

**SUMMARY OF POSTCOMM'S ANSWERS TO QUESTIONS 20 TO 60 ON
TERM OF REFERENCE 3**

	<p>Questions about Term of Reference 3 “consider how to maintain the universal service obligation in the light of trends and market developments identified”</p>
Q20	Is a delivery on each working day important to consumers, either for social or business reasons?
A20	A delivery six days a week is seen as important for residential customers but less important for SMEs. See paragraph 2.21.
Q21	Is the time at which mail arrives important to consumers, either for social or business reasons?
A21	<p>Postcomm's quantitative research (Customer Survey 2006 and 2007) suggests that residents and business customers are generally satisfied with current delivery times.</p> <p>SMEs expressed a stronger preference than residents to receive post earlier in the morning to enable them to manage their business and if necessary respond on the same day.</p> <p>See Paragraph 2.21</p>
Q22	Do business or social consumers have sufficient choice of services when sending mail for different purposes?
A22	<p>Liberalisation has increased both the choice of service provider and, as a result, the selection of services and products available to large business mail senders (this choice is gradually being extended to smaller businesses). See Paragraph 2.22.</p> <p>At the same time, residential customers and SMEs sending less than 250 mail items per day have remained captive customers reliant on Royal Mail as a service provider and on the choice of products that it makes available. See paragraph 2.24.</p>
Q23	Do consumers have sufficient choice as a recipient about where and when mail is delivered?
A23	<p>As noted in Question 21, Postcomm surveys show that customers are generally content with current delivery times. Delivery of parcels, packets and Special Delivery items requiring signature may, however, cause greater difficulty for residential customers who may be out during the day. Choice of delivery time exists for business users of Royal Mail. Business users can (at a cost of £250 a month or £3,000 a year) request timed delivery so that mail can be delivered within a 15 minute (30 minutes in London) timeslot from 6am Monday to Saturday. See paragraph 2.21.</p> <p>Younger and working people find the idea of alternative places for both posting and collecting items more useful than older and non-working people. Introducing</p>

	delivery to the boundary of the home or office rather than to the front door would be unpopular. See paragraph 2.21.
Q24	Would consumers accept that greater choice in services may mean a variable (but specified) delivery time?
A24	Postcomm believes that there are risks associated with any changes that could be perceived as a deterioration in service. See paragraphs 3.42.
Q25	Would consumers be willing to pay more for a wider range of services, whether as a sender or recipient of mail?
A25	Postal services are seen as affordable and as good value for money by residential and SME customers. However, there is evidence that postal services are increasingly price sensitive, so while customers are demanding increased choice through competition and innovation, they are also demanding lower prices. See paragraph 2.27.
Q26	What services should be offered as a minimum for senders and recipients of mail?
A26	<p>Royal Mail has made clear that it wants to continue to provide the universal service (albeit with reduced products) but considers that it is over-regulated and faces considerable challenges to transform its business. Based on the principals which we have set out above Postcomm considers that the following products can continue to be provided within a universal service:</p> <ul style="list-style-type: none"> • stamped mail up to 2kg; • single piece registered and insured; and • single piece packages. <p>Postcomm is not recommending any changes in the activities of the universal service.</p> <p>See paragraphs 2.40 to 2.46</p>
Q27	Which of these services do you believe would not be delivered by the market, on the basis that they are not economically viable?
A27	It is very difficult to identify elements of the universal service that would not be provided by the market because they are “economically unviable”. For example, the reason that a universal service product currently makes a “loss” may be due to Royal Mail’s inefficiency in providing that product(s) or poor marketing of the product. See paragraph 2.10 – 2.11.
Q28	The universal service was originally established to ensure that all UK citizens have access to postal services at a uniform tariff. Do you consider that the USO as currently defined fully meets that aim?
A28	The UK universal service has ensured that all UK citizens and businesses (in particular SMEs) have access to postal services at an affordable uniform tariff.

