



Richard Hooper, CBE
c/o Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

16th July 2010

Dear Richard,

[Modernise or Decline an update from Postaf](#)

On behalf of the Postal Trade Association Forum – Postaf – I am pleased to be able to make some brief comments on your original report from the perspective of July 2010 and to answer the questions posed in your letter to trade associations.

Postaf as such did not exist when you were engaged in your original review although through the Trade Association Forum at Postwatch members did have some opportunity for input. You also had the opportunity at that time to meet many of the members one-to-one.

Comment on the original report

1. The Universal Service and mail users

- a. In 2010 the universal service, uniform tariff and 6 day delivery must be considered in a wider communications context. More recent evidence from Postcomm suggests that social consumers are less certain about the need for deliveries on 6 days per week. High volume users still need Saturday but Monday or Tuesday could be removed from the obligation.
- b. The need for two classes of mail within the Universal Service also needs review. Again recent Postcomm research shows social consumers appear confused about the difference between classes. The evidence suggests that they feel 1st is more reliable than 2nd, not having specifically a concern about speed. (This perception may

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be encouraged by Royal Mail.) Bulk mail customers have broadly moved away from 1st class products.

- c. Alternative Universal Service products exist, albeit more expensive than 1st class that could allow Royal Mail to substantially reduce costs if USO letters were only delivered on D+2.
- d. Your report, pp 26, suggests that ‘reducing the number of deliveries would send a damaging signal ...’, this is not supported by pp 30. There is no evidence that reducing to one delivery per day had any volume impact on mail. Additionally the timing for completion has recently been allowed to slip to 1600 without any apparent change in social consumer perceptions.
- e. The failure of Royal Mail (and others) to adequately recognise the issues raised in pp 31 regarding delivery of packets & parcels is of equal concern to bulk senders and social consumers. As packets become a larger part of the total volume and therefore a major part of the potential viability and profitability of Royal Mail it is disappointing that there has been little innovative movement in this area.
- f. Postaf is clear that there have been significant benefits to all users, not just bulk mailers, (pp 46). The substantial improvements in quality of service during the last decade would not have happened but for competition.

2. Changed Market

- a. Postaf recommends that the performance of the UK letters market – pp 48-49 – is updated from 2006-07 and the results mapped against the original conclusions and forecasts.
- b. The suggestion that paper catalogues in advertising mail are more effective than other methods (pp57) is not contended but it *will* be subject to significant change due to the increasing social acceptance of alternative electronic media and the apparent green issues. Reliance

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on catalogues to support volumes over time cannot be relied on.

3. Royal Mail and their difficulties

- a. Comment on the improvements in efficiency since the original report would be enlightening, particularly on the impact on current financial performance.
- b. The rate of achievement of the modernisation programme would also be worthy of comment.
- c. The recent agreement with the CWU appears generous when measured against the comments on relative remuneration across Europe in the original report.
- d. The original pension deficit proposals are broadly supported. Early resolution is essential to demonstrate financial stability and ensure success for any sale/partnership.
- e. In the relationship with the Regulator, both parties have failed. (pp83-84) Postaf is unable to agree regarding the focus of the Regulator, too often determination has been made with the reason give as protecting the USO outweighing any other considerations. A new regulator must have a more balanced objective regarding the position of competition - in contradiction to your view on promoting competition only 'where appropriate'.

4. Choices

- a. Changing the USO (pp104-108) cannot be dismissed. Saving £271 m is not the full story. A single D+2 universal service would save further substantial sums.
- b. Describing a change as reducing standards (pp107) is misleading; it is changing the scope of the universal service.

5. The Solution

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- a. Post Office Limited – the proposed Bill in 2009 only part addressed the position in your report. Postaf agrees that PO Ltd should be outside the influence of Royal Mail Letters and supported by a long term commercial agreement. It is believed that the 2010 Bill could support this view.
- b. There must not be undue prominence given to the universal service over competition therefore Postaf does not agree with the last sentence of paragraph 174 – ‘promote competition where appropriate’.
- c. Regarding cost transparency, your view on the apparent lack of progress in achieving further transparency would be appreciated. In the planned highly mechanised business it is difficult to accept the reasoning in point 2 of box 15 regarding the collection of data.

Your Letter of 24 June

1. The UK Market in 2010

- a. Letter volumes have declined at an even faster rate than predicted two years ago. Caused partly by the recession and partly by the recent industrial action. It is not likely that these will translate into cyclic issues but permanent step reductions in volume.
- b. Regarding the USO, see above for comments on the scope of the USO.

2. Recommendations

- a. Postaf broadly agrees with the capital and ownership proposals although I would refer you to the comment by the MUA (pp5).
- b. Postaf supports the pension proposals of the 2009 Bill.
- c. Postaf supports the regulatory regime as proposed in the 2009 Bill.

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- d. Some caution is suggested regarding the use of the word 'merger' between Postcomm & Ofcom. This does not, in our view, reflect your original proposals. Whilst the transfer of expertise is to be encouraged, the new regulatory regime should not be contaminated with the attitudes between regulator and carrier, as you outlined in your original report.
- e. Regulatory certainty is still a key issue moving forward not only in encouraging competition but also encouraging continued use of the medium by bulk users.

I have specifically tried not to unnecessarily repeat the views of the members of Postaf that may have been included in their own submissions (eg MUA) but looked at some of the broader issues that may apply.

Finally, I would be pleased to be able to expand on these points as necessary.

Yours sincerely

A handwritten signature in black ink, appearing to read "Alan MJ Halfacre". The signature is stylized and cursive.

Alan MJ Halfacre
Chairman