

ECONOMIC AFFAIRS PANEL

FRIDAY, 5TH MAY 2006

Postal Incorporation

Panel:

Deputy G.P. Southern of St. Helier (Chairman)

Deputy A. Breckon of St. Saviour (Vice Chairman)

Deputy J.A. Martin of St. Helier

Deputy K.C. Lewis of St. Saviour

Witness:

4. Deputy P.J.D. Ryan of St. Helier, former President of the Committee for Postal Administration.

4. Deputy A. Breckon of St. Saviour:

I think you know everybody. Geoff is chairing the Panel and we have apologies from the Constable of St. Brelade, Michael Jackson, who has had to go elsewhere. Geoff will do the formalities, which I am sure you are aware of, and then it will be over to you.

Deputy G.P. Southern of St. Helier:

Can I say before I start what a pleasure it is to see a Member of the States not flanked by his officers.

Deputy P.J.D. Ryan of St. Helier:

There may be the odd occasion where, because I have been away for two weeks and I only had your question plan when I got back at 7.00 yesterday, in order to find the right bits of paper to refresh my memory, if you would not mind I would like to ask John. There may be, may not be, I do not know, but in case that happens.

Deputy G.P. Southern:

If there is any area where you are not sure about the facts, because obviously you have been out of the seat of the while, then by all means you can give us a written answer some time later. It is important that I start with the formal statement. It is important that you fully understand the conditions under which you are appearing at this hearing. You will find a printed copy of this statement I am about to read in front of you: "The Panel's proceedings are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and as a result you are protected from being sued or prosecuted for anything said during this hearing, although this privilege should obviously not be abused. The proceedings are being recorded and transcriptions will be made available on the Scrutiny website." As you know, what we are investigating is the impact of the new fulfilment policy on profits of the Post

Office future fulfilment. I think, Kevin, you are going to kick us off today.

Deputy K.C. Lewis of St. Saviour:

Deputy, during your time as President of the Committee for Postal Administration, how supportive were you of the drive to expand Jersey Post's fulfilment business?

Deputy P.J.D. Ryan:

The answer is a qualified full support. The expansion of the fulfilment business and the value of the fulfilment business of Jersey Post is obviously, when you look at the figures, very, very important. Not only is it important to Jersey Post; by extension, of course, it is equally important to the people of Jersey because it is a publicly owned utility company. The qualification comes, I think again, because there were always certain risks involved from an international perspective and any possible cross-contamination, if that is the right word, between fulfilment and the much more important financial services industry that the Island is so dependent upon. So it is and always was a question of balance and judgment but we did our homework, we did as much homework and as much research as we could possibly do, and so any risks that were involved I think I can very easily justify as being calculated. I hope that answers that question.

Deputy K.C. Lewis:

Did you ever feel that there was a conflict between your roles on the Economic Development Committee and the Committee for Postal Administration?

Deputy P.J.D. Ryan:

I believe that when it came to setting policy as a whole for economic development of the Island, in fact the reverse is the case. With the specialist knowledge of a particular industry fulfilment, then I had probably more to offer the EDC (Economic Development Committee) than the average member would have, no disrespect to the average member. Also I have a wide range of commercial experience outside of the States so I think that is also relevant when it comes to economic policy. When it came to certain specific items within the EDC that were specifically to do with Jersey Post itself, then I excused myself always from the committee meetings. I did not take part in any discussion or votes. So, no, is the answer.

Deputy A. Breckon:

In general terms with the postal services regarding the service level agreements with the public (I am talking about general postal services now) did you feel there were adequate standards and benchmarks being set and who were they being set by, if they were there, and who monitored them?

Deputy P.J.D. Ryan:

The Postal Committee set the benchmarks, the qualities of service, I think you are referring to, and we

monitored them regularly. We also had independent people at certain stages monitor those standards of delivery on occasions. I believe as a committee we were very open to independent review of all kinds. Certainly that would be my view and I think we did that, as I say, on a number of occasions. There are two that I can think of. One, Jersey Post had an independent marketing company take the temperature of consumers at some stage, I cannot remember the dates. The other one that strikes me, that I can think of, is the benchmarking exercise done by Policy and Resources which was one of the initiatives that Bill Ogley started almost as soon as he came to the States. That would have been in late 2003, early 2004. What I would say is that there were some departments within the States of Jersey that either did not co-operate fully or for one reason or another were not involved particularly in that benchmark. In fact, I think other trading committees were not involved for some reason but Jersey Post was very open, very co-operative. I think there was even a mention of it in the report somewhere, where we completely opened everything that we had, subject to commercial confidentialities obviously, to that benchmarking exercise and I think Jersey Post came out rather well.

