

Media briefing

Securing the universal postal service

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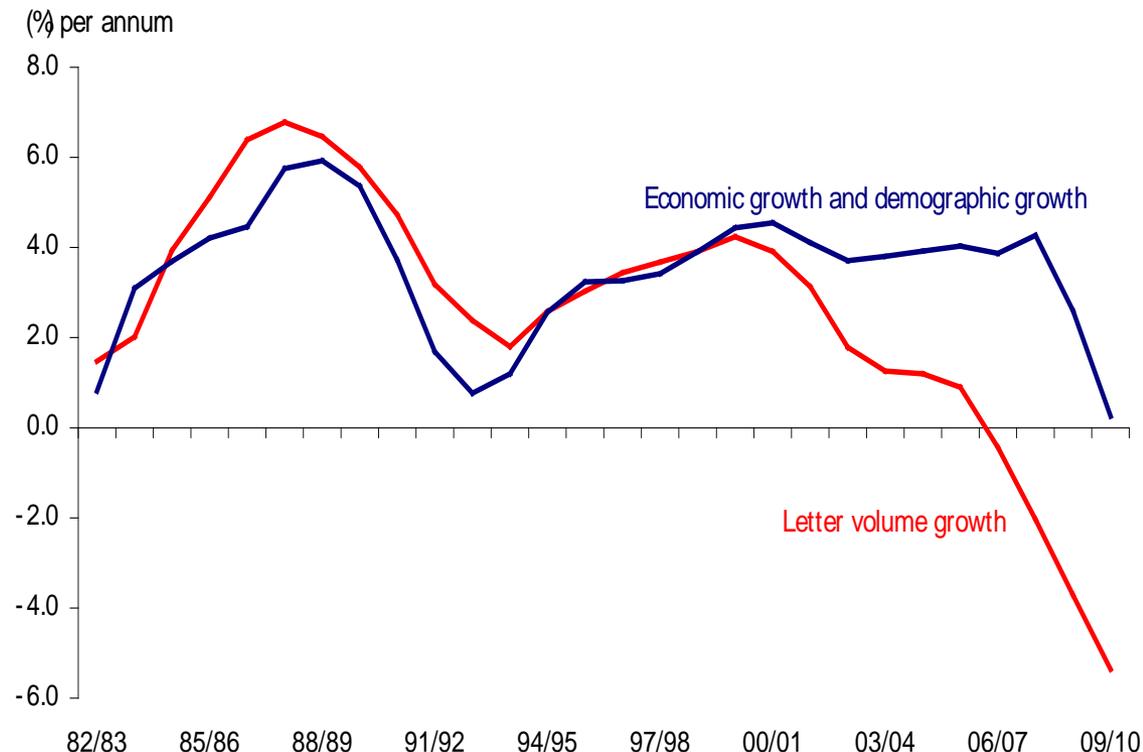
Overview

- **Recap: Why is the universal service under threat?**
- **Ofcom's focus and priorities**
- **Our decisions on the regulatory model**
- **Our safeguards to protect consumers**
- **Summary and next steps**

A challenging market context

- Delivered mail volumes have fallen by 25% since 2006
- Royal Mail delivered 84m letters a day in 2006, but 62m in 2010/11
- Access has grown rapidly but RM still delivers 99% of all mail
- Mobile connections tripled between end 1998 (13m) and end 2000 (40m)
- Broadband take-up doubled between 2004 (6.1m connections) and 2006 (13.0m)

Royal Mail performance (Hooper Report 2010)



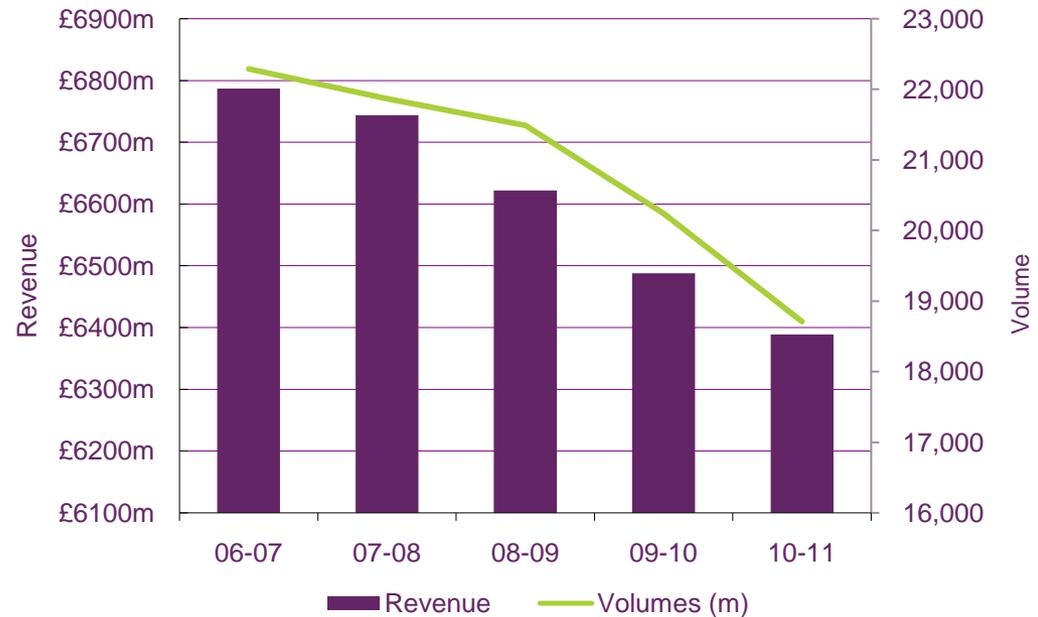
Note: Data refers to three year moving average annual growth rates

