

Pat McFadden MPMinister for Employment Relations
& Postal Affairs

Mr Nigel Stapleton
Chairman
Postcomm
Hercules House
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Our ref:
Your ref:

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Dear Nigel,

I was pleased to see the publication of the emerging themes from your Strategic Review in August. Continued momentum on the work of the review is important, as there is now clearly commitment at European level to the development of a single market in postal services. The UK has a head start in this respect, and developments in our domestic market will be scrutinised closely by those Member States which are still in the process of liberalisation.

The issues you highlight summarise well the key issues facing the postal sector: including the sustainable provision of a high quality universal postal service, the development of efficiency and innovation by postal service providers, and the evolution of the regulatory regime as competition develops.

The basic justification for market liberalisation is, and will continue to be, customer benefit. This underlines the importance of ensuring the sustainable provision of high quality universal services, as experienced by the citizen each time he or she sends or receives a letter or postal package. Those services must not only provide reliability and value for money, but also sufficient flexibility to respond to customer need in terms of when and where they can be accessed. Within this context, I am particularly pleased to learn that Postcomm plans further work both on postal users' needs and the cost of providing them. The UK has already seen the benefits of competition – record levels of quality of service and lower prices for bulk mailers – and I would expect to see these benefits continue and increase in future years as the market develops.

In terms of the future of mail as a medium of communication, there is no doubt that economic growth has in the past provided potential for volume growth.

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But, as reflected in your revised forecasts for volume growth, it seems that this link, if not severed, is becoming less prevalent. Alternative electronic media, in terms of personal communications and business communication/marketing, have become a significant competitor to Royal Mail in addition to competition from other postal service operators which has come in as a result of market liberalisation. Your future activities should fully recognise the competitive pressures that these changes in the market bring to bear on Royal Mail and, indeed, the other operators.

You are right to assert that the development of competition, and the impact of the regulatory regime, should contribute to ensuring that postal services providers offer both innovation and value for money. The essential attribute of competition from a customer perspective is that it offers choice of service provider. Effective choice will include options for both access and 'end-to-end' delivery solutions.

At present, Royal Mail still delivers in excess of 99% of all addressed letter mail. The success of the UK mail market depends on a successful Royal Mail, capable of adapting to market developments and customer demand. For postal markets to remain vibrant and to thrive in the future, it remains important that there is a healthy and robust Royal Mail at its centre providing good quality, affordable services to all its customers building on the good progress that has been made since competition was introduced.

I shall look forward to the development of specific proposals from Postcomm in the light of the emerging themes from the Strategy Review, as it is important for all stakeholders in the sector that we have a clearly articulated vision both of the evolution of the postal market and of the role of regulation within it.

You will be aware that John Hutton said at the Trade and Industry Committee on 24 October that he is reflecting on getting the Review of the impact of liberalisation on Royal Mail underway. While this and your Review are, and should remain, separate we will obviously need to liaise on this to avoid any confusion in the market and with the general public.

*Yours sincerely
Pat McFadden*

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