Deputy A. Breckon:

Were you comfortable that it was mainly in house?

Deputy P.J.D. Ryan:

I do not think it was mainly in house. I would not accept that it was mainly in house. I mean, some of it was in house because, of course, you have got cost implications but I believe that we were pretty open.

Deputy A. Breckon:

What about the fact that Guernsey had a regulator with some teeth and we did not. Was that a benefit?

Deputy P.J.D. Ryan:

I do not need to go over the benefits of regulation, you know what they are as well as I do. Certainly I think the committee and Jersey Post were well aware that regulation was just over the horizon at all times. We all regret, including everybody around this table I am sure, or maybe not, that Jersey Post did not incorporate as soon as it was intended that it would incorporate.

Deputy A. Breckon:

Just an issue leading on from that. Is that, do you think, a morale issue, the fact that it never came?

Deputy P.J.D. Ryan:

Undoubtedly it was a morale issue. Whether it became an issue that got out of hand, I would not go along with. I think that the executives of Jersey Post and the Postal Committee took quite a lot of time to settle staff morale and issues down, as the executives continue to do. I think they are particularly strong in that area.

Deputy J.A. Martin of St. Helier:

You said there was always some questions about pushing the fulfilment business, one of them being the growth of the fulfilment industry is limited by the space we have here and the workforce. What consideration was given to overcoming these limitations?

Deputy P.J.D. Ryan:

The premises question goes for any industry in Jersey. There are always physical limitations on growth of any business to do with premises, the cost of premises, the availability of premises. The other one, of course, is the availability of staff. In the case of fulfilment specifically it was quite difficult for Jersey Post to find the right premises to expand the fulfilment industry with UGD but eventually the right premises were found and, as you know, it went to a States debate and that was approved. The downside risks though of that were very carefully analysed by Jersey Post and the Postal Committee in great detail. Lots of what we would do if certain things happened analysis was done prior to taking on that premises and I think they are still as relevant now as they were then. In terms of staff, Jersey Post has always had a policy to only employ properly locally qualified staff and in fact one of the benefits of the fulfilment industry is that second household income earners who work part-time are ideal for the fulfilment industry. Not only that but certain individuals that might find it difficult getting a fulltime job, for example disabled people, are very easily absorbed into large sections of the fulfilment industry, large parts of the industry. So I think in that respect the fulfilment industry is particularly beneficial to Jersey's economy because it can employ people part-time, in the evenings, disabled people. I think the statistics show that to be a benefit and I think it has had a very beneficial effect overall on the numbers of unemployed that we had. If you look at the statistics from the Social Security Department, I think you will find that total numbers of people unemployed reduced quite substantially at a similar time period to the fulfilment industry was, and still is to some degree, expanding. So I think it has had a very beneficial effect in that area.

Deputy J.A. Martin:

When you started up Offshore Solutions, given that Jersey Post is a States-owned business, we have been accused of probably having unfair advantages over some of the private sector but the private sector can do what they want. Insofar as UK Treasury in respect of the low value of consignment, did you consult with them to use it as a commercial process and grow the business?

Deputy P.J.D. Ryan:

I think there is two questions there. The first one, you started asking me on one line and then ...

Deputy J.A. Martin:

It starts off how supportive you were of fulfilment, that you said it was quantified at the beginning, in your first question.

Deputy G.P. Southern:

Qualified full support, dependent on the risks.

Deputy J.A. Martin:

One of the risks being that Jersey Post is a States-owned business. It was setting up, one, Offshore Solutions.

Deputy P.J.D. Ryan:

You were talking about when we set up Offshore Solutions and all the rest of it, yes. Shall I answer that one first?

Deputy J.A. Martin:

Yes.

Deputy P.J.D. Ryan:

Offshore Solutions was set up before my time. It was set up by the previous Postal Committee and when I first came and got the job as Postal Committee President I know that we looked at that very carefully to see whether we were competing with the private sector in an unfair way. I think that is the gist of your question.

Deputy J.A. Martin:

Yes.

Deputy P.J.D. Ryan:

