

COMMUNICATION WORKERS UNION

Headquarters 150 The Broadway, Wimbledon SW19 1RX
Tel 020 8971 7200 Fax 020 8971 7300 www.cwu.org
General Secretary Billy Hayes Weblog: www.billyhayes.co.uk

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Ms Sarah Chambers, Chief Executive
Postcomm
Hercules House
6 Hercules Road
London
SE1 7DB

Dear Ms Chambers

POSTCOMM FINANCIAL PENALTIES: MAIL INTEGRITY AND DOWNSTREAM ACCESS

I am writing in relation to the two documents which Postcomm has published in recent weeks setting out its decisions to impose financial penalties on Royal Mail.

The first of these decisions largely relates to the company's failure to meet its mail integrity obligations. The other penalty is being imposed because the company is perceived to have failed to take adequate steps to ensure it does not gain an unfair commercial advantage in relation to downstream access. In total these proposed financial penalties amount to almost £14 million, some of the largest fines imposed by an industry regulator on a state owned company in UK history. Needless to say, the CWU has some serious concerns about key elements of Postcomm's decisions in these two areas. I have set these out in more detail below.

Financial Penalty Relating to Royal Mail's Mail Integrity Procedures/Mail Delivery Performance

Postcomm has proposed a total fine of £11.7 million for breaches in relation to mail integrity and mail delivery performance. However it states that by far the greatest part of this sum, amounting to almost £11.4m, directly relates to Royal Mail's failure to meet its obligations to protect the integrity of the mail. I have therefore focussed these observations on the mail integrity element of Postcomm's decision.

I would like to emphasise that the CWU clearly recognises the importance of ensuring that Royal Mail takes all reasonable steps to safeguard customer's mail during its passage through the postal pipeline. The Union has regular contact with Royal Mail on mail integrity issues and, wherever possible, we seek to make a positive contribution in this area. For example, working alongside management, we have

taken a proactive approach to the introduction of mail integrity compliance procedures in relation to downstream access. We have also positively engaged with the company to develop a new Driving Manual, and we have particularly focussed on driving and delivery security issues. Similarly we continue to make a significant contribution to ensuring that improvements are made to the processes governing the security of mail items during delivery.

Postcomm states that a key reason for reaching its decision in relation to mail integrity was Royal Mail's record of poor management of the recruitment and training process for agency staff. It is a matter of record that historically the CWU has had strong concerns in this area. We are also concerned at the other shortcomings which Postcomm has identified in relation to loss prevention management in general and in particular in relation to the lack of effective monitoring mechanisms. It is clearly not in the interests of Royal Mail, its employees or its customers for real or perceived problems to develop in relation to the company's management of mail integrity issues.

The above notwithstanding the CWU is extremely concerned at the scale of the financial penalty which Postcomm is proposing to impose on Royal Mail as a result of its investigation. As observed previously, we understand that this fine is the largest which has ever been imposed by a UK regulator on a state-owned company. We also note that Postcomm itself acknowledges in its report that Royal Mail has been making "significant efforts" to improve its approach in relation to mail integrity since Postcomm completed its review in the Spring of 2005. As a result we believe Postcomm should substantially reduce the financial penalty which it is proposing to impose. Our view in relation to this proposal is reinforced by the fact that the financial penalty will only be returned to the Treasury and cannot be used by the company to further improve its procedures or to compensate customers.

Financial Penalty and Enforcement Order Relating to Unfair Commercial Advantage in Downstream Access

As noted above, the second area in which Postcomm is proposing to take action is in relation to the fact that "the company is failing to take adequate steps to ensure that it does not gain an unfair commercial advantage over its competitors in the fast-growing 'access to the last mile' market". As a result of its investigation in this area the regulator is proposing to impose a £2.16 million fine and issue an enforcement order.

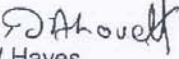
The CWU absolutely opposes Postcomm's decision in this area. As stated in previous documents, we remain far from convinced that the development of third party access is in the interests of Royal Mail or the wider postal industry. This point of principle notwithstanding, I would again emphasise that the existing agreements which have been reached between private postal operators and Royal Mail have been based on free commercial negotiations. It is also clear that these private postal operators are deriving significant financial benefits from these arrangements. Furthermore, our understanding is that the complaints which have been made in this area have not been substantiated. Accordingly we do not believe that there is a need for action by the regulator in this area.

The Union is strongly opposed to Postcomm extending its role in relation to downstream access – we believe it is simply another example of an area in which the

regulator is seeking to unfairly restrict Royal Mail's legitimate business activities to artificially assist private postal competitors. We believe it is inappropriate to impose a fine and enforcement order in this case and we therefore believe that Postcomm should withdraw its proposed decision.

I hope that our position in relation to these two decision documents is clear. Please do not hesitate to contact me if you require any further information or clarification.

Yours sincerely


W Hayes
General Secretary

