

Jim Fitzpatrick Key-Note Speech

The Postcomm Forum

Tuesday 12 June 2007

Ladies and gentlemen, thank you. I'm pleased to be here this afternoon to set out the Government's vision for the postal market of the future.

We now have a fully open market here in the UK, and we are making progress in achieving a Single European Market. Underlying this in both cases is our aim to benefit the consumer. For the postal sector that means the sustainable provision of a universal service which reflects the needs of consumers, including the most vulnerable.

Postcomm has taken the lead amongst Europe's national postal regulators in having initiated a thorough public consultation on what services should be universal services and it is right that they should periodically revisit this question in the future.

There is much talk in Brussels within the Council at the moment about 'reserved areas'. This is a polite way of talking about maintaining a monopoly.

Monopolies do not have a good track record in producing services which are either cost-effective, or responsive to consumer need. By excluding competition, the scope for new ideas, new business models, and new services is reduced. Innovation, which is so important for giving mail a sustainable future as a medium of communication, is discouraged.

Open markets can grow, and offer business opportunities to all those who participate in them. Closed markets face only long-term decline. National operators will need to reform the way they work, improve their efficiency, and reduce their cost base.

Here in the UK, Royal Mail has made tremendous strides in improving its quality of service. Only two weeks ago it was able to announce its best-ever results in this respect, with 94% of first class letters delivered the next day during the 2006 – 07 Financial Year.

Overall, it either achieved, or surpassed, 11 of the 12 targets set by the regulator: a commendable

performance. I do not underestimate the stresses and strains caused to Royal Mail in preparing for a fully open market but I have no doubt that the stimulus of competition, and the need to serve customers who now have a choice of supplier, have contributed to these improvements.

But this work - still ongoing - is crucially important.

The lessons from other markets which have opened up are that those who commit to the process of transformation become more competitive, and better able to exploit the opportunities provided by open markets, than those who delay.

Indeed, the longer you delay, the harder the process of transformation becomes.

I know we are reading a lot in the press at the moment about the threat of industrial action. But let me be clear: pay negotiations and operational issues are a matter for Royal Mail's staff and directors. Pay disputes are a matter for the employer's and employees' representatives to resolve. We in Government are encouraging them to do so by engaging in constructive discussions. It is through such discussions, and not through the threat of strike action, that these issues will be resolved.

Moving onto the wider European debate the key messages we in the UK are taking to the discussions in Brussels on the Commission's proposal for a Single European Market in postal services are as follows:

- ◆ The postal market must transform to have a sustainable future along-side other means of communication.

- ◆ We are not going to achieve that transformation by protecting inefficient monopolies.

- ◆ We know that change can be challenging, but delaying will only make it harder, not easier.

- ◆ Sustainable mail services are consumer responsive services.

I have no doubt you are all aware of the various different ideas doing the rounds in Brussels.

I have already set out the reasons why delay is not in anyone's real interests. The demands for more studies mean more delay. It is my belief that in Europe we have indeed come to the time to take the decision. The liberalisation debate has been running for over 15 years. It really is time to draw this particular discussion to a close.

In that respect of course we, like Sweden are ahead of the game. We already have a fully open market, and have moved beyond reserved areas.

In the UK postal market today, the regulatory regime is key and Postcomm has a central role to play. The way it regulates the market is crucial to the way the market develops.

The purpose of regulation is to benefit the consumer, that is the yard-stick by which regulation must be measured. To be effective in that, stakeholders in the market must be given an opportunity to make their views heard, and must actively contribute to public consultations.

Postcomm's Strategic Review is an opportunity to do just that.

How the competition develops of course is another question. We are all aware of the ongoing debate here in the UK concerning both 'downstream access' and 'end-to-end' competition: **about whether an access regime is a precursor to end to end competition, or whether it might in fact act as an inhibitor.**

But that debate is not the real issue in the case for liberalisation.

What really matters is that the purpose of an open market is to fulfil consumer need. What both senders and receivers are interested in, quite rightly, is that their mail is collected on time and then safely delivered to the right address, in good condition, on the day they specify. Postcomm and the operators it licenses, have a shared interest in ensuring that the market functions properly in this respect. So long as it does, then mail as a medium of communication has a sustainable future.

One aspect of the regulatory regime, I am sure many of you consider crucial, is that of price control: it affects what Royal Mail does, and, in practice, sets a bench-mark against which other companies in the sectors will necessarily have their prices compared: either directly, or indirectly.

Price controls can be a controversial issue, but so can the whole issue of pricing in a market which is still dominated in terms of market share by the national operator. So it is interesting that the Forum's workshop this morning concentrated on a particular aspect of pricing, namely zonal pricing.

I know that many of you have views on this issue:
indeed quite strong views!

Zonal pricing, like all aspects of pricing, is a matter for the regulator, Postcomm. Our role in central Government is to set the wider context in which its decisions are carried out. That is what we did in the 2000 Postal Services Act. We gave Postcomm a primary responsibility to ensure the sustainable provision of a universal service.

We also empowered it to promote effective competition, to further the interests of users of postal services; and at the same time to have regard to the interests of vulnerable individuals.

These are the criteria which inform its decisions.
Your role, and it is a vital role, is to ensure that all the relevant information is made available to it, to ensure its decisions are fully informed by the facts.

It is those facts which will enable the right balance to be struck between Royal Mail's legitimate aspirations to operate a cost-based pricing system - which they must, if competition is to be sustainable, and not just based on pricing anomalies - and the need to ensure that consumers living in certain geographical areas, do not face unreasonable increases in such things as subscription costs.

In conclusion Ladies and Gentleman, finding that balance will no doubt be a challenging task. But so is the wider market reform and liberalisation programme which we are working to achieve across the EU. We are now 18 months into full market opening here in the UK, and I have no hesitation in asserting that this has been a positive experience for all who are stakeholders in the postal sector.

I can assure you ladies and gentlemen that we in Government are fully committed, to ensuring that it stays that way.

Thank you.

Ends