What I need to try to explain to you is that if you put yourself in the shoes of a UK internet retailer that is wanting to use Jersey Post or one of its private competitors as a third-party supplier of pick and pack operations, one of the biggest elements that is going to be in your mind is the risk element because Jersey law discriminates very much in favour of property owners, not lessors, of Jersey premises. Let me try and explain that if you are a UK company that puts its stock that has not been paid for or is there on consignment, shall we say, until it is sold, on to the premises of another company trading in Jersey and it is a leased premises, you are at great risk in a disaster situation of losing that stock because the landlord has first call on the stock in the case of loss of rental income. It can be quite dangerous for a UK company to do that. I would like to just ask you to imagine that you are a UK company with high value stock and it is quite easy to see that, if you were going to start up an offshore pick and pack operation, it is far safer for you to put that stock with a company that has a very strong balance sheet. Now, Jersey Post obviously provides a very strong balance sheet for potential risk as far as a UK company is concerned. You have to bear in mind that, with the greatest respect to them, a lot of the third-party pick and pack suppliers in Jersey are very young companies, often undercapitalised. In the

context of expanding the fulfilment industry in Jersey, for a UK company to use Jersey Post is a much safer bet than it is of using, with the greatest of respect to them, another privately-owned, third-party pick and pack that may well have a different company profile in terms of security than Jersey Post would have. So what the previous Postal Committee decided to do was to start a Jersey Post-owned third-party supplier of pick and pack operations in Offshore Solutions Limited. When I first reviewed that I said that is okay but coming from a background of private industry, which I do, I had the same kind of concerns immediately that you have highlighted: is this unfair competition to the private sector? My view was that it is okay providing Offshore Solutions Limited is the catalyst for bringing new business to Jersey and acts as what I termed a fulfilment incubator. In other words, it encouraged new business into Jersey and then my own attitude and that of the Postal Committee was that they would be very happy then. The more that we encouraged in, the more we lost customers, the happier we were because it would have meant that we had lost a fulfilment business into the rest of the private sector in Jersey and it would make room for another one to come in that we could cope with. So we were very happy to work as a conduit for bringing new business to Jersey that would then go out again to the private sector or indeed that fulfilment or internet retailer would set itself up in Jersey with real presence, with its own premises, with its own management, with its own directors, its own IT people, all of those things; in other words, become what is commonly referred to as a whole chain fulfilment company as opposed to a third-party supplier. It would become one of those in Jersey and then everybody is happy. That was our attitude. I hope that explains.

Deputy J.A. Martin:

Yes, it explains the first bit. The second bit was obviously I suppose nobody foresaw to ask the UK Treasury if they were going to get --

Deputy P.J.D. Ryan:

You are talking about the LVCR (Low Value Consignment Relief)? We are going to LVCR?

Deputy J.A. Martin:

Yes.

Deputy P.J.D. Ryan:

Jersey's constitutional position is the kind of constitutional position ~~because there is no written constitution~~ (it is because it is not written down) [amended for clarification by Deputy Ryan]. It is a kind of constitutional position where you often sometimes do not want to ask the question directly because you do not maybe sometimes want to hear the answer directly. So what you end up doing, from a constitutional perspective, is to do as much research as you can, ask as many informal questions as you can, skirt around the issue as much as you can with the UK authorities. The constitutional position is such (and we were advised as such as the P & R Committee) that it is inappropriate for us to go directly to any UK government body because constitutionally that is not what we should be doing. We are an

independent country. You can imagine, would France ask the UK if it is okay to do something internationally? The answer is that is inconceivable that France would do that. In theory, Jersey could be said to be in a similar position. We do not need to ask the UK technically. What Jersey Post did do was everything that it could do on its own behalf but you have to bear in mind that it is not Jersey Post's remit anyway to deal with international issues. That would be the realm of Policy and Resources. So what we did do was we briefed Policy and Resources as much as we could and I think I have paperwork going back to 1999 from the previous Postal Committee where contacts with P and R's (Policy and Resources) International Department were briefed on the international implications of LVCR. Certainly I know that there are several communications that we instigated with P and R to make them aware of any possible implications that might be coming up internationally. I think that is on record and I hope that you have seen them. If you have not, I would be delighted to give you that information. So we did everything we could. We even went to the lengths of having a memorandum of understanding with as close as we could get to the UK government without actually talking to the politicians (and that is HM Customs & Excise, as it then was) that laid out in some detail the terms, the conditions, the model of a Jersey fulfilment company that it felt was working within the rules. Certainly I know that every part of the fulfilment industry that has taken place in Jersey has fallen within that memorandum of understanding and within the rules as they saw it through paperwork with us. There has never been any abuse of the system. I believe that there has been in Guernsey but certainly not in Jersey.

Deputy G.P. Southern:

When you refer to an abuse of the system ...

Deputy P.J.D. Ryan:

Abuse of the system involves what is called ABA mailing or remailing where the offshore island acts as a post box. The goods are made up into packets in the UK with UK addresses on them, then they are all put in a big container, taken to Jersey and then remailed back to the UK to their individual addresses.

Deputy K.C. Lewis:

That is what is called drive-through, is it?

Deputy P.J.D. Ryan:

Similar, yes. I think that is what is called drive-through. That has never been the case in Jersey ever but it has happened in Guernsey.

