

**LICENCE GRANTED TO
SECURICOR OMEGA EXPRESS LIMITED**

DECISION DOCUMENT

MAY 2002

Summary

On 21 March 2002, the Postal Services Commission (“Postcomm”) issued a consultation notice on the proposal to grant a short term licence to Securicor Omega Express Limited (“Securicor”). Representations on the granting of that licence were requested by 22 April 2002. Postcomm having considered the representations decided to grant a licence to Securicor.

This document summarises the main points of the responses to the consultation and sets out the reasons for the decision to grant a licence to Securicor.

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List of those who responded to the consultation notice on the proposal to grant a licence to Securicor.

1. Introduction

Purpose of this document

- 1.1 This document explains the outcome of the consultation process undertaken on the licence application received from Securicor Omega Express Limited ("Securicor") and outlines the background to the decision taken to grant a licence to Securicor.

Background

- 1.2 On 26 March 2001 the new regulatory regime for postal services established by the Postal Services Act 2000 came into force. On 16 January 2002 an application was received from Securicor for a licence under Section 11 of the Postal Services Act 2000 ("the Act"). This application was considered under the terms of Postcomm's Interim Approach to Licensing published in April 2001.
- 1.3 On 21 March 2002 Postcomm issued a consultation notice on the proposal to grant a short term licence to Securicor under Section 11 of the Act. This sought views on Postcomm's proposal to grant a licence to Securicor and the form of that licence. Under the terms of the statutory notice, representations regarding the draft licence were requested by 22 April 2002.
- 1.4 The proposed licence concerns:
- o The provision by the Applicant of internal mail services to two clients in the banking sector, Royal Bank of Scotland and HSBC (Customers), pursuant to two contracts dated, 17 April 2001 and 1 July 2001, giving rise to annual revenue to the Applicant expected to not exceed £10million.
- 1.5 Postcomm received formal responses or enquiries from two respondents. Neither of the responses were marked "confidential". A list of those who responded or enquired is attached at Appendix 1. Copies of the responses are held in Postcomm's library.
- 1.6 The responses to the consultation focused on a number of key areas, including:
- o The non-publication of the two Securicor contracts;
 - o Impact on the universal service obligation; and
 - o Capping the licensed activities.
- 1.7 Postcomm gave very careful consideration to the representations received and is satisfied that the granting of this licence, with the safeguards it contains, is a proper exercise of Postcomm's functions under the Act.
- 1.8 This decision document summarises the main points arising from the consultation and explains the basis of our decision to grant a licence to Securicor in the terms in which it has been issued. In particular it

explains the basis of decisions taken in relation to specific aspects of the licence.

Contact details at Postcomm

- 1.9 If you have questions about any aspect of this document please contact Shahida Mukhtar or Ros Poulson at:

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2. Consultees' representations and Postcomm's views on the representations

Non-publication of Securicor's contracts

Consultees' representations

- 2.1 Consignia commented that the draft licence issued for consultation refers to two contracts but the contracts themselves have not been made available for review as part of the consultation

Postcomm's views

- 2.2 Postcomm does not accept that persons need to have sight of the contracts to understand that the licence will have the effect of allowing certain conveyance of mail. Our view is that we need to put sufficient information into the public domain to enable the notice to be properly understood. We are satisfied that this was done in respect of the Securicor contract. The terms under which mail is conveyed are set out in the contracts but these are matters between the licensee and the persons for whom the mail is conveyed by the licensee.

Universal service obligation

Consultees' representations

- 2.3 Consignia agrees that to the extent that the mail in question is internal to the client and not currently handled by Consignia plc, the licensing of this activity would not impact on revenues previously enjoyed by Consignia and therefore can have no impact on Consignia's ability to provide a universal service.
- 2.4 Consignia does express concern that internal mail between different sites of the same company is often routed through the public postal network and accordingly Consignia would expect some losses to result as a consequence of the granting of this licence. However, Consignia states that it does not know the extent to which the mail Securicor is applying to handle is actually presently handled by Consignia and so is unable to comment on the financial impact that such a licence would have.
- 2.5 Postwatch does not raise any objection to the proposal to grant a licence to Securicor and agrees that this should have no appreciable effect on the provision of the universal postal service.

