

# POSTCOMM



THE POSTAL SERVICES COMMISSION  
(POSTCOMM)

[www.postcomm.gov.uk](http://www.postcomm.gov.uk)

•the independent national regulatory body for the  
•UK postal sector

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# 1. INTRODUCTION

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- **1512** - first Master of the Posts appointed by Henry VII
- **1635** - posts opened to members of the public by Charles I
- **1840** - “Penny Post” introduced
- **1969** - Post Office no longer Government Department and becomes a statutory Government-owned public corporation.
- **1981** - mail monopoly area limited to letters weighing less than 350g (12 oz.) and costing < £1 (\$1.40) - “Reserved Area”
- **10 October 2000**– **The Postal Services Act 2000** comes into force.
- **26 March 2001** - Post Office becomes a state-owned public company. Postcomm grants a licence to the Post Office to operate mail

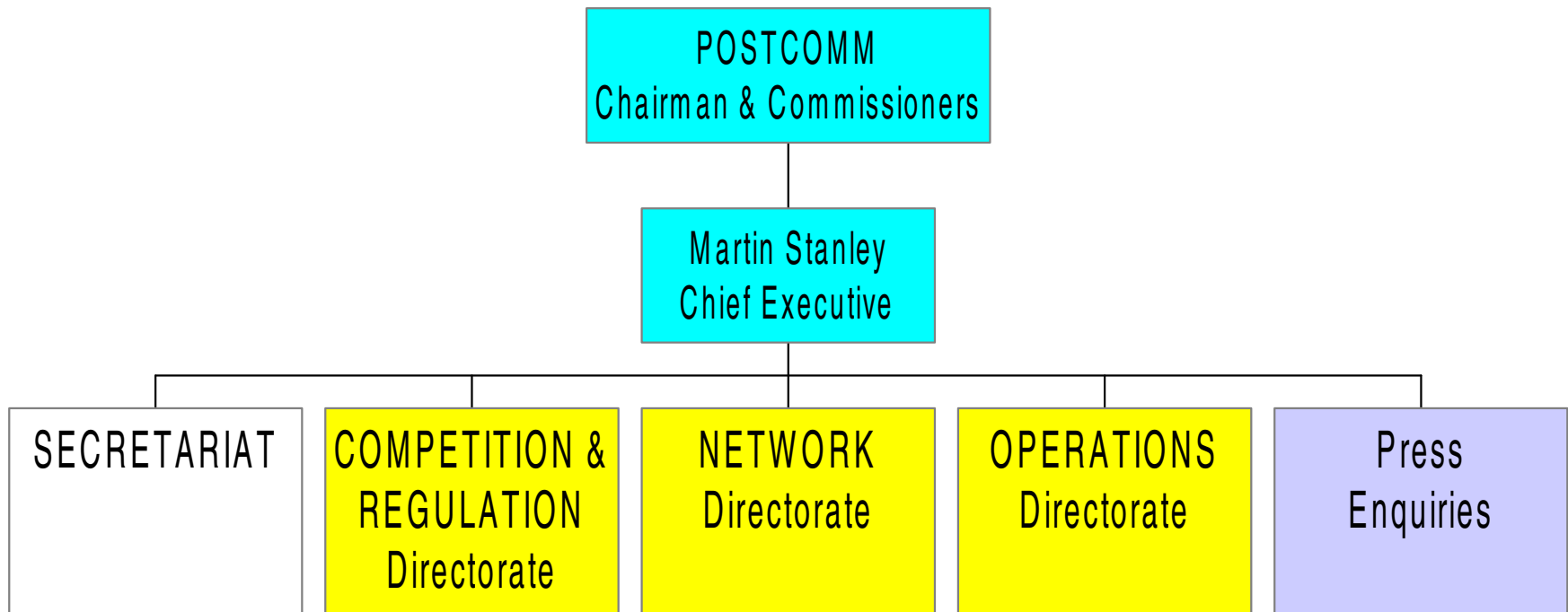
# THE POSTAL SERVICES ACT 2000

- provided for the establishment of three bodies:
  - An **independent national regulatory authority** for the postal sector called the Postal Services Commission following abolition of the advisory PSC. The Commission assumed full powers on 6 November 2000.
  - An independent body known as the **Consumer Council for Postal Services** (Postwatch) replacing the Post Office Users' National Council and corresponding country Councils for Scotland, Wales and Northern Ireland, responsible for service standards
  - A Post Office limited company
- provided the legal framework for the introduction of competition below 350g

- **Postal Services Act ends UK Post Office's monopoly**
  - **Since 26 March the UK has no longer had a Reserved Area**
  - **The present Reserved Area has become a Licensed Area**
  - **Other companies may apply for licences to compete with UK Post Office up to 350g and below £1**

