the levy, you have first of all got to prove it is efficient.

Chief Executive, Jersey Choice Limited:

Jersey Post have provided me with a wonderful service for 25 years. Logistically, absolutely fantastic. Absolutely fantastic. I think they have been extremely poorly served by the incredible comments made by the Chairman and the Chief Executive in the newspaper and to yourselves. They are completely clouding the issue and, personally, my view is that they should be ashamed of themselves for making those sorts of statements. I think it is entirely down to mismanagement by Jersey Post for the last few

years of going into Ship2me and MeMo; not negotiating the access price with the U.K.; not getting themselves a route in through Direct Access. It has been completely mismanaged as a business and I am so sad because I want to continue to use Jersey Post. I am not going to but I have given them every opportunity. They have messed up their business. You know, it is a crying shame, absolutely.

Deputy M. Tadier:

We can argue about the efficiency of the U.S.O. but I think most people would probably accept that the last mile for traditional mail, it is going to be very tough to make that profitable. It will always need some level of subsidy. Of course if it can be made more efficient then the subsidy could be reduced. I think most people would probably agree with that or that it could possibly break even, depending on the charges for stamps, et cetera. But, anyway, the point I wanted to make is would you agree with the idea that the bulk mail section of Jersey Post, which is still owned essentially by the States ... why should that be set up to make profit? The bulk mail is something which benefits Jersey businesses.

Chief Executive, Jersey Choice Limited:

They could make a profit to subsidise the rest of the business but not by charging its users a premium. It should be able to make sufficient profits charging a normal service price. The local delivery market should not be opened up to competition. There is absolutely no doubt about that, in my view. Anyone who collects mail for export, pretty much irrespective of its weight and size, I do not think that should be protected. Jersey Post infrastructure and its infrastructure costs and the cost that it has because of the U.S.O. are all to deliver mail locally. It has no infrastructure costs, pretty much, for its export packet business. Obviously it has infrastructure costs for its export letters which are posted by private individuals but I would say 20 years ago it made an excellent profit out of handling all of those letters. I think there is one thing that they have lost, that they had 20 years ago that they do not have now. There was a fair amount of commercial letter mail that they do not currently have. There is an issue there.

Deputy M. Tadier:

What I am saying though is that if the bulk side of it was not run for profit, just like the U.S.O. side is

not run for profit, then you could have both sides which are not run for profit. You would have the U.S.O. which is subsidised by the taxpayer, is paid for by direct taxation, and you could have the other side which is a States-owned body that is not set up to make profit. So it simply runs not at a loss but it runs at cost and then there will not be any scope for competition to come in anyway.

Chief Executive, Jersey Choice Limited:

But the competition should not be able to come in. Jersey Post should be able to do exactly the same as them because the competitors can only access Royal Mail and everyone accesses it at the same price.

Deputy M. Tadier:

Yes, that is right.

Chief Executive, Jersey Choice Limited:

So they all have identical costs.

Deputy M. Tadier:

So there should be no incentive for them to come in.

Chief Executive, Jersey Choice Limited:

There should no incentive for them to even think about entering the market because they cannot make any money out of it.

The Deputy of St. Mary:

No.

Chief Executive, Jersey Choice Limited:

So it just should never have got to the current point.

Deputy M. Tadier:

I understand.

The Deputy of St. Mary:

Okay. Getting back to the cross-subsidy issue. I remember in my reply to you about that I said: "It is inherent in the way Government works and it is inherent in the way the economies work that people are subsidising each other all the time and businesses will do it."

Chief Executive, Jersey Choice Limited:

Yes.

The Deputy of St. Mary:

They charge more for this and then next week it is something different. So it is going on all the time.

Chief Executive, Jersey Choice Limited:

But not because they have got a monopoly. It is illegal when you have got a monopoly. Yes? It is fine because that is your commercial decision. So if Tesco's decides to loss-lead on baked beans that is a commercial decision, because they do not have a monopoly.

The Deputy of St. Mary:

No, anybody else can sell baked beans.

Chief Executive, Jersey Choice Limited:

Yes. You cannot do that as a regulated authority where the person cannot go anywhere else.