Deputy J.A. Martin:

What do you think of the new fulfilment policy where it states pre-empting the policy that that is why, call it a sham and that is happening in Jersey and they have got to protect our reputation? Were you consulted on this? We asked the Post Office and we have been to see the operations. I do not believe it is happening in Jersey but they say that is why they have brought out this policy because it is

happening. That is one of two reasons: Jersey's integrity and financial and commercial matters, 9 and 10.

Deputy P.J.D. Ryan:

I cannot really speak for the current fulfilment policy.

Deputy J.A. Martin:

Did they consult you, Patrick?

Deputy P.J.D. Ryan:

No.

Deputy J.A. Martin:

So you have no opinion on it?

Deputy P.J.D. Ryan:

They did not consult me. I have personal opinions but I have to say that I may be a little out of date with the background information. I have not been involved in the last six months, certainly, about any of the discussions that may or may not have taken place with the UK Treasury, for example. So I am not in a position to make a ... there may be information that I am not privy to.

Deputy A. Breckon:

You have mentioned the international perspective and the finance industry and maybe there is some conflict here, let us say compared with the finance low value fulfilment, although I appreciate what you have said about it filling gaps in the employment infrastructure. Was there some serious conflict at the senior political level about policy that was coming from Postal and EDC and Policy and Resources and perhaps Finance and Economics?

Deputy P.J.D. Ryan:

Jersey Post does not have an industry policy, has never had an industry policy. EDC and/or P and R, if there are international implications, are the policymakers. Jersey Post's job was to inform EDC and P and R as much as possible on the background to the fulfilment industry. The policymakers were EDC and P and R. So it would be wrong to say that Jersey Post ever had a policy, because they did not. They were being given, handed out, dished out policy, or should have been handed out, dished out policy, by EDC and P and R and through them obviously the States as a whole. I think it is true to say that for periods of time Jersey Post have been in the past operating in a policy vacuum to some extent on fulfilment. Vacuum may be too strong a word; shall we say a fairly minimalist policy as regards fulfilment: "You are doing a good job. Okay. We are happy enough. We do not see any problems. Get on with it" type of policy but nothing in writing, no real thought, dare I say. I do not blame them

because, as tends to happen, these things would creep up on you and we were forewarning and informing but there was a period during mid-2005 where the thing came off the back burner and came a little bit more on to the front burner. The unfortunate result of that is that sometimes politicians can get caught out when that happens and you end up, if you are not careful, with policy being made a little bit on the hoof under pressure. I believe that in the middle of 2005 that did happen.

Deputy G.P. Southern:

You are talking about the first fulfilment policy?

Deputy P.J.D. Ryan:

No. I am talking about certain politicians that went into the media and were backed into a corner publicly by the UK media. At that point I believe that a certain amount of statements were being made and policies were being formulated on the hoof.

Deputy G.P. Southern:

By P and R?

Deputy P.J.D. Ryan:

Senator Ozouf went into the media but not P and R because he was not a member of P and R and not EDC because he was not a member of EDC. I do not think F and E (Finance and Economics Committee) were involved in any way in policymaking. It is P and R and EDC. I do not think the F and E were involved.

Deputy G.P. Southern:

You are saying that that brought things to a focus, to a point?

Deputy P.J.D. Ryan:

I think it did.

Deputy G.P. Southern:

A point that was inevitable eventually or a point that was inappropriate at the time? What was your reaction?

Deputy P.J.D. Ryan:

What was my reaction? I have to say that I think it was inappropriate and I still believe that.

Deputy A. Breckon:

You mentioned committee policies. Is it not a fact that the President of the EDC was dissenting somewhat to what you have referred to as policy decisions?

Deputy P.J.D. Ryan:

I think as I recall that the President of EDC was in a minority of one to 4, 4 people present. It was a part of the fulfilment policy which involved the positive encouragement to leave for certain businesses that had recently started in business in Jersey with fulfilment. The rest of the committee felt that we should hold where we were and not allow new business rather than actively encourage existing business to go away and I think Gerald Voisin did not agree with that. He wanted to go with the more strident policy of unwinding the fulfilment industry in that area.

Deputy A. Breckon:

With that can I come back to what Judy referred to and perhaps you would like to comment on the new policy or the Minister's policy that does exactly that, tells people to go away who are in the process of developing a business?

Deputy P.J.D. Ryan:

You want to bring me back to it. What is the question?

Deputy A. Breckon:

You did not comment on it before because --

Deputy P.J.D. Ryan:

Do I agree with it?

Deputy G.P. Southern:

Deputy Voisin was dissenting as President on a policy that said: "Hold it where it is", saying, "No, hang on, we have got to tell these people to go". That policy is now in place. What is your current attitude to that policy being in place?