	See paragraph 2.12.
Q29	Do you believe that the universal service has other objectives, not covered in the Postal Act?
A29	Postcomm believes there is an implicit social service inherent in the universal service. It allows citizens, charities, public services and businesses to communicate easily and affordably both within the UK and internationally. Despite the increased importance of the internet and email, a universal postal service has provided and continues to provide an element of social cohesion at the local, regional and national level within the UK and also between the UK and other EU member states. See paragraph 2.13.
Q30	Are there elements of the universal service as currently defined which are no longer relevant to consumers?
A30	Please see the answer to question 26 above.
Q31	Do you believe that bulk mail services for business (either directed at other businesses or consumers) should be part of a universal service, and why?
A31	In 2006, after two consultations, Postcomm removed all bulk mail except First and Second class Mailsort 1400 and Cleanmail from the universal service. See paragraph 2.9. Postcomm considers that from 2010, subject to detailed consultation with the industry over the next 12-18 months, it may be appropriate for the remaining bulk mail products to be removed from the current universal service. See paragraph 2.43.
Q32	What is the (variable, fixed or sunk) cost to Royal Mail of the Universal Service Obligation, as it is currently defined?
A32	Royal Mail's regulatory accounts for 2006/7 show that the overall fully allocated cost of the universal service is £3.432bn. When setting the 2005/06 price control, Postcomm estimated that 40 per cent of Royal Mail's fully allocated costs were fixed, so this would mean a split of £1.373bn and £2.059bn to fixed costs and variable costs respectively. See paragraph 2.53.
Q33	What are the externalities (for example, environmental and social) associated with postal services?
A33	Provision of a universal postal service imposes externalities (or costs) on society. For a universal postal service, externalities include the emission of pollutants including carbon dioxide, oxides of nitrogen and noise associated with the collection, delivery, trunking, sortation and network activities that are necessary to handle physical items of mail. Physical items of mail will, once produced, need at some stage in their lifecycle to be disposed of, often as waste in a landfill. See paragraphs 2.17 to 2.18.
Q34	What are the public goods associated with the provision of postal services?
A34	Please see the answer to question 29 above.
Q35	What other options are available for meeting consumer needs; and what would be their cost?
A35	The availability of internet, and in particular broadband connectivity, has

	<p>increased significantly in the UK. It is apparent that the growth of new communications media (email, internet, mobile phones etc) has made the social cohesion aspect of the universal service less relevant for many. However, there are often no, or very limited, alternatives for the single piece parcels component of the universal service (particularly smaller packages below 2 kg). In many cases alternatives are more expensive and other operators do not offer full UK coverage, or charge a supplement for distant locations such as the Scottish Highlands. See paragraphs 2.29 to 2.33.</p>
Q36	<p>Do you consider that the obligation to provide the universal service is a commercial benefit or disadvantage for Royal Mail? Why?</p>
A36	<p>Postcomm would argue that the universal service provides a unique selling opportunity for Royal Mail. Indeed in a recent press release Royal Mail has acknowledged that rather than being a liability the universal service is an asset for Royal Mail. See paragraphs 2.47 to 2.56.</p>
Q37	<p>Could the obligation be shared among Royal Mail and alternative carriers?</p>
A37	<p>Royal Mail has argued that it should be the only provider of a universal service. However there is no logic to this argument when it has acknowledged that it will be unable to do so without making a loss. A universal service should be provided by the most efficient operator for a given level of quality. Indeed, where Royal Mail is unable to provide the quality required by customers, third parties could be empowered to do so. Moreover, the amended Directive now requires Member States to revisit universal service designations on a periodic basis, to ascertain whether those designations remain appropriate based on transparent, proportionate and non-discriminatory principles. There is no requirement for there to be only one provider. See paragraph 3.28.</p>
Q38	<p>What should be Royal Mail's role in providing the Universal Service?</p>
A38	<p>As we set out in our first submission it is Postcomm's view that a financially robust Royal Mail, as part of a competitive market, is essential to deliver a universal service and to meet the needs of customers in the short-to-medium term. With Royal Mail currently carrying 99 per cent of all addressed mail over the final mile, other operators do not yet have the scale to step in and provide all the mail services required by customers. Royal Mail's decline would, therefore, threaten not only the future viability of the universal service but the UK mail market itself. However, as set out above, provision by third parties maybe required if Royal Mail is unable to transform and provide an efficient service. In addition, Royal Mail should be encouraged to investigate whether efficiencies could be achieved by partnering with other providers to provide elements of the universal service, such as upstream collections. See paragraphs 3.14 to 3.20.</p>
Q39	<p>Can the universal service continue to be financed internally (without a subsidy)?</p>
A39	<p>Postcomm considers that the only way that Royal Mail can deliver an internally financed universal service is through a significant transformation which would result in radically reduced costs and increased efficiency and innovation. Postcomm is concerned that Royal Mail, under its current constraints and on current trends, will not be able to achieve the required transformation without a change programme that is far more radical than the path that is now being taken. See paragraphs 3.14 to 3.20.</p>

