Business, Innovation and Skills Committee

Oral evidence: Competition in the Postal Services Sector and the Universal Service Obligation

HC 769-i

Wednesday 26 November 2014

Ordered by the House of Commons to be published on 26 November 2014.

Witnesses including written evidence where submitted:

At 9.30 am

- Moya Greene, Chief Executive, Royal Mail
- Nick Wells, Chief Executive, Whistl
- Guy Buswell, Chief Executive, UK Mail
- Daniel Vines, Director of Sales and Customer Services, TNT UK

At 10.30 am

- Roy Perticucci, Vice President, EU Operations, Amazon

At 11.00am

- Billy Hayes, General Secretary, CWU
- Dave Ward, Deputy General Secretary, Postal, CWU
- John Park, Assistant General Secretary, Community
- Les Baylis, Special Project Officer, Logistics and Distribution, Community

Watch the meeting

Members present: Mr Adrian Bailey (Chair), Mr William Bain, Mr Brian Binley, Paul Blomfield, Mike Crockart, Ann McKechin, Mr Robin Walker, Nadhim Zahawi

Questions 1-107

Witnesses: **Moya Greene**, Chief Executive, Royal Mail, **Nick Wells**, Chief Executive, Whistl, **Guy Buswell**, Chief Executive, UK Mail, and **Daniel Vines**, Director of Sales and Customer Services, TNT UK, gave evidence.

Q1 Chair: Good morning and thank you for agreeing to help us with our inquiry. We all know who you are, but for voice-transcription purposes could you just introduce yourselves, starting with you, Guy?

Guy Buswell: I am Guy Buswell. I am the CEO of UK Mail Group plc.

Moya Greene: I am Moya Greene, CEO of Royal Mail.

Nick Wells: I am Nick Wells, CEO of Whistl, formerly TNT Post UK.

Daniel Vines: I am Daniel Vines, Director of Sales and Customer Services for TNT Express UK and Ireland.

Q2 Chair: Thank you very much. I am just going to start. We have often heard accusations of cherry-picking within the postal services market. Unite the Union has given us a slightly more medical metaphor. In its evidence to the Committee it states that competitors to Royal Mail "are happy to do the ingrowing toe nails and tonsil removal operations, but not to do those that require high cost/low return". Is this a fair analogy? I will start with you, Moya.

Moya Greene: It is certainly very amusing. What I will say is that the universal service is a precious service. It is essential for most people in Britain. It has a high fixed cost. It requires a number of internal subsidies in order to make the economics work. For example, the low-cost urban areas, where the mail is high-density and high-volume, are needed to cross-subsidise the suburban and rural areas, which are much higher-cost. If you allow cherry-picking in the urban areas, you undermine the economics. We are already dealing with a structural decline in letters of about 4% to 6% a year, so if you allow cherry-picking in the urban areas what happens is that it siphons off very quickly a lot of revenue—more revenue than can be offset by even very vigorous efficiency measures on Royal Mail's part—and it makes the universal service unfinanceable and uneconomic.

Unlike many universal services in the world, we do not require or rely upon Government subsidy. We are very committed to efficiency. We have made, I think, great strides on the efficiency front. And efficiency at Royal Mail is very painful: we have lost 50,000 of our employees over the past decade. We continue to lose, sadly, 2,000 to 3,000 people a year.

Q3 Chair: We will actually be talking about that in a moment. In your evidence—again I am quoting—you state that there is "an existential…threat to the universal service". You have moved into this territory there. Could you just elaborate on whether there is a very real threat to the survival of your universal service obligation as a result of this?

Moya Greene: Mr Chairman, I think there is. We have now had 10 years of access to our delivery networks being made available to our competitors. We are very happy to make our delivery networks available to our competitors, if we can be paid properly. The economies of scale in the universal service are primarily at the delivery level. That is where the costs are most fixed as well. What the cherry-picking of the urban routes does is that it unwinds these economies of scale and it actually creates diseconomies of scale. It can siphon off revenue that is much needed to support the universal service so fast that, unless you get ahead of this problem and you look at it before it has done that kind of damage and siphoned off too much revenue, you will find that your options for solving the issue are far fewer.

We have a modest ask, really. Our regulator is a very professional regulator. They are committed to do a review of this. I think our regulator understands conceptually that this can become a big problem, but we need now to accelerate that review. Don't wait. The risks of waiting are far greater than undertaking and accelerating the review now, because once the revenues to support the universal service are siphoned off and lost it is very difficult to retrench from that, and the number of options that are available to support the universal service will be fewer than they are today.

Q4 Chair: We will be talking to Ofcom about this at a subsequent meeting. Can I now ask the other members of the panel? According to Moya, you are a threat to the universal service obligation. What is your opinion? We will start with you, Guy.

Guy Buswell: UK Mail was the first company to use the access arrangements that Moya talks about back in 2004. In fact it was UK Mail, with Royal Mail, that worked on a process to make sure that during any access arrangements the universal service was absolutely maintained.

We currently have something like 15 million items of mail every day, all of which end up in the postman's sack. So effectively, there is no cherry-picking whatsoever. We pay a fair rate to Royal Mail for the delivery service they are offering to us, and they make a margin on that service. At the same time, we are offering competition, so we are offering different services to our customers at, in many cases, cheaper rates than they can buy elsewhere. As far as we are concerned, it is not a cherry-picking opportunity; it is an ability to offer competitive services.

Some years ago, in the 1990s, we carried out our own deliveries in a certain geographic post code. It was very clear to us that if you do start to try to make deliveries in rural areas it is extremely expensive. At that point, in the 1990s, we decided that the best way of operating was to use the Royal Mail delivery teams, which have been built up over a number of years. As long as we are providing all our mail to the Royal Mail postmen, we are not infringing the universal service at all.

Chair: Can I ask you, Nick, to comment?

Nick Wells: Yes, of course, Mr Chairman. Like Mr Buswell, we are also a by-product of the liberalisation of the postal market and we signed an access agreement in 2004, where we started to do the collection, trunking and sorting, but we handed over all our mail to Royal Mail. In 2012 we started doing our own end-to-end deliveries. But in answer to the question on cherry-picking, it is impossible for us to cherry-pick because of an arrangement we made four years ago with Royal Mail called zonal pricing.

As we gradually roll out our end-to-end delivery—it can take four to five years to get to any real coverage—we pay Royal Mail a fair and reflective price that has been agreed with them to cover the more difficult rural areas, which takes out any opportunity at all of cherry-picking. Quite honestly, in answer to the question on the threat to the universal service, Ofcom, as you know, have repeatedly stated that currently end-to-end competition is not a threat to the universal service, but two things are potentially threats to the universal service: structural decline in the mail market and e-substitution.

What Royal Mail need to do is to improve their efficiency levels and to modernise and change their labour relations policy, and the catalyst to that change is, of course, competition.

Daniel Vines: We don't believe we are a threat to the universal service obligation, because TNT Express is a national and international business-to-business express parcel and freight carrier. Our service is centred around business-to-business next-day. The operational network has been designed and built to service the B2B express parcel and freight market, and we do not provide letters or postal services, which is under the universal service obligation.

Q5 Mr Walker: Moya, I have heard evidence from a local member of the Communication Workers Union in my constituency in Worcester, who visited Manchester, one of the areas where you are seeing end-to-end competition, and said that many of the mail rounds for letters were reduced in Royal Mail distribution centres to around 20% of what they were. Does that not pose a very substantial risk, given that, if you widen your commitment to your work force in order to take account of that efficiency, you could be unable to deliver the universal service obligation, if the competition were to disappear?

Moya Greene: It does pose a risk, Mr Walker, because that sort of decline is so rapid and so unmanageable. As you know, Mr Wells's business does not want to deliver nationally; he only wants to deliver in the urban areas, which are the high-density and high-volume mail areas. Our access providers already have 70% of business mail in the upstream. So it is very easy to take those volumes and decide, almost on a day-to-day basis, which of them you are going to put into Mr Wells's direct delivery network and which you will put into Royal Mail's access network.

The reason why the diseconomies of scale occur so fast and that there is not really an adequate efficiency response that is possible is that our postman still has to go up that same garden walk. What you end up with is Mr Wells's postman and Royal Mail's postman both going up the same urban walk, except that the mailbag is half of what it was and therefore the revenues that were available from the urban high-volume mail are no longer available to support these necessary internal cross-subsidies that a universal service relies upon.

It is a very real risk, and it is Royal Mail's contention that it is far preferable that we study this now and that we look at what options are available to preserve this cherished and essential service now—not wait, because once the revenues are siphoned off it is very difficult to rewind, and the number of options that will be available to all of us—to Government, to me, to the Royal Mail—will be far fewer. It is one of these problems that sadly does not age very well. You have to get ahead of it.

The other point I would make is that nobody is prouder than our people to deliver the universal service. Our people have made enormous strides in response to an already very big structural decline of 4% to 6% a year.

Chair: We will be coming on to this issue. I am conscious that we have a lot of questions to get through in limited time.

Q6 Nadhim Zahawi: I want to go back to Nick Wells's point. You seem to be arguing that, actually, the problem is the structural decline of people sending letters. Is that right?

Nick Wells: There is structural decline.

Nadhim Zahawi: That is your argument—that Royal Mail's problem is that structural decline, not the competition.

Nick Wells: e-substitution is more of a problem than competition. If I can just—

Nadhim Zahawi: I get that, but I am conscious of the time. A yes or no answer is fine.

Nick Wells: To put some facts on the table, we are only delivering 150 million items this year.

Nadhim Zahawi: I understand, but here is the point, Mr Wells: we live in a country where Parliament has legislated for the six-day-a-week universal obligation. Whether there is a structural decline or otherwise in letters is almost irrelevant to the argument, in my view, and it should be parked to one side. When you enter the end-to-end market, you are effectively saying, "I will take three days a week, not six." That is my understanding; is that right?

Nick Wells: We deliver six days a week, but we offer a two-to-three-day service.

Q7 Nadhim Zahawi: In effect, you are saying yes. You pick the most profitable urban areas. Is that right?

Nick Wells: I have just explained that we are a start-up business. We cannot cover every household in the UK. That is impossible for a new company.

Nadhim Zahawi: I get that, and you have gone for the most profitable.

Nick Wells: We go for the denser areas, but, as I said earlier, we are posting on a zonal basis, which is in agreement with Royal Mail.

Nadhim Zahawi: I understand that, but you are focusing on the most profitable post codes by definition, because they are the densest areas.

Nick Wells: What we are doing is no different to what is happening—

Nadhim Zahawi: I understand, but your colleagues are nodding. Yes or no is all I am asking for.

Nick Wells: We are going to dense urban areas.

Nadhim Zahawi: Right. So you are focused on the most profitable areas.

Nick Wells: But it also includes London, which is the second most expensive area to cover. Rural is the most expensive and London is the second most expensive.

Q8 Nadhim Zahawi: I completely understand, but since you are going end-to-end and since we park the legislation, because it is up to us in this place to decide whether we want the universal postal service or not, and we do want it, do you think it would be fairer, if you are going to go end-to-end, for your company to actually deliver a universal postal service as well?

Nick Wells: If I can make a comparison to other European markets like The Netherlands, Sweden, Germany and Spain, they are all facing far more competition than the UK. In fact, in some of those countries, 20% to 25% of the volume goes with competitors. The UK is not unique, as you probably know, with regards to the provision of the universal service. But in those markets, guess what? Quality of service of the incumbent has improved and the universal service provision is still absolutely intact.

