



Nigel Stapleton (left) has taken over from Graham Corbett as Postcomm Chairman

New chairman for Postcomm

Nigel Stapleton is the new chairman of Postcomm. He took over from Graham Corbett, Postcomm's inaugural chairman, on 15 January 2004, after the Commission's 49th meeting.

Commenting on his appointment, Mr Stapleton said: "We have to thank Graham for his leadership of the Commission during a critical period when the foundations of a fully competitive UK postal market have been set in place.

"Under his guidance Postcomm has implemented an operational licensing system, an effective price control and a framework for the introduction of competition in postal services. The announcement by Royal Mail and UK Mail last December that they have agreed Heads of Terms for downstream access to Royal Mail's network completes the establishment of those foundations.

"Supported by a strong team of Postcomm commissioners and staff, I am looking forward to leading the next stage of our work – creating a truly competitive and innovative postal market in the UK, while maintaining the universal service. At the moment, there are barriers to entry that have enabled Royal Mail, despite its own acknowledged inefficiencies, to retain more than 99% of the letters market. I want to see Royal Mail succeed with its renewal plan and for those entry barriers to be removed."

Mr Stapleton has been appointed by the Secretary of State for Trade and Industry, Patricia Hewitt, initially for a three-year term. He will work three days a week for Postcomm.

Nigel Stapleton is chairman of UNIQ plc, a pan-European convenience food company, and a non-executive director of the London Stock Exchange plc and Reliance Security Group plc. His earlier business career was with Unilever for 18 years and with Reed International, as chairman and chief executive of the leading publishing and information company, Reed Elsevier, for 13 years.

Born in 1946, Mr Stapleton is a Fellow of the Chartered Institute of Management Accountants, and has a degree in economics from Cambridge University.

About Postcomm

Postcomm – *The Postal Services Commission* – is an independent regulator. It was set up under the Postal Services Act 2000 to further the interests of users of postal services. Postcomm's main tasks are to:

- seek to ensure a universal postal service at an affordable uniform tariff
- further the interests of users where appropriate through competition
- license postal operators
- control Royal Mail's prices and quality of service
- give advice to the government on the future of the Post Office network.

Postcomm's policies are steered by a board of seven commissioners, headed by the chairman, Nigel Stapleton.

The VAT catch

Postcomm investigates
Royal Mail's special privileges

Royal Mail is exempt from Value Added Tax, yet its competitors in the postal market must charge 17.5% VAT on their bills.

Postcomm's view is that complete exemption just for Royal Mail is not a necessary requirement for the provision of a universal service, distorts competition in a significant part of the UK postal services market and should be reviewed as a priority.

Postcomm is now consulting on this VAT anomaly and examining nine other privileges that Royal Mail enjoys in order to see whether these too could affect the competitive market. They include exemption from traffic restrictions, simplified clearance of overseas mail by Customs and Excise and immunity from prosecution for carrying prohibited items.

The document says that removing Royal Mail's VAT exemption need not lead to a sharp increase in prices. At present, as an exempt company, Royal Mail is unable to reclaim VAT on

purchases – such as its vehicle fleet – and this puts around 2.5% on Royal Mail's prices.

Postcomm suggests imposing a reduced rate of VAT, considerably less than the standard rate of 17.5%, for all standard postal services below 2Kg. The rate could be set so that it had little effect on Royal Mail's prices. Such a measure would provide a financially level playing field for all postal service providers.

Postcomm has no powers to make changes itself to any of these statutory privileges, but if it considers that a change is needed it will make recommendations to the appropriate government department or authority. Changes may require appropriate legislation.

The document, *A Review of Royal Mail's Special Privileges*, is published on Postcomm's website. Responses are requested by 12 April 2004.

Postal market still growing

In its first review of the postal services market, Postcomm says the UK postal market has consistently grown, and should continue to grow, thanks to lower real prices and wider product choice. But it says that competition has yet to gain momentum.

Postcomm's first review of the UK letters market covers the period 2000-2003.