Deputy P.J.D. Ryan:

I am not aware of any further information that might have led to that change in policy. There may be further information that I am not privy to so it is difficult for me to make a fully informed political comment.

Deputy G.P. Southern:

So, then and now?

Deputy P.J.D. Ryan:

Yes.

Deputy G.P. Southern:

And you talking there about the information being fresh from the UK government?

Deputy P.J.D. Ryan:

Yes. In the absence of any fresh information from the UK government, I think it is a short-sighted policy. Can I go that far?

Deputy G.P. Southern:

Go as far as you like. You are protected.

Deputy A. Breckon:

You talked before about doing things on the hoof but is not the change in policy knee jerk, doing it on the hoof or something like that which might send out the wrong signal to where you were?

Deputy P.J.D. Ryan:

As I said, in the absence of any further concrete information and evidence that I have not seen because I am not privy to it. By default I believe that the Economic Development Department should be defending the industry; it should be rejecting trade associations' assertions; and it should be pointing out things like Jersey's different tax structure as a whole, at the moment without GST (Goods and Services Tax) but that will change fairly soon as we know; and it should be pointing out that Jersey's tax structure is such that companies here have other costs to bear, not suffered by UK-based fulfillers. For example, cost of labour, cost of shipping, cost of warehousing, cost of telecoms, are all higher here than in the UK.

Deputy G.P. Southern:

I have seen that particular piece of paper where you argue that Jersey Government, rather than reining back should have been going out and selling the Island, selling what you were doing in correct terms rather than --

Deputy P.J.D. Ryan:

I think we should be correcting what is essentially trade association political lobbying. Now, that is what I have seen and what I know about. What I may not know about, and I would like to stress this, is further information that I may not be privy to but at the point that I stopped being involved (shall we say six months ago or thereabouts) I did not have that information available to me. That had not reared its head; I had not seen it. From what I have seen in the media since, it would appear to me that the UK government, although concerned, its stance is to keep a watching brief. To what extent that watching brief is because we have done what we have done, the fulfilment policies that we have taken, I could not say but then neither could anyone else. These things are always a question of balance and judgment. Suffice to say that my judgment might be slightly different.

Deputy G.P. Southern:

When you were examining growth in the fulfilment area, you received a company growth report in 2005.

Deputy P.J.D. Ryan:

Yes.

Deputy G.P. Southern:

My reading of that suggested that the simplest and easiest way to expand growth was (a) to expand in a DVD-CD market and (b) to go for brand names, and that other options, which were diversifying products and going into Europe and going to different destinations, while possible, were more difficult. Would that be your interpretation of that report as well?

Deputy P.J.D. Ryan:

The report was fairly comprehensive and I cannot remember the detail off the top of my head now but I think it was always the long-term aim anyway of Jersey Post to encourage fulfilment expansion into other than CD-DVD. The CD-DVD market I believe anyway is finite in the future because there is going to come a point in time, I have no doubt, when the actual posting of the physical media for DVDs and CDs is going to change. You are going to be buying it on the internet and it is going to be downloaded to you. I do not think those times are that far into the future. Once more households have bigger and more powerful computers, I think this will become the thing or even digital TV may well have computers attached to them whereby you download a DVD directly into your digital television or something and play it when you want to. So the medium-term plans for Jersey Post I know have been talked about are diversification and not just in media and not also just in below *de minimus*. Some of our more successful fulfilment companies, (or internet retailers really, we should call them internet retailers) large chunks of their turnover is above *de minimus* now. I have heard number of 25 per cent plus of the largest one is above *de minimus*. So, there we are.

Deputy G.P. Southern:

Given that we have this new policy in place and a number of companies --

Deputy P.J.D. Ryan:

Can I just add one point?

Deputy G.P. Southern:

Yes.

Deputy P.J.D. Ryan:

I talked about what I believed EDD (Economic Development Department) should be doing and what I think they should be saying at the moment in defence of the fulfilment industry. There was one other point that I would like to make. In general terms I think that there are numerous examples of governments accepting what we should really call VAT (Value Added Tax) leakage in their systems and the biggest one of all is not *de minimus* for postal deliveries. The biggest one of all is the threshold for VAT registration. That is a trade-off in itself between what it costs you to collect VAT from small businesses. Also, whenever you see that in black and white you would see alongside it that it costs small businesses to administer, to collect the VAT. If I was a cynic I would say it is more to do with the first one than the second one, to be honest, that it is more to do with the cost of collection, the cost of administration by small businesses with maybe turnovers below £25,000 a year, typically. The smaller the business the more costly per revenue gained it becomes for a government to collect the VAT from a business because they have to send in VAT inspectors all the time and make sure there is no fraud going on and the smaller the business the less robust their accounting systems are likely to be so the more likely there is to be things going wrong. It becomes more and more costly to police. That is VAT leakage. There is no reason in theory for any VAT (registration threshold); if you are a company trading, you should be registered for GST and collect the GST or VAT. But all governments throughout the world have VAT threshold for registration to save themselves money. LVCR is another example of that (VAT leakage). It is a practical way of saving money for the taxpayer: “Let us not bother to collect VAT at a certain low point because it costs more to collect than the money is worth. What we would rather do is police very strongly and very carefully outside of those *de minimus* levels or VAT thresholds”. That is exactly what Jersey is going to do with its proposed GST coming up fairly soon. The threshold for small business exemption for Jersey’s proposed GST system is going to be £300,000. Other than Singapore, that is the only other one I can think of that is above £300,000. You are talking about vast sums relatively speaking of GST leakage that are being accepted by the Jersey Government. I think I have made the point.