Q40	If not, how should the universal service be financed?
A40	<p>Postcomm considers that there are a range of options open to Royal Mail which will allow it to deliver the transformation that is required and secure the provision of a universal service. These options include improvements in efficiency and cost reductions. See paragraphs 3.22 to 3.38.</p> <p>There are risks should transformation not be delivered. Among these risks is that some form of external funding is required for an inefficient Royal Mail. See paragraphs 3.39 – 3.52.</p>
Q41	Does Royal Mail have the capacity to deliver the universal service in an effective way?
A41	<p>Despite maintaining a high quality of service for all universal service products at relatively low prices, Royal Mail appears to be struggling to meet the universal service profitably in an environment characterised by substitution-driven decline in most mail volume streams and higher than anticipated access competition. Royal Mail continues to face problems with continuing poor industrial relations and the need to invest and make savings from automation. Its pricing strategies run the risk of “devaluing” the letters market instead of accepting and adapting to a measure of delivery competition where it has no alternative but to lose some market share.</p> <p>As a 100% state-owned operator, it operates in an environment where its financial problems, whether or not of its own making, can lead it to seek additional subsidies or seek to adapt regulation in its own favour instead of further restructuring and adapting to new commercial realities. Its managers may find this an easier option than tackling the protective actions of the union to its traditional working practices and privileges. An environment of actual and potential competition makes it essential to achieve a more efficient cost base but the current structure has not delivered this.</p> <p>Postcomm discusses a range of options open to Royal Mail which could allow it to deliver the transformation that is required and secure the provision of a universal service in paragraphs 3.22 to 3.38.</p>
Q42	If not, what are the changes necessary, in terms of the company’s mission, management, investment plans, structure or working practices?
A42	It is Postcomm’s view that in order to achieve the required transformation essential to deliver a universal service, Royal Mail’s ownership and structure must be reviewed. Postcomm considers that the injection of private capital is an important contributor to avoiding an outcome of decline at Royal Mail. Royal Mail’s efficiency, innovation and flexibility are likely to be enhanced through access to private capital, thereby creating a stronger business to ensure the continued provision of a sustainable universal service in the future. See paragraph 4.1.
Q43	Can these changes be delivered within public ownership?
A43	Please see question 42 above.
Q44	If not, why?
A44	It is Postcomm’s view that governance of Royal Mail matters significantly

