



## **POSTCOMM'S PROPOSALS FOR A REVISED MARKET OPENING.**

### **AMICUS/CMA RESPONSE.**

**DECEMBER 2004**

1. The Communication Managers section of Amicus represents the interests of over 14000 managers and senior managers working within the Royal Mail. In addition Amicus represents members in other postal operators such as Deutsche Post and over 1 million members of Amicus are themselves users of postal services in the UK.
  
2. This document sets out Postcomm's proposal to revise its timetable for market opening. The three significant proposals are:
  - To bring forward full market opening from 1 April 2007 to 1 January 2006. There will be no immediate step before that date.
  - Postcomm will review its licensing process later this year to ensure mail integrity in a fully open market through "light touch" licensing arrangements.
  - Postcomm proposes to retain Mailsort 1400 as the generic bulk mail universal service. Other bulk mail products, including access services which do not comprise the generic bulk mail universal service, will continue to be regulated.

### 3. Revised Market Opening

Amicus/CMA is opposed to Postcomm's revised proposals for market opening that plan to accelerate the introduction of competition into the UK postal market. Amicus/CMA is not opposed to competition but maintains the view it must be gradual, measured and controlled and for the benefit of all users, large or small, urban or rural, private consumer or business customer.

4. Postcomm's primary duty is to "ensure the provision of a universal postal service *and subject to this*, to further the interests of users of postal services *wherever appropriate* by promoting effective competition between postal operators." We have criticised Postcomm in the past for focusing more effort and resources on promoting the interests of competition than on maintaining the universal service. This new proposal to accelerate market opening with no interim stage is, we believe, an exercise to bring competition into the UK market regardless of cost or potential damage to the universal service and its provider.
5. Furthermore, Postcomm proposes to put the UK market in advance of European markets by exceeding the minimum requirement of the European Postal Services Directive. We see no advantage in opening the UK market at a pace that exceeds the basic requirement contained in European legislation nor to open the UK market in advance of its

European competitors. In our view, this will give European operators a foothold in the UK market without reciprocal opportunities to make gains in the European markets.

6. Postcomm's proposals are based on the argument that competition has only taken 0.3% of the market so far and that Royal Mail still supplies 99% of postal services. Postcomm also maintains that Royal Mail is financially robust enough to withstand competition due to efficiencies made via the Renewal Plan and an increase in volumes. These factors appear to justify Postcomm's decision to abandon a planned programme of liberalisation and to hasten full market opening.
  
7. Competition so far has been via access agreements that have only come into effect since April 2004. Royal Mail has to date negotiated access agreements with three operators, UK Mail, Deutsche Post and TPG. Operations have only been established for a few months and are yet to develop in earnest. The situation may well soon look very different when more operators have entered the frame and heavier demands are put on mail centres to cope with the all the different access agreements. Postcomm has also granted long term licenses to seven other companies with several others holding interim licenses. It is therefore simply too early to judge what the effects of competition are likely to be on the UK market at this stage.

8. Over the last eighteen months Royal Mail has been through a process of unprecedented change. It has implemented three major programmes of restructuring- Single Daily Delivery, Mail Centre Review and Transport Review, and has, as well, forced through a programme of redundancies amounting to a loss of 27,000 jobs. As a result, the Business is now back in profit but there is no doubt that the success of the Renewal Plan has been to the detriment of quality of service provision. In 2003-4 Royal Mail failed to reach all 15 of its quality of service standards, resulting in poor performance penalties amounting to over £7.5 million.
  
9. Early reports indicate that service quality is now improving although it is too soon to tell whether these results are sustainable. A greater onus on Royal Mail to perform competitively is likely to place the Business under greater pressure, which will lead to a further decline in service standards resulting in heavier financial penalties. This can only damage the business at a time when it has just achieved a degree of financial stability. It will also affect Royal Mail's ability to provide the universal service. Given the only recent change in Royal Mail's financial vigour it would seem unwise to open the market up to full competition so quickly.
  
10. Postcomm asserts that its market opening proposals will not affect Royal Mail's ability to continue to provide an affordable universal service. However, it ignores the fact that Royal Mail's business is based on a complex system of cross subsidies that supports the uniform tariff. The geographical uniform tariff prevents Royal Mail from aligning prices to

actual cost. Competitors with no universal service obligation are likely to target the more profitable routes, leaving Royal Mail to provide the more expensive services. This potential for cream skimming would financially weaken Royal Mail and ultimately jeopardise the universal service.

11. Royal Mail has stated that it welcomes competition but wants greater commercial freedom in order to compete effectively. It has proposed three initiatives to align prices to cost: size based pricing, geographic (zonal) pricing and discounts for metered and PPI mail. Postcomm is considering these initiatives and is seeking views on the proposal to charge customers less for metered or PPI. Whilst we recognise the need for Royal Mail to be able to rebalance its prices, Amicus/CMA strongly opposes the proposal for charging customers different prices depending on how they pay for their post. We see this as the first step towards undermining the uniform tariff and as such an attack on the universal service.

12. Postcomm's rationale for the removal of the planned second stage of market opening is that it is unlikely to make much impact on competition. Postcomm maintains that market opening is just one step towards liberalisation and that other barriers to entry must be considered. These perceived barriers are dealt with in Postcomm's "Competitive Market Review," proposals for consultation document to which we will be making a separate response.