Nadhim Zahawi: You do not think it is unfair that—

Nick Wells: I absolutely do not think it is unfair. If you want competition, this is not a stroll in the park. We actually believe it is good for UK plc.

Q9 Nadhim Zahawi: You think it is fair without you having to provide the universal obligation either.

Nick Wells: Equally, we do not have the size and scale and 500 years of history.

Q10 Nadhim Zahawi: You may have the size and scale. That is what you are heading towards, but you are making the extraordinary profits early on, because you are focusing on the most urban areas, right?

Nick Wells: It is the only way you can develop effective end-to-end competition. If we were given the opportunity to have to cover every household, you would not be able to do that; it would be financially unviable. Royal Mail has—

Chair: I think we can stop. The point has been made.

Nadhim Zahawi: Very quickly, Moya wants to come back on that point.

Moya Greene: I would just say that we have one of the most liberalised markets in Europe. It is not fair to compare the UK to the Netherlands. The access regime is on such a huge scale here in the UK. As I mentioned, 50% of all mail and 70% of business mail is not with Royal Mail. In the case of these other countries that you mentioned, access is probably 5% and there are conditions on direct delivery. In Belgium, for example, you must be able to cover 80% of the land mass within five years. If we are going to want unlimited access to the Royal Mail's network and, at the same time, complete discretion to cherry-pick the urban areas for end-to-end competition without any limitation, you will find the economics of the universal service will be unwound quite quickly.

Chair: Again, we are going to move on to the European experience in a moment.

Q11 Ann McKechin: Mr Wells, you criticised Royal Mail for not introducing greater work flexibility. Can you advise us this morning how many of your work force are working on under-13 hours-per-week contracts?

Nick Wells: There are two types of contract, as you probably know: a fixed contract and a flexible contract. We have both. All of our employees in our sorting depots are on fixed contracts. Our posties are on flexible contracts, because it gives them flexibility to choose whether they do 10, 20 or 40 hours a week.

Q12 Ann McKechin: I think you choose how many hours per week they work. Presumably, you will work out how many hours of work you need per week.

Nick Wells: No, that is not true. We are in current negotiation with our union.

Q13 Ann McKechin: What percentage of those people who are posting mail are currently on contracts for under 13 hours per week?

Nick Wells: I do not know the exact number.

Ann McKechin: Can you provide that to the Committee?

Nick Wells: I can. I am very happy to answer these questions.

Q14 Ann McKechin: You mentioned greater work flexibility. Presumably, you are talking about more people on very variable-hour contracts, and often on contracts that are under the 13 hours?

Nick Wells: No; we are in negotiation with the union, Community, that all of our posties will migrate from flexible contracts to fixed contracts after six months. We have won many employer awards this year, and we are obviously getting the young into work and the long-term unemployed back to work.

Q15 Ann McKechin: Mr Wells, you called on Royal Mail to introduce greater work flexibility. Can you describe to me what you actually mean by that? What do you actually mean? Should they have more temporary workers, more people under short-hours contracts?

Nick Wells: What I am suggesting to Royal Mail is that they need to improve their efficiency levels and they need to modernise their business to cope with the changing dynamics of the industry.

Q16 Ann McKechin: You spoke about greater work flexibility. I am just asking you to define just that phrase. What do you mean by that phrase?

Nick Wells: That is for the Royal Mail to decide.

Ann McKechin: Mr Wells, come on. You are a very experienced person in this industry. I am sure you have some idea what that means. Please share your thoughts with us.

Nick Wells: What I can focus on is what we have done: we have created thousands of jobs that are much needed in society.

Q17 Chair: Can I just intervene? Ann has asked you a straight question. We understand your wider social role and so on, but could you just answer the question that Ann has asked?

Nick Wells: The answer to the question is that Royal Mail need to change their work patterns. What they entered into with the union in a declining market was a 10% increase over three years and no changes to the structure of their network until January 2019, no changes to their terms and conditions and no compulsory redundancy.

Q18 Ann McKechin: I welcome the fact that Royal Mail workers are benefiting from a reasonable pay rise, because they do a very hard and responsible job. They are not on the salary levels of anything like anyone here on this panel this morning, Mr Wells. Decent wages for decent work I do not think is a bad thing.

Nick Wells: We are fully supportive of that. We pay all of our employees above the national minimum wage. They get holiday pay and they get sick pay. I would not like you to think for one minute that we have bad working arrangements. We invest heavily in our field force, and we are very proud of our field force.

Ann McKechin: I am interested in why you are critical of the fact that Royal Mail agreed a pay increase with their work force.

Nick Wells: I am critical of their ability not to attack their cost base. That is what I am critical of.

Ann McKechin: Okay. Thank you very much.

Chair: We will explore this a little bit further in a moment.

Q19 Paul Blomfield: On that last point, Mr Wells, your words challenging the Royal Mail to change their labour relations policy do need explaining. We need a fuller answer to some of the questions that Ann was asking. Perhaps you could provide comparative information on basic rates, contractual conditions and so on between yourselves and the

Royal Mail, because the impression that most of us have is that when you talk about changing labour relations policy, what you are really talking about—forget the weasel words—is driving down workers' conditions and pay rates. If that is not the case, then it would be interesting to have a look at some of the information to back that up.

Nick Wells: I am sure this will be a question that you will address with our union and the CWU, who are obviously on later in this Select Committee.

Chair: We will do that but, in the meantime, Paul has made a perfectly reasonable request. Could you confirm whether you will do so?

Nick Wells: Whether we will do what?

Chair: Provide the details of worker pay rates and so on.

Nick Wells: I have the details now.

Chair: No, we will not go into them now. We would like them in written form.

Nick Wells: We are very happy to be totally transparent on our pay rates and we have absolutely nothing to hide.

Q20 Paul Blomfield: We look forward to receiving that, but I wonder if I could move on to a different issue, which is the VAT exemption that Royal Mail enjoys in its capacity as the universal service provider. Moya, perhaps you could share with us how you perceive the benefit from that, from Royal Mail's point of view?

Moya Greene: The VAT exemption is there, as it is for the vast majority of the universal service providers in the world, to recognise the very high fixed cost of a universal service. It is not nearly sufficient to offset the benefits of Mr Wells's cost structure and revenue opportunities if direct delivery continues unabated and unfettered.

The proof is in the pudding. Some of Mr Wells's most important clients are the banks, for example, and they are VAT-exempt. The advantage that Mr Wells is able to provide is in no way ,shape or form offset by a VAT exemption that is available to every universal service provider.

Q21 Paul Blomfield: Would that be a general view?

Nick Wells: No, funnily enough. What generally happens across all the other EU countries is that the universal service, usually defined as stamps, gets a VAT exemption, and we are fully supportive of that. The anomaly in the UK is that access services are also VAT-exempt, which means that there is an unfair advantage to Royal Mail and, if we are trying to migrate volume to our end-to-end, not only do we have to provide additional discounts but we have to recompense for the VAT.

Moya Greene: The reason why VAT exemption is provided on access services is that we are one of the very few countries in the world where access to our networks is not given on a commercial basis; it is mandated by regulation.

Q22 Paul Blomfield: Thank you for that. Perhaps I can move on to another point, which is about the cost of the USO. Moya, you said that nobody is prouder of the service they provide than your staff, and certainly that is my experience when I have visited sorting offices in my constituency. In your written evidence, you have highlighted the high-fixed-cost nature of the universal service. What is the cost?

Moya Greene: £7.2 billion this year is the total cost of the universal service. I would like to address some of the points that have been made. Of course every company has to keep trying to improve and modernise, but if you look at Royal Mail over the past five or six years, there has been no greater modernisation programme undertaken by any company in Britain.

We have sadly had to close 20 of our mail-processing facilities. We have introduced over 1,000 sequencers on the remaining mail-processing facilities. All of our people's jobs have had to change. We have restructured 94% of 66,000—

Chair: May I intervene again? I understand it, but we are going to talk about this in one moment. I understand exactly why you want to present this but you will have an opportunity to do so later. I want to focus on the exact issues that we are talking about at the moment. You have told us that the cost of providing the universal service obligation is £7.2 billion. Paul, do you want to develop that at all?

Paul Blomfield: No, that is a very helpful answer. I was going to go on—

Nick Wells: Could I make a comment on that? According to Royal Mail's regulatory accounts, they made £484 million on their universal service.

Paul Blomfield: I was going to ask a separate question about end-to-end competition but I think it was covered by Robin's questioning earlier on.

Mr Walker: I am sorry.

Paul Blomfield: No, it is absolutely fine.

Q23 Chair: Moya, you have been very up front about your description of the cost of sustaining the universal service obligation. Your rivals tell you that you have the advantage of VAT exemption in large areas. What is the benefit of having that in financial terms?

Moya Greene: I would have to get you the exact number, which we have. If I may, may I present it to you in writing? I do not want to be wrong on that.

Chair: No, because it is quite important in this debate about the benefits versus disadvantages of, on the one hand, the universal service obligation and, on the other hand, the VAT exemption. The Committee would like to make an assessment of that.

Moya Greene: I will be clearly be able to show you that it does not offset what would happen to the underlying financing that comes from the revenue stream available if you siphon off the urban routes.

Q24 Chair: Guy, you have been indicating for some time that you wanted to come in. I am not sure whether it is on what I have just said or the points that Paul has made, but I will give you the opportunity now.

Guy Buswell: I have two brief points on the VAT scenario. For me it would be the worst thing in the world for VAT to be applied all of a sudden, on the basis that we are absolutely keen to increase the mail volumes in this country, not decrease them. Those people who are not VAT-registered would not be able to claim that back and would therefore automatically get a 17.5% increase in rate, so it is clear to me that is not what should happen.

The second point I had was on the benefits of the universal service. The key benefit of the universal service is the marketability of the fact that you go everywhere, every day at a fixed price. That is the No. 1 benefit of a universal service.

Q25 Mike Crockart: It seems that the key concern or question here is about how you pay for the unprofitable bits. We have got a bit of a bunfight about the profitable areas and the allegations of cherry-picking, but, Moya, the Royal Mail have got different pricing arrangements for access, so there is the national average pricing arrangement, which obviously Guy is very happy with, and there is then the zonal pricing, which Nick talked about as being the way of paying for the bit that he is not prepared to do, because it is frankly unprofitable. Surely that is the answer there, already.

Moya Greene: It is not sufficient. We did introduce new zonal pricing and that would help, because it would tilt more. All that we introduced was according to the guidance that Ofcom gave us in 2013. In fact, Ofcom said that they would be reluctant to intervene conceptually. Ofcom could understand that if there could be a problem they would be reluctant to intervene until the commercial pricing freedoms had been activated by Royal Mail, which we did. That has now been the subject of a complaint. While the complaint is ongoing, of course, that measure of help, which was tilting the zonal pricing, is suspended.

Q26 Mike Crockart: Can I just come in there? You talk about "tilting the zonal pricing"; I do not know what that means. What do you mean by tilting the zonal pricing?

Moya Greene: In some of the urban areas, we think that we could reduce our prices and still cover our long-run incremental costs. We could then increase our prices in the rural areas to try to offset the danger that is created by siphoning off just the urban areas from Royal Mail's revenue pool that might be available to pay for the universal service.

Mike Crockart: You are trying to increase the profit margin on the rural areas, effectively.

