



Gavin Knott  
Director of Regulatory Finance  
Postcomm  
Hercules House  
Hercules Road  
London  
SE1 7DB

30<sup>th</sup> October 2009

Dear Gavin,

### [ROYAL MAIL'S PRICE CONTROL FROM APRIL 2010 \(TARIFF 2010\)](#)

The Postal Trade Association Forum is pleased to be able to respond to Postcomm's consultation paper on Royal Mail's Price Control from April 2010.

Having consulted Postaf members, first the response to the two licence modifications proposed by Postcomm for 2010-11:

#### **Limiting Royal Mail's risk to a negative RPI**

It has been established over many years of regulating monopoly businesses that the use of the RPI-X model, whilst not perfect does form a framework for protection of consumers by encouraging cost management.

On the basis that this Control is an interim measure caused by outside political influences it is regrettably accepted that there is now insufficient time to consider a full and more wide ranging regulatory review.

Turning to your assumptions:

- Postaf rejects the contention that the majority of Royal Mail's costs are 'sticky' (pp54). Every organisation must be prepared to radically change their cost structures if there is significant change in the economic and business environment. To suggest that this is not possible is incorrect.
- The suggested level of cost increase - £73m – cannot be considered material or such a reduction unachievable to a business with a turnover of several billion pounds.

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As stated, Royal Mail's licence (condition 21, pp9) specifically identifies that RPI can be negative as well as positive and that Royal Mail should manage that risk (pp56).

It is therefore our contention that no change should be made to the formula and that the RPI level should be allowed to go negative.

In rejecting the RPI proposal (and from the information provided) Postaf members do not believe that there is any direct threat to the provision of the USO.

### **Amendment of Royal Mail's sub-cap mechanism**

In August 2007 Postcomm made a determination that widened the sub-cap mechanism to allow Royal Mail to make more radical adjustments to its product prices. Since then it is understood that Royal Mail has changed its cost allocations to products and this has not been taken into account.

Postaf members have been unable to fully understand how the justifications for change in the 'Interim Review' have now been set aside so easily.

In the time available and with the information currently to hand Postaf members are on balance prepared to accept the sub-cap changes as proposed. They appear to indicate that there is less scope for rebalancing compared to the current control and in current economic circumstances that may provide a little more certainty to some customers.

### **Other matters for comment**

Postaf members were particularly concerned about the short period for consultation. Notwithstanding that the Postal Services Bill was shelved in July, there is concern that there was insufficient planning during the first half of 2009 for that eventuality. Before the announcement Postcomm had already advised the market that there would be a one year rollover. There was insufficient time for a *full* 4-5 year Price Control consultation process but that does not excuse the telescoping of customer timescales for this consultation. A thirty day consultation for something of this importance is not acceptable. Postaf notes with interest Postcomm's recently announced three month consultation period on '*Postcomm Consultation Procedures*'.

These Price Control proposals are the result of a Royal Mail request (pp31), Postaf suggests that such requests should be published in full (including this one).



Specifically in respect of sub-cap changes Royal Mail indicate that they will only use the additional flexibility in limited exceptional circumstances (pp68). Postaf would wish to understand what these *limited exceptional circumstances* might be.

Postaf accepts the rejection of the other Royal Mail proposals as identified (pp32).

Members are fully aware that a *price control* is a mechanism to limit prices and not an indication of what Royal Mail may do commercially in the setting of prices for 2010. Postaf will be writing separately to Royal Mail making a case for not raising the prices for bulk mail users in the current economic circumstances. There is clear evidence that there is little or no elasticity in pricing for users of mail services and the current industrial relations problems are only adding to users concerns regarding the long term stability of the mails services.

If I can add any further information to our submission please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Alan MJ Halfacre".

Alan MJ Halfacre F. IDM  
Chairman, Postaf

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## Background to Postaf

### Working for an effective Postal Service in the 21st Century

The Postal Trade Association Forum Limited was established in October 2008 to promote, for the benefit of Members, a strong, competitive and sustainable postal service within the United Kingdom.

The key objective of Postaf is to provide a forum for Members to inform, discuss, consult and negotiate on postal matters with all postal stakeholders.

