

CWU SUBMISSION TO GOVERNMENT REVIEW OF LIBERALISATION

Introduction

1. The Communication Workers Union (CWU) represents around 250,000 employees in the postal, telecom and related industries. It is the recognised union in the Royal Mail Group for all non-management grades, including those responsible for the collection, sortation and delivery of letters and parcels.
2. On 17 December 2007, John Hutton Secretary of State for Business, Enterprise and Regulatory Reform announced a comprehensive review of the postal service market. The terms of reference are to :
 - assess the impact of liberalisation on Royal Mail, alternative carriers and consumers;
 - explore trends in future market development and the likely impact of these on Royal Mail, alternative carriers and consumers; and
 - consider how to maintain the universal service obligation in the light of trends and market developments identified.
3. In the Approach to the Review document, the Panel says it wants the review to:
 - a) generate an active and constructive debate across the range of stakeholders with an interest in the postal service;
 - b) establish a body of evidence which has widespread support as a basis for considering future options; and
 - c) reach conclusions based on an objective analysis of various options.
4. The CWU submission will follow the basic format of our presentation to the Review Team on 10 March 2008 looking at:
 - the case for the Review;

- the impact of liberalisation on the UK and EU markets, on Royal Mail and its employees and on mail users (business and domestic); and
 - the CWU's policy proposals.
5. In the course of our submission the CWU will address all the key questions set out by the Review Team in its 'Approach' document, though we intend to supplement this submission with further arguments in relation to the future of the USO. We have also made clear that we believe the question of Royal Mail's ownership and governance structures are 'ultra vires' and fall outside both the published terms of reference and the policy of the UK Government to keep Royal Mail in the public sector.
6. The CWU welcomes the Review Team's commitment to evidence-based analysis though one of the consequences of liberalisation is that information relating for example to Royal Mail's financial and accounting arrangements as well as the precise business plans of other operators are not available because of commercial considerations. We therefore welcome the opportunity the Review offers to analyse all the relevant data submitted to the Review Team in analysing market developments and informing future policy options.

The Case for Review

7. The CWU welcomes the Government's review of postal liberalisation. Over 10 years since the passage of the first EU Postal Services Directive and two years since full market opening in the UK, we believe the time is right to take stock of what's happened to the postal market and consider proposals that best safeguard the future of the industry and the universal service.
8. The announcement of the Review honours a commitment secured by the Union first through the Warwick Agreement and subsequently enshrined in Labour's 2005 Election manifesto. As well as the terms of reference we believe the Review Team's deliberations should also take full account of the Government's wider commitment to the electorate:

"To the benefit of business and household consumers we are liberalising the postal services market, while protecting the universal service at uniform tariff.

As we said in our policy document "Britain is Working", we have given the Royal Mail greater commercial freedom and have no plans to privatise it. Our ambition is to see a publicly owned Royal Mail fully restored to good health, providing customers with an excellent service and its employees with rewarding employment. We will review the impact on the Royal Mail

of market liberalisation, which is being progressively introduced under the Postal Services Act 2000 and which allows alternative carriers to the Royal Mail to offer postal services."

9. The Union campaigned for a Review because we recognised from the outset the problems liberalisation and the system of regulation would bring to Royal Mail and the future of the universal service. In our response to Postcomm's 2001 consultation document on *Promoting Effective Competition in Postal Services* we argued that "liberalisation presents a serious threat to the provision of a universal service at a uniform tariff"¹. We argued that the form and timing of competition introduced by Postcomm would create serious imbalances in the UK and European postal markets which would adversely impact on Royal Mail's revenues and ultimately threaten its long term commercial viability and its ability to support the universal service.
10. Since the passage of the Postal Services Act 2000 the CWU has also raised a number of concerns about the role and remit of the industry Regulator. Postcomm's model of "independent" regulation has become too independent of Government and Parliament with the Regulator taking on the authority proper to an elected Government. Instead of the "light touch" regulation promised, the Regulator has introduced a restrictive regulatory and pricing regime for Royal Mail which has severely limited the company's ability to compete and innovate.
11. The CWU believe that the introduction of competition should remain subordinate to the Regulator's primary legal duty to protect the universal service. But Postcomm has got its priorities wrong and elevated the pursuit of competition ahead of the main statutory duty dictated to it by Parliament.
12. Section 3 (1) of the Postal Services Act says "Postcomm's main duty is to exercise its functions in the manner which it considers is best calculated to ensure the provision of a universal postal service". Section 5 (1) says the Regulator then has a secondary duty to "exercise its functions in the manner best calculated to further the interests of users of postal services, wherever appropriate by promoting effective competition between postal operators".
13. The nature and scope of the universal service must be of primary concern - how competition is then introduced should be subject to and consistent with this end. Instead Postcomm has first introduced full competition and is now trying to adapt the USO to suit the market it's created. The start point for the Review should not be how we introduce more competition but whether and how competition helps meet the commitment to maintain the USO.

¹ CWU, September 2001

14. Building a successful future for CWU members and the company requires Government, Postcomm and Royal Mail to recognise that their approach to competition has failed. Without changes to the current regulatory and competitive framework we believe Royal Mail's current business plan is unsustainable. We therefore approach the Review in a spirit of constructive engagement with the aim of securing amendments to the Postal Services Act 2000 and subsequent Postcomm decisions that ensure the Government meets its foremost duty to safeguard the USO and delivers on all of its manifesto commitments to Royal Mail, its customers and its employees.

UK liberalisation: the impact to date

Natural monopoly

15. The CWU has argued in earlier submissions that Royal Mail is a natural monopoly with no other private operator in a position to genuinely replicate and compete with the company's entire national delivery, sortation and distribution network. Our *Delivering Quality* document produced in February 2005 said that "the unique nature of Royal Mail's business and the significant social benefits which the USO gives, both to the general public and commercial organisations meant that it was never a suitable industry for the introduction of competition"².
16. Royal Mail's natural monopoly and the simple business model and synergies on which it rested have worked for the common good and delivered a high quality postal service at lower costs than most comparable European postal sectors. But this has been undermined by the Regulator's introduction of competition.
17. As Postcomm themselves have pointed out the issue of a 'natural monopoly' derived from Royal Mail's economies of scale, presents itself as a problem both for the preservation of the universal service and as a deterrent to potential competitors from entering the market. To overcome this issue Postcomm proposed that: a) Royal Mail should be constrained from exercising its scale advantages in areas opened to competition and/or b) universal service obligations apply to one provider on any particular market. The consequence of Postcomm's decision to create an artificial form of competition through downstream access arrangements has meant Royal Mail has lost revenue to alternate operators without avoiding all the costs commensurate with these lost revenues.
18. The CWU have argued that the more widespread the competition introduced by the Regulator the greater would be the loss of revenue sustained by Royal Mail. We pointed out that almost any scale or form of competition in postal services would mean a reduction in the volume of mail carried by Royal Mail. This would result – in the absence of measures such as a

