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Lord Clarke of Hampstead
House of Lords
London
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31 October 2014

Dear Lord Clarke,

Consumer Rights Bill – Royal Mail Universal Service

During the debate in the Grand Committee meeting on the Consumer Rights Bill on 27th October, you raised a question about competitor payments to Royal Mail and the future of the universal postal service and the impact of competition on its sustainability.

I should explain that the Government's overarching objective in relation to post is to secure a sustainable universal postal service in the UK, which is of such importance to communities and businesses up and down the country. This is why we enshrined the universal service in the Postal Service Act 2011 and gave Ofcom, as an experienced and independent regulator, the primary statutory duty to secure its provision. To this end, Ofcom must have regard for the financial sustainability of the universal service and the Act gives Ofcom the regulatory powers and tools it needs to intervene if the universal service is ever at risk from postal competition. We fully recognise that there is a balance to be struck between securing the universal service and allowing competition, which brings benefits to consumers through choice, efficiency and innovation, and Government policy is clear that postal competition must not be allowed to undermine the provision of the universal postal service.

Shortly after taking on regulatory responsibility for the sector, Ofcom introduced a new regulatory framework (March 2012), which gave Royal Mail significantly greater pricing freedom, reducing the proportion of Royal Mail revenues under direct price regulation from 80% to less than 10% and this has allowed Royal Mail to return the universal service to financial sustainability. The pricing freedom was however coupled with safeguards to ensure that the company would have strong incentives to improve its operational efficiency and to protect vulnerable customers. One of these safeguards was the existence of competition in the form of both access competition and direct delivery

(end-to-end) competition. By giving Royal Mail greater pricing freedom, the new regulatory framework made provision for Royal Mail to respond to the challenges of market competition, including the threat of "cherry picking", by charging their competitors different prices to access the Royal Mail network in different geographical areas ("zonal pricing") to reflect differences in delivery costs. More information about the access pricing arrangements can be found on Ofcom's website (www.ofcom.org/).

The Business Secretary and Jo Swinson, the Minister responsible for postal affairs, have met with Ed Richards, the Chief Executive of Ofcom and underlined the importance of Ofcom's primary duty to protect the universal service. Ministers have received assurances on several occasions that Ofcom is monitoring the situation proactively and on a continuous basis and will act swiftly to carry out a full review of the impact of competition or, if necessary, impose regulatory conditions to ensure the universal service is protected. Ofcom is committed to carrying out a review of the impact of competition on the universal service next year and they have made clear that they would carry out an earlier review if market evidence indicated there was a need to do so. Royal Mail have made a submission to Ofcom setting out its concerns about the potential effects of increasing postal competition and calling for Ofcom to bring forward its review. Ofcom recently held a briefing session for MPs at which they said that they will shortly be announcing their decision on Royal Mail's submission.

I am copying this letter to all Peers who participated in the debate and a copy will be placed in the House libraries.

Warm regards

Lyn Neville-Rolfe

BARONESS NEVILLE-ROLFE DBE CMG