



Stamp Prices

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On 31 March 2014, the price of a First Class stamp rose by 2p to 62p and the price of a Second Class stamp rose by 3p to 53p. The price of a First Class Large Letter stamp increased by 3p to 93p and a Second Class Large Letter stamp by 4p to 73p.

Summary of stamp price changes, April 2011 to April 2014

Product	April 2011	April 2012	April 2013	April 2014	Increase 2011-2014	
					£	%
First Class stamp (standard)	46p	60p	60p	62p	16p	35%
Second Class stamp (standard)	36p	50p	50p	53p	17p	47%
First Class stamp (Large Letter)	75p	90p	90p	93p	18p	24%
Second Class (Large Letter)	58p	69p	69p	73p	15p	26%

Stamp prices rose sharply in April 2012 following a decision by the postal services regulator, Ofcom, to remove traditional price controls from postal services. After consultation, Ofcom concluded that stamp price controls should be removed to allow Royal Mail to maintain the universal service and to make the service more flexible in future, although the price of a second class stamp would be capped at 55p indexed in line with CPI for seven years. There was no cap for First Class stamp prices.

This note sets out the regulatory framework governing stamp prices used by Royal Mail. It sets out the current position on stamp prices and then includes some comparative and historical information on stamp prices.

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Contents

1	Introduction	2
2	Regulation of Postal Services	2
2.1	Ofcom's duties under the Act	2
2.2	Reducing restrictions on stamp prices	3
3	Changes in stamp prices	5
3.1	Stamp prices	5
3.2	Protecting vulnerable customers	5
3.3	Royal Mail financial performance	6
4	Comparison of stamp prices in Europe	7
5	Historical stamp prices	7

1 Introduction

This note sets out the regulatory framework governing stamp prices used by Royal Mail. It sets out the current position on stamp prices and then includes some comparative and historical information on stamp prices.

2 Regulation of Postal Services

Stamp prices are regulated as part of the overall regulation of postal services that was introduced by the [Postal Services Act 2011](#).

2.1 Ofcom's duties under the Act

The *Postal Services Act* ("the Act") requires that Ofcom must carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service. Ofcom must have regard to the need for the provision of a universal postal service to be financially sustainable and efficient before the end of a reasonable period.

In addition, the *Communications Act 2003* provides that it shall be Ofcom's duty, in carrying out its functions, to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate, by promoting competition.

The universal postal service must comply with certain minimum legal requirements as set out in EU law. The *Postal Services Directive 1997* obliges all EU Member States to ensure that a universal postal service encompassing a minimum range of specified services is provided.¹

The requirements of the Postal Services Directive are reflected in section 31 of the Act, which sets out the services which, as a minimum, must be included in the universal postal

¹ European Postal Services Directive [97/67/EC](#) of 15 December 1997 as amended by Directive [2008/6/EC](#) of 20 February 2008

service in the UK. This includes the requirement that the service is provided at affordable prices in accordance with a uniform public tariff throughout the UK.²

The minimum requirements of the Act comply with, and in some aspects exceed, the requirements of Article 3 of the Postal Services Directive. For example, while the Postal Services Directive requires tariffs to be “affordable”, the UK legislation requires them to be “uniform” as well as affordable.

2.2 Reducing restrictions on stamp prices

Securing the universal service is the central regulatory principle for Ofcom and for Royal Mail.

In its consultation paper, *Securing the Universal Postal Service*, of 20 October 2011, Ofcom explained that Royal Mail was at the time struggling financially, and that there was a risk to the financial sustainability of the universal service in the near term:

The past five years have seen a period of substantial change in the market. Letter volumes have declined greatly and users have moved towards lower-priced alternatives. Although prices have increased over the period, they have not managed to offset a major decline in Royal Mail’s volumes. Over the same period Royal Mail has invested in improving efficiency and has modernised many of its operations. It has reduced costs, and headcount has fallen by 20,000 (over 10% of the workforce) in four years. However it has not been able to reduce costs at the rate which would be necessary to offset the fall in revenues...³

Ofcom noted that there was widespread recognition that the approach to regulation adopted in the past has failed in the face of the particular circumstances affecting the sector:

To date, the approach adopted has been based on price controls – similar to those used in the utility sectors. In normal circumstances, this approach is an effective means of preventing private operators from earning excessive profits, thereby providing incentives for firms to reduce costs, while at the same time protecting consumers from excessive prices...