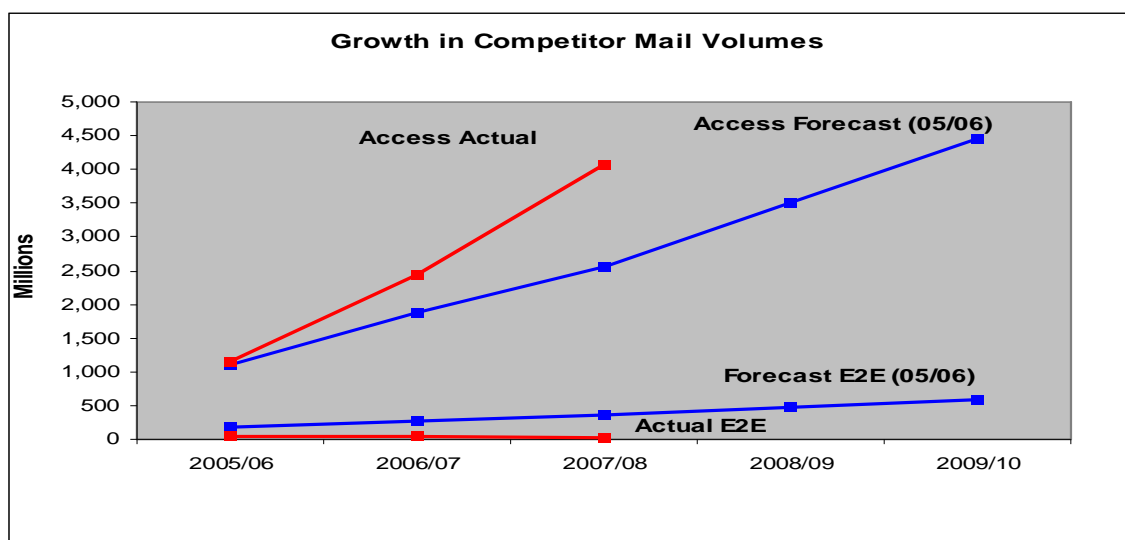
² Delivering Quality: the Post Office in the Public Sector, February 2005

reduction in the quality or range of services – in an increase in unit costs and a decline in profitability. We acknowledged that an introduction of competition into parts of the reserved area would benefit a section of customers but the majority would end up paying more for a poorer service³.

19. Due to the prevailing political climate in Britain, and the position of the EU Directive, the CWU recognises that the monopoly is not going to be restored. But we believe that the damage inflicted upon the USO provider must be repaired in line with the priority contained in the Postal Services Act.

The nature of competition

20. In its 2001 consultation document Postcomm stated that *effective competition* implies a "dynamic process of vigorous competitive rivalry and innovation that delivers benefits to postal users"⁴. But we do not believe that the form of competition witnessed to date has provided for "vigorous competitive rivalry" or delivered benefits to all postal users.
21. At the time of Royal Mail's last price control review the Regulator made a series of incorrect assumptions about how the UK's liberalised postal market would develop - with serious consequences for the company's revenues and ongoing business plan. Postcomm overestimated the overall growth in the market and the likely increase in end to end competition and hugely underestimated the rapid growth in downstream access arrangements. The difference between Postcomm's estimates and actual mail volumes are set out in the table below.



Source: Postcomm

³ CWU response to Postcomm consultation on Promoting Effective Competition in Postal Services, September 2001 p4

⁴ Promoting Effective Competition in Postal Services, Postcomm, June 2001

22. Postcomm's *Competitive Market Review* says that, as of September 2007, there were 18 licensed operators in addition to Royal Mail. To date most of these companies have entered the market via Downstream Access Arrangements (DSA) where the operators gain access to Royal Mail's 'final mile' delivery network at the inward mail centre stage. But as the CWU predicted this artificial form of competition has created a 'cherry pickers' charter with new market entrants given artificial assistance to target Royal Mail's most profitable bulk business mail.
23. The result is that access volumes have risen much faster than Postcomm forecast. Since liberalisation Royal Mail has lost a string of major business contracts to rival operators including BT and British Gas to TNT, TV Licensing and Department of Work and Pensions to Business Post; and Carphone Warehouse to UK Mail. Access volumes have doubled over the past year alone rising to 2.4 billion items in 2006/07, up from 1.2 billion the previous year. Access volumes now represent 11.8% of total operational mail volumes (up from just 5.6% in 2005/06) and 25% of the total bulk mail market. In 2007/08 access volumes are estimated to reach 4 billion items some 60% or 1.5 billion items higher than forecast when the price control was set.
24. The development of this form of competition has created a serious imbalance in the UK market – big business mailers have benefited from price reductions (via DSA) while small and medium sized businesses and domestic users have witnessed a combination of poorer service and higher prices. It has also placed a heavy financial burden on Royal Mail which has already lost one eighth of its business mail to private competitors while still being obliged to meet the costs of maintaining a universal service at a fixed low price. In 2006/07 Royal Mail made a loss of £12m on its price control products against a predicted profit of £779m.
25. Royal Mail's downstream access losses are not a sign of a healthy competitive market. Royal Mail's loss of mail volume to downstream access is not occurring simply because the business is not competitive, it is occurring because the business is being artificially constrained. Losses are occurring because the price Royal Mail can charge competitors for access to its downstream pipeline is artificially low and because of the unfair constraints of Postcomm's access 'headroom' regulation. Access headroom regulation prevents Royal Mail from lowering the price it can charge retail customers for its bulk end to end service without also lowering the access price by the same proportion. This means any cost savings made on upstream activity cannot be passed on to retail customers without the business then losing revenue by having to lower the access price.

26. At the same time, Postcomm's forecasts for mail volume growth have proved far too optimistic. At the time of the last Price Control Review the Regulator forecast that mail volumes would grow by 1-2% per annum to 2010 when, in fact, mail volumes have fallen by an average of 1.5% in each of the past three years. In 2006/07 the UK's addressed mail market was worth around £6.6 billion. Overall mail volumes amounted to 21.9 billion items (compared with Postcomm's forecast of 24.7bn) down 2% on the previous year. These trends parallel similar declines in other major European postal markets such as Germany and France and decelerating levels of growth in the US.
27. Due to the serious challenges faced by alternate operators in developing their own national infrastructures in the UK, full competition has in reality had a very limited impact. Royal Mail's natural monopoly has acted as a barrier against full end to end market entry by alternate operators. Real competition in postal services - with rival operators developing an end to end service with a national collection, sortation and delivery network to rival Royal Mail - has simply failed to materialise.
28. Indeed, end to end volumes carried by alternative operators have actually fallen - from 39 million items in 2005/06 to 34.8 million items in 2006/07. This represents a 12% decline in end to end items carried in the licensed area compared to the previous year. Total end to end volumes now represent just 0.2% of the total mail market.
29. Recent press reports have indicated that one or more major postal operators active in the UK are developing end-to-end delivery operations. An article in the *Scotland on Sunday* newspaper reported that TNT Post was planning to launch its own end-to-end service early in 2008. Although the company has refused to disclose locations and timings of the end-to-end pilots for "competitive reasons", TNT say they have been building up a sizeable business in Coatbridge, Glasgow ⁵.
30. Any plans rival operators may have are likely to be extremely limited in their scale and coverage - confined to one or two cities with perhaps one or two deliveries a week. In the UK it's possible to cover about 60% of all drop points with only a 9% geographic coverage so any new operators are likely to target high drop density areas where the biggest profits are to be made. This will further hit Royal Mail's ability to finance deliveries to rural and remote destinations.
31. Whatever the plans of the licence competitors, there is no prospect of an alternative provider offering a service which could sustain an alternative USO. It is therefore vital that the Review recommends suitable support for the USO provider.