	<p>because:</p> <ul style="list-style-type: none"> • currently commercial incentives can be muddled by the political dimension presented by public ownership where political considerations can conflict with commercial priorities; • important transparent market signals of (expected) performance, like share price, are absent under the present ownership structure; • because there is no transparent concept of capital and no meaningful calculation of financial return, those normally transparent signals of performance such as return on capital, are not responded to by a publicly owned operator in the same way as a business with private capital; • there can be no fear of takeover to hold management to account; • public sector finances tend to be more constrained and risk averse and slower to act than private funding sources (and there is a substantial need for investment in Royal Mail), and as a result certain aspects of the current investment plans could be sub-optimal; and • a change in ownership structure which introduces private capital, and any consequent restructuring, might enable the government to consider more radical options for addressing Royal Mail's pension deficit problem. It is extremely unlikely that any investor would be willing to commit to Royal Mail if the current pension deficit is not addressed, the amount of which is volatile and has been accumulated whilst Royal Mail has been under Government ownership. <p>See paragraph 4.5.</p>
Q45	<p>What further measures would be necessary to enable the changes listed in your response to Q42? In particular:</p>
A45	<p>It is not for Postcomm to decide on the right approach to the injection of private capital. However, any approach needs to consider how to address the constraints in the current governance model. See paragraphs 4.7 to 4.13</p>
(a)	<p>Should Royal Mail and Post Office Ltd continue to form part of the same group?</p>
A45(a)	<p>Postcomm believes there is a strong case for demerging POL from RMG so that each business can focus more attention on their divergent problems. It is clear that POL needs to have a dedicated focus to face the twin challenges of responding to changing customer needs and establishing a sustainable network. The introduction of private capital into Royal Mail letters should be a separate debate to private capital in POL.</p> <p>If demerger was to be considered by government, Postcomm suggests it would be facilitated by the following conditions:</p> <ul style="list-style-type: none"> • a strategic plan for a stand-alone business. POL has developed its strategic vision to 2011, and lessons from this plan will need to be built upon for a longer-term strategy; • commitment from all parties to make it work, in particular POL, Royal Mail, the community of sub-postmasters and the government; and • a fixed-term agreement between Post Office Ltd and Royal Mail to secure

	<p>mail service payments to POL and protect access to postal services.</p> <p>Postcomm explores the relationship between Royal Mail and POL in paragraphs 4.14 – 4.29.</p>
(b)	<p>Do you support the idea of wholesale equivalence (separating Royal Mail's upstream and downstream operations), and why?</p>
A45 (b)	<p>Postcomm considers that "equivalence" may be defined as:</p> <p>"Equivalence of treatment (in price and non-price terms) between third parties and Royal Mail items accessing any part of Royal Mail's network".</p> <p>Separation is the formal identification of specific elements of Royal Mail's pipeline. It can range from accounting separation, either on a cost or profit and loss basis, through to operational separation and full separation into different legal entities. Separation has been successfully implemented in other network utilities, including the energy and telecommunications sectors.</p> <p>Postcomm is currently consulting on equivalence. An industry letter was issued on 17 January 2008 with responses to be received back in March 2008. Postcomm's proposals on this matter will be issued in summer 2008 as part of its proposals for the regulatory framework for post 2010.</p> <p>Subject to consideration of points made in response to its industry letter, Postcomm is likely to propose that some form of equivalence should form a critical part of the overall regulatory framework for post 2010.</p> <p>Again, subject to the outcome of the consultation, Postcomm is likely to conclude that some form of separation will be required and is still evaluating both the degree of separation and the points of separation that would be required.</p> <p>See paragraphs 5.49 – 5.55</p>
(c)	<p>Do you support the idea of commercial equivalence (separating Royal Mail's sales and marketing function from the management of the collection, sorting, transportation and delivery network) and why?</p>
A45(c)	<p>At this stage Postcomm considers that "commercial equivalence" (the separation of the sales and marketing functions from the operational function) does not address fully the key questions above; in particular promoting competition or allowing for less regulation of Access controls. See paragraph 5.60</p>
Q46	<p>What is the impact of Royal Mail's pension liability and deficit on the company's ability to trade; and what are the implications for management?</p>
A46	<p>Based on Postcomm's modelling, Royal Mail is currently able to service the pension deficit, and will be in such a position for the near future. The service cost, whilst large in the context of Royal Mail's profits, is currently equal to approximately 3% of Royal Mail's Group operating costs, and therefore represents only a small portion of the total costs of the business.</p> <p>The greater concern for Royal Mail is the size of the deficit by comparison to Royal Mail's other assets and liabilities. Currently, the accounting recognition of the deficit results in RM being insolvent on a balance sheet basis.</p>

