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30 January 2006

Dear Pav

POSTWATCH VIEWS ON POSTCOMM'S COMPETITIVE MARKET REVIEW 2005

First of all we would like to thank you for the opportunity to express our views on the 2005 report and comment on future priorities. The Regulator's Market Review is an important document and will become even more so as competition develops and Postwatch sees it as a source of authoritative information to advise consumers on the state of the postal market. We have already had the opportunity to express our views on how we thought the market was developing within the response to the initial consultation. Therefore, we will limit our comments to the contents of the document itself and what we anticipate will be useful areas of consideration in the next review.

Network

Postwatch welcomes Postcomm's review of the exclusive relationship between Royal Mail and Post Office Ltd. If the benefits of competition are to reach customers who most need accessible and affordable postal services then a range of providers must supply their services over post office counters; at present the relationship appears to be deterring market entrants. We are concerned that operators find the barriers to access post office counters prohibitive and will work alongside Postcomm's Network Team to research and promote the benefits of this aspect of provision for both customers and postal operators. Postwatch is particularly concerned about the impact such competition would have on the viability of the network as a whole and whether entrants would be willing to supply their services across all post office counters (fixed or mobile). Postwatch, therefore, is also looking forward to the results of stage two of the review of this relationship in early 2006, which should provide the market with a clearer view on the costs of access to post office counters.

Complaint Investigations

Postwatch is keen that the timescales surrounding investigations of complaints made to Royal Mail by their competitors are subject to greater certainty about overall timetables and that investigations are as short as reasonably practicable. Postwatch welcomes the recognition by Postcomm that its processes must take into account the pace of market developments but believe more could be done to foster confidence in Postcomm's complaint arrangements. Whilst we acknowledge that some new time limits have been proposed we do not think these go far enough in setting realistic expectations into the length of investigations. We agree that a limit of 6 weeks to complete the preliminary assessment is a useful start. However, we feel that the provision of an indicative timescale after six months if the investigation has not been closed is still too vague. In addition, we see no reason why timescales on the length of investigations cannot be agreed at the outset. We would prefer to see the inclusion of an arrangement along the lines employed by OFCOM where a maximum deadline of 6 months is imposed, if the investigation is not completed after this time, OFCOM will publish reasons for the delay¹.

Royal Mail's Market Share

We note that the Royal Mail's market share has decreased suddenly. We are pleased to see an increase in competitors' volumes but we are concerned that the method, employed to calculate market shares, might be misleading. Of particular concern is the assumption that mail items carried under access are counted as ½ mail items. We do not think that this activity (particularly Direct Customer Access) represents a significant enough departure from what Royal Mail undertakes under some of their Mailsort products to warrant such an assumption. This method has the potential to indicate that Royal Mail is losing a greater degree of market share to their competitors than is actually the case.

Future Considerations

Postwatch would like future reviews to investigate what areas of the postal market are changing and identify reasons for these changes. Specifically, we would be interested to see what areas of the postal market are subject to growth or contraction, e.g. Data on the effect of e-commerce on the licensed area has been limited to anecdotal evidence and we would welcome a more robust analysis.

¹ 'Guidelines for the handling of competition complaints, and complaints and disputes about breaches of conditions imposed under the EU Directives'. Office of Communications, July 2004.

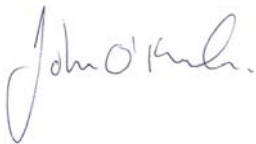
http://www.ofcom.org.uk/bulletins/eu_directives/guidelines.pdf

We would like to see a greater emphasis on analysis of the market by sector. For example we would like to see what percentage of mail is sent by the public sector compared to the private sector. We're keen to understand if customers in the public sector are faced with the same choices as those in the private sector and if those choices have been acted upon. We would like to establish if there are specific sectors that are more or less likely to use Royal Mail competitors. If so what are the reasons affecting sector specific switching decisions other than those already pinpointed such as VAT.

Finally, Postwatch looks forward to next year's Competitive Market Review benefiting from the inclusion of the Eurostat postal statistics that are going to be collated by Postcomm. These are likely to provide a greater degree of data on the UK postal market than had previously been available.

I trust that these observations are a useful pointer for future CMR activities and we are happy to discuss these with you at your convenience.

Yours sincerely

A handwritten signature in blue ink that reads "John O'Keefe". The signature is written in a cursive style with a large initial 'J' and a long, sweeping underline.

John O'Keefe
Policy Advisor