

**POSTCOMM'S COMPETITIVE MARKET REVIEW  
CWU SUBMISSION**

**Introduction**

1. The Communication Workers Union (CWU) represents 258,733 staff 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 is currently seeking the views of interested parties in relation to the development of the postal market in the UK and what might be done “to further the interest of postal users through promoting effective competition, while ensuring customers continue to benefit from a universal service”.
3. In its consultation document, Postcomm identifies a number of key developments due to take place in the coming months which will have important implications for the UK postal sector. In particular it identifies:
  - The ongoing development of Royal Mail's 2006 price and service quality review; and
  - The need to determine Postcomm's approach to third party access, through the publication of an access code.
4. In addition it should also be noted that Postcomm has recently published its *Decision Document: The UK's Universal Postal Service* which sets out its views on which of Royal Mail's existing products and services constitute the

universal service. However, it has deferred a decision on which of Royal Mail's bulk mail products best meet the requirement of a universal service until the next stage of the Competitive Market Review exercise in September 2004. In the interim all of Royal Mail's bulk mail products (except Presstream and Mailsort 3) will continue to form part of the universal service.

### **CWU Response**

5. The CWU has carefully considered the issues raised by Postcomm's Competitive Market Review. From the outset we would like to emphasise our fundamental and overriding opposition to Postcomm's approach. Since its inception, we have remained consistently opposed to Postcomm's liberalisation agenda and have explicitly stated this opposition in response to the regulator's various competition-related consultations.
6. We have not structured our response to precisely match the subjects raised in Postcomm's questionnaire; however we believe that the issues which we have addressed go to the heart of our reservations in relation to Postcomm's approach to the liberalisation of the UK postal market. Our views in relation to Postcomm's consultation are set out below.

### **The Problems with the Existing Approach**

7. **Legislation:** As stated above, we are fundamentally opposed to Postcomm's approach to competition. First and foremost we believe that the regulator is not paying sufficient attention to the duties which were given to it under the Postal Services Act (PSA) 2000. The legislation is explicit – Postcomm's primary duty is to ensure the provision of a universal service at a uniform tariff. The promotion of effective competition "where appropriate" is of secondary importance.
8. The CWU believes that Postcomm's liberalisation and competition agenda is fundamentally in conflict with the primary duty dictated to it under the PSA 2000. We therefore believe that it is imperative that Postcomm ensures that

its proposals give sufficient weight to the need to ensure a high quality universal service at a uniform tariff and that undue weight is not given to the pursuit of liberalisation at any cost.

**9. Royal Mail's Business Model and the Provision of a Universal Service:**

We believe that there are serious problems with Postcomm's existing approach. The introduction of competition is placing increasing pressure on Royal Mail Group at a time when it is only just beginning to recover from a period of substantial financial difficulty. Central to our concerns is our belief that Postcomm's approach to competition ignores the reality of Royal Mail's existing business arrangements.

10. Royal Mail's business is dependent on a unique arrangement of cross-subsidies. Higher weighted items subsidise lower weighted items, business users subsidise social users and "local-to-local" mail and deliveries into cities subsidise long distance mail and rural deliveries. We firmly believe that this arrangement is for the common good and has delivered a high quality postal service at lower costs than most comparable European postal sectors. However this arrangement is being placed in serious danger by the introduction of competition, which will naturally lead to competitors targeting the lucrative parts of Royal Mail's products and services to the detriment of the viability of the USO and, therefore, the vast majority of Royal Mail's customers.

11. We recognise that present estimates indicate that Royal Mail currently retains 99.7% of the available UK postal market. We would however highlight the fact that three major operators – Business Post (UK Mail), Deutsche Post and TPG Post UK – have only in recent months reached agreements with Royal Mail on access pricing. We fully expect that these agreements and the activities of these new operators will place increasing pressure on Royal Mail's market share. Taken alongside the business activities of the other licensed competitors, we believe it's inevitable that the universal service provider will be placed under significant additional pressure in the very near future. While it is likely that the private operators will profit substantially from

the introduction of competition, we cannot see how this can occur without adversely affecting the viability (and further damaging the quality of service) of Royal Mail Group's universal service-related activities.

12. **Quality of Service:** While it is certainly true that the financial accounts for 2003/4 show that Royal Mail has experienced substantial success in improving its profitability, this focus on profitability has only been achieved at the expense of the quality of service of its licensed products and services. The CWU, in common with other interested parties, is extremely concerned at this decline in the quality of service and the manner in which the regulator intends to handle service failings.