⁵ 20 January 2008, p2, Nathalie Thomas

European context

32. The Regulator's liberalisation of the UK postal market has also created serious imbalances in the wider European postal market. Postcomm's approach to competition has taken a form and a timetable never envisaged by Government, Parliament or the European Union under the terms of the EU Postal Services Directive. The rapid introduction of full market opening in the UK has created an un-level competitive playing field for Royal Mail relative to the rest of Europe and a wider competitive disadvantage for the UK economy.
33. While the UK has seen full liberalisation since January 2006 (three years ahead of the EU's original timetable) other major comparable European countries such as France, Germany and Holland have still to set a final date for full liberalisation in their countries. This has allowed foreign competitors that are USO providers in their own countries to compete for Royal Mail's business while their own domestic markets are protected and Royal Mail is denied the same opportunity to compete overseas.
34. Historic under-investment has also left Royal Mail with levels of automation well below that of its major overseas rivals. The company currently does no automated walk sequencing and in 2004/05 sorted only 50% of its letters by machine whereas TNT sorts 90% to 95% and sequences 40% of its letters automatically and Deutsche Post sorts 95% and sequences 80% of its letters by machine.
35. Recent events in Europe have further highlighted this disparity. The German Government's recent attempt to introduce a sector-wide minimum wage in postal services, despite the opposition of Deutsche Post's competitors, has effectively tried to close down competition within its borders. In retaliation the Dutch Government has postponed the decision to introduce full market liberalisation in Holland while TNT has successfully overturned the decision in the German courts.
36. Whatever the eventual legal outcome, the German example provides further evidence of the uneven pace and form of liberalisation across the EU and the impact of different levels of Government intervention – a point underlined by the findings of the CWU's own conference of European postal unions held in March 2008. But it is not just unions that are worried about the potential impact of competition in the sector. A joint statement agreed between postal unions and their employer counterparts in formal social dialogue committees coordinated by the European Commission said that: "The proposed future market opening must go hand in hand with socially acceptable employment conditions. The postal sector is and will remain highly labour intensive and competition must not be based on wage dumping and worst working conditions"⁶. Unfortunately this is exactly what we are seeing in countries with relatively

⁶ Fighting for First Class Services, Labour Research, August 2007

developed competitive markets such as the UK, Holland and Germany i.e. competition achieving cost savings through cutting wages.

37. The most recent EU Directive allows national governments to take protective action in domestic postal markets against other national states which have not opened their markets. Given the disruption that has taken place in Royal Mail operations, the Review Team should seriously consider the role of interim measures in defence of the USO provider from such competition. Any such measures would necessarily bear a temporary character but, given Royal Mail's growing financial problems, need to be considered anyway. The range of measures to be considered could include: revoking licenses for firms originating from countries without open markets; preventing such firms tendering for further contracts in Britain until liberalisation is equalised in the home states; and imposing USO support supplements via windfall taxes where such firms have disproportionately gained.

Lack of investment

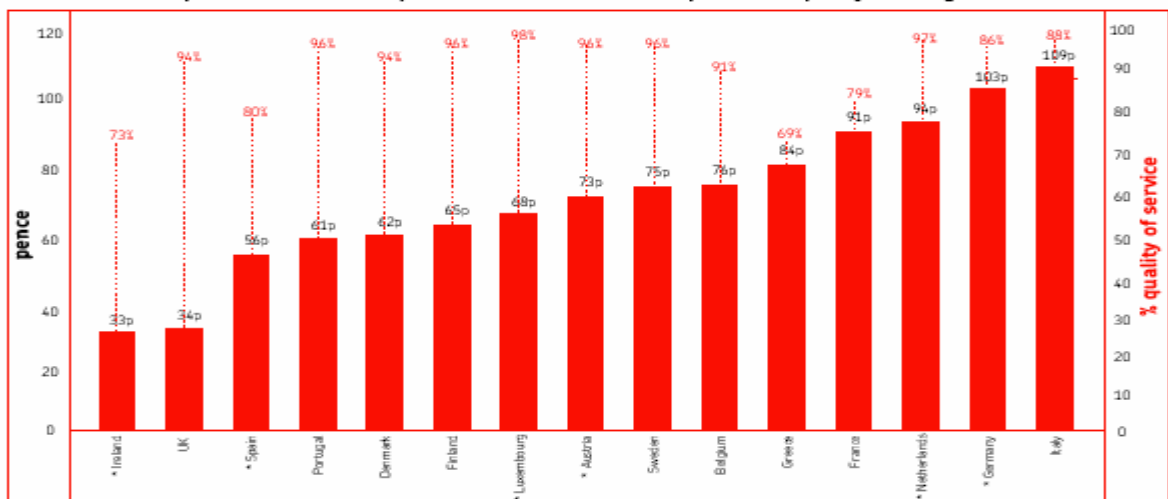
38. The uneven pace and impact of liberalisation across the EU reflects the different levels of Government investment and intervention in member states. In the UK, it's important to recognise that Royal Mail started in a relatively disadvantaged position to deal with any competitive threat from overseas. While other comparable countries in the EU, like Germany and Holland were investing billions in modernising their state operations in preparation for liberalisation, Royal Mail suffered from years of chronic underinvestment.
39. Despite decades of profitable operation, the Treasury prevented Royal Mail from investing sufficiently in its network and its employees. Until 2000 Royal Mail recorded twenty three years of consecutive profit. But over that period the Government took out around £2.5 billion in payments under the External Financing Limit Regime. The CWU has previously estimated that between 1993 and 1999 a comparable private sector firm would have invested £700 million more than Royal Mail did over the same period⁷.
40. Out of the £3.5 billion the Government have made available to Royal Mail since 2001, £1.8 billion was accumulated cash made by Royal Mail in the form of gilts and £1.2 billion is a loan spread over the next five years (to 2011) provided under the terms of the Commercial Agreement and repayable at high commercial rates of interest.
41. The CWU's own research also shows that any Government money made available to Royal Mail is between 10 and 40 times less per worker (£1,388pa) than the subsidies made

⁷ CWU response to Postcomm consultation on Promoting Effective Competition in Postal Services, September 2001, p9

available to those employed in the agriculture (£16,304), defence (£13,432), nuclear energy (£35,000) and rail transport sectors (£53,000).

42. Neither has Postcomm’s price controls delivered the resources the business needs to deliver an improved quality postal service. The CWU has raised a number of concerns about the process of price regulation, the coverage of the price control and its structure and duration⁸. We have argued that in order to address the need for significant added investment in the postal industry the Regulator should adopt an RPI plus Y approach where Y represents additional investment.
43. But in the last two price control reviews Postcomm has adopted its preferred form of price cap - the RPI minus X approach, where the Retail Prices Index is the annual measure of inflation and X is determined in consultation. This is the established price capping method used by all the regulators in the telecommunications, gas, electricity and water industries. The consequence for Royal Mail is that it has seen its basket of prices fall in real terms over recent years which has exacerbated its financial position.
44. Before the Regulator approved a 1p increase in first and second class stamps in April 2003, the price of a first class stamp had fallen 11% in real terms since 1992 while the price of a second class stamp had fallen 20% over the same period. The failure of UK stamp prices to keep pace with inflation between 1992 and 2002 directly contributed to Royal Mail losing £500m in revenue. Although Postcomm has agreed further stamp prices since 2002 figures provided by Royal Mail show that UK stamp prices remain among the lowest in the European Union and have fallen in real terms over the past 20 years (see tables below)⁹.

International comparisons of domestic public tariff first class letter prices and quality at 100 grams



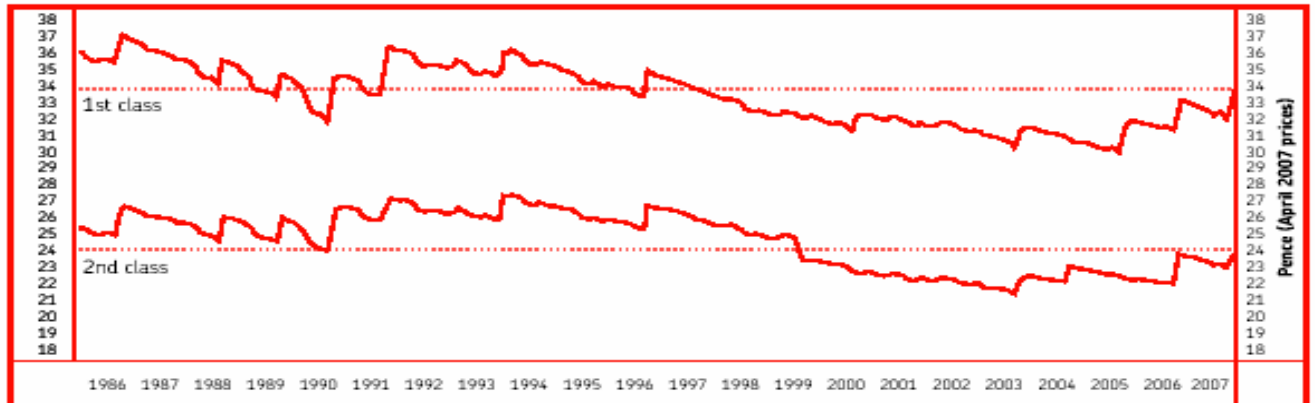
source: Royal Mail, DECD

* these countries provide one service only - i.e. no differentiation between first and second class

⁸ CWU Submission to Price Control Review for Consignia plc, November 2001

⁹ Royal Mail's Response to Postcomm Strategy Review, November 2007, p7

Basic weight step (0-100g) letter prices revalued at April 2007 prices using RPI



source: Royal Mail

45. The historic underinvestment in the industry remains to be tackled. Without this Royal Mail can neither benefit from new technology, nor can it provide the new services customers need. The delayed deployment of the investment package agreed with Government in 2006/7 has exacerbated the problem. If management is having to rework its business plan then it should at least acknowledge this difficulty.

