

## **A Revised Market Opening Timetable and Competitive Market Review Proposals – TPG’s response**

### **Background to competition in the UK postal market**

Postcomm has decided that downstream access is to be the cornerstone of future competition in the UK postal market. That, we have to accept, is a matter of fact – whether we like it or (as is the case) not. Postcomm’s decision to introduce competition through access has deterred would-be investors from setting up rival delivery networks, which require a much more significant, and riskier, investment than providing upstream services only, but which would in the long term result in real choice for customers. It is important to bear this fact in mind when considering the proposal for further market opening.

### **Opening a market does not mean everyone can sell**

1. Competition benefits customers by forcing rival operators to strive for efficiency and innovation and passing the results back to customers. For this to happen, there needs to be **effective** competition.
2. TPG N.V. (“TPG”) whose subsidiary TNT Mail aims to be a key provider of postal services in the UK supports Postcomm’s proposal to open the UK postal services market to full competition in January 2006 but the effect on competition is not likely to be significant.
3. Despite Postcomm’s best intentions, the UK postal market will not really be open to competition in January 2006.
4. Full competition in the UK postal market is blocked by two very fundamental issues: Royal Mail’s unique VAT exemption and the focus on downstream access. There are other impediments, such as prices which do not cover costs. This is considered in our response to the Price Control Principles consultation response.

### **Downstream access pricing controls the entire market**

5. Competition is based around access and downstream access pricing affects all competition.
6. Fair competition is good but Royal Mail’s recent introduction of zonal pricing is a direct assault on the new competition in the provision of upstream consolidation services. If zonal pricing and other access proposals are left uncontrolled, there will be no such competition. The fear that Royal Mail will be able to squeeze out competition is set out in our response to the Postcomm consultation on pricing control principles.

### **When attracting customers, instability is as bad as a monopoly**

7. Royal Mail’s ability to offer access prices without any prior review by Postcomm as to the effect on competition can be, and is being, used to de-stabilise the market. The effect is to dissuade customers from choosing to use the services of a rival operator.

Postcomm needs to have ex ante control of access and new services pricing to prevent this.

8. Current examples of instability are (a) the proposal to introduce size based pricing; (b) the offer of zonal access prices to end customers; (c) Royal Mail's freedom to introduce new services free from regulatory control; (d) possible increase in downstream access prices but real decrease in retail prices.

### **VAT distortion leaves half the market under de facto monopoly**

9. Almost one half of the UK mail volumes are sheltered from competition because of the effect of the VAT distortions. Put another way, even on "full market opening", only 50% of the market will be open to competition.
10. We believe that it is inappropriate for Postcomm to presume that a VAT exemption cannot be extended to all postal operators. Indeed, that is precisely what certain postal operators are about to request the UK Government to do. There is considerable legal support for this proposition and TPG would welcome Postcomm's support for this possible outcome. For TPG, the primary goal is to secure a level playing field.

### **Bulk mail should not be in the universal service**

11. Despite Postcomm's stated intention to include bulk mail services within the universal service, TPG remains of the view that there is absolutely no need to include any bulk mail service within the universal service. Royal Mail will not only voluntarily provide bulk mail services but it will definitely provide these services at a discount, in order to attract important mail volumes. Competition will control the upper level of prices.
12. If Postcomm does decide to include bulk mail services within the universal service, we do not understand why the Mailsort 1 & 2 1400 services should be treated differently from 120 and 700 services. If anything, a bulk mail service requiring the least amount of work by the customer would appear to be a more appropriate choice for a mandatory bulk mail service. In essence, the Mailsort 1 & 2 services are simply a variant on the 1<sup>st</sup> and 2<sup>nd</sup> Class services, with discounts for a degree of workshare. If Royal Mail were to seek to provide Mailsort 1 & 2 (120 and 700) services on a non-uniform tariff, would this not amount to discrimination against those using a single item tariff (i.e. 1<sup>st</sup> and 2<sup>nd</sup> Class service customers) who would not get a lower price for some areas?
13. It seems that Royal Mail's desire to remove bulk mail services from the "universal service" is most strongly motivated by the goal of having the freedom to offer those services on a zonal basis. The pricing effects of the distinction are considered in our response to the price control principles response.
14. TPG would propose that Postcomm focusses on controlling zonal pricing, to ensure that it does not impede competition, rather than artificially including bulk mail within the universal service.

Submitted version

**Other licences should remain possible**

15. Postcomm has proposed to remove the second phase of liberalisation. In order to encourage innovation and, since half the market will remain protected as a result of VAT, Postcomm should, specifically, keep open the possibility of granting licences on an ad hoc basis.

TPG N.V.  
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