The recent experience of postal regulation, however, has demonstrated all the weaknesses of price controls with none of the benefits. In a highly uncertain market, price controls have removed the flexibility that would allow Royal Mail to adjust to changes in demand, while at the same time Royal Mail has been unable to improve efficiency, either at the rate expected by the regulator when the price control was set, or at the rate set by its own internal targets at the time.

Furthermore, price controls on Royal Mail have served less and less to protect customers from price rises...⁴

Ofcom therefore proposed to provide Royal Mail with more freedom in relation to the pricing of most products and services, and did not propose to impose a traditional price control on Royal Mail. They noted the risk that the Royal Mail could use the lack of a price control as a means of shying away from efficiency savings in favour of price increases. They therefore proposed to grant Royal Mail commercial freedom for a period of seven years subject to safeguards as follows:

² *Postal Services Act 2011* section 31, Requirement 3: *service at affordable process in accordance with uniform public tariff*

³ Ofcom, *Securing the Universal Postal Service*, 20 October 2011, para 4.1

⁴ *Ibid*, para 1.22-1.23

- effective monitoring of performance, including scope for re-regulation if the incentives to deliver greater efficiency are demonstrably failing;
- ensuring that a basic universal service is available to all and affordable by all;
- the discipline of competition and innovation.⁵

On 27 March 2012 Ofcom published their decision on the new regulatory framework for postal services. Alongside granting pricing flexibility, Ofcom explained how they would protect the universal service by creating an “ongoing and robust” monitoring regime. They stated that they would publish an annual statement, supported by market, financial and operational analysis, setting out how the regulatory framework was fulfilling its objective of securing the universal service. The basis of the monitoring regime would be the following:

- **Quality of Service** – Royal Mail will be required to provide the universal service to the specified standard and we will regularly monitor service quality to ensure that this is the case.
- **Efficiency** – we expect Royal Mail to improve efficiency levels and to sustain such improvements thereafter. While there are many ways to measure efficiency, our focus will be on the level of costs. It would not be in keeping with our regulatory objectives if Royal Mail were to return to a position of sustained profitability, but had done so solely as a result of price rises, and not cost reduction. Conversely, a situation where Royal Mail is able to demonstrate a healthy level of profitability that has been driven by cost savings or business improvements would be consistent with our regulatory objectives, and would not warrant our intervention.
- **Affordability** – if prices rise to a point that they give rise to affordability issues, particularly for vulnerable consumers, then there would be a need to re-intervene. Below, we set out our conclusions on the need for a cap on Second Class stamp prices, and our related proposals in this regard to safeguard the needs of vulnerable consumers.⁶

Clearly, the real cost of delivering a letter to an isolated community greatly exceeds the price of a first or second class stamp. The difference between the real cost and the price is subsidised by other users of Royal Mail. Royal Mail meets its universal service obligation by using its market position and its economies of scale to engage in this form of cross-subsidisation.

Ofcom set the cap on the price of a second class stamp at 55p with Royal Mail given freedom to determine the cost of a first class stamp. The price cap on second class stamps would be increased in line with the consumer prices index (CPI). Royal Mail could have raised the price of a Second Class stamp to 57p in April 2014 but instead raised it to 53p.⁷

Ofcom also decided that the safeguard cap should be extended to include Large Letters and packets up to 2kg; this cap says that the stamp price cannot be increased by more than 53% from 2001/12 and for the following seven years from April 2013.⁸

⁵ *Ibid*, para 1.38

⁶ Ofcom, [Securing the Universal Postal Service: Decision on the new regulatory framework](#), 27 March 2012

⁷ *Ibid*, para 1.39 and Royal Mail [First and second class stamp prices](#) 28 February 2014

⁸ Ofcom [Safeguard cap for Second Class Large Letters and packets](#) March 2013

3 Changes in stamp prices

3.1 Stamp prices

Following on from Ofcom's announcement concerning the pricing of services, Royal Mail announced in April 2012 that the price of a standard first class stamp would rise from 46p to 60p. The price of a standard second class stamp would rise from 36p to 50p.⁹ Stamp prices remained at this level until March 2014.