46. In the long term, there is no reason why a sensible pricing policy cannot raise sufficient revenue to sustain Royal Mail, and allow for new investment in the industry. Such a policy must form the basis for circumscribing Postcomm's remit in future price controls. We believe that this would involve clear direction to the Regulator, laying out the need for pricing policies which will allow Royal Mail sufficient revenue to sustain the USO and promote innovation. This must recognise that for decades stamp tariffs have been held below industry requirements. The Government must direct the Regulator to address this by any necessary interim measures under the current price control; and by directing the Regulator to a positive enhancement of investment in the 2010 price control.

Lack of innovation

47. In its 2000 consultation document on *Promoting Effective Competition*, Postcomm argued that “a key source of the potential benefits of effective competition is a fundamental financial incentive on the part of firms to seek to innovate and exploit new ideas in the search to offer customers better choice and value than rivals. Such innovation might include alternative price and quality of service offers as well as the development of new products and services that seek to respond to and develop customer preferences”.

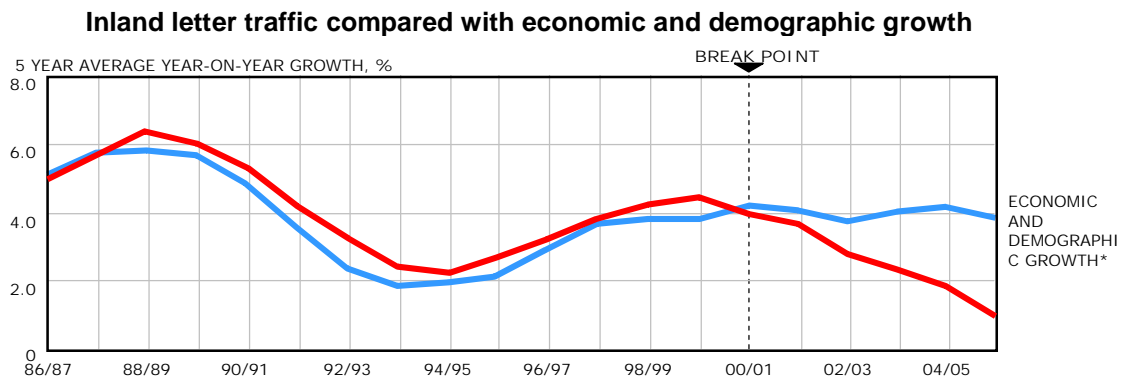
48. But despite Postcomm's earlier assumption, competition has not led to innovation in products and services for customers. The partial type of competition introduced in the UK market (where alternate operators compete largely on price via DSA) has created little incentive for RM to innovate. Indeed the financial problems created by the loss of Royal Mail's high volume

work coupled with the tight license conditions imposed by Postcomm have actually constrained its ability to introduce new products and services for customers.

49. Postcomm themselves have said that “there have been few changes in Royal Mail’s product portfolio since 2003, with Royal Mail launching a relatively small number of new products to meet the changing needs of customers”. While Royal Mail point out that the pace of innovation has “quickened” over recent years they argue that its current price control does not address the incentives to innovate. In particular Royal Mail have raised issues as to whether new products are assumed by the Regulator to be “substantially similar to a controlled service” and therefore covered by regulation as well as the three months advance notice period the company must provide in relation to new products and changes to existing products. Royal Mail says this “erodes competitive advantage, frustrates both the company and its customers, reduces revenue potential and ultimately restricts innovation”¹⁰.

Future growth

50. As the table below shows mail volume growth has traditionally been linked to movements in the UK’s Gross Domestic Product. The mail market grew faster on average than GDP between 1979 and 2000, but since then the rate of volume growth has declined relative to growth in GDP.



Source: Postcomm

51. But while we recognise that the UK mail market has shrunk over recent years, we do not accept Royal Mail's assertion that there is no likelihood of revived growth in the future. At present the jury is still out on whether the recent decline in mail volume growth represents a permanent structural shift or a temporary market adjustment.
52. The CWU do not believe that decline is inevitable. As the dominant and sole provider of most services Royal Mail can help shape the market like no other firm. If it becomes demand-led and adapts to customers' needs then it can help expand the market. With innovative products

¹⁰ Ibid, p9

(tailored to meet customer needs) greater use of new technology in (areas like data conveyance, mail production and track and trace) and a greater commitment from RM management we believe the company can be successful and help stimulate market growth in the future.

53. The CWU has argued in the past that an injection of investment rather than competition holds the key to the innovation of new and efficient postal services. But as we have argued the problem of tackling years of chronic underinvestment has not been adequately addressed by Postcomm or Government. The failure of RM to innovate means it's less likely that the market will resume growth and the absence of new services will simply drive customers to other means of communication with their own customers.
54. The evidence suggests that mail is not simply being replaced – it is growing alongside new technologies and has been part of the wider communications revolution. An extensive study of the changes taking place in the industry by Pitney Bowes *'Electronic Substitution for Mail: Models and Results; Myth and Reality'* shows that the future of business communication is multi-channel and “mail will continue to find new niches in which it is the most effective medium, either standalone or in combination with technologies in today's multi-channel world”¹¹.
55. The study challenges the following ‘myths’ about mail. It shows that there are many untapped opportunities to grow mail, such as for “customer acquisition, building customer loyalty and retention, cross-selling and low-cost package delivery for burgeoning internet sales”. It argues that rather than being rapid and extensive substitution has been “partial and gradual” reflecting the complexity of mail itself. Mail is not a single monolithic product with uniform characteristics that can be easily replaced but instead serves a diverse mix of needs, particularly for businesses. “The final steps that generate a piece of mail are intertwined with complex upstream business processes” for example relating to billing, a customer relationship transaction or a marketing promotion. It says many people often equate the total value of mail only with its delivery speed when comparing it to email yet “mail's value derives from its complex interaction with other established business processes and its acceptance by customers”.
56. The Report also challenges the notion that internet users, especially younger generations do everything electronically and do not need mail, when in reality internet users receive more mail than unwired customers with mail “driven by life stage and income not generation”. It also challenges a number of other ‘myths’: that email is replacing letter writing, that internet advertising will destroy direct mail and that electronic bill presentation and payment (EBPP) is eliminating bills and statements. In reality the study says that most letter writing disappeared

¹¹ Allied Forces, Postal Technology International, September 2005

with falling telephone rates, that internet advertising growth has slowed and direct mail is growing. Moreover statements in the mail are increasing while EBPP acceptance is in decline.

