

**EUROPEAN POSTAL SERVICES CONFERENCE  
BRUSSELS 13–14 MARCH 2001**

**INTRODUCING COMPETITION**

**GRAHAM CORBETT  
CHAIRMAN POSTAL SERVICES COMMISSION UK  
(POSTCOMM)**

## **Slide 1. Introduction ...**

Thank you for giving me this very timely opportunity to talk to you about Postcomm's approach to introducing competition - timely because the end of this month – the 26<sup>th</sup> March to be precise – marks the moment when the UK Post Office or Consignia will no longer hold a statutory monopoly of the postal market and will require a licence from Postcomm to operate within a licensed area.

I am doubly glad to be joined here this morning by two speakers prominently involved in the development of the UK postal market – Alan Johnson MP and Derek Hodgson.

None of us in this room will have any doubt as to the importance of postal services to our economies. Where we may differ is in how we encourage them to be more responsive, more innovative, more efficient. What I want to do this morning is to explore how the introduction of competition can contribute to this end, and hopefully to stimulate your views.

The challenge for Postcomm is to encourage competition in the market in a way that will enhance the range and quality of services offered to postal users, thereby contributing more generally to the UK's competitiveness - and to do that while preserving the universal service.

But before I set out for you the approach that Postcomm is taking to the introduction of competition, let me to tell you a bit about ourselves and give you a brief overview of our role and responsibilities.

## **Slide 2. About Postcomm ...**

Postcomm only acquired its legislative teeth in November of last year. It is steered by a group of 7 commissioners of which I am the part-time Chairman. The Chief Executive is full time – the other five Commissioners are much more part-time than me. We come from a wide range of backgrounds, which is already contributing to the quality and depth of our decision-making.

It is critical to understand that we were appointed to act as an independent regulator of postal services – which means independent both of postal operators and of Government intervention. Our job is to apply the provisions of the Act of Parliament by which we were created:

## **Slide 3. Postcomm's roles ...**

**To protect customer interests** by, among other things, maintaining the universal service provision;

**To control the prices** the Post Office can charge and ensure it provides an efficient service, and;

**To promote competition** to the extent that it does not jeopardize the universal service nor prevent the Post Office from being able to finance its activities.

The Government has also asked Postcomm to **monitor the size and shape of the postal network** (the term used to describe the local post offices) and to report our findings. However this function lies outside our regulatory duties and we have no powers to prevent individual post office closures.

#### **Slide 4. End of the Post Office monopoly ...**

As I said at the outset, the Postal Services Act ends the UK Post Office's statutory monopoly later this month and allows other competitors to enter any part of the postal market if they are granted a licence to do so by Postcomm.

We must therefore be ready to encourage competition in the market in a way that will deliver benefits to postal users while preserving the universal service.

#### **Slide 5. UK and EU: the difference ...**

If you were listening carefully to all of that you may have picked up on one crucial difference between the UK situation and that in many other EU countries. In most member states the 'reserved area' (which in most countries means below 350 grams) remains a monopoly reserved to the sole universal service provider – generally under State ownership.

In the UK, by contrast, the whole market is now open subject to Postcomm's licensing regime, and above the 350 grams limit does not even require that. To that extent it is, in my view, fair to say that the UK has taken the opening of its postal market significantly ahead of the game. It is therefore a pity that this does not seem to be widely understood in Brussels.

Clearly the setting of the upper limit of the reserved area remains an important issue for the UK, particularly if this remains tied to the upper limit of the licensed area (I merely note in passing that this need not necessarily be the case, but that is a subject for a different if intriguing debate). It also remains important in terms of the levelness or otherwise of the wider European playing field in which both UK and other postal operators will be competing.

So later on this year we will be advising Ministers on the largest reduction in the top limit that we believe is compatible with the preservation of the universal service.

### **Slide 6. Why promote competition ? ...**

I doubt that effective competition in postal services is yet the stuff of British pub conversation. But I do know that few services generate as much public interest. More customer choice, better and more reliable postal services, and all at affordable prices lie close to the fabric of people's daily lives. And this in a sense is at the heart of our work on promoting competition.

People are not looking for a revolution. But they do want to see change and choice in response to their needs and priorities. This is what introducing competition has to be about – promoting better postal services for people and businesses.

Most importantly, however, not only does competition lead to consumer choice and better value through firms competing on price and quality, it leads to innovation and a healthy drive for efficiency. This is particularly key as players in the postal market position themselves to compete globally.

It is worth contrasting this with price controls – the other major tool in the regulator's tool kit. These can be effective but are ultimately far less responsive. Prices can be set for a period – say 5 years – and tightened to take account of efficiency gains at the end of the period. This sort of approach can be used to push prices down over time – but is not flexible enough to promote the full range of innovation and efficiency that competition can sweep forward. Regulation is rarely an adequate substitute for the rigours of competition. But the opposite IS true and as competition becomes more vigorous we shall be looking for ways of lightening the impact of regulation.

### **Slide 7. Twin pillars of Postcomm's work ...**

The other pillar to Postcomm's work on introducing competition is of course preserving the universal service. I have already explained that this is our paramount obligation. We will not – and indeed we cannot - introduce competition if we believe that to do so would jeopardize the universal service.