Deputy G.P. Southern:

The question comes down to the pressure group and the lobby focusing on this particular item, focusing in particular on the Channel Islands, on Jersey and our response to it. What we are hearing at the moment is that that response, that restriction in fulfilment policy looks at most as if it will take out at maximum perhaps 14 per cent and that the impact on the Post Office will be relatively small in terms of the profit produced from fulfilment and fulfilment postage will remain the mainstay of the £5 million... the term I should use is not “profit” but in terms of the States of Jersey surplus.

Deputy P.J.D. Ryan:

Yes.

Deputy G.P. Southern:

Are you surprised to hear that?

Deputy P.J.D. Ryan:

I am not surprised. Any fulfilment policy has got to have as one of its main aims the handling of the public relations that circulate around the industry itself. That must be the case. I could not say to what level the policy has that in mind as one of its prime objectives. I cannot say because I am not privy to the information. I think there are risks involved in terms of legal challenge on the current fulfilment policy. Whether they, in publicity terms, would end up having a worse effect than the other way round, I am not too sure. Who knows? It is conjecture and I do not have a crystal ball, any more than you do.

Deputy G.P. Southern:

I would be interested in hearing you explore what you consider to be the possibility of legal challenges to the current policy.

Deputy P.J.D. Ryan:

I am not a lawyer so I am not qualified but my experience of private sector, business, leads me to believe that on the face of it it appears to be discriminatory.

Deputy G.P. Southern:

There are two options there. Against local or non-local companies on the one level or a third-party supplier against a whole chain?

Deputy P.J.D. Ryan:

Well, there is that. This whole chain company and third-party supplier is a useful way of enveloping slightly different parts of the industry but they are all involved in internet retailing and supply through the post. That is what the fulfilment industry is. I do not believe if there is any adverse political reaction and actions that are taken by any country to reduce their VAT leakage, which is what we are talking about, that they will discriminate between third-party or whole chain companies. I think they will just look at an industry. That is the first point. Maybe that partly answers what you are saying. In terms of where I think this policy is discriminatory, I think it is discriminating in favour of local business. There have been times in the past where that kind of temptation has been refused in local politics terms, where we have decided not to discriminate in favour of local businesses for various reasons.

Deputy K.C. Lewis:

Given that during your tenure as President of the Committee for Postal Administration you received the auxiliary report and the company growth report, how much research was undertaken into the vulnerability of the fulfilment industry to a policy change in the United Kingdom?

Deputy P.J.D. Ryan:

When you say how much research was done, do you mean on the effects that it would have on Jersey Post?

Deputy K.C. Lewis:

Yes. Well, to the fulfilment industry but you had better start with Jersey Post.

Deputy P.J.D. Ryan:

Any effect that a change in UK government might have on Jersey Post, if it reduced VAT leakage by either reducing or getting a derogation or any of those kind of things, the risk side to Jersey Post, lots of research was done in, I think it would have been about April 2003, in other words three months into my tenure. One of the things that the committee decided to do was to ask the executives to go away, have an away day (not at the Hotel L'Horizon by the way) and get together and do a very thorough risk analysis, what if scenario, and what they would do, have an action plan on what they would do if the fulfilment industry disappeared overnight. That was the biggest risk to the business that we could see. I think we also asked them to look at other risks, for instance, terrorist attack and various other things but a big one obviously commercially was a loss of the fulfilment business. I believe that they came back with a fairly extensive report somewhere around the middle of 2003. So that is what we did. Jersey Post has always been a significant business but to expand significantly you look at what you are investing and that is what we did.

Deputy K.C. Lewis:

What consideration was given to the kind of workforce and infrastructure that would be required to support a fulfilment industry?

Deputy P.J.D. Ryan:

Again, similar things. We did lots of analysis before we took on UGD; I think it is a prime example really. We had lots of careful thought given to it and reports that came through us just to make sure that every angle had been covered. So I think we were pretty thorough. Whatever else anybody accuses my committee of, I do not think they would accuse us of not running a commercial operation properly.