Impact on Royal Mail

57. It wasn't that long ago that the UK postal service was seen as a model for the rest of the world. Royal Mail was a byword for reliability and quality. The company made millions in profits for the Government and delivered a universal service with low stamp prices and high quality of service standards. But a combination of falling mail volumes, the continued haemorrhaging of Royal Mail's work to competitors (via DSA), a tight regulatory and financial framework and a massive pension fund deficit have raised serious questions about Royal Mail commercial viability and its ability to compete in a liberalised market.
58. As access volumes have rocketed so Royal Mail's financial position has deteriorated. Royal Mail is losing money on every letter it delivers under DSA. Its latest Annual Report shows the company is effectively subsidising the competition on access with a loss of £44m reported on access products in 2006/07.
59. Overall Royal Mail's financial performance for the year end March 2007 was weaker than in previous years with operating profits (before exceptional items) for Royal Mail's Letters' business falling from £344 million to £194 million. For the regulated area, Royal Mail recorded operating losses of £29m in 2006/07 compared with £168m profit in 2005/06 ¹².
60. In the main, Royal Mail's reaction to competition and its worsening financial position has been short-termist – to cut costs from every area of the business, close post offices in record numbers and scale back services to small business and domestic users. Instead of embracing their strengths (as the dominant market player with national scale and reach) Royal Mail has reacted to its weaknesses. Their approach to competition has been “too little, too late” with a lack of real forward planning and product and service innovation to exploit their potential commercial opportunities.
61. But the experience of recent years is that simple cost cutting – a ‘slash and burn’ approach - does not work; it damages the service and the company's reputation and creates major industrial relations problems.

CWU members

62. Over recent years the CWU has been involved in a range of industrial issues relating to our members' pay, pensions and productivity. We recognise that Royal Mail must modernise its

¹² Royal Mail Holdings plc Report & Accounts, Year Ended 25 March 2007

operations and improve its efficiency and that will entail significant job losses but we do not accept the solutions to competition ultimately lie in continued attacks on our members' terms and conditions of service. We are willing to work with the company to improve efficiency in the new competitive environment but we want to proceed on the basis of joint agreements with the employer not see change imposed upon us.

63. In relation to pay, Royal Mail and the Regulator say our members are 25% overpaid relative to other competitors – though we have never seen any proper pay comparability data to support these assertions. The basic weekly pay of CWU members employed on delivery or sorting duties in Royal Mail Letters is £342.47 for a 40-hour gross week. This is 20% below UK average pay. Since Royal Mail is the dominant provider what it pays is the market rate. We simply reject the argument that says we must engage in a race to the bottom with a few competitors particularly when some, like TNT, operate a different business model in their own countries. In the UK, TNT compete on the basis of cheaper labour costs but in their own domestic market they say they pay above the market rate to attract the best staff and help them deliver "a better customer experience and build a strong brand."
64. Competing on the basis of low wages and low skills is unfair and ultimately unproductive. It undermines the Government's own manifesto commitment to provide Royal Mail employees with "rewarding employment" and is outwith previous agreements struck between the CWU and Royal Mail to "enhance members' basic pay". The recent decision of the German Government to try and introduce a sector-wide minimum wage was an attempt to stop competition based on cheaper labour and that is a model we would like to see replicated in the UK.
65. Pensions is a clearly a major issue for the business. Pensions in payment are members' deferred wages and form an integral part of the remuneration package. The well being of the company's employees once they retire is dependent on the ongoing viability of the pension fund. The Royal Mail Pension Scheme currently faces a deficit of £3.5 billion. The company has agreed with the Trustees to pay this back over a 17 year period at a rate of £268m a year. They must also pay an additional £581m each year to cover future pension costs. This means that for every £1 Royal Mail pays out in pensionable pay it must pay a further 30p in pension costs. The £900m the Government set aside in the Escrow account is there only if the scheme itself fails and gives no immediate financial support to help Royal Mail meet the high levels of required scheme contributions.
66. Royal Mail believe the current contribution rates are an unsustainable strain on the business and must be reduced. They are therefore proposing to:

close the current pension scheme to new members;

increase the retirement age to 65 by 2010;
calculate benefits accrued after 1 April 2008 on the basis of a career average
revalued earnings (CARE) Scheme; and
introduce a defined contribution scheme for new entrants.

67. The CWU has not agreed to these changes. While we recognise pension reform is needed we believe the proposals go too far. Moreover the attempts to worsen provision to the degree proposed by the company run counter to the commitments given by the business in agreements with the Union to secure the future funding of the scheme and are outside Labour's own manifesto commitment "to provide employees with rewarding employment". Without changes to Royal Mail's proposals the company is heading for an industrial dispute with the CWU.
68. In terms of productivity, the CWU have long argued that the key is proper investment to increase levels of automation and efficiency. The CWU have already worked with Royal Mail to deliver significant efficiency improvements over the course of the last two price controls. In its response to Postcomm's Strategy Review, Royal Mail argued that it had achieved the efficiency targets set by the Regulator over the last five years.
69. Over the period of the Renewal Plan 2002-2005 Royal Mail delivered 5% p.a. efficiency. The network was reengineered to reduce transportation costs, the inefficient second delivery was scrapped, "non-core" operations were outsourced, 11 mail centres and 21 regional distribution centres were closed and over 30,000 people left the business. In relation to 2006/07, Postcomm say Royal Mail has delivered efficiency savings of 1.9% against a target of 3% though this is disputed by Royal Mail who says Postcomm's calculations are based on forecast volumes and LRMCs "that are materially different to the actual volumes and LRMCs"¹³. However, any progress on efficiency will be overturned if the revenue streams of Royal Mail are further damaged by insufficient price levels in both access contracts, and in the functioning of the price controls.

Impact on business

70. The CWU fundamentally disagree with Postcomm's repeated assertion that competition has benefited customers. In its 2000 consultation document Postcomm argued that "effective competition might best be described in terms of its potential benefits. Its benefits include customers being aware and being able to take advantage of a range of competing offers. This in turn could put pressure on firms to improve the attractiveness of their offers to customers by, for example, lower prices, wider choice and a higher quality of service".

¹³ Royal Mail's Response to Postcomm Strategy Review, November 2007, p7

71. But the outcome of competition has not met the initial expectations of Postcomm. The only beneficiaries to date have been the large bulk business mailers (who have enjoyed price reductions via downstream access) and a few rival operators who have 'cherry picked' Royal Mail's profitable business. To date we have seen no robust data which quantifies the precise cost savings enjoyed by large business mailers.
72. For Royal Mail's major competitors, profits have risen rapidly as a result of competition. UK Mail's latest Annual Report, for example, shows revenues rose by 124% to £90.3 million in the year to March 2007, up from £40m in 2006. Profit before tax in the second half of the year was £8.3m up 69% on the same period a year earlier.
73. According to Postcomm's 2006 Business Customer Survey, business customers are enjoying "high level of quality of service from all the main postal operators". They say the benefits have included new products such as day specific delivery and add-on services like track and trace. But Postcomm also notes that for many of the large mailers "the main benefit has come from lower prices offered by alternate operators, particularly mailers in the financial services, utilities and retail sectors".
74. Postcomm also claim that competition is beginning to benefit smaller businesses and local authorities with "some operators starting to invest in sortation equipment and targeting smaller mailers who send as few as 250 items per day". But the evidence provided by the Regulator is limited and does not square with the views of the small business community themselves for whom the experience of competition has been far less positive.
75. The CWU's private polling of 200 small businesses found that 69% thought the Royal Mail service had worsened since the introduction of competition – a view echoed by the representative bodies of the UK's small business community. According to the British Chambers of Commerce (BCC) "Royal Mail has increased costs for businesses and delivered no corresponding improvements in the service they provide"¹⁴. The BCC's own survey of 233 service and manufacturing businesses conducted in May 2007 found that Royal Mail's Pricing in Proportion (PiP) initiative has resulted in cost increases for 60% of businesses. Over 80% felt that PiP had not simplified their mail and less than 1% felt there had been any improvement.
76. The Federation of Small Businesses has also been critical about the impact of competition on their members ¹⁵. They have demanded "a shake-up of postal services to preserve the existing levels of post offices across the UK and to improve the postal service offered to small business customers by Royal Mail". A survey of more than 3,000 small businesses across

¹⁴ BCC Press Release, 28 June 2007

¹⁵ FSB News Release, 5 December 2006

the UK, reported in December 2006, found that:

- 97% say the post office has a role to play in local communities;
- 94% of small firms use Royal Mail exclusively;
- 82% believe closure of their local PO would have a significant impact on their business;
- 48% of firms say their mail now arrives later and 31% say the delivery service has worsened since SDD was introduced; and
- 43% of firms have seen an increase in costs as a result of PiP.