Source: Economics Forecasting, Group Regulation

Royal Mail's financial performance has suffered

- Royal Mail Letters' revenues have declined to £6.4bn from £6.8bn in 2006
- Royal Mail reported that the Letters business profits are erratic
- A loss of £120m last year (including costs of modernisation)

Royal Mail revenue and volume 2006/07 to 2010/11



The UK's universal service is set at the high end

Directive requirement					
5 day per week delivery and collection	6 day per week delivery and collection	6 days per week	6 days per week	5 days per week	6 days per week
Minimum standards of service	D+1 = 93% D+3 = 98.5%	D+1 = 93% D+3 = 93%	D+1 = 80% D+2 = 95%	D+3 = 90% D+5 = 98%	D+1 = 87% D+2 = 95%
Priority service price comparison (pence)	D+1 = 46p	D+1 = 66.8p	D+1 = 53.8p	D+3 = 37p	D+1 = 69p

D= day of posting

D+X = day of arrival

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Ofcom's clear priority is securing a financially sustainable universal service

What we can regulate 	What we don't regulate 
Universal service products – including the prices that are charged	The composition of the minimum requirements of the universal service – this is for Parliament
Access to Royal Mail's network – should it be mandated	Post Offices
End-to-end competition should it arise	Parcelforce and GLS (Royal Mail's European parcels operator)
Quality of service	Royal Mail's pension deficit and payments

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Our decision seeks to protect the universal service

- Every home will continue to benefit from the universal service
- Current quality of service targets will remain (over 90% of First Class must arrive the next day)
- Prices will remain affordable
- Royal Mail will be required to improve efficiency to sustain the universal service in the medium-term
- Royal Mail will be given commercial freedom to compete in the market and meet customer needs

Our decisions today

- We issue the first Universal Postal Service Order – **confirming the service and quality that Royal Mail has to offer every day throughout the UK**
- We are otherwise removing the majority of regulation **as of now** from Royal Mail including price regulation and its ability to negotiate and agree terms and conditions with customers
- We are putting in place **key safeguards to ensure that prices remain affordable** and that Royal Mail addresses the challenge of improving its efficiency

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Safeguard 1 – Ensuring that a basic universal service product is available to all

- A safeguard price cap for Second Class stamp prices (particularly relied on by vulnerable consumers)
- Over the next 7 years, Royal Mail can price Second Class stamps no higher than 55p (linked to CPI) – this level appears affordable and provides enough flexibility to be sustainable
- To further protect consumers and small businesses, we are extending the safeguard cap to large letters and small parcels up to 2kg in weight
- The level of the cap for larger items will be set following consultation but subject to similar considerations as that for letters

Safeguard 2 – Effective monitoring of Royal Mail's performance

- We will monitor Royal Mail's performance in three main areas to ensure that:
 1. The universal service is provided to the same high level
 2. Royal Mail cuts costs and becomes more efficient over time
 3. Prices remain affordable for consumers
- **Our approach is deregulatory but we retain the power to intervene if appropriate**



Safeguard 3 – Competition within the mail market

Competition here and abroad has brought benefits in terms of efficiency, choice and innovation for customers

Access

- Ensure access for other operators to Royal Mail's Inward Mail centres
- Access will be less prescriptive (as Royal Mail would set prices) but also supported by a 'margin squeeze test'

End-to-end

- Any operator wanting to provide a significant end-to-end service will have to notify Ofcom
- We can place obligations on end-to-end providers in order to protect the universal service
- Case-by-case consideration of any end-to-end entry



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A summary of what are our decision will achieve

- Our decision will help secure the universal service, so consumers and businesses continue to benefit from postal service that is:
 - provided six days a week;
 - available anywhere in the country;
 - available at the same price across the UK (for USO services);
 - affordable, with safeguards for 7 years; and
 - sustainable.
- Royal Mail will have the incentive to cut costs and become more efficient over time
- For competitors, access is maintained and Royal Mail will have to report to Ofcom to ensure it is pricing fairly

Next steps

- Royal Mail is now expected to make decisions on the price of stamps based on Ofcom's statement
- Any new stamp prices would come into effect a month after Royal Mail's announcement
- Ofcom will consult on the level of the cap for Second Class large letters and parcels up to 2Kg in weight
- Ofcom will begin to monitor Royal Mail's performance under our regulatory framework



Questions?