



**The Federation of Small Businesses response
to a consultative document from
Postcomm
entitled
Licensing Framework in a fully open market**

Federation of Small Businesses

The Federation of Small Businesses (FSB) is the UK's leading non-party political lobby organisation existing to promote and protect the interests of all who own and/or manage their own businesses in the UK. With 185,000 members, the FSB is also the largest group representing the interests of UK small businesses and the self-employed.

The FSB welcomes the opportunity to respond to the consultation document entitled "Licensing Framework in a fully open market". In the new open market, small businesses will be both consumers of, and possible investors in, the new open market.

The FSB regrets that it has not been able to answer the questions set by Postcomm. The FSB has endeavoured to present the concerns of its members, many of which are outside the specific nature of the questions. The FSB hopes, however, that Postcomm finds the FSB's comments useful.

The FSB's comments are divided into separate headings for ease of referral.

1) Deliveries

Post Office network: If the Post Office network becomes a collection point for other carriers, this could be beneficial, as it would consolidate the different carriers. However, the FSB would like to note that this could risk the current contractual relationship that the Post Office has with Royal Mail. Royal Mail may seek to create alternative collection points, as the precedent for alternatives already exists – the sale of stamps in a wide range of retail outlets.

Security: If Royal Mail is no longer the sole operator doorstep delivering, the issues of security and possibly identity theft/fraud have been highlighted as a concern for some of our members.

Many small businesses work from home and maintaining a good level of security is particularly important. Postcomm will be aware that Royal Mail provides a service where mail is not delivered if someone is away. If a small business working from home is able to receive deliveries from a wide variety of postal operators, stopping mail delivery during periods of leave may be more difficult to implement.

Postcomm wish to be a “light touch” regulator. The consultation document outlines measures which the FSB consider to be commensurate with a “light touch” regulator. But the FSB considers that Postcomm may have difficulties ensuring the propriety of new businesses setting up and the staff each business employs. Will all prospective members of staff on both the sorting and delivering sides be vetted prior to employment? Will mail be stored securely by all the companies? How will mail be stored? Insufficient monitoring may compromise the security of mail.

The FSB hopes that the proposed Code of Practice for Mail Integrity will go some way to address the areas of concern outlined above and consider such a Code to be the most appropriate way to manage concerns. In the short-term however, the FSB believes that it may be appropriate for Postcomm to assess, at the application stage, an applicant’s ability to comply with the Code of Practice on Mail Integrity, perhaps even undertaking physical inspections. Postcomm should retain flexibility as to how it makes an assessment, taking into account the different sizes and needs of applicants and the areas they intend to supply.

2) Rural Areas

The protection of an adequate postal service in rural areas is of considerable concern to the FSB. The service to every building nationwide currently requires delivery to the “highlands and islands”, which are traditionally non-profit-making routes for Royal Mail. When petrol costs soared in 2000, FSB members in rural areas were surcharged for parcel services by courier companies. Under the open market system, Royal Mail understandably does not wish to be left with the “highlands and islands” but protection must exist for rural areas. The FSB is aware that Postcomm have considered rural needs because Postcomm envisage “there being operations that are so small that services will be tailored to each individual customer” (p36) but how can Postcomm ensure rural needs are met? Will Royal Mail be obliged to maintain a rural service, which could cause their profit margins to be diminished as the more profitable routes are infiltrated by new businesses?

3) The reality of a small operator trying to set up a postal service and small businesses as consumers

The FSB believes that the market entry fee of £1000 is too high for the vast amount of SMEs contemplating setting up a postal service. £250 is a more accessible entry fee and may prompt more small businesses to set up.

But the FSB would like to note that setting up a postal services company will be high-risk, especially for the first few years before the market settles down and becomes acclimatised to being open. Some FSB members considered that an operator would need to have a large body of staff just to sort out mail. It was also suggested that administrative costs of a postal service (both setting up and running) would be high, possibly prohibitive to a smaller operator.

From the small business as consumer view, if a small business decides to use a new operator to transport its mail and the operator subsequently goes into insolvency, liquidation or receivership; who will be the guarantor of the small business's mail delivery service? The FSB agrees with Postcomm's suggestion of a requirement for financial guarantees and the proposal not to use potentially discriminatory guarantees (p32) but considers that Postcomm must be certain what the consumer protections will be.

4) Conclusions

The FSB notes that it is difficult to predict what effect the introduction of a fully open market will have on the UK's postal service. In the case of New Zealand, where the post monopoly has been broken for some time, only 7% of the mail has been diverted from the New Zealand equivalent of Royal Mail to other operators.

The FSB hopes that a fully competitive market will bring benefits to the small business sector from both a consumer and a business perspective.

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