13. Over the past financial year, Royal Mail failed to meet all 15 of the service quality targets contained within its licence. As a result, it is widely expected that this failure to meet the service standards will trigger huge financial penalties. Presumably these may be of an even greater magnitude than the £7.5m fine which was imposed as a result of poor performance in First Class PPI and Response Services. We believe that this is an extremely dangerous approach for the regulator to take, given that it is charged with ensuring the provision of a universal service. We further believe that the present situation clearly demonstrates that the regulator's existing approach is not achieving the desired outcome of a high quality universal service.

### **Possible Future Developments**

14. **Regulatory Measures for Promoting Competition:** We note that in this section of the questionnaire Postcomm has highlighted the possibility of taking radical measures to improve the prospects for competition. In particular, it highlights the possibility of "the ring-fencing of different parts of the business, for example between the wholesaler and retail arms of the business, or upstream or downstream".

15. The CWU is strongly opposed to any proposal to restrict Royal Mail's business activities in this way. We consider that this approach would

constitute an unreasonable limitation on the ability of the universal service operator to manage its own affairs. We would also be extremely concerned that such a proposal would merely constitute the first step towards the separation of Royal Mail into different businesses. We do not believe that such an approach would be in the interest of Royal Mail Group, its customers or its employees, and we would accordingly strongly oppose it.

**16. Postcomm's Potential Options for Market Opening in April 2005:** We note from Postcomm's consultation document that it has identified five potential options for further market opening in April 2005. We have grave concerns in relation to each of these options as the majority would appear to have the potential to introduce competition even more quickly than Postcomm's existing timetable (which already surpasses the majority of other European Union member states).

17. From the outset, we would like to state our opposition to each of the options which Postcomm has identified. Our belief is that if liberalisation must take place in the UK postal sector, it should only be at the same gradual pace as set out in the Postal Services Directive. In other words, from 1 January 2006 competition should only be permitted for items weighing more than 50g or costing more than 2.5 times the cost of a first class letter.

18. It is also vital that recent developments in relation to third party access are taken into consideration. It is simply far too soon to evaluate the impact which the introduction of third-party access to Royal Mail's pipeline will have upon Royal Mail. The agreements in relation to third party access with Business Post, Deutsche Post and TPG were only signed in the early part of this year. It is also true that these competitors have yet to fully begin their operations in earnest. It would therefore be extremely imprudent to introduce a further wave of competitive activity at the present time before we have evaluated the impact which the current measures will have upon Royal Mail Group and the viability of its universal service obligation. Again we are unable to see how Postcomm's actions are consistent with its primary duty under the legislation.

19. We are particularly opposed to the two options which would clearly exceed Postcomm's existing liberalisation timetable. Option D would open the market fully to competition from April 2005, while Option E would bring forward complete liberalisation to April 2006. In each case it is clear that Postcomm is considering giving higher priority to regulatory orthodoxy than to the vital matter of ensuring the future of the UK postal industry. In each case the ability of Royal Mail to prepare with adequate certainty for the onset of competition would be placed in grave danger. These options should therefore be rejected.

20. With regard to the remaining three options, we note that Postcomm's proposals are as follows:

- Option A: Lower or amend the current bulk mailing threshold;
- Option B: To introduce further competition by customer type eg by liberalising the business-to-business market; and
- Option C is to introduce further competition by product type. Already certain types of products are exempt from the licensed area, such as document exchange.

21. Each of these options would lead to differing degrees of competition in advance of full liberalisation. While these may therefore be preferable to the most radical proposals (Options D and E) we remain of the opinion that further liberalisation at the present time will have a serious adverse impact on the ability of Royal Mail to meet its universal service obligation. We therefore believe that if liberalisation does need to take place in the UK it should be at a pace that does not further exceed the requirement set out in European legislation.

## Conclusion

22. The CWU has a range of concerns in relation to the liberalisation of the UK postal industry. We are particularly concerned that, at the current time, the

regulator appears to be giving a higher priority to promoting competition than to ensuring the provision of the universal service. We believe that the introduction of competition is likely to place significant additional pressure on Royal Mail at a time when it is only beginning to address the severe financial difficulties which it has been experiencing in recent years. We further believe that the regulator should take a cautious approach to introducing change to the postal industry, particularly in view of the fact that it is too early to gauge the impact which third party access by three significant competitors will have upon Royal Mail's revenues.

23. We are particularly concerned at the additional options which Postcomm has identified for further market opening in April 2005. We do not believe that any of the options presented would be prudent given the existing situation, and we are particularly concerned at the options which would bring forward the date of full liberalisation. We urge Postcomm to ensure that its liberalisation activities do not further exceed the requirements set out in the most recent European Directive.

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