77. Since small businesses are “a growing, dynamic business sector” the Federation argues that their demands from the postal market will not wane. But all too often, it says the postal infrastructure has overlooked the needs of small businesses and “their future success will benefit from targeted policies created with the small business in mind”.
78. In response to the problems of competition, the FSB report concluded that since small businesses use Royal Mail almost exclusively for their mailing solutions it is crucial they receive “consistency in delivery and collection times to minimise disruption to their activity and performance”. The Federation have also called on Postcomm to ensure that a liberalised postal market creates a level playing field for all businesses large or small.
79. The FSB has called on Postcomm to monitor the development of competition to ensure that "cherry-picking" is not to the detriment of rural or less profitable areas and that more support and information is given to small businesses about the developing postal market through Postcomm publicity and about the range of banking facilities that are available at the post office.
80. Finally the Federation has called on the DTI to make an urgent announcement on the future of the postal network. While they accept that many sub-post offices are loss-making, they believe this loss needs to be addressed and the social element of the network taken into account, possibly as a separate entity from the profit-making arm of the business. This could take the form of a separate fund, or a supplement to access products.
81. Small businesses are also concerned about the likely impact of Royal Mail’s plans for more cost reflective pricing structures such as zonal pricing. In our recent submission to Postcomm we argued that, if implemented, this unpopular and divisive measure will put further pressure on the USO ¹⁶. Higher costs will result in fewer items being sent to rural areas, pushing up sharply the unit cost for what remains and increasing the upward pressure on stamp prices to

¹⁶ CWU Response to Postcomm's Proposals on Royal Mail's Retail Zonal Pricing Application, October 2007

reflect costs. While we accept that cost reflective pricing is a logical response by Royal Mail to the financial problems it faces as a result of the impact of competition to date we believe the Regulator and the Review Team should give serious consideration to a universal support fund as a better way of helping the company finance its universal service obligations.

Domestic customers

82. Liberalisation has also had a negative impact on the level and quality of postal services provided to the UK's domestic mail users. For the public at large the term liberalisation probably means little but the impact of competition has translated into a later single daily delivery, fewer collections and massive closures of the vital Post Office network.
83. In the past opinion polls have consistently shown overwhelming public support for the UK's post office network and clear opposition to further closures. MORI polls conducted for the Union of Communication Workers (UCW) in 1994 found that around 70% opposed privatisation of Royal Mail, two-thirds thought that postal charges would rise as a result of competition and three quarters believed there would be more emphasis on company profits than on customer service ¹⁷.
84. Neither is there any evidence to suggest the public would be happy to see further reductions in service provision either in the form of fewer collections and deliveries, further closures to the network or huge increases in stamp prices to plug Royal Mail's financial shortfall. A joint Postcomm/Postwatch survey of customers on 'The Needs of Postal users' conducted in 2006 confirmed the importance both domestic and business customers attach to the current level of postal services. It found that residential customers rated a delivery and collection service as 'important' while affordable prices were rated 'very important'.
85. These results mirror the findings of the CWU's own private polling of 1,000 members of the public on postal service provision. Of those who expressed a view, 82% thought the Royal Mail service had got worse since the introduction of competition and 90% thought there should be a level playing field for Royal Mail relative to the rest of Europe. The survey also found that 66% of the public thought that ending the second delivery was 'bad' while 63% held a similar view on the ending of Sunday deliveries. In addition, 35% of the public were aware of a post office closure in their area over the past three years and 67% said it was now more difficult to access a post office.
86. The dangers facing domestic customers arise from the likelihood that Royal Mail will be pressed to reduce or withdraw services; and that so called "cost reflective" pricing will be used to justify the entire burden of supporting the USO falling upon the domestic customer.

¹⁷ Attitudes to the Post Office, March 1994, Attitudes to Privatising the Post Office, June 1994, MORI

There are many indications that Royal Mail management are preparing for this eventuality, both through zonal pricing and through its proposals to reduce the USO to first and second class stamp mail, or even just first class stamp mail. The CWU believes that all users of Royal Mail should contribute in the pricing policy to the maintenance of the USO.

Postcomm's Strategy Review

87. In 2007 Postcomm published a consultation on its *Strategy Review* which is looking at the postal market after 2010 and issues relating to the future of the USO and Royal Mail's ownership and governance structures¹⁸. The CWU believe that Postcomm's review has been superseded by the Government's own review. However Postcomm's Strategy Review document did raise a number of 'emerging themes' which we want to specifically address though as we have already made clear we do not believe the question of Royal Mail's ownership is a matter for either the Regulator or the Review Team - that should be for the Government to decide.
88. *Separating Royal Mail into Retail and Wholesale.* Splitting Royal Mail's retail and wholesale activities would be costly, damaging and time consuming and is unsupported by the vast majority of industry stakeholders. The nature of Royal Mail's operations (the fact that workers, premises and equipment are used interchangeably for upstream and downstream activities) does not make the company a good candidate for separation. Royal Mail's modernisation and efficiency drive is dependent on greater cross-functional activity not less.
89. Royal Mail themselves have argued that separation would disrupt the business leading to greater complexity in its operations, reduced efficiency, price increases, volume reductions and a worsening USO. The establishment of *Royal Mail Wholesale* has already meant ring-fencing of Royal Mail's activities. We do not believe there is a need for greater transparency in terms of accounting nor do we agree with Postcomm's claim that ownership separation in other regulated industries (like the railways) has been positive.
90. *Introducing contractors into large parts of Royal Mail's network.* Franchising and outsourcing parts of Royal Mail's operations will serve to undermine any wider improvements the company is trying make and threaten currently high levels of quality. Experience from other industries like the NHS shows that contracting out complicates the efficient, integrated operation of the business and can undermine the level and quality of overall service provision.
91. *Separating POL from Royal Mail.* Over recent years we have seen a concerted attempt by the company to separate the activities and finances of Post Office Limited from the wider

¹⁸ Postcomm's Strategy Review - The Postal Market - 2010 and beyond: Key Questions for Stakeholders, November 2006

Royal Mail Group. In our *Serving Quality* document the CWU set out its own proposals for the development of the UK's post office network¹⁹. We believe the Post Office is a cherished and trusted national institution which provides a key focal point for rural and urban communities. But since 1984 the UK has lost almost a third of the entire network. Part of the reason for this has been policy decisions by Government which have undermined the network's commercial viability. We have called on Government to develop a policy to allow the whole network to flourish making post offices a "shop front" for government services.

