



POSTCOMM

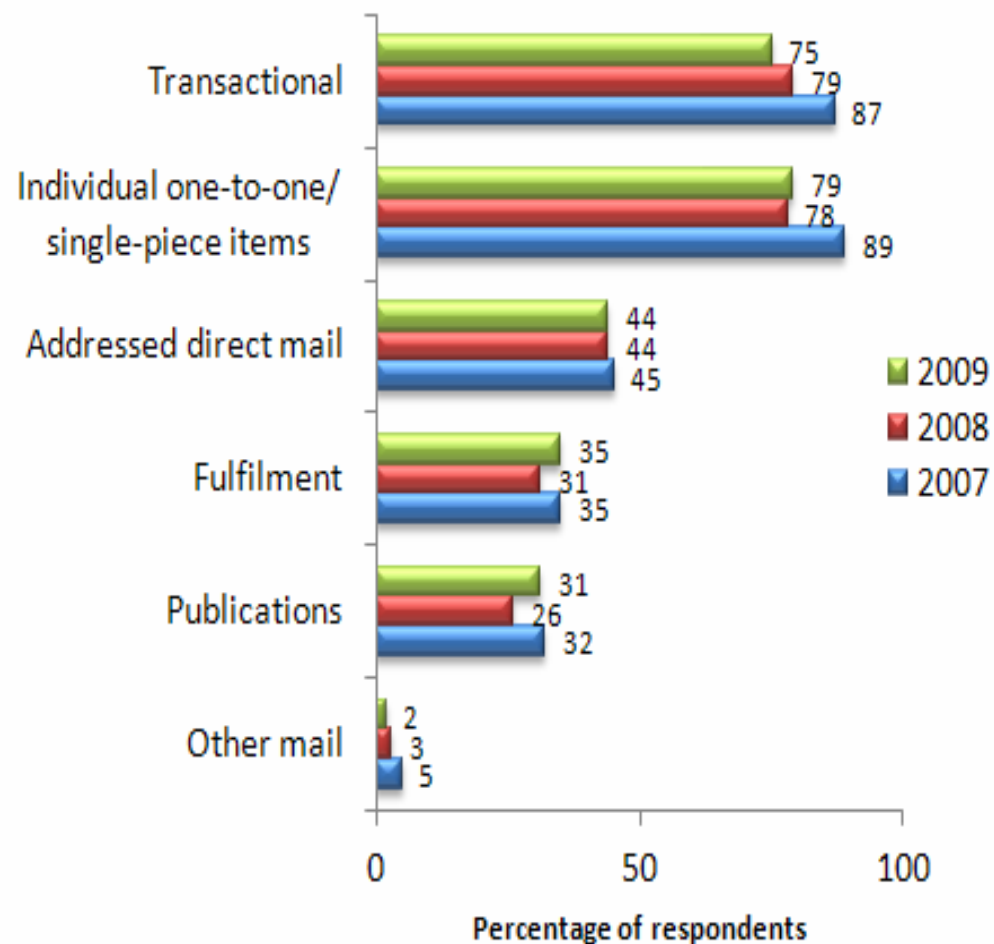


**12th Königswinter  
Seminar on Postal  
Economics**

**Challenges for the  
UK postal market**

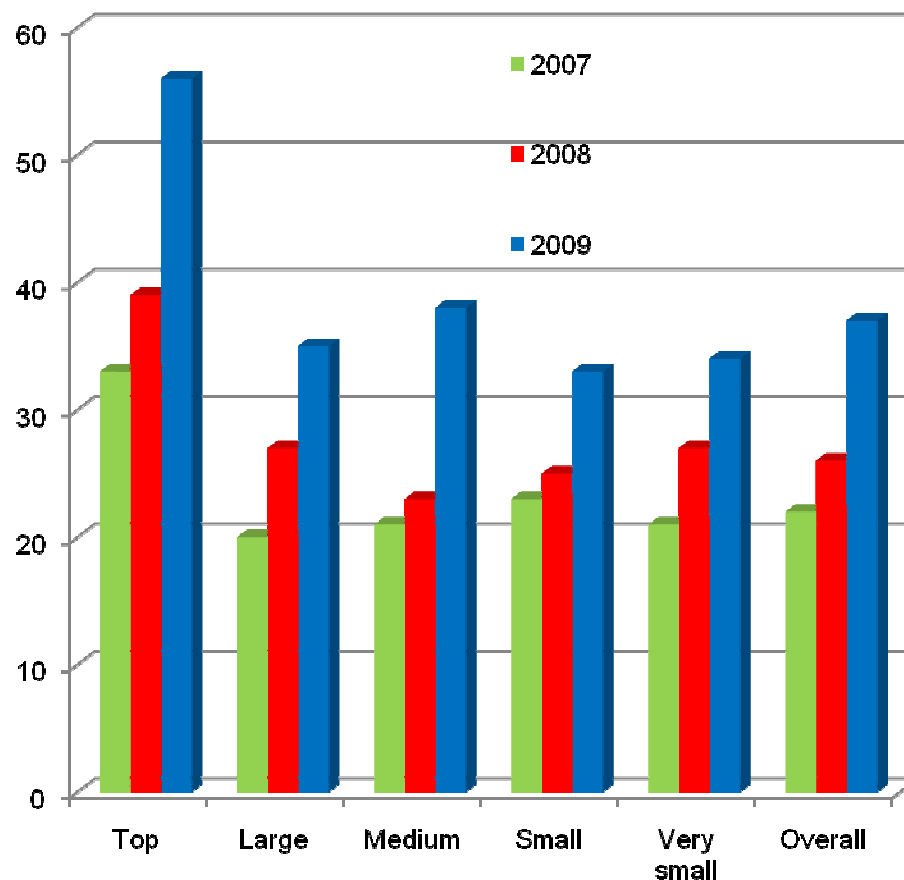
- **The market in the UK – 4 facts**
- **Politics of postal services**
- **Postcomm's role in implementing 3<sup>rd</sup> Directive**
- **Our Forward Work Plan**