Moya Greene: Increase the profit margin on the rural areas, but more important, the volumes in the urban areas are so great, Mr Crockart, that we need to keep them, as much as is possible for us to do so, inside the Royal Mail network, which is why I have always said that I am very happy—in terms of the access regime, the guaranteed access to our delivery network—to take anyone's mail as long as we can get paid fairly for it. As you know, over these past few years, we have been able to increase our prices and go from a loss position on access mail to, now, a moderately profitable position on access mail.

There is one other point that I would like to put on the table for the Committee's consideration.

Mike Crockart: Is it on zonal pricing?

Moya Greene: It is on pricing, but it goes to the point that you are making around the unprofitable bits and how to finance them. We don't require a Government subsidy now, as many universal services do, and we would certainly like to keep it that way. It has been a long struggle to pull the Royal Mail out of the financial peril that it was in, where it was not making money in the UK. It was cash-negative just five years ago. We are not asking for a subsidy; we are asking for the underlying economics of the universal service to be recognised and for the rules of the game to be fair.

Q27 Mike Crockart: Nick, this seems pretty fair. You have been asked to pay a fair price for—

Nick Wells: We have absolutely no problem paying a fair and reflective price.

Mike Crockart: You do have a problem, do you not, because you have complained about it to Ofcom. What was the purpose of your complaint?

Nick Wells: The purpose of the complaint is that when Royal Mail realised we were doing end-to-end delivery, the simple explanation of what Moya talked about in terms of the zonal tilt is that London was 10% more expensive. Overnight, when we competed in London, it suddenly became 28% to 30% cheaper. There was no evidence, no explanation and no supporting information. It was just a general attack on our competition.

A more general point about competition is that competition was fully mentioned in the prospectus and, actually, in 2005—this is a really important point—a Royal Mail submission to the then regulator, Postcomm, said that by 2010 there would be 1 billion items going out with competition. Where we are now is that 150 million items are going out with us in 2014. It is not as if competition is new. We have been rather lethargic at actually getting end-to-end competition up and running, because it is not easy.

Another point on pricing is that what happened, and the reason why Royal Mail were able to turn around their finances, was because of a huge increase in their tariffs. In 2011 and 2012, business customers were asked to pay 34% more; consumers were asked to pay a similar amount for the stamp price increases. The benefit of competition is that we will keep Royal Mail honest, keep prices down and keep customers posting. Without competition, there is no catalyst to keep prices low.

Moya Greene: May I just say that—

Q28 Mike Crockart: I will give you an opportunity to answer, Moya, particularly to address the question of why Royal Mail inserted a clause into its access contracts stating that they would suspend a new price in the event of a formal regulatory investigation.

Moya Greene: It was because these contracts are supervised contracts and this is the nature of mandated access. Up until very recently, they were very onerous indeed. We could not even terminate the contract. I think even Ofcom would have said that that was a very onerous contract. But even now they are supervised contracts. If anybody wants to complain that we are not being "fair and reasonable", they can complain. In order to get the contracts changed so that we could at least terminate them under very limited circumstances, these are the sorts of things that you have to do, but these are not negotiated with even leverage on both sides. They are essentially regulatorily supervised.

I would like to make one point, though, if I may: the reason why prices had to rise in the UK is because the price caps were held at such a low level that Royal Mail was losing money on every piece of access mail that it was required to take. Secondly, Mr Wells has options in terms of how he wants to present his mail to Royal Mail. He can use a national mailing plan, which I am sure he has used. All we are saying is that if Mr Wells wants the convenience—

Mike Crockart: By "national mailing plan" you mean he can stop delivering himself.

Moya Greene: No. There are various ways that you can present mail to Royal Mail. One way is a national mailing plan. Another way would be a regional mailing plan. So he has options.

All we are saying is that if Mr Wells wants to guard all the flexibility on his side to decide, day by day, what he will put into the Royal Mail network, because he does not choose to deliver it or it is too expensive to deliver, what he will deliver himself at the huge cost advantage that he enjoys, if he wants to retain that flexibility, then like any other business—airlines, for example—you would expect that it is reasonable that he should pay more than someone who gives us notice of how much mailings they are going to give us. They give us volume commitments—they give us a national fall to earth—so that the universal service network can be supported.

Q29 Mike Crockart: Guy, as the other person who uses the access, are you quite happy with it? Is there a problem around the zonal pricing and the national average?

Guy Buswell: As far as I am concerned, the access is a great opportunity for both Royal Mail and customers. We have a number of customers that really absolutely like the access regime. They like dealing with UK Mail, which is smaller and more commercial, one could argue, than what was effectively the national postal operator. At the same time, they quite like the fact that the postman does the end delivery. It is our business to increase the volume of mail that goes to our business, and we have new products and services that Royal Mail do not offer. As a result of that, we are very keen to put more mail into the Royal Mail postal sack.

To me, there are options for different companies to operate in the commercial world. We choose the access regime, and I would like to see the access rates coming down going forward. If this continues in the same way it seems to be continuing, what will happen is that you would see an increase in access rates to cover costs from this loss of revenue in areas that are quite profitable for the Royal Mail.

From my point of view, it is a clear worry to us that the access regime is protected, because there is no doubt in our mind that it has kept mail in the mail environment rather than e-substitution, because we are cheaper.

Q30 Mike Crockart: Surely, then, what you are saying is that you are happy for the present situation to continue, because the rates that you can pay for the rural stuff come down because you are getting a cross-subsidy because the Royal Mail is delivering it.

Guy Buswell: Let me give you an example of how this all works. Our parcel business delivers something like 200,000 parcels every day, and I have one price for the whole of the country. I could have a customer that comes to me and says, "Do you know what? I do my own deliveries in my own area. I have my own facility. All I want you to do is the external part to the area." I am not going to charge him that universal price I am offering, because he is taking away the revenue I receive in areas that I would use to offset my higher costs in the rural areas. That is the mathematics of it; it is quite straightforward.

I have the choice of either charging that customer more money, and they will get charged more money in that environment, or not. But it is all about an average. The universal service obligation, one price anywhere, is based on an average. If you start to mess with how the averages are calculated by taking away the volume at one end and the other end, of course you will have a different cost structure, and therefore the losses.

Q31 Chair: Before I move on to Ann, I am just trying to drill down and work out exactly what the implications are of this competition in the more lucrative urban areas on zonal pricing and the universal service obligation. I will see if I have got it right in my own mind. First of all, obviously, Royal Mail has to cross-subsidise its more expensive rural deliveries with the more lucrative urban area deliveries. They are more profitable and that, to a certain extent, enables it to sustain a standard price throughout the country and presumably also underpins the access prices that you charge to other operators to deliver their mail. The competition and increased market share in the urban areas obviously is going to affect your profitability there and, potentially, your capacity to keep either a standard price for stamps or the universal service obligation and possibly the pricing levels of those companies providing access mail. Is that a reasonable summary to date of the situation that you are confronted with?

Moya Greene: Yes, Mr Chairman.

Q32 Chair: As I see it, in the event of that competition developing and the loss of profitability that Royal Mail would suffer, your ability to cross-subsidise would be impaired and that could impact either on your capacity to deliver the universal service obligation or possibly mean an increase in prices on both the standard price or the access mail. Again, is that correct?

Moya Greene: That is a fair assessment.

Q33 Chair: The other possible threat to the universal service obligation is that if you increase the zonal pricing for access mail, presumably that could actually bring it into the level of profitability for private sector operators to deliver that. Is that a reasonable observation?

Moya Greene: Even with the change in zonal pricing, I do not think you will ever get to the level of profitability of private sector operators, simply because their cost structures are so much lower than ours. If you are going to operate just in the urban areas, you need a delivery force much smaller than ours because they deliver on alternate days. You do not need much infrastructure. Just to put it in high relief, let us say you are delivering an envelope from E1 to E2. You need a postman; you probably need a building to intake that mail. But if you are a universal service provider, you need a network that is much larger than that. In our case, you need 39 mail processing facilities; you need 1,400 delivery offices; you need—

Chair: I do not think we need the figures.

Moya Greene: I am just trying to point out that the cost structure of an operator that is choosing to just siphon off the urban mail is always going to be vastly lower than that of any universal service provider.

Q34 Chair: So, if you had to increase your zonal pricing, you do not think there is any danger of the private sector moving into that market.

Moya Greene: I cannot answer that question, but what I will say about the zonal pricing that we had attempted to put into the market is that it was meant to partially offset this threat of siphoning off the very, very high-volume urban mail, siphoning it out of the Royal Mail system, so that neither that traffic nor the revenues that go along with it would be available to underpin the economics of a universal service.

Q35 Chair: If there is increased competition in the urban areas, could you partly offset it by increasing zonal pricing to the private sector for access mail in rural areas?

Moya Greene: We did think so. It is not a complete solution, but we did think that it would help, and we thought it was completely in line with the guidance that Ofcom gave us in 2013.

Chair: That is helpful.

Q36 Ann McKechin: There are declining volumes of mail and letters across all western postal services. Can I ask everyone on the panel where they think the universal service obligation is going to be five years from now or 10 years from now?

Guy Buswell: For me, there is no doubt that we could probably do with a change in the universal service obligation and what that includes, but that would be a big review. I would not say it needs to change a great deal, but there are certain things that definitely could change to modernise where we are today. In terms of the overall postal market—and it is growth we are talking about—for some time now, we have been assuming that the mail market is declining and declining and will end up disappearing, whereas actually the decline has been far less than was anticipated. Last year, it was 4%; now it is 3%.

Things like the access arrangements that Royal Mail have opened up provide more opportunities for customers to create mail as opposed to going down the e-substitution route that was talked about earlier. As far as we are concerned, we have great excitement about the mail industry going forward, as it reinvigorates itself, but access is a key part of that, and the lower the prices we get from Royal Mail the better, in terms of us being able to offer different products and services that stimulate that market.

Q37 Ann McKechin: Can I just press you a little further? You talked about "modernising" the USO. Could you perhaps give an example of where you think that modernisation would take us?

Guy Buswell: The Royal Mail has to collect from letterboxes every day, sometimes three times a day. Some of these letterboxes are miles from anywhere. That is probably a bit historic in terms of what is really required. There are certain aspects of the delivery that you could argue could be changed. It is a huge area. I would never say, "Let us make it only three days a week." The key benefit of the universal service is six days a week. That gives the marketeers the ability to allow mail to drop on the day they think is important for their clients, which may be a Saturday. It really is a more sophisticated approach to how the universal service is provided.

Moya Greene: We are very committed to the universal service in its current form. I do not think it needs to change. We do need a forward-looking regulatory framework. We now have different standards that apply across the industry. We have different quality standards that apply. The employment picture that you mentioned is something that we should keep our eye on. I do not think that we want an industry that is built on vulnerability for people.

In terms of the quality of service, it is a very high quality universal service in Britain; we are very proud of that. Going forward, it is very hard to say what volumes will be in 10 years' time. We have lost 30% of the volumes in the past 10 years. We have done a huge amount of work, and others have as well. The range that we have out there now of 4% to 6% decline is probably right. There might be some years where it is 3% and some years where it is 6.5%, but I think 4% to 6% is right in the foreseeable future.

With all the modernisation that we are doing inside Royal Mail and with the new, more collaborative approach that we have managed to forge with our trade unions, we are able, now, to make efficiencies that will offset that decline and therefore protect the universal service. But if the decline steepens and deepens and if we do not have a forward-looking regulatory approach where there are standards that apply to the whole industry, not just Royal Mail, and where there is transparency on those standards that apply to the whole industry, not just Royal Mail, and where there are labour standards that are enforced for the whole parcel and letters industry, not just Royal Mail, we are not putting in place the forward-looking approach.