On 31 March 2014, the price of a first class stamp rose by 2p to 62p and the price of a second class stamp rose by 3p to 53p. The price of a first class large letter stamp increased to 93p and second class large letter to 73p.¹⁰

The changes in stamp prices since April 2011 are summarised below

Summary of stamp price changes, April 2011 to April 2014

Product	April 2011	April 2012	April 2013	April 2014	Increase 2011-2014	
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Royal Mail also made changes to its services and charges for parcels from April 2013. From 2 April 2013, customers have had the ability to send parcels between 1kg and 20kg using Royal Mail's Second Class service, with the added option to receive a signature on delivery. As a result of this change, the Standard Parcel product was withdrawn. In addition, the number of First Class weight bands for parcels more than halved, from 15 previously, to seven.

Royal Mail also introduced two parcel categories – small parcels and medium parcels. Royal Mail had previously priced by weight only. The size of a parcel has a bearing on the cost of collecting, transporting, sorting and delivering an item. This brought Royal Mail in line with other major postal operators.¹¹

Ofcom completed a review in March 2013, as required by the Act, of postal users' needs, that concluded it was satisfied that

...the postal market is currently meeting the reasonable needs of users and is highly valued by residential users and businesses across the UK.¹²

3.2 Protecting vulnerable customers

It was recognised that allowing Royal Mail to vary stamp prices (and parcel charges) could affect vulnerable groups.

⁹ Royal Mail [Announces Annual Stamp Price Rises for April 2012](#), 27 March 2012

¹⁰ Royal Mail [First and second class stamp prices](#), 28 February 2014

¹¹ Royal Mail [Prices from 2 April 2013](#)

¹² Ofcom [Review of postal users' needs](#) 27 March 2013

In particular, the Business Innovation and Skills Select Committee in its report on [Stamp Prices](#) on 2 March 2012 stated that that a key concern about any significant stamp price increase was the effect it would have on vulnerable groups.

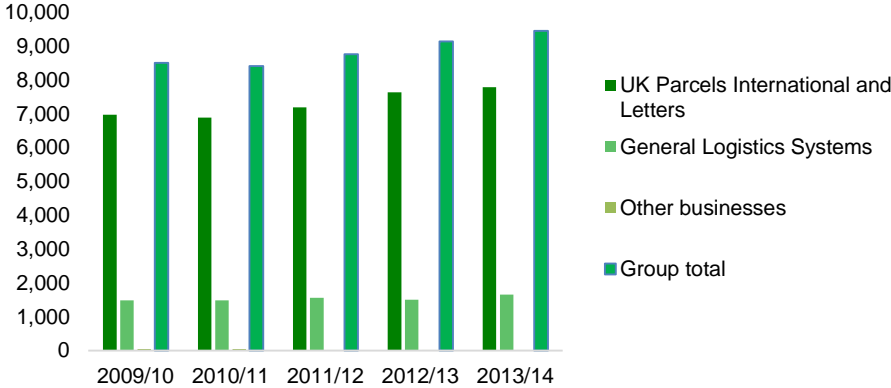
On 27 March 2012, Royal Mail announced that there would be a scheme to enable people on low incomes to buy up to a total of 36 First or Second Class Stamps in one purchase at 2011 prices. The scheme was launched on 6 November 2012 and was in place until the last posting date before Christmas 2012 for First Class stamps. There was not a similar scheme in subsequent years.¹³

3.3 Royal Mail financial performance

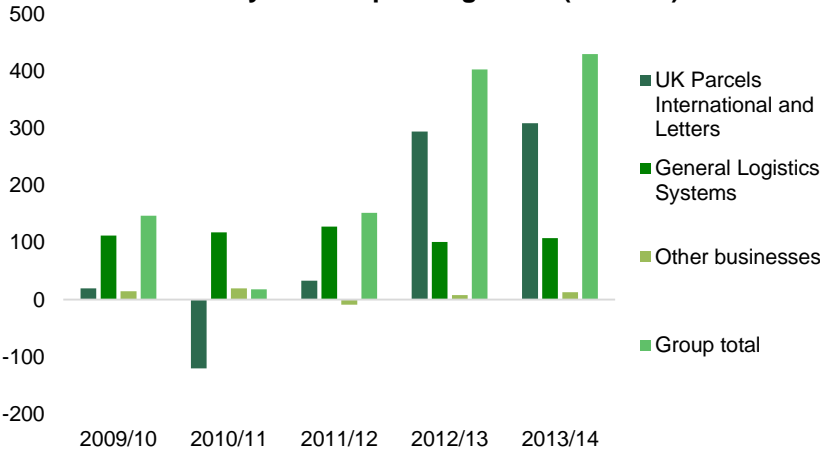
The Royal Mail Group has improved its financial performance considerably since 2010/11, particularly in 2012/13 and in 2013/14 as shown in the charts below.