## 1. Transactional and single piece items still the most commonly used types of mail



Q9. Which of the following categories of mail that cost under £1 to send; and weighs under 350g does your organisation send? (Base: all respondents 2009 – 802; 2008 – 1802; 2007 – 1804) **2**

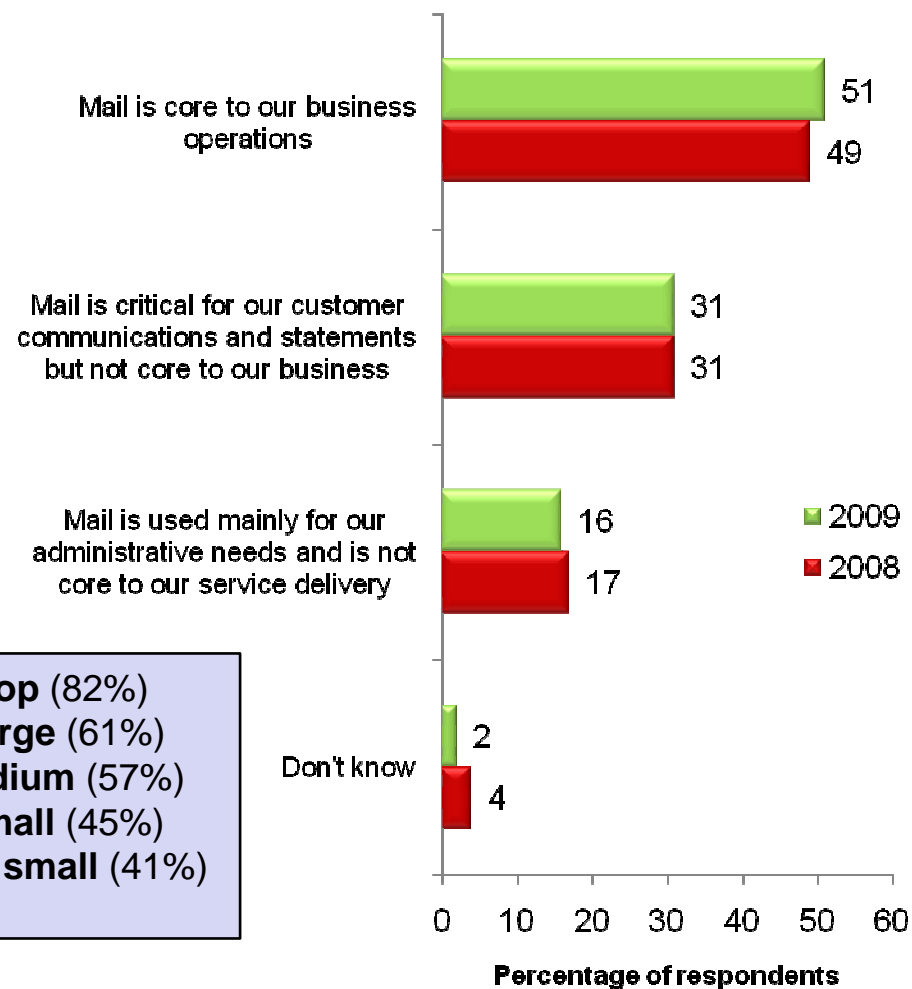
## 2. Switching to other media has increased substantially



Over the last twelve months has your organisation moved some mail to other media?