92. Profit alone cannot be the only criteria for determining the network's future. A recent article in the Guardian rightly argued that "in the name of supposed efficiency, politicians are destroying a vital social network . . . The Post Office is not an independent actor. Its strategy is decided by Government which, as its sole shareholder, defines its purpose and the level of financial support. Separating the Post Office from Royal Mail twenty years ago, removing key functions and defining the network as a business are all political decisions not a matter of economic fact"²⁰.
93. Full separation along the lines proposed by Postcomm would damage Post Office Limited by requiring it to stand on its own financially. This is likely to lead to further reductions to the overall size of the network, as loss-making outlets are closed, and damage the long term future of Royal Mail as a national integrated provider of postal services. It is hard to ascertain from the evidence available whether any post office network in the world makes a profit from its operations. We believe Government must support its vital social role and provide a comprehensive network through which customers can access the USO.
94. Reduction in the USO. The CWU want a debate about safeguarding and developing the current USO to meet the changing needs of postal users but this should not be guided by the changes Postcomm itself has implemented and the market it has created. We want the USO strengthened to ensure the elements of postal services most valued by mail users are protected.
95. Postcomm argue that the USO remains profitable in Royal Mail, though the operating profit of £27 million in 2006/07 was down by 50% (from £54m) compared to 2005/06. However these figures ignore the massive fixed costs to Royal Mail of providing and sustaining its national infrastructure (of vans, delivery offices and PO network) which allows for the delivery of the USO. These include:

Daily collection from 115,000 pillar boxes and 13,000 post offices

Daily delivery to 27 million addresses, with fewer than 3,000 delivery exceptions

¹⁹ *Serving Quality - Post Office Counters: The Future*, CWU December 2006

²⁰ Guardian, 5 March 2008

Employing 167,000 people
69 mail centres, 1,4000 delivery offices and one national hub
almost 31,000 vehicles, 2 trains and 42 flights per day.

96. Royal Mail's VAT exemption. We believe that removing Royal Mail's VAT exemption would represent a victory for the ideological pursuit of a competitive postal market at the expense of commonsense. While we note that Postcomm is proposing that VAT should be introduced at a low level, so that postal prices do not rise significantly, we are firmly of the opinion that any overall increases in the price of postage should be reserved for those occasions on which such an increase is necessary to meet the rising costs of the universal service provider. They should not be utilised to further the regulator's competition agenda.
97. The cessation of Royal Mail's VAT exemption would only be to the benefit of a relatively small number of big business customers, while the vast majority of customers – including social customers, small businesses, charities, educational establishments and financial institutions – would not benefit from the proposed changes, and would be likely to have to pay higher postage charges as a result. We are unable to see how this is in the interests of these customer groups, Royal Mail or the wider UK postal sector.
98. In our submission Postcomm on Royal Mail's Special *Privileges we argued that* the imposition of VAT on Royal Mail, even at levels lower than the existing 17.5% standard rate, would have an extremely serious impact on Royal Mail's social customers. We note that Postcomm stated that at current price levels the average household spend on mail "is only 56 pence per week [and therefore] did not consider that "there is a strong case for saying that the VAT exemption is necessary to keep universal service postal prices affordable". This is an extremely misguided position for the regulator to adopt. If VAT was applied at the current standard rate and Royal Mail passed on the savings which would result from being able to reclaim VAT this would still mean an increase of 15% - equivalent to an 8 pence rise in postage costs per household per week. It is interesting to contrast how such an increase would sit alongside the far stricter approach which Postcomm takes to granting Royal Mail increases in stamp prices.
99. Neither would the impact of Postcomm's proposals be confined to social customers. Small businesses which are not registered for VAT would also suffer postage price rises as a result of any change to Royal Mail's existing exemption. In addition, charities, educational establishments and financial institutions would also be affected as they would not be able to pass on VAT charges. Again we are keen to understand how Postcomm's preliminary view that the VAT exemption should be removed would serve the interests of these sectors of Royal Mail's customers. It is likely too that the activities of a range of other businesses and organisations would suffer as a result of unforeseen effects resulting from such significant

postal price rises. This cannot be in the interests of a large section of postal users, or the wider UK postal sector.

100. Postcomm stated in its consultation document on special privileges that its preference would be to introduce VAT for Royal Mail and its competitors at a level lower than the standard UK rate. It stated that “it would be possible to introduce VAT at a lower rate on postal services without a significant increase in the price of stamps and without leaving Royal Mail financially worse off”. However, unless a VAT rate of 2.5% was introduced, any higher VAT level would inevitably impose price increases on the groups identified above. We do not accept that this is the correct solution.

CWU policy proposals

101. In the light of the serious problems with the current regulatory and competitive regime the CWU is calling for a series of policy reforms designed to secure the long term future of Royal Mail and safeguard the universal service.
102. While the CWU may share much of Royal Mail's assessments of the problems it faces and the competitive disadvantage this has created for the company, we have some disagreements over what should be done to address them. However we do accept Royal Mail's arguments that a solution to financing a high quality USO should involve: less regulation by Postcomm (so Royal Mail can compete and innovate); ensuring the company remains an integrated national operator; and investment in new technologies and products and services to increase productivity and grow future revenues.
103. The CWU believe that the future of the industry is best secured by a combination of long term investment, greater product innovation and changes to the role and remit of the Regulator with the introduction of a fairer pricing and access regime that will give Royal Mail the revenues it needs to support the universal service and Post office network.

Extend the USO to include provision for small and medium enterprises

104. The introduction of a single daily delivery, costly changes as a result of Pricing in Proportion and further cuts to the network have all adversely affected the small business community. Around 4.5 million small and medium enterprises are being left behind in the changes to the mail market. Whatever its original expectations, the Regulator accepts there has been little to show for these customers for whom competition has meant a later delivery service, fewer collections and higher prices.

105. Because the volumes of mail associated with individual firms are too small to attract the attention of Royal Mail management, we believe the review must direct management and Postcomm to pay special attention to the needs of this vitally important business group.
106. We therefore want to see more robust regulation over collection and delivery times included in the USO with a guaranteed early delivery for small firms. The time at which mail users receive their delivery and the window for collection is of real importance to social users and small businesses. The working practices being introduced as part of *Delivery Best Practice* are likely to see delivery times worsen in the future.
107. The CWU therefore propose amending the Postal Services Act sections 1 part 1, section 5.2 and part 3 section 54.2 to add a fifth category of small and medium sized enterprises whose interests must be specifically addressed.
108. Since the cost of supporting the whole network is born solely by Royal Mail, loss of revenues resulting from access arrangements has made it increasingly difficult for the company to finance its universal service obligations.
109. The one-price-goes-anywhere principle of the current USO prevents Royal Mail from introducing fully cost reflective pricing. But instead of asking small business and social mailers to pay the price of competition we believe the Government should establish some additional support fund for the USO based either on operator contributions or a supplement on the current access price. Since other operators use the USO infrastructure it's only right they should help pay for its upkeep.
110. Other countries in Europe are also looking at ways to protect their USO. In France, for example, La Poste has argued that full liberalisation would undermine its universal service obligation. It has called for a "pay or play" system forcing new market entrants either to spread their operations evenly between profitable urban areas and costly rural areas, or to pay a fee to the incumbent operator.

Reform the structure and remit of Postcomm

111. Postcomm's overall approach to market opening has been flawed from the beginning. The Regulator has misinterpreted its primary legal duty to defend the USO, misjudged market trends and created an unfair form of competition which has hit Royal Mail, its workforce and its customers.
112. The requirements of EU legislation to liberalise postal markets mean that some form of regulation and competition are here to stay but Postcomm's failure to date should form the

basis for a reform of its structure and remit. As well as rejecting its forward thinking for the industry we propose a number of changes.

113. The current rules on access are seriously impacting on Royal Mail's revenues and its ability to deliver the USO. While we recognise there is no realistic prospect of ending access arrangements we are seeking adjustments to the access pricing regime to end the effective subsidy offered to Royal Mail's competitors and to stop the continued haemorrhaging of work to its rivals.
114. We want to see less regulation of business mail with removal of access headroom controls (which currently guarantee a profit margin for competitors) and no future regulation of access prices. Access contracts should be a matter for the companies involved to agree and if there is a problem the Competition Commission should decide.
115. Postcomm should also have an obligation to ensure that competitors also have to publish quality of service information as well as agreeing a comparable compensation scheme with them. We would also like to explore other measures to increase the Regulator's public service remit, for example, by requiring Royal Mail to make an annual report to Parliament and the devolved assemblies and Governments on its operations in these areas and increasing the number of Postcomm commissioners with a public service background.

