

## Licensing in a competitive market

Postcomm is consulting on the type of licensing framework that needs to be in place when the market is fully open to competition. The aim is to encourage entry to the market while providing sufficient safeguards to protect the interests of customers.

"These licence proposals are deliberately 'light touch' and tread the difficult path between protecting customers while not making it too difficult for companies to enter the competitive market," said Nigel Stapleton, chairman of Postcomm. "We want the widest possible variety of companies to feel they can enter the market if they think they can meet the standards and deliver the services customers want."

Postcomm is proposing to bring forward full market opening to 1 January 2006 – fifteen months earlier than originally planned.

Among the proposals are two codes of practice, for licensed operators. One would safeguard mail integrity and the other deal with common operational issues.

### 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.

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Nigel Stapleton, chairman of Postcomm

The suggested code on mail integrity would cover security of the mail, the procedures to be followed if mail is interfered with, standards on staff selection and training, and the collection of statistics to enable licensees to measure their own performance.

The other code would require all licensed mail companies to co-operate on common operational issues such as the forwarding of mail and handling mail that is returned to sender. This is necessary to ensure that customers are not disadvantaged in a multi-operator market.

The proposals require all but small licensed operators to set up systems to measure their performance and handle complaints, and to make information on their performance available to Postcomm and Postwatch, the consumer body, and anyone else who asks. The information must be presented in a way that enables customers to make comparisons and an informed decision.

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## Sarah Chambers Postcomm's new chief executive

Sarah Chambers joined Postcomm as its new chief executive at the end of November 2004, taking over at what she describes as "a very exciting stage" in Postcomm's work. "If all goes according to plan, there is an enormous amount of hard work to do in the next two years – it will be busy, but exciting," she says.

A former director of licensing and international affairs at Oftel, the first telecoms regulator, she sees some parallels in the work she did there and the tasks she faces at Postcomm. "I joined Oftel when it was at a very similar stage – the framework for regulation was in place, and what we had to do was make competition work."

Her immediate tasks include establishing a new licensing framework for the competitive market, setting up market-wide common operational procedures and seeing through the next price control on Royal Mail. "There is an awful lot we have to do in a short space of time – and we need to get it right," she says.

### ► *Licensing in a competitive market continued*

Unlike Royal Mail, which must publish its performance against set service targets, competitors will be able to set their own targets, and the market will decide how successful they are: poor performing firms will see their failures reflected in their balance sheet.

As well as signing up to the codes of practice, new entrants will also be required to provide a financial guarantee so that in the event of service failure, any existing mail can be delivered.

The proposals suggest that the licence application fee remains at £1,000 as it is now. In addition, proposed annual fees – which include the costs of Postcomm, Postwatch and Competition Commission costs relating to postal services – have been set at £1,000 for all licensees with an annual turnover up to £10m, but £250 for small firms with a turnover less than £100,000. Above £10m, fees increase on a sliding scale. Royal Mail, with a turnover of around £6bn for its regulated business, is the major contributor.

The consultation document, *Licences under the Postal Services Act 2000: Licensing framework in a fully open market*, is published on Postcomm's website. Printed copies are available from Postcomm's office. Responses are requested by 28 February 2005.

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Sarah's previous job was director of the automotive unit at the Department of Trade and Industry. She has also had some experience of Post Office matters, working in the early 1990s in the part of the DTI dealing with the post office network.

"At that time the issues were very much what they are today: the Department of Social Security and the Treasury wanted to make pensioners open bank accounts for their benefit payments. At that time – Michael Heseltine was Trade and Industry Secretary – we beat them off." It was said then that the switch to bank accounts would be easier if five years was allowed to elapse. "Nothing changes – they are saying that now."

Postcomm has a staff of 40, compared with tens of thousands at the DTI. But she does not expect to miss being a small part of a large organisation. "It is nice to get into a small operation. You have more opportunity to develop your own systems."

One policy shift within Postcomm which she is already managing is a wider dialogue with stakeholders. Postcomm is forging stronger links with customers, operators and major mail users through an increased programme of seminars, workshops and forums. Sarah's experience within the automotive unit – where there was a substantial interaction with stakeholders – should stand her in good stead.

# Network making progress, but support still needed

Postcomm believes Post Office Ltd is making good progress in developing the commercial potential of the network – but there is some way to go before this can compensate for continued financial support from the government. New products and services are providing a lifeline for many Post Offices but for others there remains insufficient demand for these services.

These are some of the conclusions from Postcomm's fourth annual report on the Post Office network to the Secretary of State for Trade and Industry.

Commenting on the report, Nigel Stapleton, chairman of Postcomm said: "Last year we called for action by the government and Post Office Ltd to move ahead with the urban reinvention programme to prevent random closures and to secure a viable network. After a slow start, the reinvention programme has eased uncertainty among urban subpostmasters by giving the remaining branches a more secure future.