In the light of this, one of the key issues that we are tackling on the introduction of competition is the extent to which the universal service needs to be supported. This requires an assessment of:

- (a) whether the universal service is an obligation that would be avoided if the Post Office had the freedom to do so or is it by contrast a commercial benefit; and
- (b) if it is a commercial benefit, will that continue to be the case if the Post Office's market share falls under the pressures of competition.

In addition, we shall need to look at whether the Post Office (and indeed any other licensee) can finance its licensed activities in a competitive market. This may have as much to do with efficiency and how the Post Office chooses to organize its business as with the question of "loss-making" services, and what would or would not be provided without a universal service obligation. We do not intend to allow inefficiency and a reluctance to change to deny customers better value, choice and innovation. Our analysis on this is still very much in the development phase but we will share our thinking as it develops.

I might also note that if in fact there is a real cost of the universal service that needs supporting in a competitive environment then we may find ourselves hampered by the fact that UK legislation did not reflect the EC Directive's expectation that there would be some sort of compensation funding.

#### **Slide 8. How to introduce competition ...**

There is no magic solution to put before you. We do not want to be prescriptive about introducing competition, and we must always bear in mind the preservation of the universal service. Our approach must be realistic and pragmatic if we are to succeed. In these early days of developing our thinking we need to keep an open mind. Conferences like this are extremely helpful because you have real life experience of various models and can help us to test the boundaries.

In September 2000 we issued our first consultation document asking for views on how Postcomm should promote effective competition. This initial view suggested that we take account of a number of options:

- First, we could recommend (but not ourselves implement) changes to the current reserved area. In other words we could seek to lower the current weight or price threshold or could take certain products and services out of the reserved area. This would allow competitors of any size to operate fully and freely in those areas.
- Second, we could maintain the current reserved area, and decide to license operators within it. This would not only allow us to monitor who was in the market but also let us have an influence on how they operate through the license conditions we choose to impose on them.

- Third, we can in either case ensure access to the Post Office's infrastructure or to parts of it, which will be an essential component of any move to bring new players into the market.
- Or we could decide to run any combination of any of these or other options.

Within option two we will also need to consider how best to use our licensing powers to introduce competitors into the licensed area of the market while we continue to ensure provision of the universal service at an affordable price. We could for example identify particular areas of activity, which could be local, sectoral or geographic and which could be opened up to competition by granting a licence subject to meeting the necessary viability criteria.

None of this can be done hastily. Indeed let me emphasize that we have no preconceptions as to the desirable extent of competition either nationally or locally. Decisions to permit competitors into the market might be irreversible and no amount of theoretical modeling will enable us to predict with total assurance the effect of new entrants on the dynamics of the market. So we will need to take a steady and gradual approach to promoting competition. We will need at the same time to monitor the Post Office, giving it the right incentives to change from within. To become more efficient. To allow it to compete effectively with new, leaner companies. And throughout this gradual process, to ensure that efficiency benefits are passed back to postal users. However, we would hope to achieve this by setting the right regulatory incentives – we do not intend to run or micro-manage the business. Issues such as labour relations remain and must remain a matter for management – not the regulator.

[Last week we issued our latest consultation paper which re-emphasizes the importance we place on a gradualist approach to the introduction of competition.]

## **Slide 9. Timetable ...**

We do not expect things to alter overnight. But we do want to encourage a climate of innovation that will make our postal services a match for any around the world. That is why we are seeking views through our extensive consultation exercises on the meaning of “effective competition” and on the pros and cons of the various options. And that is why we are listening to the views of people in the UK and elsewhere and encouraging them to come forward with new ways of working.

As I mentioned, this process started in September of last year when we published our first consultation document on introducing competition, designed primarily to ensure that we were asking the right questions. That has produced over 50 detailed responses which are being analysed and followed up in our

continuing workplan. In May we will publish our second consultation document seeking more specific views on the pros and cons of different options for introducing competition. From this we will produce a more detailed analysis in September. As an independent regulator we take this work very seriously; our effectiveness and our reputation will largely turn on the rigour that we bring to this analysis. So there is a limit to how quickly this can be done. I think we are working to just about as tight a timetable as it is responsible to do.

## **Slide 10. Test of success ...**

The acid test of our success will be our ability to set a regulatory environment that furthers the interests of users of UK postal services. This means developing the right postal framework for the UK – one which can serve the general public not just today but also in a future beset by change both in the market place and in the technologies available to serve it. This is a considerable challenge but I believe we are on the right road to achieve it.

We know that introducing competition has got to be about more than systems and processes. It involves an important cultural change for the UK postal industry and its workforce. This is by its nature a long-term objective. We recognize the concerns of the workforce that competitors might move in and cherry pick work from the UK Post Office. That is why we will think very carefully before licensing competitors into the market. But these concerns will be best addressed if the UK Post Office responds to the challenge of competition by providing the sort of efficient and effective services that customers want.

Competition itself may not be the main threat to the Post Office – rather the bigger threat might be any inability or reluctance to respond to competitive pressures.

Finally, I would like to lay down a challenge. We hear frequent criticisms that not enough is being done to introduce competition to the postal market – but what we seldom hear are concrete suggestions about how we as a regulator should respond to the public's concerns about quality and service in post. All of our consultation documents, and presentations such as this one, will be available on the Web and we want you to read them and to respond to them. We really do want your views and comments.

Thank you again to the IEA for the opportunity to speak to so many of the key players in the postal market. You have selected an excellent topic for the conference. The issues are ones that will run and run. I look forward to hearing your views now, over the next two days and into the future.