I would also say that right now we are at a transition point: we have a new regulator, a highly professional regulator. We look to that regulator to relieve us of some of the legacy regulation that is in place. All of these things together will make sure that we will be able to keep the universal service as it is.

Nick Wells: I think one thing that we will all agree on is that there needs to be promotion of the medium of mail. Direct mail is a very, very effective marketing medium, for example. The more we can promote that, and the way it works very effectively with digital, the better. That will help to counter the decline of the mail market. I believe that competition will also stimulate innovation and keep prices down.

In terms of the universal service, however, most countries in the modern world are currently reviewing their universal service obligations. For example, Italy and the Netherlands have reduced that to five days a week. I am not advocating this. In Moya's own country, Canada, they will stop delivering to letterboxes in the next five years and only go to community post-boxes. That is certainly not something that we would want to see, but the point here is that it will need reviewing. But what will potentially be an iceberg that could crash into the universal service is if Royal Mail do not modernise and do not reduce their cost base in a dynamically changing environment.

Daniel Vines: Given that we do not see ourselves as a threat to the universal service obligation—80% of the business that we carry is B2B over 5kg; we are not targeting the B2C marketplace—we are not really in a position to comment on what that would look like in five years.

Q38 Ann McKechin: In Germany, the universal service obligation is shared by Deutsche Post and other companies. Do you see a situation that may occur here where the universal service obligation could be shared by more than one company?

Moya Greene: I do not think it is really shared. There is a modest amount of end-to-end competition and it is less than 11% of access. It is not mandatory; it is commercial. Maybe they characterise it that way, but that is not my understanding. Deutsche Post is the universal service provider, in my understanding.

Q39 Ann McKechin: Yes, perhaps not in law but in practice. I take it no one else has any particular view that the universal service obligation would be shared.

Moya Greene: May I just make a point about modernisation? It has come up several times. Modernisation is really important—Mr Wells is absolutely correct—and Royal Mail appreciates that. For many years, it did not have the capital or the ability to go forward. In the past five, I do not think anyone looking at what has gone on inside Royal Mail would say that there has been anything other than a huge amount of modernisation.

Ann McKechin: Thanks very much. I realise time is pressing.

Q40 Chair: We are short of time. Can I briefly ask whether there is anybody else with a view on sharing the USO? Would you be interested in taking on part of that responsibility?

Guy Buswell: No, we do have not the scale to do so.

Nick Wells: It is the responsibility of the incumbent.

Chair: That answers that. Brian, make it a quick one.

Q41 Mr Binley: Oh, absolutely, Chairman. I was a great advocate of the universal service remaining where it is and therefore I am a great advocate of recognising that, if it is necessary to give you help, that help should be given. I am talking to Ms Greene now: that help should be given. Can I ask if a minimum number of days for delivery for a new entrant—let us say a minimum of five days—would help you in that respect?

Moya Greene: Not entirely. It is a good idea to have conditions on players that want to do end-to-end delivery. The issue is covering the whole land mass. If it is five days in just the urban areas, which siphons off all the volume and therefore important revenue pools to cross-subsidise the universal service, I am afraid that it would not help that much. But conditions do help, and in other countries we have seen Governments put conditions on end-to-end players, saying things like, "They must cover at least 80% of the land mass in all of the regions within a very finite period of time." That helps, because it signals that you shall not be allowed to just cherry-pick the high-volume, high-density, low-cost-to-serve areas at the expense of the universal service.

Q42 Mike Crockart: It seems to me that there is a profitable bit that people are arguing about and an unprofitable bit that nobody really wants to do, but there is the universal service obligation that forces you to do it. Is one of the possible solutions for Royal Mail to split off that last mile into a separate company so that Royal Mail could compete on an even basis with all the other access operators?

Moya Greene: There are all kinds of conceptual approaches that people have taken to Government-owned institutions and cherished services. I think these organisational approaches sometimes do not deal with the fundamental problems. They take a long time to put in place. They create a lot of chaos on the way.

What I came here today to say is, first, thank you for your interest in this, but second, I don't think that needs to happen. We need a forward-looking regulatory approach that looks at the hazards of cherry-picking and asks, in a world where there is a structural decline of 4% to 6% in a big part of the business and a world where the universal service provider is running just to make efficiency gains—

Mike Crockart: Can I ask you to be very brief? We are halfway through our questions, and we have done most of our time.

Moya Greene: I am sorry.

Q43 Mike Crockart: Can we keep it to the actual questions? Some written evidence that we have had from Ofcom states—this is again to you, Moya—that the quality-of-service targets that you are required to meet relate only to your universal service product. You are free to respond to competition in the bulk-mail market in any way that you see fit. The question is: why have you not done that?

Moya Greene: Because it does not do anything for the economics of this single network. This is a single network. We have to go every day, whether we have two items or 2 million and two items. What we try to do is distinguish our delivery from others' delivery on the basis of the quality that is asked of us for universal service products. I would also say that the way in which universal service products are defined can be quite changeable. Once you have created a network—that is, essentially, what the universal service is: a network that enables you to serve the whole country—what you need is the freedom to compete for whatever traffic is out there on a fair basis so that that network can be full enough to pay the full cost of it, because getting around the country to 29 million addresses with overnight delivery takes a vast network.

Q44 Mike Crockart: You say you want the ability to compete on a fair basis. One of the arguments you make is that you are held to a higher standard, because you are the universal service provider. Ofcom's response to that is that you are held on a higher standard for part of what you do, but not for everything.

Moya Greene: We do not provide overnight service for every piece of traffic that is in our network. We offer different categories of service—there is economic mail, which does not go as fast as first-class mail, and there is second-class mail, which does not go as fast as first-class mail—but the network is set up to provide overnight delivery six days a week, 93% of the time on time. So you have to have enough traffic to support the vast network that that implies.

Q45 Mr Bain: If we turn to productivity in the postal services sector, a very important issue, can you confirm, Ms Greene, has the Royal Mail met its productivity targets in the last two financial years?

Moya Greene: Not quite, but partially. May I explain? Productivity is a function of two numbers: how much traffic you have in your system and how many hours you take out of your operation. We have taken out of our operation in the past three years 21 million hours. That equates to about 3,300 people every year. If the traffic goes down, the productivity targets that we set, which were very stretching productivity targets, come off, so it is true. We are meeting them this year. We did not meet them just by a little bit last year because traffic came down. Traffic was not what we expected it to be.

Q46 Mr Bain: Your contention is that that is a direct consequence of the competition you are facing from these other providers.

Moya Greene: No, it is not only that. There is a lot of competition in all segments of our business. I would not like to say that. It is also our ability to forecast what the traffic is likely to do, because we have to plan how the hours are coming out of our operation well before we can see what the fall of the traffic is.

Q47 Mr Bain: Ofcom has said that Royal Mail has had a weaker than expected performance in parcels in the UK market earlier this year. How would you respond to these concerns that Ofcom has raised?

Moya Greene: Parcels are a very important part of the traffic that supports our network as well. We are the leading provider of delivery services in the parcels business, and we certainly intend to stay there. But there is no question but that there have been some important changes. We have the most competitive parcels market in the EU; there are more parcel participants than in any other EU country. Some of those participants have not made money for a long time. That means that the market is more ill-disciplined, I suppose, than you would expect it to be.

One of the very big online retailers, Amazon, is now developing its own delivery network. That has added a lot of capacity to the market when the number of parcels in the market is coming down. That, for everybody in the industry, has presented a problem. There are fewer parcels for all of us to vie for than we thought there would be, but we will adjust to that.

Your question, Mr Bain, is how important parcels are in supporting the network. Every piece of traffic that we have going through this common network is very important to supporting the network, which is the reason why we compete very vigorously in all of these segments, including direct mail, as Mr Wells mentioned, in order to maintain this very high-quality universal service network.

Q48 Mr Bain: Mr Wells, you have submitted evidence to the Committee and you have referred to Royal Mail's productivity. When this Committee has done inquiries into productivity before, we have seen one of the answers being innovation, but there was a concern with what you said earlier to my colleague, Ann McKechin, that you saw the key driver of productivity being increased flexibility in Royal Mail's own staffing arrangements. Is that an accurate summation of what you said earlier and what your position is?

Nick Wells: No. I think that productivity or efficiency can manifest themselves in many areas, one of which is efficiency drivers like automatic sortation or route optimisation. But it can, of course, also mean changes to the network to reflect changes in the industry. What I would say is that, in terms of Royal Mail's efficiency, for the last two years they have missed their own efficiency targets. They have delivered 1.7% against targets of 2% to 3%. At the midpoint, that cost them over £50 million a year. If they did hit their own internal targets, that would more than compensate for any loss due to competition.

Q49 Mr Bain: Ms Greene, do you want to respond to that?

Moya Greene: I don't recognise Mr Wells's number.

Nick Wells: It is in your report and accounts.

Moya Greene: I will tell you it is very plain that, if you siphon off the urban letter traffic and you put into the Royal Mail network the mail that Mr Wells's company does not choose to deliver because it is too expensive to deliver, you will undermine the economics of the universal service very quickly. Of course we have more to do on our efficiency, but I would invite anyone to come to Royal Mail today to compare the company with what they saw five or six years ago. We have 20 fewer mail-processing facilities; sadly, every year 2,000 to 3,000 people who thought they could end their careers at Royal Mail cannot. We have thousands of sequencing machines. In terms of automation, not one piece of mail was being sequenced in 2010; in 2014, 94% of the mail in our system is being sequenced at the point of call. 66,000 walks have been restructured. To understand what that means, it means that our people—the postmen and women that you all know, some of the most trusted people in this country—are working harder and longer every day. There are more points of call added to the walk. It is one thing for us to go out on a Sunday with our families for a nice 10 km hike, but if you are doing it day in, day out in all kinds of weather, it is a very, very hard job.

Because we are sorting the mail now, and a lot of the indoor work does not need to be done, we have changed our indoor operations. I would invite anyone. Even Ofcom's own experts, NERA and people like that, have said that the efficiency progress that Royal Mail is making is very good. I would invite you to come and see and compare what Royal Mail looks like today relative to what you saw five or six years ago.

Nick Wells: Can I just make a point? There seems to be continuous reference to cherry-picking. It is emotional rhetoric; it is a smokescreen, quite frankly.

Chair: It is our job to make that judgment, not yours. Can we move on?

Mr Binley: You are absolutely right. Gordon Bennett. You did yourself no good there at all, Mr Wells, I promise you. Let us carry on.

Q50 Mr Bain: One of the other contentions that Mr Wells made in the written evidence from Whistl is that the answer to these issues is for the Royal Mail simply to sell off more of its own land. In your written evidence, you referred to one recent sale in Paddington that secured around £111 million. Have we not heard from the entirety of the panel that these are deep-seated issues about efficiency within the whole sector, and simply to sell off assets will not deal with the basic regulatory problems that this session has been throwing up? Do you want to address that?

Nick Wells: Fundamentally, we have a very important part to play in the postal market as a competitor. If you have competition, that adds a dynamic that will encourage efficiency and it will keep prices low. The reference to asset sell-offs was simply a factual statement that Royal Mail own a lot of prime real estate in central London that they are looking at selling off, which will create wealth for them. But clearly, my position is totally supportive of the universal service and totally supportive of a customer-focused approach to the postal market. Competition will ultimately drive improvements, innovation and efficiency.