These stakeholders include but are not limited to:

- The Postal Regulator
- UK Government and European Union
- Consumer and Employee Representatives
- Postal Carriers including Royal Mail

The Membership is formed of Trade Associations whose organisations, directly or indirectly, have an interest in the key objective of Postaf. Postaf has the support of the Royal Mail Group.

### Origin

Postwatch, the independent watchdog for postal services in the United Kingdom, ceased to exist in the autumn of 2008 and its responsibilities and powers under the Postal Services Act 2000 were transferred to Consumer Focus.

Postwatch had a working group known as the Trade Association Forum comprising those Trade Associations that had a strategic interest in postal affairs. It advised Postwatch on matters that might impact commercial and bulk users of mail services. This particularly applied to the application of Royal Mail's licence (conditions 7, 9 & 21 amongst others).

Consumer Focus were clear from the time that they took over the general Postwatch mantle that they would only consider the social user as part of their remit and felt that commercial and bulk users of mail were able to *look after themselves*.

Feeling that this was not properly protecting their members interests, the Trade Associations agreed, with the support of Royal Mail, to establish Postaf giving a collective voice on postal affairs.

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## Members

The current membership of Postaf comprises:

### British Office Supplies & Services Federation (BOSS)

The BOSS (British Office Supplies and Services) Federation is the authoritative body for the UK office products industry. BOSS represents all businesses along the distribution chain in the office products industry, covering stationery, office machines and supplies, office furniture, office systems and related product areas.

### Direct Marketing Association (DMA) UK Ltd

The Direct Marketing Association (DMA) UK Ltd is the largest trade association in the communications sector in Europe, representing both users and suppliers of Direct Marketing services. Our members are major users of all types of postal services and range from advertisers themselves through to the supply side of postal services such as mailing houses, agencies and data bureaux. Our membership also includes the main licensed postal operators such as Royal Mail, TNT, UK Mail and DHL.

### Envelope Manufacturers & Suppliers Association (EMSA)

The aim of EMSA is to meet needs and to concentrate efforts and activities in those areas that are of most benefit or concern to members at any point in time.

Provide members with information, statistics, standards and knowledge.

Develop and maintain effective communications in the Postal sector. Develop and maintain effective communications with other industry associations, particularly EMA, FEPE, and major UK trade associations.

### Intellect UK

Intellect is the UK trade association for the technology industry. Its members account for over 80% of these markets ranging from blue-chip multinationals to early stage technology companies. These industries together generate around 10% of UK GDP and 15% of UK trade. From sorting to franking and address interpretation, technology

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companies are at the heart of the issues facing the postal market today. Intellect's Postal Services Group includes senior personnel from across a range of different companies who work with postal industries, both in the UK and abroad.

## IBSA

ISBA (the Incorporated Society of British Advertisers) is known as the voice of British advertising. We represent nearly 450 members, whose combined spend on marketing communications exceeds £10 billion annually. We represent 22 of the top 25 advertisers.

We deliver substantial and tangible commercial benefits to our members, as well as providing shared expertise and training to enhance advertising effectiveness.

We fight the advertiser's corner with regulators and politicians, as well as offering a broad range of member and consultancy services, updates on industry developments, a free legal helpline and best practice guidance.

## The Mail Competition Forum (MCF)

The Mail Competition Forum (MCF) was established in December 2004 to represent the interests of the licensed competitors to Royal Mail.

The MCF's objective is to facilitate customer choice through fair, vibrant and sustainable competition within a stable and undistorted UK postal market, and its role is to develop and promote the interests of new market entrants.

## Mail Users' Association

MUA is the UK's only independent association of business users concerned wholly with commercially related postal matters. Its members are drawn from a wide range of business interests including direct mail, banking and finance, communications and the Utilities, publishing and postal related industries. Collectively, it is estimated MUA members generate more than 15% of annual postal traffic in the UK.

MUA's primary objective is to secure a healthy and cost effective set of postal services for all business users and their customers. Members continue to believe that this will be achieved in a mixed market, offering users a real choice between the obligatory USO services of

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Royal Mail that exist at present, and a set of competing value added options - particularly for the business mailers.

## Periodical Publishers Association

PPA is the association for publishers and providers of consumer, customer and business media in the UK. PPA's role is to promote and protect the interests of the industry in general, and member companies in particular.

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