### **13. Postcomm's review of its licensing process.**

Postcomm proposes to review its licensing process to ensure mail integrity in a fully open market. The liberalisation of the postal market without the necessary controls to protect the integrity and security of mail is a major concern. We are concerned however that the "light touch" approach advocated by Postcomm will not be sufficient to prevent rogue operators from taking advantage of the open market.

14. Market opening provides an immediate opportunity for small-scale operators to offer a service in niche markets in local areas. The potential here is for the market to become flooded by such operators hoping to take a quick advantage of the rich pickings available but who are unable to sustain their operations. The experience in Europe demonstrates this scenario only too clearly, in Sweden alone there was at one time nearly 400 operators, yet we believe only half that number continue to function.

15. The effect on the national provider would be disastrous. Royal Mail would inevitably be left to pick up the pieces in the event of unscrupulous practices such as dumping of unprofitable mail on the network. We await Postcomm's consultation document on the licensing process but would urge the regulator to ensure the following license requirements:

- Financial viability. This could be in the form of bank bonds to guarantee delivery of the mail already in the pipeline in the event of unforeseen difficulties.
- Security of mail. This should include the vetting of employees such as criminal record checking
- Quality of service targets. In order to create a level playing field standards comparable to Royal Mail's should apply to all operators.
- Compensation arrangements to customers for lost or damaged mail.
- The Regulator must have the means to quickly revoke licenses in the event of malpractice.
- Interoperability. This should include issues such as indicia to provide accountability between different operators.

16. The reputation of all postal services stands to be damaged if unscrupulous operators are allowed a free rein in the open market. If public confidence disappears and customers switch to alternative methods, it may never be possible to retrieve them. This in turn will lead to the terminal decline of the postal industry and the demise of the universal service.

**17. Postcomm's proposal to retain Mailsort 1400 as the generic bulk mail universal service product and remove all other bulk mail services including access services from the universal service.**

18. Amicus/CMA has consistently stated that there should be no narrowing down of the universal service without there being a clear and common

understanding of what constitutes the universal service and the principles behind it. The 2000 Act does not define what services should be deemed “universal,” nor does it identify a particular person or body to deliver those services. Royal Mail, under condition 2 of its licence has an obligation to provide all of the services currently taken to fall within the universal service, although this is yet to be defined. Furthermore, condition 19 of the licence requires Royal Mail to continue to provide its current range of service due to its market position, unless a case is put forward for its restriction or withdrawal. The current range of services provided by Royal Mail, as classified in the Regulatory Accounts, is therefore deemed to be universal and constitutes a comprehensive range of services for postal users.

19. Postcomm is currently working on a definition of the services that should be included within the universal service. We are concerned that after four years the Regulator has still not consulted on the principles behind the universal service and whether the definition of “anything to anyone at anytime,” still applies. In our view this is fundamental in the run up to a liberalised postal market.

20. Royal Mail would like a more narrowly defined US that applies to certain “core products.” This would allow Royal Mail to remove certain products from the uniform tariff and price them more competitively. Whilst we recognise the need for Royal Mail to compete on a level playing field, we are concerned that changes to the universal service are being made for

commercial expediency and not in the interests of maintaining the universal service.

21. There is a danger therefore that any narrowing down of the US would lead to a shift in pricing from big business to private residential and small business users. Inevitably the competitive prices available for users of bulk mail, etc. would lead to an increase in prices for the social and small business user. Such a rebalancing of the tariff would also lead to a reduction in the range of products covered by the USO and a reduction in the services available to individual and small businesses. We are in principle opposed to any narrowing down of the universal service until there has been a thorough assessment of the principles behind the US, the cost of providing it on the provider within an open market and the necessary safeguards to protect it.

## **22. Summary**

23. Amicus/CMA believe that competition should be for the benefit of all postal users. Large customers with purchasing power will find greater choice in terms of price and quality offered than customers who post a single mail item. International experience shows that bulk mailers have experienced significant price reductions from competitors. On the other hand, small to medium business and residential customers are unlikely to benefit from price reductions and are more likely to bear the brunt of price increases. At the same time the quality of service and reliability of the post has

diminished. In such a scenario we question whether competition will deliver the benefits to all customers that is promised.

24. Amicus/CMA is concerned that Postcomm's commitment to maintain the universal service is becoming increasingly notional. The US is in danger of being whittled away for commercial reasons. We believe that all further work on market opening should cease until there is clear and common understanding of the US and its costs on the provider in an open market.

25. Amicus/CMA do not support Postcomm's proposals for the revised opening of the postal market and urge Postcomm to stick to the original timetable. We see no advantage in opening the UK market before other European countries, nor to exceed the basic requirement of the European Postal Services Directive. We also do not believe that an accurate analysis of the likely effects of competition can be made based on the access agreements that have only been in operation a few months. Postcomm itself acknowledges that it is extremely difficult to predict how the market is evolving (e.g. the development of e-commerce) and the effect this is likely to have on mail volumes. Opening the market too early in a rush to promote competition for competition's sake will lead to chaos and ultimately to the demise of the postal industry.

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