

Stephen Barclay MP  
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House of Commons  
London  
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*Date:*– 7 December 2010  
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Dear Mr Barclay,

I have been asked to write to you by the Parliamentary Under Secretary of State Department for Business, Innovation & Skills, Mr Edward Davey in respond to your questions recently asked in Parliament.

In response to your first question, other operators carried approximately 6.4 billion items in 2009-10, which equates to 38% of Royal Mail's total mail volumes. This has increased from 2.4 billion items (12%) in 2006-07. Royal Mail reported a loss of £123 million on access mail in 2009-10 which equates to approximately 1.9p per item.

We have assessed the impact of the current access headroom regime and as a result proposed some changes in May 2010. These changes included:

- A reduction in the level of headroom (the minimum margin Royal Mail is required to keep between its retail and access prices) from an average of 4.1p on Second Class Letters to 3p
- Changes to the form and structure of the headroom control to give Royal Mail more flexibility in setting its retail prices and the level of headroom for individual products
- A move from price controlling retail prices to a direct control on access prices
- An increase in the level of access prices of 2.5% over and above what would be allowed under the price control formula (this is reflective of the reduction in headroom)

In addition, Royal Mail applied for an additional increase in the level of the price control for its retail and access business customers to help fund its modernisation programme. If approved this will result in Royal Mail being allowed to increase prices for access products by an estimated 15% and prices to its retail business mail customers by an average of 12%.

Our November document set out "minded to" decisions to implement the changes to the access regime set out above and consulted on its proposal to approve Royal Mail's application for additional allowed revenue, subject to further due diligence.

We have assessed the impact of its proposals on Royal Mail, business and social customers and on Royal Mail's competitors. It considers that the proposed changes, including those arising from Royal Mail's application, will give it additional flexibility to compete with its rivals and, if the application is approved, is likely to result in Royal Mail making a profit from the provision of access.

In response to your second question Royal Mail is currently required by its licence to notify and publish price and non-price changes to its retail products and any new retail products, three months in advance. This provision was intended to give sufficient information to customers of any changes to Royal Mail's products and also allows Postcomm to investigate any anti-competitive impact of the changes prior to it coming into effect. The Postal Services Directive requires provision of information for universal service products in advance and customers are very concerned about any reduction in the notification period, especially in relation to changes in price.

Our November document set out its final proposals in relation to changes in the advance notification and publication requirements (Condition 7). It is proposing to remove the notification and publication requirements in markets where Royal Mail does not have market power (excluding universal service products) subject to a transitional period where publication will be required but not in advance. In addition, we are proposing to reduce the publication requirement to six weeks in markets where competition is developing but Royal Mail retains market power.

If there is any further information you require please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "TIM BROWN". The signature is written in a cursive, slightly slanted style.

**TIM BROWN**  
CHIEF EXECUTIVE