"We also welcome the major steps that have been taken to offer new products and services to make Post Offices more attractive to customers. This is a key development and critical to the future of the network. Our chief concern at this point is whether the new products and services will provide a viable living for subpostmasters, particularly in some urban deprived areas, and we will be closely monitoring this issue."

The report welcomes the government's decision in September to maintain the financial assistance package for rural Post Offices through to 2008. This will continue to slow the rate of closures and provide a valued service to customers.

Postcomm also welcomes the government's commitment to trial new ways of bringing Post Office services to customers in rural communities and to develop a long term strategy for the network.

The number of Post Office branches fell by 1,278 in 2003/4 (1,129 urban, 149 rural). This was significantly more than in the previous year, as a result of the urban reinvention programme of planned closures. Almost nine out of ten people (88%) say the Post Office is important to the community and 96% of the population trust the Post Office. Of rural branches that changed hands, 60% had an annual income from the provision of Post Office services of less than £20,000.

The report, *Building a viable network*, and reports on the future of the rural network by NERA and The Future Foundation are published on Postcomm's website. Printed copies are available from Postcomm's office.

## Market Opening Forum

Postcomm's market opening forum in Birmingham on 26 October attracted more than 70 delegates, among them postal operators, major customers and consumer groups.

The main aim was to seek views from stakeholders on Postcomm's proposals to bring forward the introduction of full competition in mail services to 1 January 2006.

Timed to coincide with the early stages of Postcomm's consultations on advancing full market opening, the review of the existing competitive market and the second stage of Royal Mail's price control, the half-day forum mixed short presentations with longer question and answer sessions, discussions and networking.

To widen the usefulness of the event we had three outside speakers:

- Alan Halfacre, chairman of the Mail Users' Association
- Matthew Robertson of Express Ltd and
- Richard Blythe of Nationwide, who respectively gave the views of users, operators and customers on a fully competitive market.

Postcomm's next forum will be in London, on 8 June 2005.

# More time for Size Based Pricing

Postcomm and Royal Mail have agreed that more time is needed to assess Royal Mail's size based pricing (SBP) proposals. Because of the complexity of the issue and the significant implications for many Royal Mail customers, the earliest start date – if the application is allowed to go ahead – would be April 2006.

Our consultation on Royal Mail's proposal to introduce SBP last April received almost 10,000 responses – more than any other consultation we have conducted. Of these, more than 120 were individual responses, about 1,400 standard letters and around 8,000 postcard petitions.

All of the writers of the standard letters and postcard petitions were opposed to Royal Mail's proposal, while less than 30 of the individual responses were in favour of Royal Mail's proposal. Non-confidential individual responses are published on Postcomm's website.

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Under the terms of its licence, any proposals from Royal Mail must:

- be revenue neutral
- lead to prices for the service being more reflective of costs than they would be if the existing pricing basis was retained and
- be introduced in a manner that avoids unreasonable changes for users of the service.

It will take some time to evaluate the responses and follow-up with certain of the respondents. We have asked Royal Mail if it wants to make any amendments to its proposal in the light of responses.

Postcomm has been working with Royal Mail since October 2003 to check the quality of the cost information supporting its proposal, and is seeking more details on how Royal Mail plans to introduce and publicise SBP.

Once this further work is done, Postcomm will consult again for 3 months. This consultation will summarise the responses to the first consultation and set out our proposed decision on Royal Mail's SBP proposal. Consultation is expected to start early in 2005.

## £77,000 fine for delivering mail without a licence

**A company that collected and delivered mail without a licence has been fined a total of £17,000, plus £60,000 costs at Bow Street Magistrates Court in London.**

In the first prosecution of its type brought by Postcomm, Deltec International Courier Ltd was convicted on 11 counts on which it was charged under section 6 of the Postal Services Act 2000 for conveying letters without a licence. In addition, Barry Ellis, managing director of Deltec was convicted on 11 counts under section 120 of the Act, for conniving in, consenting to or being neglectful of the offences by the company.

The company was fined £12,750 and Mr Ellis £4,250. Prosecution and investigation costs of £10,000 were awarded against Mr Ellis and £50,000 against the company.

Nigel Stapleton, chairman of Postcomm commented: "Prosecution isn't an activity we take lightly. In this case Deltec was made aware on a number of occasions that it required a licence and chose to ignore it. Licensing is an important aspect of a competitive mail service. All legitimate operators must have licences, and we will continue to take action against those who deliberately operate without one."

Postcomm's enforcement team has now also brought its first prosecution under Section 83 of the Postal Services Act, which criminalises interference with mail. This case involved mail dumping. Another prosecution will follow later.