Q51 Mr Bain: One of the other things that the Committee has found in other inquiries improves productivity is having a work force that is well skilled, well treated and also well remunerated. May I ask all members of the panel, what will your polices be on the issues of remuneration and conditions for your staff over the next five years? Do you see these improving? What improvements do you propose to make? How do you believe that will mean you get more out of the staff and have a happier work force, and therefore produce a better service for everyone across the country?

Guy Buswell: We are an independent business that is there to make a profit, and no company makes profit that has a work force that is not happy in its entirety. It is really important to us as a business that our work force are happy, paid well compared with their peers and get regular pay increases. Obviously, we don't have productivity targets in our business; we have profitability targets in our business, but one comes from the other. We have a very long-term work force. We have people who have worked for us for many, many years, so I am very happy that we are doing a great job at making sure that our people are well looked after, and I have never had an issue with that in our business anyway.

Moya Greene: Royal Mail is very proud that we provide our people with a living wage and good benefits—probably the best benefits in the industry. When it happens, sadly, that our people have to leave our company because we have to downsize, given what has changed in our industry, we try to help as much as we can with income support towards their seeking new positions. We will continue to do that. On the incentives side, we do have incentives. We certainly could not have got through the massive amount of change that our people have had to absorb over the past five years—

Chair: I understand that. We all accept what you have just said. Can we just go on? We need to move on.

Nick Wells: Of course, we are very proud of our work force just like Guy and Moya are. Our external engagement scores are high. We are not complacent. We want an engaged and motivated work force that is competitively remunerated, and we will continue to work with our union, Community, to deliver improved terms and conditions for our postal staff.

Chair: We are going to be talking to the unions involved anyway. No doubt they will have their views.

Mr Bain: I would simply conclude with the point that our constituents would expect us to put, which is that we recognise and celebrate the service that postal service workers provide and we do not see a race to the bottom on terms and conditions as the answer to efficiency and productivity issues in the postal services sector.

Mr Binley: On that point, Mr Chairman—

Chair: I really want to get on from this. There are a number of other questions that we need to ask.

Q52 Mr Walker: Briefly, on terms and conditions and the situation of people working in the business, may I ask each of the organisations, are your staff CRB checked and how many prosecutions of staff have you seen for theft of mail or parcels?

Guy Buswell: All our employees that handle mail are CRB checked. I do not know of any prosecutions in the last 12 months.

Moya Greene: All of our employees are CRB checked. There have been prosecutions. Our people are very, very honest, but there is a very small number that occasionally let everybody down. They are prosecuted. I cannot give you the exact number, but may I send it to you in writing?

Mr Walker: It would be useful if we could have that in writing from each of the businesses.

Moya Greene: We do have the number.

Nick Wells: I have some exact figures. Since we started, we have had seven prosecutions. That represents about 0.18% of our employees.

Chair: If you could both write to us with the details of the number and nature of prosecutions, that would be helpful.

Nick Wells: For your information, Royal Mail have had 365.

Chair: We do not want it now. This is information that we need and we will make—

Nick Wells: I am sorry.

Daniel Vines: All our people are CRB checked, and we have had no convictions in the last 12 months.

Q53 Mr Walker: There is no distinction in terms of people who handle mail; you are saying, across every single business, all those people are CRB checked. There is no distinction between one business and another in this respect. Mr Wells, there has been press coverage describing Whistl staff dumping bundles of post. How many formal complaints have you had in the last year relating to any issues around that?

Nick Wells: Of course we have the occasional problem, as you would expect when you are mobilising thousands of people.

Chair: Can you just give us an answer? If you do not know the number, submit it in writing.

Nick Wells: Our complaint level is one in every 40,000, but we will confirm that in writing to you.

Mr Walker: It would be useful, again, across the board, if the four businesses represented here could write to us with the detail in terms of the complaint number and the percentage of complaints. That would be very valuable. If no one has anything to add on that, Chairman, I am finished.

Chair: Yes, we can deal with that in written form.

Q54 Mr Binley: This is just to Mr Wells, really. Do you use zero-hours contracts with your employees?

Nick Wells: We have contracts, yes.

Mr Binley: What percentage of your employees are on zero-hours contracts?

Nick Wells: I don't know the exact percentage.

Q55 Mr Binley: Could you write to us and give us the actual figure?

Nick Wells: Of course. We have a combination of fixed and variable contracts.

Mr Binley: I asked a simple question about zero hours. You can write to me.

Chair: Again, if you can just put it in written form, then we will incorporate it into the Report.

Q56 Mr Binley: I want to talk about the level of delivery competition in the UK, which, to be fair, is perhaps less than in other EU countries. I wonder how that impacts. I wonder how the gentleman from TNT, which is owned by a company from the Netherlands, reacts to that question.

Daniel Vines: Competition is fierce, particularly in the parcel market at the moment. There are two sides of it for us. There is the B2C market, where TNT are not targeting that particular part of the business. In B2B, we recognise Royal Mail as a competitor, but it is only a small proportion of the competition that we come up against. We come up against the likes of City Link and Tuffnells in the B2B area, which is the market that we are trying to target. It is fierce; it is highly competitive; it is fairly fragmented, which presents us with a real challenge in terms of growing the business year-on-year.

Q57 Mr Binley: How does it impact upon the universal service obligation?

Daniel Vines: It would be difficult for me to comment from the parcels point of view, because we are not engaged in any mail activities. We split from TNT Post three years ago, which is where Whistl was formed from. We do not engage in the postal and mail side of things.

Mr Binley: Thank you for that. Would you like to comment, Ms Greene?

Moya Greene: I am sorry. I thought you were talking to this gentleman.

Mr Binley: Ms Greene, you looked slightly in another place there.

Moya Greene: I would like to comment. It is an intensely competitive market on both sides, both the letters side and the parcels side. On the letters side, ever since the EU directive, here in the UK we have probably had the most competitive approach, because what we have done here with mandatory access is we have now essentially made space for competitors to have 70% of business mail and 50% of all mail in the upstream, with mandatory access to the Royal Mail network for delivery and with no limitations on direct delivery.

On the parcels side of the business, as you know, ours is a single network so we vie for traffic to support the network on both sides, on both the letters and the parcels sides. There are more competitors in the UK than any other EU country. Mr Vines is correct: on the parcel side, we tend to gear ourselves to segments of the parcels business that are more amenable to our networks. Our core network, the Royal Mail network, is primarily an on-foot network, so we like to be in that segment, which is B2C, although we have a very big B2B presence as well.

We do not like the parcels to be flat-screen-TV sized, the way they were in 2010 when I first arrived. That is too heavy for our folks to carry. Parcelforce is a different story. It is an express player, and it can carry heavier weights, but that is a smaller business than the core business. The core business on the parcels side is probably 10 times bigger than Parcelforce.

Q58 Mr Binley: Can I move on to ask whether Ofcom can be doing more to cover its remit of protecting the universal service obligation and its remit to protect the wellbeing of both the consumer and the taxpayer? It seems to me that we are moving to a situation where, if we are going to maintain the universal service on the basis that we are talking about now, there is going to be a need for changes. I wonder what you thought those changes ought to be, further down the line.

Moya Greene: We have a very professional regulator. They have deep bench strength.

Mr Binley: We know about the regulator. Tell me what changes you want down the line.

Moya Greene: On this issue, which is a very important issue, the review that they are committed to do and start by the end of 2015, it is far less risky for them to start that now. If we look at the balance of risks, if revenues get siphoned off, the options that are available to any regulator as a solution will be fewer than if they start to review this matter before too much damage is done. As I have always said, if I am wrong about the threat, the worst that will have happened is that Ofcom will have accelerated by one year a review they are committed to do anyway; if Ofcom and others are wrong, the risk is far greater.

We do need a more forward-looking regulatory framework, one that is more encompassing, looks at quality of service across the whole industry, not just Royal Mail, that looks at labour standards across the whole industry, not just Royal Mail, and that looks at how much latitude Royal Mail needs to be given.

Mr Binley: We have got your message that you would like that review to be brought forward.

Q59 Chair: Can I quickly intervene on this? Ofcom has said, in response to your half-yearly report, that there is basically no immediate threat to the universal service obligation. In view of your pressing them to conduct a review urgently, do you think they are being complacent?

Moya Greene: I would not say that. This is a highly professional group. I would not say that. I would say that it is probably a difference of perspective. This is not one of those problems that ages very well. If the revenues to support the universal service are siphoned off through urban cherry-picking—

Chair: We understand the point that you have made. I am just trying to tease out what the difference in approach between you and Ofcom is. I would interpret a difference in perspective as a disagreement.

Guy Buswell: Very quickly, on the Ofcom matter, they do a great job but they are clearly new in. It was Postcomm for some years. It is really important, though, that the two complaints that have been put forward by Whistl and Royal Mail are dealt with as quickly as possible, because, on that basis, if they were dealt with, we perhaps would not be here today. If they could speed up those two, that would be great.

Q60 Mr Binley: Can I ask all of you what your views are on the possibility of Ofcom requiring contributions to a universal service compensation fund to meet the burden of the USO?

Guy Buswell: It would be absolute madness.

Mr Binley: I thought you would say that. I am a businessman; I would say the same, but it is not the proper answer.

Guy Buswell: It is absolute madness. One of the things—

Mr Binley: I have got your answer.

Guy Buswell: Quickly, on regulation—

Q61 Mr Binley: "It is madness" will do. Let us move on. Mr Wells, do you think it is madness as well?

Nick Wells: It will not surprise you that I do not think this is a priority.

Q62 Mr Binley: No, it does not surprise me. I have your answer. Mr Vines?

Daniel Vines: I do not think we are in a position to comment.

Q63 Mr Binley: Thank you very much. I think I am aware of your answer, Ms Greene.

Moya Greene: Before we design solutions, we should get that review accelerated.

Mr Binley: That is fair. I will finally ask—no, I think I am pretty much finished.

Chair: It would be helpful to ask that last one. Otherwise, I am happy to ask it myself.

Q64 Mr Binley: I will then ask you about Tech UK's suggestion of using a general universal service condition intervention, which would make all end-to-end operators open up their network to access. Would you like to start with that?

Guy Buswell: It is never going to work.

Mr Binley: Ms Greene, you and I are having a little difficulty communicating.

Moya Greene: I beg your pardon, Mr Binley. I thought you were speaking to Mr Buswell. I am not sure if that would work. Really, we already have access to the best, biggest and highest-quality network in the country, the Royal Mail network. What we need to be talking about is the economics to support the network.

Mr Binley: Could you think a little bit more about it and write to us on that point?

Moya Greene: I will.

Mr Binley: I would be grateful to you.

Guy Buswell: Could I make a quick point? I have the choice of using Royal Mail or Whistl for my deliveries in certain areas. I choose to do Royal Mail, because that is what my customers want. It is a customer request.

Q65 Chair: Mr Wells, what is your view?

Nick Wells: All I can say is that our customers want choice, and we have been quite successful to date, on limited coverage, at converting customers. We provide innovation in terms of barcode scanning of letters; we provide transparency and new services for the customers, and that is good for the industry.

Chair: Thank you very much. That concludes our questions, but I am conscious of the fact that, because of difficulties with timing, there may be answers or supplementary evidence that you would like to give, and we would be most grateful to receive it. We have actually specified some information that we would like submitted to us subsequently and I would be grateful to receive it. Equally, we may look at the transcript, decide there is a question we should have asked but did not, and send it to you. We would be grateful for your response. Thank you very much. That was very helpful. Could we have our next panellist, please?