Among its findings:

- Direct mail is growing much faster than any other mail.
- New operators are mainly targeting niche services for business customers such as internal mail.
- Royal Mail still has 99.7% of the letters market in revenue terms.
- Competition, price controls and quality of service targets have provided incentives for Royal Mail to improve its performance.
- Royal Mail's quality of service has generally improved since 2000, although some services remain unsatisfactory, as does service performance in some geographical areas.
- Private operators face legal and economic barriers of entry to the market, including Royal Mail's exemption from VAT.

The report is published on Postcomm's website. Printed copies are available from Postcomm. Comments are invited by 12 April 2004.

Penalty!

Royal Mail
pays £7.5 million

After consultation, Postcomm has confirmed a financial penalty of £7.5 million on Royal Mail for failings in its service to customers.

The penalty relates to two of Royal Mail's services for business customers: First Class Post Paid Impression (PPI) and First Class Response Service.

Since the penalty was announced, Postcomm has introduced a compensation scheme that will ensure Royal Mail directly compensates customers for late mail (see page 4).

We're watching . . .

Postcomm has taken action against two delivery staff working for licensed companies. They were formally cautioned after Postcomm investigators found they had been dumping mail instead of delivering it. The companies concerned are now modifying their procedures. Postcomm's chief investigation officer, Derek Webster, said: "Postal companies must ensure that mail is secure while it is in their care. Dumping mail is a criminal offence. Postcomm will not hesitate to take action to protect the security of the mail."

Postcomm proposes universal service changes

Up to now it has been assumed that the universal postal service includes virtually everything Royal Mail does. But with full competition planned for 2007, Postcomm is seeking views on proposals that would clarify the universal service and define precisely which services are included.

In the short term, users – particularly domestic users – will not see much change. This is because, whatever the definition, Royal Mail would still be required by its licence to continue all of its current services unless it seeks and gains Postcomm's prior approval to change them, following consultation with Postwatch, the consumer body. Such services would also still be subject to price and service quality controls. But if adopted, the proposals will mean that in years to come, as competition develops and in response to users' views, Royal Mail will gain some flexibility in the way it develops its product portfolio.

The four main proposals are:

A weight limit of 2 kilos for priority and non-priority mail services. This would have two effects. First, it would raise the present 750 gram limit for 2nd class post to 2 kilos. Second, 1st class post would remain a universal service up to 2 kilos, but Royal Mail would still be required to continue to provide it above 2 kilos.

Bulk mail services. Postcomm proposes that Royal Mail should continue to provide bulk mail services as part of the universal service. This would be through three products – *Cleanmail*, *Mailsort 120*, and *Mailsort 1400*. This proposal means that there will be three levels of bulk mail service available to customers on a universal service basis.

Excluded from the universal service would be an economy mail service (Royal Mail's *Mailsort 3*), and its specialised newspaper service (*Presstream*).

Add-on services. These relate to security of the mail and would ensure that *Registered Mail*, *Redirection*, *Keepsafe* and *Certificate of posting* services are provided as part of the universal service. But services such as *Recorded-signed for* and *Poste-restante* would not be universal, although they would still be provided.

The universal postal service guarantees one delivery and one collection each weekday throughout the UK at a uniform, affordable price, and a registered/insured service.

The consultation document, *Review of the universal postal service: Postcomm's proposals*, is published on Postcomm's website, www.postcomm.gov.uk. Bound copies are available from Postcomm.

How Postcomm will measure competition

In most competitive markets there are no regulators. For example no-one regulates prices at a street market – competition for customers among stall-holders keeps prices down. The same applies, on a larger scale, to the big supermarkets.

Economic regulators get involved when a large monopoly is opened up to competition. The regulator's job is to make sure the monopolist does not take unfair advantage of its huge market share, and then to smooth the way for competitors to enter the market on a fair and equal basis.

Over time the regulator hopes to step back and allow the market itself to regulate prices and service quality. But how does a regulator know when competition is established well enough to allow this?

Postcomm has come up with five criteria to test the effectiveness of postal competition in segments of the postal market. They are:

Barriers to entry. Are there legal constraints on new entrants, or legal protection of the incumbent? Do new entrants face economic barriers?

