

Special Mail Services Ltd

To the Postal Services Commission

Competitive Market Review, Proposals for Consultation, September 2004

1. Thank you for the opportunity to contribute to Postcomm's Consultation on the Competitive Market Review.
2. Special Mail Services Ltd is a private postal operator that provides end-to-end services for the secure delivery of valuable items. We are also substantial users of Royal Mail services. Although we do not currently operate within the licensed sector of the postal market we are in every sense truly active in the postal market and are affected by Postcomm's decisions about the future of the market. Furthermore, our own strategic plans will be directly influenced by the future regulatory environment.
3. We would firstly like to note that this consultation is only one of several that are currently ongoing, many of which have the same submission date. All of these consultations are extremely detailed and several are very technical and we fear that Postcomm is not providing sufficient time and opportunities for stakeholders to develop an understanding of the issues and respond in a fully informed manner. We would like to receive an assurance from Postcomm that in future it will pay more attention to the number of consultations that are being launched by Postwatch and itself and phase these launches and submission dates to reduce the load on consultees.
4. We also wish to note that the consultation document is very long and detailed. We believe that Postcomm should consider segmenting its consultations in order to make it easier for consultees to respond.
5. Having said that we note that the Competitive Market Review is more of a report than a consultation and it asks very few questions so it is difficult to know what feedback Postcomm would like to have. However, we have read the document in detail and would like Postcomm to consider the following comments.
6. We welcome Postcomm's measures to monitor Royal Mail's access arrangements and we believe that the access products should be within the price control. However, we suggest that access arrangements are only a part of a competitive postal market and Postcomm should be careful not to believe that high levels of access are commensurate with high levels of competition. Postcomm's own research suggests that customers would prefer to see end-to-end competition and Postcomm should be placing more emphasis on its development.

7. Royal Mail's VAT exemption is an absolutely massive barrier to market entry. If Postcomm is not able to have this market distortion removed then it will fail to deliver a competitive postal market.
8. We welcome any measures that Postcomm takes to ensure anti-competitive behaviour does not take place.
9. We believe that Postcomm is partly to blame for customer inertia. We believe that Postcomm is, perhaps inadvertently, conveying the message to customers that its primary aim is a more successful Royal Mail rather than a competitive market. In fact paragraph S.2 of this consultation underlines this belief: "Postcomm believes that a successful Royal Mail, the UK's only universal service provider, is central to the delivery of this vision." The result of this message is that many customers believe that they are better off waiting for Royal Mail to improve than they are discussing alternatives with Royal Mail's competitors.
10. Postcomm is applying a very narrow definition of the postal market when measuring the level of competition in the market. Postcomm only seems to be concerned with measuring the licensed area even though the postal market which it regulates comprises the whole of the universal service plus certain non universal service products. Postcomm needs to adopt a more sophisticated approach to market sizing that segments the market into licensed and non-licensed areas and includes services such as document exchanges that are excepted from the licensing requirement. Such an analysis will still highlight the extent of Royal Mail's monopoly on postal services but it will also demonstrate that end-to-end alternatives do exist.
11. We believe that the discussion about cost reflectivity is a bit of a red herring. In a truly competitive market Royal Mail would have to adjust its costs to meet the needs of the market rather than set its prices to reflect its costs. It is Royal Mail's fault that many of its costs are out of alignment with its prices because it has failed to purchase suitable machinery in the past. The costs that need to be reflected are those of efficient operators that are meeting the needs of the market.
12. Royal Mail's quality of service performance is a real barrier to market entry and Postcomm would be mistaken if it continued to pursue its policy of forcing increasing levels of quality on Royal Mail. In doing so it is perpetuating the perception that that the only way to improve postal services is by increasing quality and reducing prices. We believe that the market is considerably more complex than this. The current quality of service levels were set in order to be able to provide Royal Mail with an operating licence at a time when the regulator's understanding of the market was considerably less sophisticated than it is now. They do not reflect the needs of the market and must now undergo a fundamental overhaul.

13. The real reason for a lack of competition in the postal market has been Postcomm's caution. Experience in countries such as Sweden and New Zealand proves that it is very difficult for competitors to enter postal markets even when all regulatory barriers are removed. We welcome the fact that Postcomm is now moving more rapidly to full market opening but urge Postcomm not to replace market definition barriers (reserved area etc.) with licensing barriers ( unnecessary mail integrity standards etc.)
14. If you would like to discuss any of these points in greater detail please contact:

Michael MacClancy

[mmacclancy@specialmail.co.uk](mailto:mmacclancy@specialmail.co.uk)