Examination of Witness

Witness: **Roy Perticucci**, Vice President, EU Operations, Amazon, gave evidence.

Q66 Chair: Good morning and thank you for agreeing to speak to us. We are running behind time, so we will bat on very quickly. Could you just introduce yourself for voice transcription purposes?

Roy Perticucci: Good morning, my name is Roy Perticucci. I am Vice President for EU Operations for Amazon.

Q67 Chair: Can you very briefly explain your parcel operations and include in that explanation how you decide which company will deliver your parcels to which location?

Roy Perticucci: We are an online trader, so we fulfil from a wide variety of fulfilment centres across Europe, 28 in total, plus an additional 10 third-party logistics suppliers. When orders come in, we pick them in our warehouses and either send them directly to the sort centres of various carriers or, in selected cases, sort them ourselves and deliver them deeper into the network. Then, of course, we hand them over to carriers to make the final delivery, if that has not already been done.

Our criteria for selecting carriers have much to do with the customer experience, and we are constantly working to improve that. The main criteria are the dimensions of the product, where are we shipping it from, the fulfilment centre, the final destination and what time promise we have made to the customer. Is this something that can take as long as a week to arrive at a customer, although we rarely take that long, or is it next-day delivery or same-day delivery? It is a combination of the delivery promise, the type of package and the locations that we are both sending from and sending to.

Q68 Mike Crockart: You talk about customer experience being key. One of the parts of that customer experience is the ability to track their item. Is that a key part of the product that you want to offer, in terms of delivery?

Roy Perticucci: Yes, increasingly that is the case. Of course it also helps us, when customers call and ask what has happened to a package or to complain, that we know exactly what was the final handoff. In fact, that has been one of a number of great developments that we have had with the Royal Mail in the last year, where we are currently trialling that capability of scanning the package when it arrives at the doorstep of the customer. Many of the other carriers already do that.

Q69 Mike Crockart: Would you say that is driven by the customer, or is it driven by Amazon?

Roy Perticucci: Hopefully we do not do too many things that customers do not want. We pride ourselves as being one of the most customer-focused, customer-centric companies around. We do know that the tracking is very important. This is particularly at the doorstep: when did it arrive, where did we leave it? Also, any intermediate steps in between are often very helpful: it has left our fulfilment centre, it is being sorted, it is on the final mile delivery van, it has reached your door.

Q70 Mike Crockart: But that customer experience is something that you are able to develop and deliver through using Royal Mail at the moment. That is not a reason for you developing your own delivery system.

Roy Perticucci: There are multiple reasons for developing our own delivery service. A key one has been capacity.

Q71 Mike Crockart: We will probably go on to the wider stuff in a moment, but the tracking is the bit that I am interested in. I am trying to get at why you have the sudden wish for all your customers to know precisely where their packages are, and Royal Mail not being able to deliver that.

Roy Perticucci: To answer that question directly, not all of our carriers on all of their delivery methods are currently able to scan on all of their routes. In fact, that is one of the improvements that Royal Mail has introduced, or is in the course of introducing this year.

Q72 Mike Crockart: What proportion can it track?

Roy Perticucci: I cannot give you that exact information, but we can research it and get it to you.

Mike Crockart: I will let others widen it out into other areas.

Q73 Mr Walker: What is the difference in cost between your own delivery system and using Royal Mail?

Roy Perticucci: That is quite commercially sensitive information. It depends on the delivery route and the time to delivery, whether we are scanning or not and the dimensions of the product. There are multiple reasons why the cost varies.

Q74 Mr Walker: How do you determine when you use Royal Mail, when you use other providers and when you use your internal system?

Roy Perticucci: The primary driver is customer promise. Prime is a subscription service whereby for one fixed fee UK customers have next-day delivery. That is an increasing segment of our customers. Other customers also choose next day. Then we have another couple of time promises in terms of how quickly they would like it. Same day, for example, is something that is new and is growing. The primary thing is: where are we able to fulfil the products that the customer is ordering, and how quickly does that customer want to get it?

Q75 Mr Walker: To what extent is there a geographical limit on what you can do yourselves with your own network? Does your own network function outside of the major cities in the UK?

Roy Perticucci: We started our service last year, so we do not cover the full country, but the vast majority of our customers live in urban or suburban areas and that is where the vast majority of our deliveries go.

Q76 Mr Walker: There have been some reports, from CWU members and Royal Mail, that reported parcel volumes in the areas where Amazon is operating its own network are down by about 20% for Royal Mail. Would you recognise that kind of scale of impact?

Roy Perticucci: Again, to do local breakdowns would be commercially sensitive, but I can say that we have had all sorts—

Chair: With respect, they obviously do not think it is commercially sensitive.

Mr Walker: It is not coming from Royal Mail directly.

Roy Perticucci: The key thing to say is that in the market segments where we have choice between carriers, we switch carriers over time on the basis of the reliability of that service, how timely they are, how we are able to expand additional improvements to that service, and cost. So as demand changes, in terms of time and in quality of service, and as carriers' capacity varies, we shift between various carriers, including our own.

Q77 Mr Walker: Over the long term, do you see yourself as a customer or a rival of Royal Mail?

Roy Perticucci: We are certainly a customer. We have built this business together with Royal Mail. Again, I will try to keep my answer short, but this has been one of the most successful online markets in the world. We have grown tremendously, and Royal Mail has been a very strong and successful partner for all of that period. Overall, parcel volume has grown by about 40% in the last five or 10 years. That is a considerable number, much of that driven by e-commerce.

Q78 Chair: Before I move on, you have hidden behind the cloak of commercial confidentiality about your costs and so on, but I could ask you very generally: have you decided to set up this system because you can deliver it more cheaply than Royal Mail?

Roy Perticucci: We certainly try to be cheaper. That is true with all of our operations. Any logistics operator is constantly working on cost. To be clear, the primary driver for selection and the primary driver for building this capacity has been, particularly during peak times, to be able to handle the capacity in the time promise that we have made to customers.

Q79 Chair: You have partly answered my next question. You say it is potentially cheaper, but you emphasise that it is because, if you like, you can be more customer-focused. Is that a reasonable interpretation of what you said?

Roy Perticucci: Just to be clear, this Friday is probably our busiest day of the year. Last year at this time we were taking orders at about 47—

Q80 Chair: Okay. In effect, what can you offer a customer that Royal Mail cannot?

Roy Perticucci: I certainly would not want to compare our service to Royal Mail's service, or anyone else's. Broadly speaking, overall the things that we are looking for are continuously shortening click-to-delivery times, increasing delivery accuracy—the number of times we get it right the first time—and being able to handle the volume across the week, including Sunday pick-ups and Sunday deliveries.

Chair: Brian, did you have a supplementary question?

Q81 Mr Binley: Yes. I am interested in the drones. How many are you going to have buzzing all over my house, and how far away are you from doing it?

Roy Perticucci: We first announced that we are going to do it. We have just recently set up a research centre in Cambridge.

Mr Binley: That is near to my house.

Roy Perticucci: Have you seen them flying?

Mr Binley: Yes, and they are bloody awful. I had one hovering over my putting green. Useless.

Roy Perticucci: One of the design requirements is clearly that we need to reduce the volume.

Mr Binley: Please make sure you direct them somewhere else.

Roy Perticucci: Yes, sir.

Q82 Mr Binley: When do you intend to start?

Roy Perticucci: I am afraid we prefer only to announce that we are going to do something shortly before we do it. Of course there are a lot of things that still need to be worked out, particularly regulatory things in terms of when and where we can fly over people's houses.

Chair: May I just ask you to remember there are a lot of people in this country that still have bad memories of aerial deliveries?

Q83 Ann McKechin: I wonder if I could just ask you how your services in other European countries compare with services in the UK. Is the model that you are trying to introduce here different from your European operations?

Roy Perticucci: I will try to answer the question broadly. Clearly, we want to work as well as we possibly can with all our major carriers. There are about 30 across Europe. Broadly, the aspirations are the same. We want to be able to know where a package is from the time it leaves our fulfilment centre to the time it reaches the customer. We are trying to reduce the time that it takes for packages to get to customers. We are overall trying to make sure, if there are any other things that they want—say, same-day delivery when that is possible—that those are all things that we are able to do.

Q84 Ann McKechin: Is your model then that you are trying to achieve this by increasing the number of companies that act as carriers, rather than primarily relying on one main company per country who is the main post deliverer?

Roy Perticucci: As with almost every publicly traded company, we try not to rely exclusively on a single supplier. What is also true with innovation is that it does not happen at the same speed with every carrier. There is one that leads for a while in one country or in one segment, and that may be quite different a year or two later.

Q85 Ann McKechin: Could you amplify to the Committee a little this issue of what is called your own delivery network fulfilment centres? That is an amazing jargon phrase, I have to say. What do you think this achieves for the market and in terms of driving additional volume?

Roy Perticucci: I think you are particularly referring to AMZL. AMZL is primarily a platform that enables small to medium-sized enterprises in particular local segments to contract to make deliveries with us. We have a device that is called, to use some more jargon, the DORA. I cannot remember what it stands for either, but basically it gives a delivery manifest and a delivery route for those drivers making deliveries for us.

Q86 Ann McKechin: Is the aim to increase the overall level of business that you manage?

Roy Perticucci: The reason why we have this platform in the UK is the same reason why over the years we have worked with multiple carriers. That is, we try to find a balance. Not everyone can do exactly the right thing at the same time, and so we shift volume and work with them to get the best possible service for customers over time, making sure that that also improves over time.

Q87 Chair: That concludes our questions. Thank you and I do appreciate it. It will be incorporated into our conclusions in due course.

Mr Binley: I am going to send you my address.

Roy Perticucci: Yes, sir. A geocode would also be very helpful. Thank you very much.

Examination of Witnesses

Witnesses: **Billy Hayes**, General Secretary, CWU, **Dave Ward**, Deputy General Secretary, Postal, CWU, **John Park**, Assistant General Secretary, Community, and **Les Baylis**, Special Project Officer, Logistics and Distribution, Community, gave evidence.

Q88 Chair: Good morning and welcome. Thank you for agreeing to contribute to our inquiry. Again, I will just invite you, starting with you, Dave, to introduce yourselves for voice transcription purposes.

Dave Ward: My name is Dave Ward. I am the deputy general secretary of the Communication Workers Union and responsible for negotiating with the employer on all postal issues.

Billy Hayes: My name is Billy Hayes. I am the general secretary of the CWU.

John Park: My name is John Park. I am assistant general secretary at Community, but I have responsibility for the union's strategy and policy.

Les Baylis: My name is Les Baylis. I am part of the national team dealing with logistics and distribution.

Q89 Chair: May I start with a general question, which is, to all of you, what are your views on the sustainability of the universal service obligation, in the context of the competition that the industry is now facing?

Billy Hayes: Clearly, if I could start, it is under threat. We need an urgent review. That is the evidence from what we see out in the field. There is a great deal of cherry-picking, and it needs to be addressed. So there is a problem with the sustainability of the universal service. The universal service is not just something that we as a trade union value and the public value. It is something that Parliament wants, and a key part of the Act was sustainability of the universal service. It is very important. That is why we welcome the Committee's calling for evidence on this subject.