The Deputy of St. Mary:

But we do do that all the time. People in town subsidise the people who live in St. Ouen. It is cheaper to live in St. Ouen, relatively. You know, it should be more expensive. The letters take longer to

deliver. The electricity has to go further. You have to dig a longer drain and all the rest of it. It costs more but they do not pay more.

Chief Executive, Jersey Choice Limited:

But that is a Government decision in a regulated business, is it not?

The Deputy of St. Mary:

I am just saying there is an element of subsidy there. It is not a dogmatic thing. It is just ...

Chief Executive, Jersey Choice Limited:

Well, things are not black and white, are they? They are all shades of grey. Of Jersey Post's export turnover probably £10 million of it is outside the protected area anyway and they are losing all of that irrespective of whether the licences get granted. But from what they tell me, they do not make much money out of that anyway. The margin they should make on the £40-50 million worth of export business they have, they should make about 5 per cent net. You know, so they should make £2.5 million out of it but Jersey Post overall would make a profit. As I say, I do think they should lose money on the business but they should not lose £2.5 million on it.

The Deputy of St. Mary:

£10 million outside the regulated area?

Chief Executive, Jersey Choice Limited:

Everything I send?

The Deputy of St. Mary:

Yes.

Chief Executive, Jersey Choice Limited:

Anything that is either over 500 grams or £1.30. So part of the argument is irrelevant anyway because that is going.

The Deputy of St. Mary:

Going?

Chief Executive, Jersey Choice Limited:

Jersey Post are losing the business.

The Deputy of St. Mary:

Because you will be going to someone else?

Chief Executive, Jersey Choice Limited:

Yes, because of the idiotic way they have structured their access price.

The Deputy of St. Mary:

But where is the business going? This is puzzling me because there is no other way for you to ... you cannot swim across with your flowers.

Chief Executive, Jersey Choice Limited:

No, we will use an alternative provider and send it as freight.

The Deputy of St. Mary:

As freight, not an alternative postal provider?

Chief Executive, Jersey Choice Limited:

No, because only Jersey Post are allowed to post things. But it probably will still have to go as freight in terms of Customs clearance anyway. There used to be a massive distinction between post and freight

but that has all gone. Maybe in Jersey Post world and Jersey Customs and Excise world it still exists. In U.K. Customs and Excise world it no longer exists. It is all freight. It might come from Jersey Post or it might come from Deutsch Post but it is all freight. There is still the legal distinction of once you have put something in a letterbox it is the property of the recipient. You are not allowed to take it back out again, whereas obviously if you sent something in freight you could recall it. So there are all those legal niceties. But as far as Customs and Excise are concerned inspecting things and complying and so on, it is all freight.

[12:15]

The Deputy of St. Mary:

It is all stuff.

Chief Executive, Jersey Choice Limited:

Yes, it is all goods. They are all goods.

The Deputy of St. Mary:

Well, you have opened our eyes and made things more complicated.

Chief Executive, Jersey Choice Limited:

That was my intention. I have succeeded.

The Deputy of St. Mary:

Yes. Or made it simpler, to look at it in another way.

Deputy M. Tadier:

I think it is quite clear we will need to get Jersey Post back in or certainly communicate with them about what you have asserted.

Chief Executive, Jersey Choice Limited:

Yes. As I say, I tried. I sent a response, as you would imagine, to E.D.D.'s consultation.

The Deputy of St. Mary:

Yes.

Chief Executive, Jersey Choice Limited:

I tried to get more facts - I am a fact-based person - none of which I thought were in any way commercially confidential, but Jersey Post refused to provide them. I just thought there were not enough numbers in that document. There were not any basically. How can you make a decision without knowing the financial ramifications of it? It is impossible.

The Deputy of St. Mary:

Yes. Well, that is what I keep asking for.

Deputy M. Tadier:

Have you got anything else you want to add?

Chief Executive, Jersey Choice Limited:

No, you have been excellent. Thank you very much. I have managed to get my stream of concerns out pretty much in the time available.

The Deputy of St. Mary:

Thank you very much.

Chief Executive, Jersey Choice Limited:

Thanks very much.

Deputy M. Tadier:

Thank you for your patience. We have overrun a little bit.

Chief Executive, Jersey Choice Limited:

That is no problem.

The Deputy of St. Mary:

About an hour but we started ...

Deputy M. Tadier:

With the previous one.

The Deputy of St. Mary:

We did, yes.

[12:16]