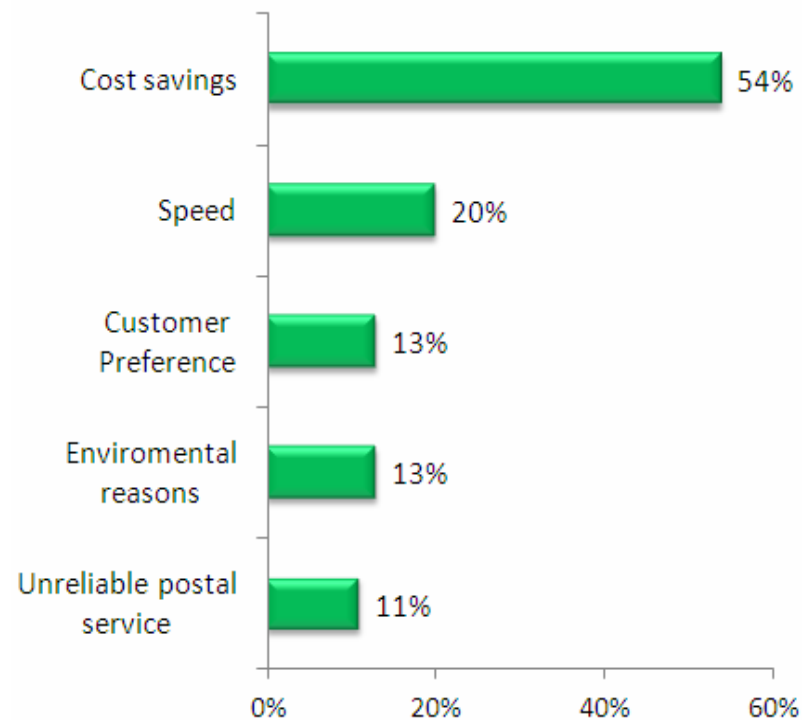
## 3. Half of respondents describe mail as core to their business

**Top (82%)**  
**Large (61%)**  
**Medium (57%)**  
**Small (45%)**  
**Very small (41%)**



Q9. Which of the following statements best describes the role of the mail services to your organisation? (Base: all respondents 2009 – 802; 2008 – 1802)

## 4. Cost continues to be the main reason for switching



Why have you moved mail to other media in the last 12 months? (Base: 295)

- **2008/09 – Hooper review and Postal Services Bill**
  - **Government to take pension**
  - **RM to be part-privatised**
  - **Postcomm to be merged into Ofcom**
- **Postal Services Bill stalled due to economic conditions**
- **Lord Mandelson announces Postcomm to retain regulation**
- **General Election due spring of 2010**
  - **Potential for new Postal Services Bill?**
- **Postcomm duties and powers remain unchanged:**
  - **First duty is to ensure the provision of the universal postal service**
  - **Further the interests of customers – promoting effective competition wherever appropriate**

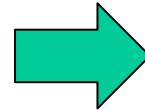
# Where are we today?

- **Competitors have around 35% share of upstream market while Royal Mail holds on to 99% of downstream (delivery) market**
- **Current regulatory framework designed in 2005 only supposed to last until 2010**
- **Change in regulation needed**
- **Structural changes in the market**
- **Royal Mail's financial (especially cash) position weak**
- **No cost model and poor understanding of Royal Mail's cost transparency**
- **Also working closely with Government on implementation of the 3<sup>rd</sup> Directive in absence of the Bill**



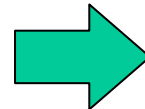
# Main provisions of Postal Services Directive