Dave Ward: The sustainability of the USO faces its greatest threat at the moment. It is important for the Committee to recognise that the component parts of the USO are essentially how many delivery points you deliver to and the traffic volumes that go within that. Even without what we see as unfair and unfettered cherry-picking competition, the USO is under pressure because those two key component parts are going in opposite directions. On the one hand you have got an increase in delivery points. It is now about 29 million addresses. On the other hand there is, in the letters market, some structural decline. Therefore, there is going to be a burden on the USO, even without competition.

Our view is that this is a very straightforward debate. We struggle to understand why the regulator is, in our view, drifting on the issue of bringing this review forward. We do not believe it is helpful to any of the people who are involved in this debate, including the competitors. The regulator needs to bring the review forward so that we can have a proper discussion about what is really happening.

This is cherry-picking competition. Why do we say that? Because we know that the core principle that the USO relies on is cross-subsidy. There is no other way that you can deliver a universal service to the rural parts, one price goes anywhere, without the high-density areas subsidising that. The plain truth is—this is not having a go at competitors—in this particular market, with this universal service obligation in place, which is something that we all value, their whole business model is designed to attack the cross-subsidy model. That is the reality. That is the truth. The only debate can be at what point does it become impossible to maintain the universal service. Our view is, at the moment, that we are pretty much at that limit and there needs to be some action now in order to maintain the universal service.

Q90 Chair: Could I have the Community view? Then Robin has got a supplementary question.

John Park: I would echo what has been said by both Billy and Dave. We are very supportive of the universal service obligation. We wrote to Ofcom earlier this year asking them to bring forward the review because, from our perspective, we want to see some certainty in the sector as well, for the members that we represent. So, yes, it is not just about our members who work in the sector. We have got members who work across a range of sectors who are people who rely on the universal service obligation in much the same way as everyone else does. So, yes, we are very supportive of it, and very supportive of this work that is being done by the Committee in looking into the issues. The sooner it is brought forward and examined and we have some clarity, that would be beneficial for everyone.

Q91 Mr Walker: We are all aware of and grateful for the feedback that we get through the unions. I opened this session by raising something that had been brought up by a local CWU rep, in terms of their experience and what they had seen with competition in Manchester. From what you are saying, and you used the word "cherry-picking", do you think the threat to the USO comes entirely from end-to-end competition, or is it through the access business as well, because clearly there is competition in both? From the evidence we heard in our first session, there was the argument made, particularly by a couple of providers that were not in the end-to-end market, that as they were access businesses they were not really a threat to the USO at all. What is the CWU view of wider competition?

Billy Hayes: The first thing to say is that they would say that, wouldn't they? The thing about the competition and Parliament is this is something that you can control. The jargon in the industry is e-substitution and the changing nature of the market. Some of those things are the way society is changing, but the competition is within the control of this Committee, and for Parliament to take a view on. The fact of the matter is it is not an accident that the people who gave evidence before bristled when you said "cherry-picking". Do you know why? It is because it is true. It is absolutely true. If you continue to attack the urban areas and pick and choose when you deliver and who you deliver to, then, as Dave said, it is not the only threat to the cross-subsidy but it is a major threat.

Q92 Mr Walker: When you are talking about targeting urban areas particularly, is that mainly the end-to-end competition, or are you saying that is the case in all the competition, including the people who are paying Royal Mail an access price?

Billy Hayes: At the moment, we want to have the review because of what it is doing to Royal Mail in terms of the urban areas and siphoning off. They are cherry-picking, really. I can understand why people bristle about that whole aspect of cherry-picking, but it is cherry-picking: choosing when you deliver; also the mail backers, as Moya mentioned, in mail going back into the system; and the lack of transparency, I have to say, of terms and conditions. We have just had from Ofcom the whole talk about efficiency and the like. In terms of Royal Mail, you see everything. You don't see everything in terms of the competition.

Dave Ward: Just to add to the question about the potential threat of access mail, the greater threat is clearly direct delivery competition. With access mail there is a potential threat. We would have preferred that Royal Mail stayed as a monopoly, but we have to live with the fact that access is there. We understand now that Royal Mail delivers some other companies' mail. We have to deal with that. Where there is a potential threat of access mail is if one of the access providers builds up its capability. I think currently 47% of the mail upstream activity is with the access competitors. If they are the same people that then move to direct delivery competition, as Whistl's model potentially could be, it is the speed with which they can transfer the access mail almost overnight to their own delivery capability. There is a key concern there for us. It was good to hear that some people were in the access market for that end of the market. We understand that. There is a potential threat, but by far the greatest threat is where direct delivery competition goes from here on in.

Q93 Chair: Before we move on, can I just clarify one point? It was intimated earlier that it was our responsibility to basically regulate. The Government have charged Ofcom with the responsibility of sustaining the universal service obligation. We will be holding both the Government and Ofcom to that commitment, but let us get it quite clear: the Government do not always agree with this Committee, as you may have noticed on other matters to do with Royal Mail. We do not make the legislation or the regulation.

Billy Hayes: You do make the legislation, Chairman. You are all MPs.

Q94 Chair: The Government do. This Committee does not. That is the distinction we must understand.

Billy Hayes: I understand your point.

Q95 Mr Binley: I am going to be cheeky and pinch an earlier question and put it to you gentlemen. The universal service obligation was brought in on the basis that we did have a monopoly, and that the good parts of the monopoly could subsidise the more expensive parts to service under the monopoly. That has now gone. We know it has gone. We knew there was going to be a problem. What is your answer to it?

Billy Hayes: We would give our answer in a cap on competition, but certainly a review. I can say for the CWU, we have never been one not to look at innovation and new ideas.

Mr Binley: That is fair. I understand that.

Dave Ward: There has to be a limit at some point in this particular market. I keep stressing this particular market. It is not an attack on the principle of competition. It is dealing with the reality of cherry-picking competition in the letters market, which is in structural decline. In our view, there has to be a cap—a limit to how much you allow that to undermine the cross-subsidy principle. From where we are sitting, the only debate can be at what point do you introduce that? We would like the opportunity for that review to come forward, where people can put the evidence in front of people.

At the end of the day, the consumers and customers are at the heart of this debate. In our view, there is not enough evidence out there to suggest that this type of competition benefits the people who value the universal service. The public, in our view, are not benefiting from this type of competition. Small businesses, in our view, are not benefiting. There is a benefit, there is no doubt about that, to bulk big businesses, and we understand that. But we have got to be honest about what is the reality of the benefits, and our strong view is you cannot have both. You cannot have what we see as unfair and unfettered competition in the high-density areas, and at the same time maintain the USO.

Q96 Mr Binley: Any comment?

John Park: That is a particular view expressed from the CWU there. We would not want to comment on that.

Q97 Mr Binley: My final question is, for the record, to ask how many members you have in the postal service. My guess is yours is pretty much the massive majority.

Billy Hayes: Oh, 90% of about 150,000. We are a union of about 210,000, so overwhelmingly—

Q98 Mr Binley: So 90% would be a reasonable estimate.

Billy Hayes: Probably that is even on the low side.

Q99 Chair: If you could just send us a figure, that would be helpful.

Billy Hayes: Yes, we will.

Q100 Mr Binley: That would be helpful. It puts it into perspective.

John Park: Our membership ranges, in different areas, between 70% and 90% density, and roughly about 2,500 people just now. Of course that will fluctuate as the business changes, but we can provide you with a snapshot figure.

Q101 Mr Binley: One final question: how many do you have in the, for instance, Whistl organisation?

Billy Hayes: We have got some members. The difference is we have not got recognition. We have got some people who work in Whistl, but Community has a recognition agreement with the company.

Les Baylis: We need to take that into context. We have only had a recognition agreement for three years. The first year that was organising at the sortation depots and the end-to-end element has only been the past 18 months. We do need to keep that in its context.

Q102 Paul Blomfield: I want to talk about conditions of employment for your members. We had an interesting exchange earlier with Nick Wells from Whistl, when he was challenging the Royal Mail to compete more effectively by changing its labour relations policy, to try to understand what that really meant. That is based on evidence we have had from the CWU and from the Royal Mail that competitors pay on or below the minimum wage; there is widespread use of zero-hours contracts and other ways of dragging down staff benefits and conditions. In his response to us he said, “Just ask the union. We work well with the union. We are an exemplar,” or something along those lines: “A model of good practice.” They were not quite his words but that was the drift. I wonder, John, Les, whether you could share with us your experience from Whistl about the wages, working conditions, contracts and so on.

Les Baylis: Again, we need to put this into context, because this will be the first year that we are having national negotiations with Whistl as far as our members are concerned in end-to-end. In sortation we have had a year of negotiations and an increase of over 3% for them, and sorted out a number of internal issues regarding their contracts. In addition to that, when we identified van drivers in the sortation element who were on zero-hours contracts, we got that stopped. They are on a minimum of 30-hour contracts now in sortation. Within the end-to-end we have currently got a claim in. We are negotiating. I was interested in what Nick Wells was saying also, as you can imagine, because we have to sit on the other side of the table in those negotiations.

I also pick up the point about how we are not going to have worker against worker or a race to the bottom as far as terms and conditions are concerned. With all the efficiencies that we expect within the industry, we expect our members to share in that success. This year, for example, we have got a claim in with Whistl for the living wage in London and out of London. We have got an agreement that we are restructuring the current situation regarding zero-hours contracts. At the moment they have got zero-hours contracts within end-to-end. Interestingly, a number of our members want to keep zero-hours contracts, for various reasons. We understand that and that is their choice. We are having a debate at the moment with our reps about how we phase in the formal contracts, and we will do that after a six-month period. It may well be that they will be starting on 20 or 25 hours. We will be looking at the average hours that they have done previously.

Again, I ask the Committee to take on board that we are at a snapshot here, and it is only the first year that we are negotiating. We expect to be successful. Unfortunately, Nick is not here, but we expect to be successful.

Mr Binley: He is here.

Les Baylis: Oh, he is. Hello, Nick. Maybe he can sit next to me then. We are confident that the relationship we have had with Whistl over the last three years has been one of recognising that we are in a difficult market; a number of our members have a difficult job, as within Royal Mail. Again, we need to be putting things in perspective, in our view. Whether it be Royal Mail, Whistl or anyone else within the sector, we are all in the private sector now. It is no longer in the public sector, and we need to be mindful of that. We also need to be mindful that we are working within the Ofcom regulations and a number of those arrangements have taken place. People were aware of the significance of the changes and what competition meant, but of course that has moved on, because, as I say, we are now all in the private sector.

John Park: We have also been spending quite a lot of our own time and resources to try to develop lay representatives within the company, so that it is not about people like Les or full-time officials going and negotiating on their behalf on a day-to-day basis. It is about these individuals getting the skills to take a direct interest in what is happening in that company on a day-to-day basis, and making sure that they have the skills, ability and capacity to take positions on the issues that come up around productivity or efficiency at a local level and have a debate with the management. That is healthy industrial relations, and that is certainly the future for us.

Billy Hayes: The thing you have to recognise about the CWU is we are in 40 companies. Every one of them now, apart from Post Office Counters, is in the private sector. We publish all the pay rates of the people we represent, including the pay of our own employees, and we are a living wage employer. What I would like the competition to do is publish their pay and conditions. I welcome everything that Les and John are trying to do in terms of improving the pay and conditions but alongside the quality of service there is another quality: the quality of life of the people who work in Whistl.

