



MAIL COMPETITION FORUM

DRAFT RESPONSE BY THE MAIL COMPETITION FORUM TO POSTCOMM'S CONSULTATION ON ZONAL PRICING

1. The Mail Competition Forum (MCF) welcomes the opportunity to comment on Postcomm's consultation document dated 11 September 2006 on Royal Mail's proposal to introduce zonal pricing structures on a range of controlled services.

2. Current membership of the MCF consists of Citipost AMP Ltd, DHL Global Mail (DHL), DX Network Services (DX), MailPlus (a Division of GeoPost UK Ltd) Racer Consultancy Management Services Ltd (Racer), Secure Mail Services Ltd (SMS), Target Express Parcels (Target Post) TNT Post UK Ltd (TNT Post) and UK Mail Ltd (UK Mail).

3. The MCF regard the decision on Royal Mail's request to introduce zonal pricing on a range of non-universal services as probably the most important single decision in terms of its effect on the UK's postal market that Postcomm will make over the next few years. It will be a decision that goes to the heart of Postcomm's key statutory duties concerning the maintenance of universal service and the introduction of competition to benefit users of postal services.

4. The Royal Mail proposal can be challenged at a detailed technical level, and some of these arguments have already been forcefully and comprehensively deployed in the individual responses of members of the MCF. However the purpose of this paper is to concentrate on those key issues which we believe must cause Postcomm to reject the proposal because of its conflict with Postcomm's statutory duties under the Postal Services Act 2000. Paramount amongst these are

Section 3-(1) The Commission shall exercise its functions in the manner which it considers is best calculated to ensure the provision of a universal postal service.

and

Section 5-(1) Subject to section 3, the Commission shall exercise its functions in the manner which it considers is best calculated to further the interests of users of postal services, wherever appropriate by promoting effective competition between postal operators.

5. Any pricing structure that makes it more expensive to post to or within rural or other sparsely populated areas cannot fail over time to depress the volumes of mail for delivery in these areas. This in turn will increase the already high unit cost of delivery and will inevitably in due course lead to claims that the burden of universal service has become too great, and that either service to such areas should be progressively reduced to perhaps two deliveries a week, or that the cost of continuing present levels of service must be met at least in part by either the taxpayer or by competitors through some form of compensation fund.

6. Individuals and organisations representing those living in rural and other sparsely populated areas (essentially zones D and E in the Royal Mail proposal) will no doubt be putting their full range of particular concerns to Postcomm, but it is clear that the many small businesses and organisations such as local councils and medical centres which are not only situated in such areas, but whose customers are also largely local to them, will be particularly badly affected. Given that numbers of rural sub-post offices derive part of their income from supervising mail deliveries from their offices, any reduction of such work can only add to the already serious threats to their continued ability to survive. Many rural and remote communities are already amongst the most financially deprived. These concerns go to two more of Postcomm's statutory duties under Section 5(2) of the Postal Services Act 2000 which requires that

“In performing its duty under subsection (1), the Commission shall have regard to the interests of.....

(c) individuals with low incomes, and

(d) individuals residing in rural areas” .

7. Beyond the effects of zonal pricing on rural and other sparsely populated areas, there is likely to be an additional adverse effect on mail volumes more generally. Coming so soon on top of the introduction of Pricing in Proportion the introduction of zonal pricing will for many business and individuals be simply a complication too far, and will accelerate the loss of mail volumes to alternative media, particularly the various forms of electronic substitution.

8. The additional complication of a zonal pricing structure is not simply an added irritation to postal users – to many it will represent a substantial additional cost beyond that of postage itself. Indeed one major user has already stated that it is likely to add £1 million a year to the company's postal costs as a direct consequence of the additional sorting requirements that zonal pricing would impose. Royal Mail may claim that its proposals are designed to be revenue-neutral, but they very clearly will not be cost-neutral to their customers or to the co-suppliers, such as mailing houses, on whom they depend.

9. The timing of Royal Mail's proposal, before the effects of PIP can be fully known and understood, means that the entire basis of calculation of the costs for the purposes of cost-reflectivity, and of revenues for the purposes of revenue-neutrality, must be regarded as unsound and unfit for purpose on those grounds alone. Beyond that there already appear to be grounds for believing that Royal Mail's predictions that PIP would be revenue-neutral may prove to have been somewhat wide of the mark, which would cast further doubt on the reliability of their zonal pricing proposals. Until PIP has been in operation for at least 12 months it is unlikely that its real impact can be assessed with sufficient confidence to model a further change of such fundamental importance as zonal pricing.

10. MCF members are in no doubt that the true purpose of the Royal Mail proposal is to attack existing end-to-end competition and to pre-empt any future entry into this key sector of the market. Downstream access has brought undoubted benefits to customers, including lower prices, later collections, better management information and a reliable

two-day service not currently available from Royal Mail. Its crucial limitation in competition terms however is that it fails to exert a normal market pressure on Royal Mail's prices, and as such leads to a continuing need for external regulation of Royal Mail's prices through a price control mechanism.

11. Price control mechanisms are at best a limited surrogate for market forces. The MCF strongly believe that Postcomm has a duty not to endorse any proposal designed to have such retrograde effects on the development of end-to-end competition, which will continue to impose severe limitations on customer choice and which will inevitably lead to a prolongation of the need for price control.

12. In this latter context it may at first glance seem surprising that the criteria listed in paragraphs 17-19 of Condition 21 of Schedule 2 to Royal Mail's licence, and against which Postcomm must assess any application to depart from geographically uniform prices for a controlled service, do not include a specific reference to the need to consider the likely consequences for effective competition between postal operators. It is however clear that any such reference is rendered superfluous by the pre-eminence of this duty within Postcomm's statutory obligations.

13. The MCF therefore urge Postcomm to reject the Royal Mail proposal both on grounds of its conflict with Postcomm's key statutory duties, and because its underlying costings, given the still unknown effects of PIP, are necessarily far too unreliable at this stage to form any basis for such a crucial decision with wide-ranging consequences for customers and the UK mail market as a whole.

14. The MCF would be happy to expand further on any of the points made in this response should Postcomm so wish.

***Mail Competition Forum
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