

Competition in postal services



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The postal regulator, Postcomm, is opening up the UK's postal market to full competition in January 2006, some three years ahead of the rest of the EU. Royal Mail welcomes competition, but we need a fair and flexible pricing regime that allows us to compete for profitable business mail on a level playing field. That's the key to maintaining the services on which we all depend as consumers.

Royal Mail has been unable to make much progress in rebalancing postage prices to reflect the real cost of collecting, sorting and delivering 84 million items of mail to the UK's 27 million addresses every working day. Without the rebalancing, Royal Mail will not be able to compete fairly when the market is opened up.

This imbalance arises because stamp prices are currently subsidised by business prices and pricing is currently driven by weight, whilst cost is driven mainly by size – so heavier items subsidise lighter items.

Royal Mail's regulatory accounts show that overall stamped mail made a loss in 2004-05 of £235 million – equivalent to a loss of 5p on every item of First Class stamped mail and 8p on every item of Second Class stamped mail. These losses were covered only by the profits generated by some bulk business and heavier items of mail.

Royal Mail's postage prices should reflect the cost to us of handling the mail. This is why we have proposed a new pricing structure that moves our prices into proportion with our costs or, more simply, that reflects size.

Meanwhile, the European Commission will come forward with a third postal directive across the EU by the end of 2006. This could fully open the EU's postal market in 2009.

The new directive provides an opportunity to address the problems from differential rates of market opening in the EU. One issue is access to an incumbent postal operator's local delivery network. In the UK Royal Mail is required to grant access and competitors are gaining market share as a result. European competitors are opposed to granting Royal Mail equivalent rights in their home markets.

Another key issue will be the meaning of 'universal service'. Royal Mail believes that it should cover an actual set of services such as First and Second Class mail, rather than the current reference to processes such as sorting, transport and distribution. In redefining the universal service, the directive should remove bulk mail thus freeing operators like Royal Mail from the uniform pricing obligation for business products. This would allow Royal Mail to compete on a level playing field with competitors who can price bulk mail flexibly.

Royal Mail's vision remains to be demonstrably the best and most trusted mail company in the world. We can compete if we are allowed to operate on a level playing field, in the UK and the EU as a whole.



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