

Gavin Knott  
Ofcom  
Floor 04, Dept Competition Policy  
Riverside House  
2A Southwark Bridge Road  
London  
SE1 9HA

Dear Mr Knott

I welcome the opportunity to respond, on behalf of [redacted] to the Ofcom consultation 'Securing the Universal Postal Service'.

The consultation document identifies the decline in mail volumes as the major threat to the financial viability of Royal Mail and in turn the Universal Service Offering (USO). The consultation states that business mail represents over half of the mail currently handled by Royal Mail and acknowledges the risk that further increases in prices could accelerate the decline in mail volumes. In response, I would like to confirm that [redacted] no longer considers the postal service as the primary route for many of its communications. As we have already advised Royal Mail, had it not been for an extraordinary volume of communications issued in relation to [redacted], our postal volumes would have markedly declined this year following the significant postage price increases in May 2011. We anticipate further significant price increases in 2012 under the regulatory model proposed in your consultation, so will continue to look to reduce our reliance on postal communication. We therefore ask that you reconsider your regulatory framework as we do not believe it will avoid the acceleration of the decline in mail volumes and achieve your primary goal of protecting the USO. Royal Mail should not be given more freedom in relation to pricing as this removes the incentive for them to deliver process efficiencies.

In addition, competition should continue to be encouraged as it was the introduction of competition that drove Royal Mail to 'raise its game' in recent years. Therefore 'margin squeeze' must not be allowed as this could make competition unviable.

Our responses to the questions raised in the consultation are detailed in Appendix A.

Yours faithfully



**Appendix A - OFCOM Consultation 'Securing the Universal Postal Service'**

**Question 5.1: Do you agree with the assumptions set out in paragraph 5.86? If not, please set out your reasons.**

Yes but we are concerned over how the regulatory framework will provides sufficient safeguards to ensure sufficient cost savings are delivered at Royal Mail

**Question 6.1: Do you agree with our proposal to impose a regulatory condition on Royal Mail to require it to provide the universal service as set out above? If not, what alternative approach would you suggest?**

Yes

**Question 6.2: Do you agree that a price control is not an appropriate option at present for regulating Royal Mail's prices? If not, please explain why and how a price control could be implemented effectively.**

No. A form of Price Control should remain to ensure that Royal Mail cannot use price increases to offset its failure to deliver cost saving efficiencies

**Question 6.3: Do you agree with Ofcom's proposals to put in place regulatory safeguards? If not, please provide reasons.**

Yes

**Question 6.4: Do you agree with Ofcom's proposals to put in place a monitoring regime? If not, please provide reasons.**

Yes

**Question 6.5: Do you agree with Ofcom's proposals for an index-linked safeguard cap on standard letters from 45p to 55p? If not, please provide reasons.**

Yes

**Question 6.6: Do you agree with Ofcom's proposal that the approach outlined above remains in place for seven years? If not, please provide reasons.**

No, the period should be shorter. We propose three years given the rapid change in the postal market.

**Question 7.1: Do you agree with our approach to assessing end-to-end competition? If not, please give your reasons.**

No. End to end competition should be assessed on whether it will continue to drive efficiencies in Royal Mail

**Question 7.2: Do you agree with Ofcom's proposals to impose an obligation on Royal Mail to provide access at the Inward Mail Centre? If not, please give reasons.**

Yes

**Question 7.3: Do you agree with Ofcom's proposals in respect of regulating margin squeeze? If not, please give reasons.**

Yes, it is imperative that "margin squeeze" is prevented as this could make access competition unsustainable.

**Question 7.4: Do you agree with our approach concerning the Terms and Conditions for access, including the role of equivalence and the regulation of zonal pricing? If not, please give your reasons.**

Yes

**Question 8.1: Do you agree with the objectives for regulatory financial reporting that we have set out above? Please provide details to support your response.**

**Question 8.2: Do you agree that our regulatory financial reporting proposals, set out in this section and the supporting Annex, are appropriate and proportionate? Please provide reasons and evidence to support your views**

**Question 8.3: Do you agree with our proposals on the rules and requirements contained in the draft Regulatory Accounting Guidelines and do you consider that they are likely to provide an appropriate and proportionate level of cost transparency and accounting separation? Question**

**8.4: Do you agree with our proposals set out above in relation to accounting separation? Are there any further risks that you think Ofcom needs also to consider in making decisions in this area? To the extent that you consider there to be risks associated with our proposals, how do you consider they might best be addressed?**

Q 8.1 – 8.4 Not answered