Postcomm's views

- 2.6 Postcomm notes Consignia's comments that this licence is unlikely to have an impact on Consignia's ability to provide a universal service. Postcomm also notes Consignia's point that internal mail between different sites could possibly be routed through the public postal network. However, Postcomm is satisfied that the licence contains adequate safeguards for the universal service. The service restriction limits the internal mail service to a

closed user group, the licence is limited to a year in duration, and Securicor's revenue estimate amounts to a fraction of 1% of Consignia's annual turnover. Neither this in itself, nor when considered with the revenues which may be earned by other existing licence holders, is likely to have an appreciable effect on Consignia's ability to continue to provide the universal service.

Capping the scale of the operation

Consultees' representations

- 2.7 Consignia commented that providing the scale of the licence is kept at the level indicated, no risk to the provision of the universal service would result. However, Consignia expressed concern that despite the fact that the expected size of the revenue from the contract is stated at £10 million there is no provision in the licence to cap the scale of operations at this or a similar level and, therefore, there is a risk of revenue diversion that might put the universal service at risk. Consignia argues that the revenues should be capped and that Securicor should be required, through a condition in its licence, to publish annually figures on the volumes and revenues which are handled within the terms of the licence.

Postcomm's views

- 2.8 Postcomm does not believe that Securicor's revenues need to be capped. Securicor's licence has been drafted in such a way as to restrict the extent to which the business permitted by the licence can be developed and the licence is being granted on the basis that the scale of the operation is kept below the indicated level therefore posing no risk to the universal service.
- 2.9 As part of the provision of information licence condition Postcomm requires licensees to provide quarterly revenue and volume information. Postcomm does not accept that this information should be published due to its commercial sensitivity but Postcomm will monitor the information to ensure that the licensee keeps within the limits of the stated revenues.

3. Postcomm's decision

Background

- 3.1 In taking the decision to grant the licence to Securicor, we considered the responses received to the consultation notice and consistency with our proposals for promoting effective competition in the UK postal services which were published in January 2002.

Assessment of impact on the universal service

- 3.2 Because of -
- a. the short term nature of the proposed licence,
 - b. the limited scale of the Securicor activities to be licensed, and
 - c. the past performance of the activities in question without any known effect on the universal service
- we believed that it was highly improbable that they will have any discernable effect on the continued provision of the universal service.
- 3.3 Consignia's response provided no indication of how the grant of the licence proposed for Securicor would, of itself, have an adverse universal service effect. We considered the projected turnover figures (£10 million per annum) provided by Securicor and having taken into account the level of business under the licence we believed that a realistic estimate of the licensed business's revenue amounts to a fraction of 1% of Consignia's turnover.

Safeguards

- 3.4 We have drafted the Securicor licence in such a way as to restrict the extent to which the business permitted by the licence can be developed.
- 3.5 This supplements the safeguard provided by our ability to terminate the licence after a year. Postcomm has made clear to Securicor that it will need to apply for a new licence under its new long term market opening policy, in due course. Securicor cannot assume that the terms of any new licence will be the same as for the licence now granted. Terms and conditions appropriate at that time to safeguard the universal service will need to be included in any extended or renewed licence.

Competition

- 3.6 We believe that the grant of the licence would further the interests of users of postal services by promoting competition and would encourage efficiency on the part of the postal operators.

Ability to finance licensed activities

- 3.7 We are satisfied that Securicor can finance the proposed licensed activities and that the grant of the licence would not prevent any other licence holder from financing the activities authorised or required by its licence.

Decision

- 3.8 Our overall assessment of the points made about the way the licence is expressed, its conditions and the duration, is that the licence should be granted as proposed for a one year period. We concluded that to grant an interim licence to Securicor is a proper exercise of our functions under the Act in that it would have no adverse effect on the provision of the universal service and would further our duty in relation to the interests of consumers and competition. We therefore decided to grant the licence.

Appendix 1

Responses to the consultation notice were received from the following bodies/individuals:

1. Consignia plc
2. Postwatch