



*The DX Group is the leading alternative provider of end-to-end postal services in the UK*

**“The Postal Market 2010 and Beyond – Emerging Themes”  
Consultation Document, August 2007**

To the Postal Services Commission,

Thank you for the opportunity to contribute to your continued thinking about the development of the UK postal market and accompanying development of your regulatory strategy. As members of the Mail Competition Forum we (DX Network Services and Secure Mail Services) have been closely involved in the formulation of its response to this consultation, which we support and to which we would like to refer you. This submission illuminates and reinforces some of the issues raised in that response.

We note your reluctance to avoid tipping the playing field in favour of either new entrants or the incumbent. However, Royal Mail's VAT exemption will continue to tip the playing field against end-to-end entrants for the foreseeable future and this is an area where Postcomm has no power to remove a significant barrier to entry and market distortion. We believe that it is reasonable (and consistent with Postcomm's statutory obligation to promote competition) for Postcomm to counterbalance this market distortion by levelling the playing field upwards through the adoption of measures that positively discriminate in favour of entrants in the same way that VAT positively discriminates in favour of Royal Mail.

The VAT exemption extends to positive discrimination in favour of so-called access competition over end-to-end competition. If consolidators such as TNT and UK Mail use Royal Mail for final delivery then they can take advantage of the recently introduced agency agreements to minimise VAT liability for their customers. If they use another operator (such as DX) they must charge VAT. So, the VAT exemption not only places entrants at a disadvantage in comparison with Royal Mail, it also gives TNT and UK Mail an advantage in comparison with other operators.

Furthermore, as we have argued previously, access is a very limited form of competition with limited economic benefits. If Postcomm really does wish to create the right conditions to enable a further withdrawal of sector specific regulation it will have to find a way of promoting end-to-end competition that will apply pressure along the whole of Royal Mail's value chain. We look forward to discussing options with Postcomm in the coming months. Meanwhile Postcomm should avoid further tilting of the market towards the access model. We note that there are substantial differences between the postal markets of the UK and USA, not least of which are the statutory monopoly over delivery enjoyed by USPS and a workshare pricing mechanism that appears to leave USPS with a considerably higher proportion of the revenue than the UK equivalent.

Finally, we wish to underline the belief of our colleagues in the MCF that the forthcoming price control will be critical to the development of the UK postal market, and in particular to the role of competition in it.

Yours sincerely,

Michael MacClancy  
Head of Regulation, The DX Group (DX Network Services and Secure Mail Services)

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