	<p>In addition, the size of the deficit is subject to substantial fluctuation resulting from changes in market factors.</p> <p>As a result, the size of the pension deficit may make it difficult for Royal Mail to finance its activities as: -</p> <ul style="list-style-type: none"> • new equity in the business from the current shareholder might be prohibited by state aid law; • lenders will be unwilling to provide medium-term finance to Royal Mail, due to the size of its current and potential future pension liabilities; and • the Trustees, and, if necessary, the pension regulator, would be unwilling to allow any sale of the business as a going concern without an increase in the funding of the pension deficit. <p>The implications for management are:</p> <ul style="list-style-type: none"> • Management will need to take account of the financial liability to the Trustee when embarking on any investment strategies which will require external funding; • Management will find it more difficult to consider any reduction in the scale of the core business due to the need to maintain sufficient size of business to service the group’s pension liabilities; • Management will need to work with the trustee on agreeing a process for de-risking the pension scheme and therefore the future obligations of Royal Mail; and • Management will be under pressure from the Trustees to de-risk the Royal Mail business, to ensure that a healthy sponsor for their scheme is retained. <p>See paragraph 5.68</p>
Q47	Is the “final mile” (the ability to deliver to all 28 million addresses in the UK) a natural monopoly?
A47	<p>Postcomm considers that competition in delivery will develop in the longer term. There is scope for increasing efficiency from competition and new entry even if Royal Mail has some economies of scale. Whether these dynamic efficiency benefits are bigger or smaller than the extra cost of any duplicate network depends on how and where competition develops and the size of the economies of scale that may be lost. However, if new entrants can build up volumes quickly, or can piggy-back on other existing networks, or are much more efficient than Royal Mail, they should be able to enter the market profitably. In addition competitors may provide alternative services and greater choice for customers, and compete on value added rather than just on price and efficiency.</p> <p>See paragraphs 5.22 – 5.28</p>
Q48	Is the “first mile” (the ability to collect from all postboxes and post offices in the UK) a natural monopoly?
A48	<p>There is already competition in collection from many businesses in terms of parcel, international mail and some domestic mail. Given the number of items per collection there is probably sufficient opportunity for more than one collector. There are also other models for collection, or access points, such as DHL Express’s Service Points, Mail Box Etc, Kiala (currently piloting in Manchester)</p>

	<p>and opportunities to exploit other networks such as Paypoint (which has some 19,000 access points).</p> <p>Post offices represent a defined and reasonable number of access points so it is easier for more than one operator to be able to access the market without necessarily creating large inefficiencies (if the new operator is given access to the post office network). It may be similar to a situation where access operators collect from large firms which they are able to do more cheaply than Royal Mail so as to be able to lower overall posting costs for a bulk mail sender.</p> <p>By contrast, in the case of pillar boxes, the practicalities of collecting from all post boxes for all alternative operators would present logistical challenges in enabling an individual operator to be able to pick up only its relevant mail from a single pillar post box.</p> <p>See paragraphs 5.29 to 5.34</p>
Q49	To what extent has the access regime enhanced the possibility of competition in the final mile, or reduced it?
A49	<p>Access provides competitors with the opportunity to focus on upstream service where they have competitive cost advantage, and to the extent that it doesn't require the same set-up investment as developing a full end-to-end network, it could be said that the availability of access has encouraged competition in upstream rather than delivery. However, it is also true that access volumes should provide competitors in the longer term the customer base and mail volumes required to build up their own delivery network.</p> <p>Postcomm is aware that there may be elements of the current access regime that are acting as barriers to entry for competition in delivery. Postcomm is currently consulting on these potential barriers, and will be publishing its initial proposals in August 2008.</p> <p>See paragraphs 5.39 to 5.48.</p>
Q50	Do you believe that the regulator should set limits on prices for social mail, or other forms of mail, and why?
A50	<p>Postcomm believes it is appropriate to regulate Royal Mail prices in order to ensure the universal service remains affordable, and to promote competition. Where there is inadequate competition along the pipeline or among a customer group, customers need continuing ex-ante regulation of this nature until competition is able to keep prices at a competitive level. Postcomm recognises that price control regulation needs to be continually reviewed and that there may be certain elements of the current price control regime that restrict competition under existing market conditions. In its review of the regulatory framework, Postcomm will be focusing regulation on non-contestable elements of the pipeline or where customers have limited or no choice and could include:</p> <ul style="list-style-type: none"> • a reduction in price and service control to the appropriate level consistent with Postcomm's duties made possible by Royal Mail's increased cost transparency. This could include the removal of price controls for most business mail, leaving within the regulatory framework possibly only stamped mail (for consumer and micro businesses) and metered mail (at least in the short term) for SMEs;

