



Index of Postal Freedom

U.K. – Royal Mail



Overview

Britain's national post -- **Royal Mail** -- traces its roots to the 16th century and the reign of Henry VIII, but its modern iteration was effectively chartered in 1969. Each working day, Royal Mail delivers 79 million items to 27 million addresses.

Almost 193,000 people work directly for Royal Mail Group. In the first half of fiscal year ending March 2009, Royal Mail Group posted revenue of £4.6 billion and operating profits of £177 million, more than doubling the £86 million from the same period last year. Businesses currently send 87 percent of all mail in the UK, and consumers send 13 percent.

Liberalization

Britain's postal markets were opened to full competition on Jan. 1, 2006, three years ahead of the European Union's goal of full postal liberalization by 2009.

Liberalization has been good for Britain's economy. A 2008 study by Europe Economics showed that competition in the postal sector created 3,300 new jobs and boosted the British economy by £229 million.

Privatization

The question of whether to privatize Royal Mail continues to be a subject of political debate in Britain. Despite the opening of postal markets, Royal Mail remains government-owned, and still receives public subsidies -- to the tune of £302 million. Royal Mail claims that it needs government subsidies for its service to rural areas. The majority of its 13,500 Post Office branches lose money.



The European Commission is investigating these state subsidies to Royal Mail in accordance with its rules on State Aid.

In December 2008, the British government released a report that called for the partial privatization of Royal Mail. Entitled “Modernise or Decline,” the so-called Hooper Report noted that Royal Mail was the only post in Western Europe to lose money. The report cited a shrinking mailstream and labor strikes as reasons for dwindling revenues. The report also found that “in 2007, the postal sector accounted for 60 percent of the days lost to industrial action across the whole [British] economy.”

Royal Mail has accumulated a massive pension liability. From March 2008 to September 2008, the pension deficit increased from £2.9 billion to £4 billion, largely due to stock market losses. This deficit renders privatization much harder, as very few investors are interested in assuming the pension liabilities.

The report concludes that the government should transfer a 30 percent stake in Royal Mail to a private postal firm, and assume responsibility for Royal Mail's pension liabilities. The recommendations of the report have been cautiously backed by the governing Labor Party as distasteful but necessary.

Competition

Despite liberalization, competition has yet to fully take hold. Royal Mail is still the predominant actor in the British postal market, with market share of well over 90 percent.

Currently, 25 firms are licensed to deliver mail in Britain, including the Royal Mail. However, most competitors only collect and process mail while still paying Royal Mail to handle delivery.

Royal Mail has access agreements with other licensed carriers, serving as the last-mile deliverer for 2.5 billion “access” deliveries in the first half of fiscal year 2008-2009. There were 4 billion “access” deliveries in 2007-2008. As of December 2008, Royal Mail handles about 450 million deliveries per month under access agreements.



In 2007-08, newly licensed operators carried 26 million items end-to-end, a decrease of 15 percent from the previous year. This decrease is at least partially explained, however, by trial routes in limited geographical areas.

Given Royal Mail's government-owned status, taxpayer subsidies, and dominant market share, the playing field is not entirely level. And the potential for Royal Mail to engage in anti-competitive behavior is high. An independent regulator is tasked with ensuring that Royal Mail does not abuse its market position when competing with other postal operators.

Regulation

As a government organization, Royal Mail is regulated by the Postal Services Commission, or Postcomm. According to its mission statement, Postcomm's job is to make sure licensed postal operators "meet the needs of their customers throughout the UK." Postcomm ensures that the universal service guarantee is upheld for all UK households and businesses. Postcomm also supervises the licensing of postal operators delivering mail within the "licensed area."

Postcomm has supervised the introduction of competition in mail services. Bulk mail was the first to be opened to competition, in 2003, and the entire market was opened to competition at the beginning of 2006.