The scale and nature of competition. How are the markets shared between competitors? Is competition sustainable? Is the market growing? What is the effect of new technology?

Behaviour of Royal Mail. Is Royal Mail competing fairly in the market – or are there signs of anti-competitive behaviour?

Customer awareness and behaviour. Are customers aware of alternative suppliers of postal services? How many are changing suppliers – and how satisfied are they?

How effective is competition? Depending on the responses to the above criteria, Postcomm will consider whether competition can be relied upon by itself to regulate the market. But before withdrawing from regulation, Postcomm would need to take account of special features – such as the need to provide a universal service – which might justify the continuation of some regulatory controls.

Postcomm has published its proposed criteria in a document: *Assessing competitiveness in postal services: Postcomm's proposed criteria*. The document is on Postcomm's website.

Compensation if your post is late

From January this year Royal Mail has to compensate its customers if it is late delivering their mail. Postcomm has required Royal Mail to introduce two separate schemes. One is to compensate business users who send out bulk mailings. The other is for domestic users who find their first and second class letters or packets are late.

The main components of the schemes are:

Bulk business mail. Business customers who send out bulk mailings will be compensated at the rate of 1% of their annual bills for each 1% that Royal Mail fails to meet national targets. The minimum payment will be at a shortfall of 1% and will increase by 0.1% increments up to a maximum of 5%. This scheme is automatic and operative from April 2003.

Domestic users. Under a separate scheme, which started in January 2004, domestic users are now entitled to make a claim for delays to first and second class mail, Special Delivery and standard parcels.

For basic telephone claims, compensation for domestic users is set at 12 first-class stamps for mail that is delayed three working days or more beyond the due delivery date (for first class post,

the due delivery date is the following working day, for second-class, three working days). Where there is a written claim providing clear evidence, including the envelope, compensation will be £5. This is doubled to £10 if the delay is 10 days or more after the due date.

For Special Delivery, where the target for signed-for delivery is the next day, there will be a payment of £5 immediately the due delivery date is missed and £10 where the delay is excessive. Postage costs will also be refunded.

Claims. People making telephone claims will be asked to provide basic evidence. This will include details of the addressee and the sender, information about the date and place of posting, date of delivery, the type of stamp and cost of postage. Royal Mail has the right to refuse claims it considers are not valid, but customers refused compensation can appeal. The Royal Mail number for claims is: 08457 740 740.

Full details of the schemes are in Postcomm's determination: *A compensation scheme for delays by Royal Mail* which is on Postcomm's website.

Network: 'significant progress'

Significant progress has been made in implementing the key recommendations of the Cabinet Office Performance and Innovation Unit's 2000 report into the Post Office network.

In its third annual report on the Post Office network to the Secretary of State for Trade and Industry, published in October 2003, Postcomm says the last year has seen:

- The announcement of financial assistance for rural Post Offices
- The start of the urban reinvention programme and improvements to remaining urban Post Offices
- Financial support for Post Offices in urban deprived areas
- The launch of expanded banking facilities at Post Office branches.

Graham Corbett, then chairman of Postcomm commented: "Last year we called for action to be taken quickly to improve the business prospects for sub-postmasters and support for the Post Office network. Since then significant steps have been taken by Post Office Ltd and the government to secure the

future of the network. The expansion of banking facilities is a key development, helpful to customers and sub-postmasters alike, and renews hope for the future of the network."

As well as highlighting key developments across the Post Office network in 2002/03, the report also updates network statistics. The closure rate of Post Offices has again fallen from its high in 2000, with the rural closure rate showing a marked decrease to 1.4%. But in rural areas viability continues to be a problem. 60% of rural Post Offices that closed in 2002/03 had fewer than 70 customers a week.

Postcomm has advised the government separately on options for a long term strategy for delivering Post Office services.

See you in London?

Postcomm's next public meeting will be in London in March. If you are interested in postal regulation, competition, service standards, any other postal service matters – or are burning to tell us face-to-face what you think – do come along. To be sure of a place, please email commentary@psc.gov.uk. Watch our website for a date, time and venue.