	<ul style="list-style-type: none"> • market testing and outsourcing of elements where there is no competition for Royal Mail's activities both to test the efficiency of provision, but also where quality does not reach acceptable levels. The degree of prescription will be dependent on the incentives provided by Royal Mail's governance model and the degree of comfort Postcomm has in these rather than other regulatory measures; and • regional benchmarking between similar activities within Royal Mail. <p>See paragraph 5.38.</p>
Q51	Which is the more appropriate system of regulation under the current market conditions: ex-ante or ex-post regulation, or a combination of both? Please explain.
A51	As part of the regulatory framework for post 2010 Postcomm's intention is, where feasible, to move progressively from ex ante to ex post regulation. This will only be possible, however, with the introduction of measures such as cost transparency, effective equivalence and concurrency in the application of UK and EU competition law. See paragraphs 5.37 – 5.67
Q52	What criteria should be used to determine when regulation can be withdrawn, as competition develops?
A52	<p>The scope of the current price controls has been set on the basis of an assessment of the extent of competition in the provision of postal services. Postcomm needs to show that competition for a service is sufficiently developed to maintain the affordability of the universal service and protect the interests of users.</p> <p>In assessing whether products and services can be withdrawn from regulation, Postcomm would need to see a variety of information, including:</p> <ul style="list-style-type: none"> • the scale and nature of competition, including evidence of market entry and exit, market share analysis over time, size of major competitors and their expected sustainability and market trends such as the expected growth of the market; • barriers to entry and their effects including evidence as to the effect that Royal Mail's VAT privilege and economies of scale have on market entry; • a discussion of customer behaviour and the levels of buyer power and evidence of switching by major customers (e.g. Amazon) and likely switching costs; • price histories, to what extent it is possible to show that Royal Mail does not have price leadership in the market, the extent to which Royal Mail has increased prices up to the maximum allowed under the rebalancing caps of the price control and how Royal Mail's prices have moved in response to competitive entry; and • other factors – information on the need for ex ante price and quality of service regulation to ensure the continued provision of the universal service, and whether other firms in association with general competition