Finally, because Royal Mail still controls over 90 percent of the letters market, Postcomm continues to regulate Royal Mail's prices and its quality of service. The most recent pricing framework places a 37-pence limit on first-class stamps by 2010. Royal Mail's competitors are free to price services as they please, even if lower than the regulated price.

Postcomm has the authority to intervene in a variety of cases deemed anti-competitive. As such, because of the size of the national post, most of Postcomm's focus is on Royal Mail's activities.

Royal Mail is obligated to offer its competitors access to its vast network on a "fair and reasonable basis." This means that all competitors must be able to



negotiate for use of Royal Mail's delivery system, if necessary.

Postcomm has the authority to negotiate solutions with Royal Mail to anti-competitive behavior that has arisen or may arise. If these discussions do not solve the anti-competitive problem, Postcomm can issue an enforcement order or even impose a financial penalty.

If other licensed operators are accused of anti-competitive behavior, their cases are referred to the Office of Fair Trading under general British competition law.

According to the Hooper Report, Royal Mail has "a difficult relationship with the [postal] regulator." The Report recommends replacing the regulator.

Consumer Protections

Postwatch is the independent consumer watchdog for postal services in the United Kingdom. Postwatch monitors Royal Mail's performance and advises the Postcomm regulator on action to take if Royal Mail violates the terms of its license or fails to meet the performance targets set for it by the regulator.

Postwatch is also active on local or more parochial issues, such as the closing of post offices, local delivery problems, and product trials in certain areas. Consumers can employ Postwatch's services in pursuing their own complaints about mail service.

Universal Service

Royal Mail provides the United Kingdom's "universal postal service," which includes the flat-rate stamp and the obligation to deliver to every UK address, 6 days per week. Its competitors need not fulfill a universal service obligation.

Five service areas are required under the universal service obligation, with postage at a flat rate:

- Priority and non-priority mail services, or more commonly, general letters and packets;
- Non-priority parcel service for packages up to 20 kg;
- Registered and insured services;



- Support services for ensuring the safety and integrity of mail, including mail forwarding for up to 12 months;
- International outbound service.

Two bulk mail products are also covered under the universal service obligation:

- Mailsort 1400, which is mail up to 2 kg pre-sorted according to the location of 1,400 Royal Mail delivery offices;
- Cleanmail, which is considered "entry-level" bulk mail and does not need to be pre-sorted.

Royal Mail claims that the universal service obligation generates a loss; it put the loss at around £100 million in fiscal year 2007-08.

PostComm, on the other hand, has held that the universal service obligation is a commercial advantage for Royal Mail, not a burden.

Non-Postal Services

With revenue from letters and other traditional postal services trending downward, Royal Mail has expanded into several non-postal commercial activities. At the of the 2007-08 fiscal year (March 2008), Royal Mail announced that it was responsible for one of every 50 auto insurance policies in Britain and was insuring one in every 200 homes in the UK.

Royal Mail has also expanded into services traditionally offered by banks. It now holds savings from nearly half a million depositors and issues one in every 40 new credit cards in the United Kingdom. Royal Mail sells life, travel, and other vehicle insurance policies and provides several basic savings tools. The company also offers personal loans, mortgages, and other basic financial services. It even sells broadband and phone services. Consumers can also handle passport business and pay car taxes at the Post Office.

Royal Mail's bank accounts are provided by the Bank of Ireland. So Post Office savers rely on the Irish government for protection, not the British Financial Services Authority. As the Irish economy has been hit especially hard by the global economic downturn, many postal savers have become nervous about the



security of their assets.

Revenue from non-postal businesses increased in the first half of the 2008-2009 fiscal year, offsetting revenue losses from Royal Mail's government services and retail operations.

Useful links

[Royal Mail Group Website](#)

[Postal Services Act of 2000](#)

[PostWatch Website](#)

[PostComm Website](#)

[Royal Mail's FY 2007-08 Annual Report](#)

[HellMail UK and European Postal News](#)

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