Notes for

Graham Corbett's speech

to UK Mail Show

18 November 2003.

Cover slide 1: Conference organisers' title "Is it working?"

Slide 1: Watch-keeper's report

Positively last appearance as Postcomm chairman. So time for watchkeeper's handover report - course and speed; where we are going; coastal landmarks; wind and tides; upcoming course changes; visibility and hazards; adjacent shipping and are we getting there (Is it working ?)

But be warned of incipient ancient mariner syndrome. Outbreaks of insatiable desire to explain how we got here.

Apologies too for hopelessly mixed metaphors as I jump from one nautical analogy to another.

But the hero of the story is the busy little tug on this slide, working away to keep the shipping lanes clear for competition. Its name is Postcomm

Slide 2: Course and speed

Title page

Slide 3: Course

Where are we going? On course to full market opening in March 2007 and thence to the Land of the Postcomm Vision:

… "a range of reliable, innovative and efficient postal services, including a universal postal service, valued by customers, and delivered through a competitive postal market"

Slide 4: Coastal landmarks

The chart is now marked up to show the landmarks that will guide us to the Land of the Postcomm Vision. Market opening strategy finalised in March 2002. In January 2003 we opened 40% of Royal Mail's market (by volume) to competition. A further 30% will be opened in 2005 with the final 30% in 2007.

Slide 5: Other sightings

Real competition is slow to emerge but even the threat of it is already having an effect. .

- Royal Mail is now more efficient, and overall it is providing a more reliable service to its customers.
- Letters business was profitable last year and should be more profitable this year.
- Service quality has generally improved since 2000, although some services such as PPI are still unacceptably poor.
- A penalty scheme for non-performance – resulting recently in the first penalty of £7.5 million being imposed on Royal Mail – and a compulsory compensation scheme for delayed delivery for consumers are now in place.
- Prices are coming down. Prices will, by 2006, be around 5% lower in real terms than in 2001. The public tariff remains affordable and the public continues to get a good deal from Royal Mail for its money.
- Mail volumes continue to grow modestly, and are now about 5% ahead of 2000

These are for the most part RM's achievements, not ours. But we have created the climate which encouraged them.

Slide 6: Speed

Timeline across the centre. Decisions in red boxes, other events in blue.

Critics of our speed have varied from CWU and RM, who have complained (most of the time) that we're going too fast to Postwatch who say (most of the time) that we've been too slow. We think we've kept cracking on at a fair old lick to do what's needed.

- *Postcomm born on 6 November 2000*
- *RM licence granted 31 March 2001*
- *Cost of Universal Service study paper issues May 2001*
- *Market opening – Began June 2001, Proposals in January 2002, decision May 2002*
- *Market opening- Launched January 2003 alongside implementation of EC Directive*
- *Licensing regime – Begin licensing policy June 2002, standard licence December 2003 - 4 long term licenses and others in the pipeline*
- *Price control – Began November 2001, Proposals Oct 2002, Final proposal February 2003… came into effect April 2003*
- *Launch of review of Universal service in April 2003*

- *Access discussion - Proposals May 2003, decision ?Nov 2003*
- *And plenty more …*

Slide 7: Wind and tides
Title page

Slide 8: Wind and tides ... prevailing conditions

Need to recognise prevailing conditions – principally importance of universal service and uniform pricing, but also that RM will remain in public sector. EU Postal Directive continues to open up the postal market throughout Europe by reducing the weight steps.
Consequences of continued public ownership for impact of regulation. So competition has to be the preferred mechanism for achieving efficiency gains, innovation and improved service quality

Slide 9: Upcoming course changes
Title page

Slide 10: Upcoming course changes …

Access outcome. Decision hopefully before Christmas, but hazards ahead (later). Should lead the way to…..

….real market entry. Need to monitor development of the market and watch out for new hazards to shipping, of which more coming up

Relaxation of regulatory control as effective competition established – product by product

Development of the Universal Service – responding to what users want, changes in technology and e-commerce

Move towards more cost-based approach to pricing

2006 price control will get under way in 2004

Slide 11: Visibility and hazards
Title page

Slide 12: Visibility and hazards …

Dire straits of **access** – Visibility poor

Scylla and Charybdis of E2E v bypass.

When the access decision is published, hopefully before Christmas, both parties will be faced with a choice – to accept the decision and get on with the business of making access work, or take us to Judicial Review and spin the process out for months, or even, if it goes to the European courts, for years.

Effect of judicial roadblock is likely to be no real competition. If the roadblock is erected by Royal Mail we'll be forced back to other mechanisms to fulfil our remit. One of these would be to push for a separation of Royal Mail's downstream activities, and thus to put access terms fairly and squarely to the test of the market place.

In the meantime, we might need to revert to regulating Royal Mail as a defensive monopolist, rather than as a company willing to face a measure of competition."

But even if we do get the green light, will competition emerge, and over what time frame, and will it include E2E players?

Meanwhile RM has, encouragingly, set up wholesale division to go after downstream opportunities

Slide 13: Visibility and hazards ...

Reefs of **VAT**

One of most prominent of dangers to competitive equilibrium. Postcomm position published later this month.

Suggest that a reduced rate of VAT - about 5% in the UK – could level the playing field and would have minimal effect on Royal Mail's prices. Best of both worlds.

Lesser problems in the area include disputes over mooring fees (parking meter fines to you and me). A good case can be made for universal service provider having to empty letter boxes, but how to expect traffic wardens to distinguish between mail vans doing that and those carrying out competitive functions. A good issue for a discussion document – come on in!

Slide 14: Adjacent shipping
Title page

Slide 15: Adjacent shipping ...

European administrations. Germany, Netherlands on track for 2007.

EU Directive targets 2009 but if serious navigation planning doesn't start until 2006 unlikely to be achieved.

Welcome La Poste's recent statements imply that 2009 deadline is being taken seriously.

Also important to think about what the world looks like beyond liberalisation. What battery of tools will the Directive allows us as regulators to secure the universal service after the end date?

Suggests that key debate for us and others should be about the shape of the universal service we will want in the future. Believe others in Europe are watching our review with interest.

Slide 16: Is it working?

Question put to me by organisers.

You'd expect me to say yes, which I do, with conviction. But the reservation remains – how effective will the real competition prove to be, and what more can or should the regulator do to encourage it?

Because RM will remain the biggest ship in the pond for years to come. When we've ironed out all the controllable barriers to entry, the inescapable ones will still be powerful enough to ensure <u>that</u>.

RM's years of experience, its economies of scale, the geographic spread of its operations, its deep well of customer loyalty will all mean that the new watch-keeper is likely to be far busier clearing the channel of obstructions than applying sticking plaster to a lusty and vociferous Royal Mail.