Full market opening 2012



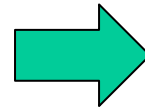
Full market opening 2006

Universal service



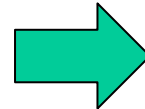
6 day specification maintained

Access to postal network



Access to USO network 2006

Affordable prices



Price control regulation 2006-10

Cost transparency

Forward Work Plan 2010

**Remaining to do...**

**(with or without new  
UK legislation)**

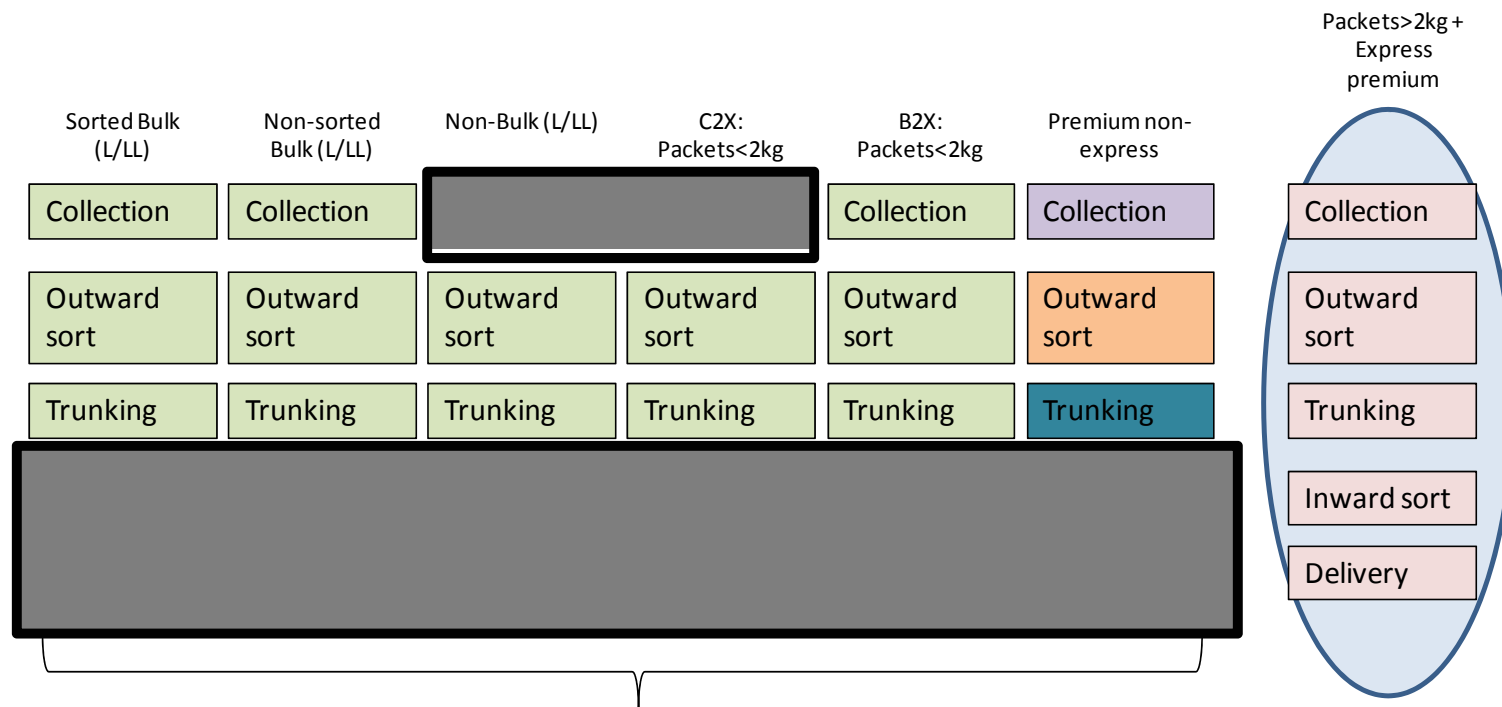
- **Ensuring a USO in line with user needs – USO work stream, identifying customer needs, including affordability review**
- **Development of postal market and USP restructuring – Market study, including deregulation and wholesale/retail market interaction and future scenarios work**
- **Cost transparency and cost-oriented tariffs – Cost transparency work stream based on separate accounts & long run incremental costs**

- **Affordable prices** – *Price control review and USO research combined with market study*
- **Net costs of USO if “unfair financial burden”**  
- *Cost transparency includes net cost calculation*
- **Transparent and non-discriminatory access to postal infrastructure** – *separate project to examine definition and assess regulatory gaps; review of access to the mail pipeline including headroom*

# Our forward work plan

- **Published in January 2010:**
  - The universal service;
  - Analysis of markets: and
  - Regulatory safeguards.
- **Examples:**
  - Market study
  - Cost transparency

# Wholesale market study



Markets may be further separated by 1C, 2C (all) and 3C (sorted bulk)



Areas where the team believes that it is likely that Royal Mail has market power.



Areas where the team believes that it is likely that there will be effective competition.



**However Royal Mail's products (currently) span a number of functional sectors – this will have implications for potential regulatory remedies**

- **Split into two:**
  - **Increased understanding of Royal Mail's costs**
    - Transparency
    - Agreed Rules & Change Control
    - Separate Accounts
    - LRIC
  - **Related changes to regulation**
    - Deregulate where competitive
    - Headroom regime – protect against margin squeeze
    - Price control where no effective competition (wholesale, social mail, lighter packets)



- **Market in decline and structural change**
- **Need for regulatory reform**
- **Plans in place to introduce some changes in April 2011 but main changes for April 2012**