I welcome the fact that the company is working with Community, but we are having to deal with attacks, in some quarters, on the conditions of our people, in the absence of any evidence from the competition. The agreement Dave and our negotiators made last year was a fantastic agreement, one, on behalf of the people we represent, but also in taking the company forward.

Dave Ward: As Billy said, we want to work with Community. We wish them success in driving up the pay and terms and conditions of workers across the sector. We want to help strategically in achieving their aims for workers, wherever they are. There is an uncomfortable truth about this debate, though. I hear politicians sometimes welcoming new jobs. When Nick opens up and expands his operations, people say, “It is great news. There are new jobs.” There has to be a degree of honesty. In a shrinking letters market, these are not new jobs; they are replacing Royal Mail jobs.

Another concern for us is that the regulator appears to be saying that they would act on competition, but they believe that Royal Mail is not efficient enough. We want a transparent debate on efficiency. We have lost between 40,000 and 50,000 jobs since the market was liberalised. There are good reasons for that: new technology and new machinery coming in and replacing manual work. We know that our members are working harder than ever, and yet it feels to us that what the regulator is really saying is that Royal Mail is inefficient because the regulator is comparing its labour costs with those of its competitors. As Billy said, we do not get to see all of that comparison.

If the regulator is using labour standards to compare efficiency, we say that is completely and fundamentally wrong. We say it is outside their remit. We are willing to address efficiency; we are willing to continue to deal with the reality of trying to make this company grow in a highly competitive market, but we want fairness: fairness for workers, fairness for customers and a level playing field for the companies that come into this market.

John Park: We would be relaxed with that approach. That would be a sensible approach. What we want to do is drive up conditions with the employer that we are working with. There is another thing that is really important to know. Around half of the people who are going to work in Whistl are long-term unemployed. Some of them come from communities where their parents and the grandparents have not worked and have been economically inactive, so it is important to note that these individuals are getting an opportunity to come in and hopefully have a long-term career.

Another thing is that the people who come to work in Whistl and become members of Community tend to reflect the communities they have come from. In terms of our own membership, the age profile is going down; in terms of diversity of the membership, that is increasing, and that is a good thing, particularly for us as a trade union, but more widely for giving opportunities to people who have perhaps been underrepresented in the workplace.

Q103 Paul Blomfield: I take that point. We would all welcome opportunities to bring the long-term unemployed back into work, but I am sure you are all agreed that that needs to be by levelling up rather than levelling down.

John Park: We would not be in this job otherwise.

Paul Blomfield: Clearly, that is your objective in relation to your members.

John Park: Yes, absolutely.

Q104 Paul Blomfield: Billy, on the point that you made, I am looking forward to the further information that Whistl are going to provide, answering exactly that question: comparability of what is paid, what are the contracts and so on. May I just press you a little bit more? A number of Royal Mail's competitors are going to make the point that their inability to be competitive is because they do not stand up to the CWU on driving down labour costs. From the time I spent talking to your members in sorting offices in Sheffield, it seems to me that you have been extraordinary flexible in adjusting to the new terrain you are operating in, so how do you respond to that sort of criticism?

Billy Hayes: Because they do not stand up to us? I have been in the industry 40 years; I have been a national officer for nine, representing delivery staff, and a general secretary for 12-odd years. The company stands up to us—there is no question about that—and we stand up to them. We do not make any apologies for the fact that we are a strong trade union and we do well for our members. We want to help and assist the workers in Whistl. Our contention, as Dave has just said, is that there is a Geist in society now. The living wage is taking off. In fact, it was the London Citizens organisation—it was not even a trade union—that developed it, but it is taking off, and I think it is taking off because it is chiming with the way people feel. The way to have an efficient company is not to have low pay and conditions.

Can I just ask one question, Chairman? We will submit to you all the pay and conditions, but, as Dave has underlined, we would like to see the competition do the same. I do not know whether I am being a bit cheeky here, asking for that.

Chair: We have asked them to do so, and we will make a judgment if they do not.

Billy Hayes: I would really like to see it; we want to know. The thing about efficiency is that only an amateur thinks that low pay and bad conditions are a solution to productivity. All the evidence is that if you pay people well and you have a collaborative approach to solving problems, it makes for a successful company. That is the evidence, so I do not think there is any question. If you look at the dispute record of years gone by, the companies are not pushovers. Dave knows more about that than I do. They are no pushover, but neither are we.

Dave Ward: It is about balance. It is about making sure that what we do is good for customers, good for our members and also that it gives the company a future. It gets quite annoying sometimes, the way that people use trade unions per se as a convenient excuse in some of these debates. We have undergone huge amounts of change, year after year after year. If you speak to postal workers, they will tell you that their job has become much more physically demanding. It is a very difficult job. We also understand that efficiency cannot be seen as a dirty word. We understand that if we want to protect long-term employment, the company needs to be efficient. We understand that the company needs to innovate.

We would like to see Royal Mail do more on growth. We have just reached a supplementary statement that we have agreed with the company, which is very focused on growth, efficiency and incentives, and we are really pleased about some of the plans that we are working on with the company now to try and drive growth in other areas of this market. We want to play a big part in that, but we are not going to apologise for standing up for workers. What we will never accept is the race to the bottom. If that means, in the name of efficiency, that what is really being said by the regulator is that Royal Mail is not efficient enough because it is comparing its costs, wages and employment standards with its competitors, we are never going to accept that situation.

Chair: Before I invite the next question, can I just make it clear that the attrition of the membership on this side of the Committee is due to the fact that we have now started questions, and Prime Minister's questions will be on very shortly? It is no reflection on either the importance of this subject or the quality of your answers. I could just stress that members will obviously want to get to Prime Minister's questions, so, if members on this side could make their questions brief and the answers could be pointed, that would be helpful.

Q105 Mr Bain: I will address this question to Mr Hayes and Mr Ward. Unite's written evidence to the Committee has recommended that Ofcom should apply some universal service conditions to Royal Mail's competitors, require entrants to the market to take on more responsibilities to their workers and also cover more delivery days and more geographical areas. What would your view be about those kinds of proposals and the impact they would have on Royal Mail and jobs within that?

Dave Ward: I am not entirely convinced of all the points that Unite put forward there. There has to be fairness on the quality of service standards. If you are entering this market, you have to be on a level playing field; you have to be very transparent about what your service standards are. Secondly, there has to be fairness on the integrity standards of the employees who work in those companies, so we need to drive up standards of employment in that sense. There have to be good employment standards per se. These are the key things. I come back to this simple point. If the regulator, which it seems to us, from everything that we have looked at, is not wanting to take action because it believes Royal Mail is inefficient, then we need to have a more transparent debate about what they mean by that. They need to be honest, and we need to be upfront about that as well. If that boils down to, which I suspect it does, the extent to which they are comparing the terms and conditions of the competitors and some of the fixed labour costs that Royal Mail or any universal service provider must have with our members' terms and conditions, that is not right. Therefore, at some point, in our view, the regulator must either introduce a universal support fund, which may have its problems but is something that needs to be considered, or it must introduce a cap on cherry-picking competition.

It seems you were suggesting that it might be a good idea if they competed right across the board for the USO. I don't think so. You have to also recognise that the USO is an end-to-end service commitment, and it is better performed, as it has been for 350 years, by the company that has been doing it. I don't think we would want to see that extended to other companies. I don't think it would be in the interests of consumers.

John Park: I am happy to say, more generally, Community is very supportive of Government levers being used to drive up standards around employment in particular. Whether that be procurement or whether that be through the regulatory framework, that is something we are very supportive of. There are thousands of opportunities out there, certainly for our members in other sectors, where, if there was a more direct approach or more intervention from Parliament or Government, some of the problems we are facing in terms of our members' terms and conditions and the issues they have to face on a day-to-day basis would be dealt with at source. That would then mean that we could deal with the day-to-day issues of driving companies forward and making sure they are efficient and our members are sharing the spoils that are there.

Q106 Mr Walker: I want to ask about the area of employee ownership and the fact that now CWU members own a substantial proportion of Royal Mail. Do you think that has affected the attitude that people take to the company or perhaps helped to maintain the positive attitude and commitment that people had to the company before privatisation?

Billy Hayes: We are in a new situation now in terms of share ownership with our people. They cannot cash them in for a couple of years yet. I do not think it makes a difference per se, to be quite honest, in terms of share ownership. We have seen that in BT. Obviously, we represent members in the telecommunications sector as well. I am not saying it makes a great deal of difference, but you might say it is a little too early to tell in some senses. As we said at the time, nobody is going to baulk at free money, but I do not know.

Dave Ward: I agree with Billy. I think it is too early to tell. I don't think it will ever replace the reality of people's take-home pay and their basic wage. They will always value that much more than any free shares. We opposed privatisation. Our concerns at the time were that that, in itself, could start to undermine the universal service and that, whilst investors put money in, our experience is that they take more out than they put in. We still worry about the potential impact of that but we have to deal with the reality of that situation. We have to move on and we have to tackle the issues. One of the big things I see is that, if the regulator was to take some action to bring about fairness, we could concentrate much more on delivering growth in this industry and the innovation that is required. We want to play a big part in that debate.

Les Baylis: As far as the regulator is concerned, I take Dave's point about using this benchmark of wages, terms and conditions, but we should be under no illusion. Whistl or anyone else that works with the regulator has to abide by the standards within the industry; otherwise they do not get the contract to do the work, basically. Again, we need to be mindful of that. I take Dave's point about what benchmarks may or may not be used by the regulator, and we would be interested in that dialogue as well.

Q107 Mr Bain: This question to John and Les. It follows on from what Robin was talking about. Shareholding is one way that workers with Royal Mail have a stake in the business. In terms of your unions' workers, it is probably going to be a different situation, but what kind of stake do you think it might be possible for workers to have in these other providers in the postal services industry that means we will have better relations between the workers and the employers within these other providers?

John Park: As a point of principle, I will just get it on the record that the shareholding side of things is something we want to decouple from any other discussions around industrial relations, conditions of employment and things like that. It is a different type of investment. We believe the process that we have taken with Whistl in working with them has been one that has enabled our members to have a positive impact on the business, as well as us being able to negotiate on conditions of employment. As I said earlier, we invest quite a lot of time and resource in developing our members from individual members who come into the company into activists who take a view not just on what that company is doing but where the industry is going as well.

In more traditional areas where trade unions are well represented, particularly in the CWU and other organisations, that has always been the approach that is taken. Managing is far too important to be left to managers on their own; sometimes you are better having people in the business who understand, who are representing the work force, to get a more balanced view and approach. We are quite happy to talk about working in partnership. We do that with a range of companies in a range of different sectors. We do not always agree, but making sure there is a trade union in place, which is recognised by the employer, which can influence the business positively, is a good thing and we see our role in that as developing a new generation of constructive representatives to play their part in that.

Mr Bain: Les, do you want to add anything to that?

Les Baylis: Again, we need to put things into perspective. We already mentioned about Royal Mail now being a private company. We have also seen, interestingly, that the deficit within the pension fund is now a liability of the taxpayer and off the balance sheet as far as the Royal Mail is concerned. We do need to take other things into account and context when we are talking about a level playing field.

Chair: That concludes our questions. May I thank you very much for your contribution? We still have another session, but we will be reporting in due course. I would repeat what I have said to the other panellists. If you feel that there is additional information that you would like to give us, please send it in a written form. Equally, if we feel we should have asked you something but did not, we will write the question to you and ask you to respond in a written manner. Thanks very much. That was very helpful.