

Ten interesting points about the Royal Mail

1. Labour Policy

In 2005 the Labour Party manifesto said that:

“Our ambition is to see a publicly owned Royal Mail fully restored to good health, providing customers with an excellent service and its employees with rewarding employment.” (p. 22)

In June 2008 the National Policy Forum of the Labour Party notes that:

“We have set out a vision of a wholly publicly-owned, integrated Royal Mail Group in good health, providing customers with an excellent service and its employees with rewarding employment.” (p.157)

The Labour Party Conference 2008 endorsed this and John Hutton, the then Secretary of State for Business and Enterprise told a fringe meeting that party policy on the subject had been fixed at the National Policy Forum.

2. Public Investment

In February 2007 the Government and Royal Mail agreed a £1.2 billion facility, on commercial terms, to modernise Royal Mail.

Lord Mandelson said in the House of Lords on December 16th 2008:

By March this year, Royal Mail had spent only approximately one-third of what it had intended to spend in its original master modernisation plan. This highlights the need to make progress with modernisation to meet the challenges of the market. It is not the Government who have been at fault. We have not held back. We have been willing partners up to the extent of our ability and capacity to be so. It is more a failure of drive, confidence and unity within the Royal Mail, which have meant that the facilities and resources that have been made available to the Royal Mail have not been taken up in order to bring about the modernisation and efficiency raising for which they were originally intended. (Column 749)

In other words, in March 2008 only £400m of the £1200 million made available for modernisation had been used. The Royal Mail now says that to date £600m has been drawn-down leaving £600m available. There is no pressing need for private sector capital.

3. Pricing

Royal Mail has some of the lowest prices of comparable postal services. In Europe there are six postal services with private sector capital. According to the Hooper Report all six postal services in the European Union which have introduced private sector capital – TNT (Netherlands), Deutsche Post (Germany) Post Denmark, Austrian Post, Posten (Sweden) and De Post – LA Poste (Belgium) have higher stamp prices than the United Kingdom.

For example, a 50g letter costs nearly twice as much to post in the Netherlands than the United Kingdom. Private sector investors will want their return on capital.

4. Universal service obligation

The obligation to deliver to all UK households six days a week is greater than in many other European countries which guarantee deliveries for only five days. In parts of the Netherlands where TNT operates, there are only two deliveries per week.

5. Profitability

Because of pricing policy and the extent of the universal service obligation, profitability of the Royal Mail is lower than in some comparable countries but the Royal Mail Group has generally been profitable. The latest update for the half year period ending 28th September 2008 was as follows¹:

Business Unit	External revenue		Operating profit/(loss)*	
	2008 £m	2007 £m	2008 £m	2007 £m
Royal Mail	3,266	3,269	46	5
General Logistics Systems	715	565	59	45
Parcelforce Worldwide	184	174	4	2
Post Office Limited	441	449	28	(7)
Other businesses	23	18	40	41
Group	4,648	4,475	177	86

In its press release, the Royal Mail pointed to:

- Operating profit doubles despite fall in letter volumes
- Continued downward drive on costs cuts overheads
- Quality of service targets now being achieved
- Transformation in Letters business is underway

6. Ownership of other postal services

20 of the 27 main postal operators in the European Union are 100% publicly owned as is the US postal service.

7. Progressive trade union

¹ ftp://ftp.royalmail.com/Downloads/public/ctf/rmg/200809_Trading_Statement.pdf

The CWU is a modern progressive trade union willing to negotiate with management on the modernisation of the Royal Mail. This is an extract from their submission to the Hooper Report:

“The CWU do not believe that the decline is inevitable. As the dominant and sole provider of most services Royal Mail can help shape the market like no other firm. If it becomes demand-led and adapts to customers’ needs then it can help expand the market. With innovative products (tailored to meet customer needs) greater use of new technology in (areas like data conveyance, mail production and track and trace) and a greater commitment from RM management we believe the company can be successful and help stimulate market growth in the future.”²

8. Potential for growth in Royal Mail and the Post Office

An extensive study of the changes taking place in the industry by Pitney Bowes ‘Electronic Substitution for Mail: Models and Results; Myth and Reality’ shows that the future of business communication is multi-channel and “mail will continue to find new niches in which it is the most effective medium, either standalone or in combination with technologies in today’s multi-channel world

The study challenges the following ‘myths’ about mail. It shows that there are many untapped opportunities to grow mail, such as for “customer acquisition, building customer loyalty and retention, cross-selling and low-cost package delivery for burgeoning internet sales”. It argues that rather than being rapid and extensive, substitution has been partial and gradual, reflecting the complexity of mail itself.

Others have suggested that the Post Office could become a People’s Bank with considerable customer appeal in light of the credit crunch. The CWU would like to see the creation of a register of business addresses with a guaranteed early delivery scheme available to them.

9. Compensation fund

Since other operators use the universal service obligation infrastructure, it is only surely right that they should pay for its upkeep. It would be possible for the Government to establish some additional support for the universal service obligation either based on operator contributions or a supplement on the current access price. Other countries in Europe are looking at ways to protect their universal service obligations with such policies.

10. Structure of Royal Mail

Royal Mail Holdings plc owns Royal Mail Group Limited, which in turn operates the brands Royal Mail (UK letters), Parcelforce Worldwide (UK parcels) and General

² Available at: <http://www.glosamal.co.uk/Docs/CWU%20Submission%20-%20Liberalisation.pdf>

Logistics Systems. Post Office Ltd., which provides counter services, is a wholly owned subsidiary.

Royal Mail Holdings is a public limited company in which the Secretary of State for Business, Enterprise and Regulatory Reform owns 50,004 ordinary shares plus 1 special share, and the Treasury Solicitor holds 1 ordinary share.

The Hooper Report wants to part-privatise the Royal Mail Group and keep Post Office Limited in public ownership. It is hard to see that a 'commercial partner' in Royal Mail would see this as a tenable long term solution with different parts of the Group having different ownership structures and objectives. There would be an obvious danger that part-privatisation would inevitably follow by calls for full privatisation.

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