Deputy G.P. Southern:

Can I take you back on to a different track for a minute and perhaps you might see the point of where we are going with it. In 2003 you commissioned a report from Richard Syvret, an Andium report, on the cost benefit analysis of incorporation.

Deputy P.J.D. Ryan:

Yes. We were asked to by what was then F and E.

Deputy G.P. Southern:

The concern there was can you ensure in various scenarios that you are going to be able to cover the repayments and that the benefits of incorporation, I think the term was, would far outweigh the costs.

Deputy P.J.D. Ryan:

That was a report that was not done for Jersey Post, although we did it and we paid for it. It was done jointly for F and E and Jersey Post and EDD as well. I am sorry, let me get it straight. It was done for EDD and Jersey Post at the instigation of F and E but I think it was something that was running through our minds anyway.

Deputy G.P. Southern:

What is your recall of what it said?

Deputy P.J.D. Ryan:

There is a difference between losing business that you already have or losing the potential for increased business that you might have under a monopoly situation. The cost benefit report that we had done came out in favour of incorporation. There were all sorts of qualifications but it was also a fairly conservative report. It had to be conservative; it could not be the opposite, that would be too dangerous. So you had to have a fairly conservative report and if you still came out in a positive benefit versus cost then it was something that would give you a green light to go ahead and go to the next stage. So it came out in favour of incorporation but it was at a time when the fulfilment industry was considerably less, I have to say. I think if you did it again now you may well find that it might come out even further in favour because as the business grows the benefits side of incorporation, the availability of funding, the availability of acting more in a competitive situation becomes better and better, the bigger the operation gets.

Deputy G.P. Southern:

When we talked to Richard Syvret about his 2003 cost benefit analysis and I put the question to him: "On a scale of zero to 10 where 10 is cut your right arm off to incorporate, you must do it, how would you score your report?" he said between zero and 3.

Deputy P.J.D. Ryan:

Yes, so he was marginally in favour. There is always a range of opinion. Richard Syvret is not a great believer in the benefits of incorporation.

Deputy G.P. Southern:

Believing in something: we are not talking about faith we are talking about an independent assessment, surely. You said he is not a great believer in incorporation but since then he said when he discovered some of the increases in fulfilment profits that were being generated (and the projections which may have been optimistic but nonetheless if we start with a figure like £5 million surplus and even in these

circumstances being generated, so over 4 years it is £20 million) when he found out what these figures were in 2005 and we asked him: “So, given the projected figures, what happened to your assessment in 2005 when you wrote a letter expressing those concerns?” he said that score from zero to 3 would have gone down. So the independent assessment of cost benefit of incorporation was scored very low.

Deputy P.J.D. Ryan:

As I recall, Richard Syvret’s second report, which you are referring to, was not something that he was asked to provide. It was a self-motivated report. It went to EDC and EDC said: “Thank you very much, we are aware of this”.

Deputy G.P. Southern:

I have seen the response. It is fairly dismissive.

Deputy P.J.D. Ryan:

I think it is fair to say though that a lot of what Richard Syvret was talking about was loss of potential monopoly profits. Richard Syvret comes from the school, I think a little bit and it is a legitimate perspective and viewpoint, that in an island this size we can make lots of monopoly profits: “Telecom has made a lot of monopoly profits over a period of time; Jersey Post should make a lot of monopoly profits”. What that does is ignores the benefit to the consumer of having lower telecoms prices or postal prices or fulfilment prices through competition. It ignores the benefits of competition. The States decided in 1998 to expose their publicly owned trading businesses of post, telecoms, that there was more consumer benefit than there was consumer loss due to the loss of potential monopoly profits. I suppose philosophically the thinking is that you end up with over-bloated, inefficient public services when you do not expose them to proper competition.

Deputy G.P. Southern:

I think there are 2 arguments there. I think Richard Syvret certainly would accept that telecoms is a market in which competition is effective and it is crying out for competition and that will effectively bring prices down. He tends to see Jersey Post as somewhat different. He says it may well be that this -

Deputy P.J.D. Ryan:

It is a legitimate view and there are a number of great differences between Jersey Post and Jersey Telecom, not least of which is the size of its balance sheet.

Deputy G.P. Southern:

On those sort of terms he is saying those sort of surplus levels, set against the level of assets of the order of £12 million or whatever it is, look excessive and that post incorporation almost inevitably JCRA (Jersey Competition Regulatory Authority) will be forced to look at introducing competition, probably

will prefer real competition rather than artificial. Where can that competition be involved? It is obviously going to be in the profit-making sector; it is going to be in the fulfilment business. You get a vicious circle whereby there is a serious danger of what were your monopoly revenues going to the States will be lost because a certain portion of the business and the profitability may well be endangered.