In 2013/14 parcel revenue increased by seven per cent though parcel volumes were flat. Total letter revenue decreased by two per cent with an addressed letter volume decline of four per cent. Parcels accounted for 40% of total UKPIL’s revenue in 2013/14, up from 38% in the previous year.

Royal Mail External Revenue (£million)



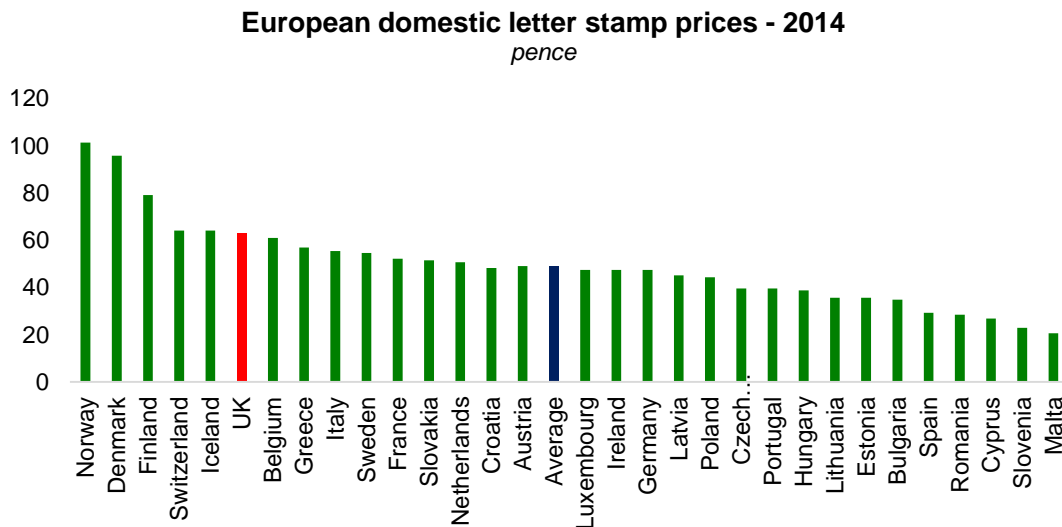
Royal Mail Operating Profit (£million)



¹³ Royal Mail, [Royal Mail Announces Annual Stamp Price Rises for April 2012](#), 27 March 2012

4 Comparison of stamp prices in Europe

A survey published by Deutsche Post in March 2014 showed that the current First Class stamp price in the UK is above the average for the European countries included in the survey for comparable service standards.¹⁴ The survey reports the comparisons in euros and stamp prices have been converted to sterling in the following chart.¹⁵



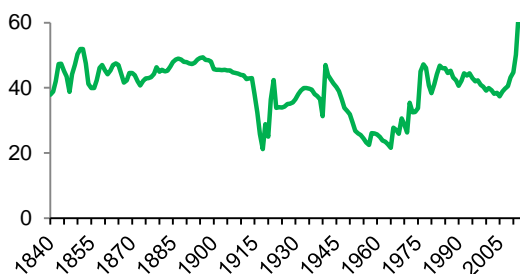
It is important to recognise that universal service requirements vary considerably between different European countries. For most countries, the universal service does not include both a first and second class service and some countries offer more than one service in the 0-100g range. The high price for Norway includes VAT at 25%.

5 Historical stamp prices

The introduction of the 'penny black' postage stamp in 1840 revolutionised the postal service. It set the precedent for a uniform tariff at an affordable level whatever the distance within the UK. The regulatory framework means that a uniform tariff remains a legal obligation on the

Stamp prices in 2014 prices (pence)

First class stamp or equivalent



Royal Mail. The (old) penny stamp for all letters of up to ½ ounce remained at the same level until 1918.

The penny black in 1840 cost the equivalent to 38 pence in today's money and compares with the 62 pence for a first class stamp in 2014.

¹⁴ Deutsche Post: [Letter prices in Europe](#) March 2014. Survey covers letters up to 100g posted within each country and for first class mail.

¹⁵ The figures in the survey have been converted from euros to sterling using the exchange rate of £1: euro 1.263 as at 24 July 2014