	<p>law, would be effective at constraining Royal Mail's behaviour.</p> <p>See paragraphs 5.37 to 5.38</p>
Q53	<p>Should the price of different postal services reflect their costs? Or are cross-subsidies a natural and inevitable part of running a network business?</p>
A53	<p>It seems appropriate and in the interests of consumers to set a single charge for all stamped letters, although this results in subsidy of rural customers and London customers, where delivery costs are higher, by other customers.</p> <p>However, it is appropriate for cross-subsidies to be kept to a minimum, and limited to those in the interests of consumers as a whole.</p> <p>Where, as in Royal Mail, a network business operates different tariffs in return for different quality of service, it is appropriate for those tariffs to be cost-reflective.</p> <p>Royal Mail currently argues, backed up by its profit analysis, that the current tariff structure unfairly subsidises certain customers for the benefit of other customers. In particular it believes that its business customers are cross-subsidising its stamp customers.</p> <p>However, because Royal Mail has a high number of costs that it is unable to attribute to a specific product, the precise costs for each of Royal Mail's products is open to debate.</p> <p>See paragraph 3.7 to 3.21</p>
Q54	<p>In current market conditions, what sort of regulatory framework would be most effective in stimulating innovation in the postal services sector to meet consumer needs?</p>
A54	<p>Please see question 45.</p>
Q55	<p>To what extent is an efficient Royal Mail important for the development of the postal sector more generally?</p>
A55	<p>Royal Mail is a business that has significant market power. It still has 80 per cent of upstream business, and still delivers 99 per cent of all mail and delivery competition has declined marginally. Royal Mail itself also acknowledges that residential and smaller SMEs have no choice at the moment and are reliant on it. Royal Mail will continue to be the dominant postal operator in the UK for the foreseeable future and be the main mail provider for social and SME customers. Therefore an efficient Royal Mail would provide benefits to customers by encouraging other competitors to compete through innovation and keeping prices at a minimum.. We discuss above the role of Royal Mail's governance structure and below the role of regulation on achieving a more efficient Royal Mail.</p> <p>With Royal Mail currently carrying 99 per cent of all addressed mail over the final mile, other operators do not yet have the scale to step in and provide all the mail services required by customers. Royal Mail's decline would, therefore, in the short-term, threaten not only the future viability of the universal service but the UK mail market itself.</p> <p>See paragraph 3.1 to 3.6</p>

Q56	Is it feasible that the postal sector should continue to be regulated separately from the wider communications market?
A56	This is a matter for government. However, Postcomm considers that the decision on any possible merger or closer working with Ofcom should be addressed once the new regulatory framework has been implemented. Any transition now would impact adversely the development of the regulatory framework for the period beyond 2010. See paragraph 5.70-5.71
Q57	What sort of regulatory framework would be the most effective in stimulating innovation in the postal services sector, under current market conditions?
A57	<p>Postcomm believes there is considerable scope to simplify the current regulatory framework, and make it more effective.</p> <p>Postcomm will be consulting on the following package of proposals, in parallel to promoting an environment for sustainable competition, for implementation by April 2010:</p> <ul style="list-style-type: none"> • continued but more flexible regulation of Access provision; • ensure equivalence of access to Royal Mail's pipeline; and • focus regulation on non-competitive elements of the pipeline or where customers have limited or no choice: <ul style="list-style-type: none"> ○ a reduction in price and service control to the minimum possible consistent with Postcomm's duties; ○ market testing and outsourcing of elements where there is no effective competition for Royal Mail's activities both to test the efficiency of provision, and where quality does not reach acceptable levels; and ○ more regional benchmarking between similar activities within Royal Mail. <p>See paragraphs 6.23</p>
Q58	Does the current VAT regime create distortions in the postal market? What are they?
A58	<p>Royal Mail is exempt from charging VAT, whereas new entrants are not. Around 50% of the market is unable to fully recover VAT on purchases, and financial services (representing the largest mailers) make up 43% of this. Competitors to Royal Mail estimate that 1 in 2 letters is inaccessible to competition (particularly delivery competition) because of the VAT distortion. Current VAT is a barrier to the entry of competition and as such significantly distorts the market.</p> <p>See paragraph 5.68</p>
Q59	In what order should any policy changes you believe necessary be implemented?
A59	<p>Postcomm considers it is essential to set a clear way forward for Royal Mail and the industry so that all stakeholders have a degree of certainty about the future. Our role is to shape the environment in which Royal Mail and other operators can develop and manage their respective businesses. Given the higher start up costs involved in delivery competition, this issue of market certainty is one to</p>

	which we will be giving increasing emphasis. Therefore, Postcomm will set out a clear road map of proposed changes when it issues its proposals for consultation in summer 2008. Postcomm has outlined what could be included in its proposed road map in paragraphs 6.30 and 6.31
Q60	Are there any other issues which you believe should be considered by this review which are not covered by the questions set out above?
A60	No