Deputy P.J.D. Ryan:

Jersey Post has some fundamentals which are quite different to Telecom's. I mentioned the financial ones but they do not have to be there. The States could easily do something about that by voting, as they did in Guernsey, large sums of money on to the balance sheet of Guernsey Post or Jersey Post. Guernsey Post's balance sheet is much bigger than Jersey Post's but only because a lot of its revenues are held in cash deposits, cash balances. But in terms of its operating, Jersey Post tends to be much more labour intensive, perhaps, than Jersey Telecom. The business of collection and sortation is much more labour intensive. I am not necessarily saying that I agree or disagree in the case of Jersey Post but a free marketer would say that there is therefore more potential for inefficiencies through labour restrictive practices or whatever you might want to call them. There is more potential for that in a post office than there might be in the telecoms industry, I do not know. That is not necessarily a position that I would take but others would say that. So the benefits of incorporation and exposing Jersey Post to competition might have an effect in that area, more so than they might in more a capital intensive industry, and that is the point I am making.

Deputy G.P. Southern:

You pay your money, you take your pick?

Deputy P.J.D. Ryan:

Yes, to some degree you do. If we are moving to what EDC did (and as Chairman of the Competition Policy Sub-Committee, of course, I know a lot about this, about competition policy, and we were also responsible for postal services law) what we did do to protect the public interest in this area that you are talking about was add an article into the postal services law, that is Article 81(b), I think, which mitigates against excessive competition being introduced too quickly on Jersey Post in some ways in that it ensures that the JCRA have to take the ability for Jersey Post to repay its debts to the States as one of its prime considerations. Now, that is quite a big extra responsibility for the JCRA and it is not something that you would normally see in a law that a body like the JCRA would have to be responsible for but it is there and I think it goes some way towards --

Deputy G.P. Southern:

It hampers the JCRA in its operation, effectively.

Deputy P.J.D. Ryan:

To some degree it does hamper the JCRA but it will disappear in 10 years time.

Deputy G.P. Southern:

I hope it disappears before that because they are due to pay off the loan to the Jersey States in 4 years time so if we are still waiting to get our money back in 10 years time something has gone wrong. I am aware that we have done an hour. Is there anything you want to chip in?

Deputy K.C. Lewis:

Just one final one from me. We have noted a significant rise in the capital reinvestment in the years proceeding incorporation. Was this a deliberate policy to prepare the company for incorporation?

Deputy P.J.D. Ryan:

Categorically, no, but anyway I would challenge that that was the case. Before my time, before 2003, I cannot comment, I was not involved. I have sought to find out what those are in a very short space of time and I have not been able to but I am sure that I can get that for you if you want it. You may recall that as a result of the new commercial agreement with Royal Mail, one of the main parts of addressing that huge increase in cost that there was from 2003 onwards was a curtailing of capital expenditure and if you look in 2003 I think we are talking about --

Deputy G.P. Southern:

Is this one to let you come back on?

Deputy P.J.D. Ryan:

You can but in 2003 I think you will find capital expenditure is down to about £0.7 million, whereas traditionally it was considerably higher than that and investment in computers and sorting and sortation equipment is quite heavy traditionally in the postal industry. In 2004 I think it went back to £2 million but that was largely as a result of replacing the vehicle fleet.

Deputy K.C. Lewis:

The white vans?

Deputy P.J.D. Ryan:

Yes, the white van time. So it was replacing the vehicle fleet. That was a large chunk of that in 2004 and even then originally the Postal Committee were going to lease that vehicle fleet so you would not have seen that there. You would have seen it in revenue costs, effectively, because you would have had your leasing costs coming through. When we looked at the cash position of Jersey Post, we reviewed that and decided that we had sufficient cash to purchase that fleet rather than lease it and it was better financially because obviously you avoid all the interest charges when you do that. Whenever you ask a finance company to take a risk on a residual value of a used van, on a second-hand value of a used van, there is a risk to reward (I know all about this because in the private sector ... I owe it to previous life)

that a finance company will take for taking on the risk of disposing of a van when it is 3 years old. We could not get that reward to a reasonable level so we decided that in the public interest we would take the risk ourselves and buy the vehicles rather than lease them with a guaranteed buy back or whatever you would like to call it. So that is why we did that and that is why you have got £2 million in 2004 which looks on the face of it to be slightly out of kilter with saving on capital expenditure but that is the reason. I think in 2005 it has come back down again.

Deputy G.P. Southern:

Thanks to a jetlagged Patrick Ryan. Thanks for your time.