

Our Ref: GS 10.0

P D Dhesi
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31 January 2006

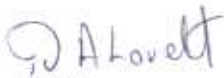
Dear Mr Dhesi

Competitive Market Review 2005

I am pleased to attach the Communication Workers Union's submission in response to Postcomm's proposals for tackling barriers to entry in postal services, which were included in its 2005 Competitive Market Review document.

I would be grateful if you could confirm in writing your receipt of this submission.

Yours sincerely


W Hayes
General Secretary



**COMPETITIVE MARKET REVIEW
PROPOSALS FOR TACKLING BARRIERS TO ENTRY IN POSTAL SERVICES:
POSTCOMM CONSULTATION**

CWU SUBMISSION

Introduction

1. The Communication Workers Union (CWU) represents around 250,000 employees in the postal, telecoms and related industries. It is the recognised union in Royal Mail Group for all non-management grades, including those responsible for the collection, sortation and delivery of letters and parcels.

Background

2. Postcomm published its Competitive Market Review document in November 2005. As part of the findings it identified that competition remained at a formative level due to a number of barriers to entry. It therefore concluded "a reduction in the barriers to entry ... is likely to encourage both the speed and level of competitive entry to the benefit of all customers." Accordingly Postcomm made policy proposals principally in the following areas:
 - a. Customer inertia/lack of awareness;
 - b. Royal Mail's VAT status;
 - c. Low level of margins available to alternative providers;

- d. Royal Mail's pricing behaviour;
- e. Operational difficulties arising from access arrangements;
- f. Potential for anti-competitive behaviour by Royal Mail;
- g. Licensing/mail integrity regulations; and
- h. Time taken by Postcomm to make decisions.

3. Postcomm has requested views on its policy proposals by 31st January 2006.

CWU Response

4. The CWU has carefully considered the diverse policy proposals contained in Postcomm's document. We have serious concerns in relation to a number of key elements of these proposals. These are discussed in more detail below:
5. **Customer Inertia/Lack of Awareness:** We are pleased that Postcomm recognises in its document the generally high and improving level of customer satisfaction with Royal Mail's services. However, as set out in our responses to previous consultation exercises, we are extremely concerned that Postcomm is planning to take an active role in "improving awareness and confidence of customers about market opening to raise awareness of the opportunities for customers". We would seriously question the extent to which Postcomm should be promoting "the choices available in the market". As has been shown by the rapid development of third party access, Royal Mail is currently facing competition from a number of companies who are already extremely experienced at growing their market share in a competitive environment. In our view, the independent industry regulator should not be promoting alternative service providers at the expense of the state operator.
6. **Royal Mail's VAT Status:** The CWU remains absolutely opposed to the removal of Royal Mail's VAT exempt status. Removing the company's VAT exemption would simply represent a victory for the ideological pursuit of market theory at the expense of commonsense. While we note that Postcomm is proposing that VAT should be introduced at a low level, so that postal prices do not rise significantly, we are firmly of the opinion that any overall increases in

the price of postage should be reserved for those occasions on which such an increase is necessary to meet the rising costs of the universal service provider or to provide necessary funding for investment. They should not be utilised to further the regulator's competition agenda.

7. We would particularly like to point out that the cessation of Royal Mail's VAT exemption would only be to the benefit of a relatively small number of big business customers, while the vast majority of customers – including social customers, small businesses, charities, educational establishments and financial institutions – would not benefit from the proposed changes, and would be likely to have to pay higher postage charges as a result. We are unable to see how this is in the interests of these customer groups, Royal Mail or the wider UK postal sector.
8. **Low Level of Margins Available to Alternative Providers:** The CWU has already addressed a number of the relevant issues in this area as part of its response to the 2006 Price Control. The market logic which results from Postcomm's market liberalisation and related activities clearly means that Royal Mail is under pressure (and is required) to bring its prices more closely in line with costs. We do not believe that Royal Mail's economies of scale – which as Postcomm rightly observes "means that it can offer customers much lower prices than would otherwise be the case" – should be viewed as a negative factor. On the contrary we believe a clear argument can be made that they continue to act in the interests of the vast majority of postal users. We oppose Postcomm's proposal to bring access prices within the terms of the price control.
9. **Royal Mail's Pricing Behaviour:** The CWU opposes bringing access prices within the terms of the price control. We are unable to see how such a modification is either desirable or necessary. First and foremost, we do not believe that the operation of the existing arrangements necessitates such an approach. The agreements which led to the development of the third party access products were the result of open commercial negotiations between Royal Mail and licensed private postal operators. These companies freely

entered into these agreements and it is clear that they are already deriving significant financial benefits from them. The development of access has already far exceeded Postcomm's own projections. As evidence of this, recent figures released by Royal Mail show that in the region of 90 million items of access mail are being carried each month.

10. Operational Difficulties Arising From Access Agreements: We are sceptical about the range of operational difficulties which have been identified by some respondents to Postcomm's competitive market review. We believe that the large quantities of mail which are already being carried through this route provide an effective answer to at least part of the allegation of "operational barriers". We also believe that introducing a new service on the scale of downstream access will inevitably lead to a range of operational issues at the outset. However we believe these issues are best resolved in direct discussions between Royal Mail and the alternative provider or customer in question. While we accept that Postcomm's proposals for a two-year freeze on the access price are an improvement on its initial proposals, we believe that during this period the regulator should undertake a separate consultation exercise on the question of access looking at operational issues including the possible development of an access code.

11. Potential for Anti-Competitive Behaviour: We note that Postcomm attaches considerable importance to clear processes and arrangements for dealing with instances of suspected anti-competitive behaviour by Royal Mail. We do not deny the importance of putting in place clear procedures for investigating allegations of this sort of activity. It is obviously in the interests of all industry stakeholders that there is a shared understanding of the types of issues which may fall into this category, how the regulator will carry out its investigations and what the potential outcomes may be. Nevertheless, we are concerned that a clear distinction is drawn between anti-competitive behaviour and legitimate competitive response by the state operator. There must be a level playing field for Royal Mail in the new competitive market. It is absolutely vital that private postal operators are not able to utilise anti-competitive behaviour mechanisms to frustrate or prevent a legitimate competitive response.

12. Licensing/Mail Integrity Regulations: The CWU supports Postcomm's decision that a different licence for small operators should not be introduced. As set out in our response to Postcomm's original consultation in this area, the CWU is strongly concerned that concessions should not be made to small postal operators which could lead to damage being done to the reputation of the wider postal sector. We believe that small operators should be subject to the same performance measurement and complaint handling conditions as apply to larger companies. If the operator is of a smaller size, it would appear that the smaller volumes of mail carried and associated reduction in scale should mean that it will be far easier for these operators to monitor performance and security-related issues. It will also be just as important to their prospective customers that they are able to clearly evaluate the relative performance of such operators and to have any complaints easily and effectively resolved. We are therefore unable to see the justification for treating small operators differently from larger ones. We believe that Postcomm has made the correct decision in this area.

13. Postcomm's Review of the Exclusive Relationship Between Royal Mail and Post Office Ltd: The CWU strongly opposes the principle of alternative providers being allowed to access the Post Office network. We believe that the exclusive relationship between Royal Mail Group and Post Office Ltd is a key part of the arrangements underpinning the provision of a universal service in the UK. We believe that any attempt to introduce competition in the UK postal services market through post offices would be likely to have an adverse effect on the universal service. We also believe that it would be likely to result in severe operational difficulties in many of the offices concerned.

For further information on the view of the CWU contact:

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