Royal Mail's Response to CMA's Consultation on Postal Franking Machines Undertakings 2005

NON-CONFIDENTIAL VERSION

Royal Mail welcomes the opportunity to comment on the CMA's strategic review of 33 markets remedies and consultation on whether those remedies remain appropriate. In particular, Royal Mail wishes to comment on whether the Postal Franking Machines Undertakings 2005 (the "Undertakings") remain appropriate.

In short, Royal Mail is of the view that it is no longer appropriate that Royal mail should be bound by those Undertakings and therefore considers that they should be withdrawn. The key reasons are as follows:

1. Nearly 21 years have elapsed since the Undertakings came into force, with the original investigation by the Monopoly and Markets Commission into the supply of franking machines dating back to 1986, and the market has developed significantly since then. In particular, letter volumes have declined from 20 billion a year at their peak in 2004/5 to just 6.3 billion in 2024/25. Moreover, the proportion of letters that are sent using a franking machine has also declined significantly, circa ✂ year on year. This is a trend that we have been seeing for the last few years and is growing and we expect to see similar patterns going forward as more customers move to digital solutions. Therefore, the need for these stringent and burdensome Undertakings governing how franking machines are supplied and serviced is no longer necessary. The CMA recognises at paragraph 10(a) of its consultation document that market developments such as these are a relevant factor in considering whether to withdraw undertakings, where it points to "a) Market developments: changes in the market and competitive landscape since the remedy was introduced. For example, the entry and expansion of competitors to the bound businesses or a change in consumer behaviour."

2. It is also relevant that Royal Mail is not aware of any complaints or concerns as regards Royal Mail's approach over the past 21 years in approving manufacturers and repairers for franking machines, or as regards requirements for dies or ink cartridges used in franking machines (features that are now becoming increasingly obsolete in any event as the vast majority of franking machines are now digital). Moreover, Royal Mail does not recall in recent years having rejected any applications from independent suppliers of machine maintenance services . We have tended to receive 1-2 requests per year although that number is now decreasing and we have not received any new requests in the past 12 months. Moreover, there is no incentive for Royal Mail not to approve new applicants – it is in Royal Mail's interests to have more appropriate qualified repairers for its machines as this makes using mail more attractive (and

helps slow letter volume decline). On this basis, there would seem no need for the Undertakings to continue to apply.

3. The Undertakings are primarily aimed at two manufacturers, Pitney Bowes and Neopost, rather than Royal Mail. The most important five of the eight requirements in the Undertakings are placed on the manufacturers, rather than Royal Mail, and , as explained above, as regards the main requirement on Royal Mail, we have not received a single new request from a third party maintainer/inspector for authorisation in the past year. Accordingly, even if the CMA is not minded to remove the Undertakings in their entirety, there are good grounds that they should be amended to remove the requirements on Royal Mail.

4. Finally, the remedies should be removed as they impose a disproportionate and unnecessary burden on us. Royal Mail devotes significant resources each year in responding to requests from the CMA for information regarding compliance with the Undertakings, a task which it has to take very seriously given the potential consequences for providing inaccurate information. As the CMA recognises in paragraph 4 of its consultation document, it is appropriate to remove undertakings that are no longer appropriate, as it *"avoids the imposition of unnecessary burden on the businesses subject to those remedies".* Removal of the Undertakings would also clearly be aligned with the CMA's 4Ps framework to support a regulatory environment conducive to growth. More specifically, removing the Undertakings is aligned with the 4P "proportionality" as the provision of annual compliance data is no longer proportionate, given the time that has elapsed and the lack of any recent rejected applications for new 3rd party franking machine maintainers. It is therefore clear that leaving the Undertakings and the corresponding obligations in place would not be the best use of Royal Mail's or the CMA's limited resources.

In conclusion, Royal Mail is of the view that the Undertakings are no longer necessary: they are historic and the harm the Undertakings were designed to remedy is no longer present; compliance with the Undertakings is time consuming, requiring significant time and resource to be spent unnecessarily on an annual basis; and there is currently little/no meaningful data to report and no potential harm to the market.

Royal Mail Group Limited
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