- **Size of UK letters market: ~ \$9bn**
- **Post Office's share: domestic - 95%, outward international 82%**
- **PO Top 50 customers - 22% of volumes**
- **PO Top 500 customers - 47% of volumes**
- **(Other 62m customers - the rest)**
- **Growth of market equals or exceeds GDP growth**
- **Social mail declining, marketing increasing**

# Postal Services Commission (Postcomm) - 7 COMMISSIONERS





as the new **independent** regulator of postal services are to:

- ensure customers continue to enjoy a **“universal postal service at an affordable, uniform tariff”**
- further the interests of users of postal services by promoting:
  - **effective competition** between postal operators
  - **efficiency and economy** on the part of postal operators

In performing its duties, Postcomm will have regard to the need of licensees to be able to **finance their licensed activities.**

## OTHER DUTIES

- To monitor and provide advice to the Secretary of State of Trade and Industry on the numbers, locations and rôles of local post offices
- To take over from the Department of Trade and Industry responsibility for protecting the Reserved Area against unlicensed operators (from March 2001)

## 2. NETWORK/COUNTERS

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- Postcomm's role to provide independent advice to Government on Network (i.e. NOT to regulate), taking into account duty to consider interests of disadvantaged customers
- 17,846 post offices in UK in March 2001, < 600 managed directly by Post Office
- Post Offices supply more than a hundred services besides post, for example:
  - Disbursement of government pensions/benefits;
  - ATMs;
  - Passport/driving licence applications
- 547 post offices closed in 2000/01, of which 441 were rural
- 92% of households within 2km of a Post Office



# 3. INTRODUCING COMPETITION

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- **Granted on 3/26/2001 to Consignia**
  - **Condition 2 and 3: Provision of universal postal service in the United Kingdom**
  - **Condition 4: Standards of service**
  - **Condition 9: Access to the Post Office's facilities (requires an access code)**
  - **Condition 11: Promotion of effective competition (no undue discrimination between customers, no predatory pricing)**
  - **Condition 16: Provision of information to Postcomm**
  - **Condition 19: Prices for postal services**

# PROMOTING COMPETITION THROUGH LICENSING

- **Licence** Post Office and others to operate within the currently reserved area
  - Currently consulting on one licensee for reserved area
  - Further applications are likely
- Ensure **fair competition** between Post Office and other operators
  - Concurrent powers with the Office of Fair Trading under Competition Act 1998
  - Paying particularly close attention to possible cross-subsidisation between monopoly and competitive products

- **Postcomm is considering all appropriate mechanisms including:**
  - Reductions in price and weight thresholds
  - Liberalisation by mail product (e.g. 1<sup>st</sup>/2<sup>nd</sup> class, direct mail)
  - Requiring the Post Office company to deliver mail sorted and transported by other operators (American example)
  - Licensing competitors to operate within the licensed area
- **BUT how to protect the universal service while doing so?**

# 4. PRICE CONTROL

- **Prices formerly at discretion of Secretary of State**
- **Current control in Licence divides Consignia's products into three groups for price control purposes:**
  - Category A: products where there is no competition. Fixed at 1/1/01 levels in nominal terms
  - Category B: products where some competition exists. Fixed at 1/1/01 levels in real terms
  - Category C: products where competition is established. Not controlled by licence
- **Post Office may apply to raise prices if it identifies a risk to its finances and did on 11<sup>th</sup> April 2001: application subsequently suspended**
- **Control expires on 1<sup>st</sup> April 2003**

- **Price control review underway: aim is to establish a regime once interim control expires**
- **Control necessary to:**
  - protect customers in the absence of competition; and
  - ensure that licensees can finance licensed activities and provide the universal service.
- **Possibly draft proposals in Summer 2002; final proposals in Autumn 2002; licence amendments thereafter**
- **The Post Office may appeal to the Competition Commission if final proposals do not leave it able to finance its licensed activities**

- Price cap/revenue cap/tariff basket/average price cap?
- Rate of return/RPI-X/cost sharing?
- Duration of control?
- Scope of control?
- Relation to standards of service?
- Implications of nationalised industry status?

Etc. etc. etc.



- Other UK regulated industries controlled by price cap regulation, set for 4-5 years
- Strong incentives to maximise profits by reducing costs BUT also incentives to reduce standards of service
  - Revenue/Price = Efficient costs (operating and capital expenditure) + rate of return
- Efficiency study required to estimate efficient costs for duration of price control
- Rate of return estimated by independent regulator
- BUT will efficiency incentives work in a nationalised industry?

- Undertaken by independent consultants
- Information required substantial
- “Top down” and “bottom up” benchmarking, operational efficiency
- Efficient costs estimated for a “base year” (99/00) and then “rolled forward”
- Staff costs 70% of total costs
- May be published, so must command respect from Competition Commission/other stakeholders

# 5. CONCLUSION

- **Advice to Government on Network of Post Offices**
- **Development of long term price control**
- **Proposals on further competition**
- **Granting of more licenses**