New services and products

116. We have already argued that a fundamental failure of Postcomm's policy is the assumption that competition would create pressure on Royal Mail to innovate in service provision for customers.
117. The partial form of competition seen to date via downstream access has seen rival operators compete mainly on price. The lack of a real alternative to Royal Mail has meant there's been little incentive for other operators to innovate in product and services - something Postcomm said would follow from liberalisation. Unfair and limited competition, the negative impact this has had on Royal Mail's finances and the regulatory hurdles constructed by Postcomm in relation to new product development, have severely limited the company's ability to develop new products and services for customers.
118. As the dominant provider of postal services, Royal Mail is in a unique position to shape the market like no other firm. By innovating and introducing new product and services, Royal Mail can help expand the overall postal market and combat the moves to alternative means of communication. We therefore want to see Postcomm's ability to delay Royal Mail's product innovation severely curtailed while greater requirements are placed on Royal Mail to innovate.

119. The current timescales and restrictions upon product innovation by Royal Mail have to be removed. Innovation by Royal Mail now takes place within a fully liberalised domestic market. In these conditions there are no real reasons for lengthy consultation periods, or prior approval by the Regulator. If there is an argument that a particular product innovation may be predatory, or unfair in any manner, then there is no reason why the Competition Commission could not be brought in, rather than the Regulator.

120. For years the CWU has been calling on Royal Mail to introduce a range of new products and services for customers both business and domestic. Our *Delivering for Customers* document produced in 2002 highlighted a range of services for a range of customers and mail users including:

Delivery Register - a nationally agreed and nationally established register of addresses needs to be set up, to which Royal Mail should provide regular early deliveries without charge. This could include small and home based businesses (irrespective of the number of letters received), charitable organisations and voluntary groups. It should also include any individuals with special social needs, whose interests must be considered under Section 5(2) of the Postal Services Act 2000 (this includes those who are disabled, chronically sick, of pensionable age or on low incomes).

Collection on delivery - mail that customers wish to post could be collected at the same time as a delivery, thereby saving a trip to the post box. This could be targeted mainly at business customers (initial research suggests that almost half of Royal Mail's business customers would be interested or very interested in such a service). However, such a service should also be considered for residential customers with special needs.

Re-deliveries in the evening - if an item cannot be put through the letterbox and a customer is not at home during the day, a re-delivery service in the evening should be considered.

A "super first class" service - a priority service, priced higher than first class but less than Special Delivery, could be provided which would ordinarily be delivered along with other pre-9am mail under any new system rather than later in the day.

A same-day delivery service - a further premium service could be provided enabling same-day delivery within (and even between) major cities. Such a service is not currently available from Royal Mail, but could potentially be provided at a competitive price.

Timed deliveries - a delivery in a nominated time slot (or delivery window) could also prove popular with customers and would be helpful in providing a truly tailored solution to fit in with

people's busy lives.

Secure drop boxes - another way of enabling customers to receive items that cannot be posted through a letterbox at home is to make greater use of secure boxes. This would avoid unnecessary journeys to the local delivery office and could be especially useful for receiving mail order products (including those ordered on the internet). These boxes could also be available in other strategically placed or convenient locations.

Collection of mail option - if customers wish to access their mail earlier than the usual delivery time, or in the evenings, collections should be available from some of the larger local delivery offices.

Access to enquiry offices - as part of the overall drive for excellent customer relations and improved customer service, there should be greater scope for delivery offices to open during business hours in order to provide access to the whole range of Royal Mail products. Many of these offices are in prime locations and could provide customers with convenient access to these services, but are often closed for much of the day.

121. The list of options above does not preclude the possibility of further services being available to meet customer needs. Furthermore, it may not be operationally possible, or desirable, to provide all of these services in precisely the way that has been outlined. Nevertheless, we believe the proposals should act as a basis for Royal Mail and the CWU to work with customers and provide a tailored delivery service that is fit for purpose and designed to meet the demands of postal consumers in the 21st century.
122. Mail user groups have also identified a range of other potential products and services²¹. The Mail User Association has proposed better track and trace facilities for standard mail items such as over the counter 'pay for at a premium' Radio Frequency Identification Systems that can be fixed to an envelope and tracked from home, office or remotely. They have also suggested: a redirections service that will allow social mailers to segregate different types of mail to delivery at different addresses; geographical pricing that offers price reductions for social mailers; and predictable designated day deliveries for particular types of mail stream.
123. Potential products have also been highlighted by other international mail operators. Australia Post say there is a 'huge potential' for the teletransportation of mail. It is currently using a printsoft hybrid mail system which allows electronic data to be sent by customers to a mailing house nearest to its destination where it is printed and delivered²²

²¹ MUA Response to Postcomm Strategy Review, January 2008

²² Postal Technology International, December 2007

124. The United States Postal Service (USPS) is using a system of intelligent mail for its business mail²³. A barcode is applied to the outgoing mail and to the return item which allows businesses to track mail en route and on its return journey. USPS has identified four areas for innovation: better use of direct mail, new applications for mail products, engaging with customers and integration with e-media and new technology.

Summary

125. CWU members in the Royal Mail Group have been playing their part in improving efficiency, flexibility and modernising the company. But the efforts of the workforce alone cannot address the fundamental problems facing Royal Mail in the UK's liberalised postal market.
126. Building a successful future for CWU members and the company requires Government, Postcomm and Royal Mail to accept that their approach to competition has failed.
127. From the outset of liberalisation the CWU has argued that the form and timing of competition introduced by Postcomm would create serious imbalances in the postal industry and threaten Royal Mail's commercial viability and the future of the universal service.
128. Postcomm has misinterpreted the Postal Services Act and put the pursuit of competition ahead of its primary statutory duty to defend the USO. The form and timing of competition introduced by Postcomm via Downstream Access has hit Royal Mail's revenues as private competitors have targeted its most profitable business. While big business mailers have benefited from price reductions, the impact of competition for small business and domestic users has been higher prices and worsening service; while CWU members have witnessed continued attacks on our terms and conditions of service.
129. Against this backdrop we welcome the Government's review of liberalisation. The focus of the Review should be on the measures needed to safeguard future USO provision and ensure the Government delivers on its wider manifesto commitments "to see a publicly owned Royal Mail fully restored to good health, providing customers with an excellent service and its employees with rewarding employment."
130. But without changes to the current regulatory and competitive framework Royal Mail faces a financial crisis that threatens its current business plan, its ability to deliver the USO and the future conduct of industrial relations. We are therefore seeking amendments to the Postal Services Act and subsequent Postcomm decisions in relation to the access and pricing regime that recommends suitable support for the USO provider and ensures the real cost of maintaining the USO is identified and met by all. In particular the CWU is calling for:

²³ Postal Technology International, March 2006

- **extension of the USO to include provision for small and medium enterprises** for whom competition has meant higher prices and poorer service;
- **end Royal Mail's subsidy of competition in access products**, removing the Regulator's involvement in access contracts and introducing a fund for the universal service, either through a support fund or a supplement on the access price;
- **establish a pricing regime** to sustain the Universal Service Obligation and to promote innovation;
- **create pressure for Royal Mail to introduce new services and products** by removing the current regulatory restrictions on product innovation and giving Royal Mail an investment-led pricing formula;
- **reform the structure and remit of Postcomm** removing its control over access contracts and directing it to an interim price control review that ensures the USO is protected. We also seek measures to introduce greater accountability and a clearer public service remit; and
- **review developments across the EU** and create a level competitive playing field that prevents social dumping and maintains current USO provision in member states.

130. We believe the problems competition has created for Royal Mail, for its customers and its workforce require urgent action by Government to secure the company's financial future and ensure the maintenance of the UK's universal service.

Any further information regarding this submission should be addressed to:

Billy Hayes
 General Secretary
 Communication Workers Union
 150 The Broadway
 London SW19 1RX
 E-mail: bhayes@cwu.org

March 2008

RD08/03/50