

The 1986 MMC report

1. In December 1983 the then DGFT made two references to the MMC under the monopoly provisions of the FTA concerning, respectively, the supply in the UK of franking machines and of services for the maintenance and repair of franking machines. The resulting report, *Postal franking machines: a report on the supply, maintenance and repair of postal franking machines in the United Kingdom* (Cmd 9747), was completed in January 1986 and published in March 1986.

2. The summary of conclusions and recommendations which is set out at the end of the final chapter of the report (Chapter 9—Conclusions) is set out below.

Summary of conclusions and recommendations

9.79. Monopoly situations exist by virtue of section 6(1)(b) of the Fair Trading Act 1973 in respect of the supply of postal franking machines in the United Kingdom, and by virtue of section 7(1)(b) of the Act in respect of the supply of services for the maintenance and repair of postal franking machines in the United Kingdom (paragraphs 9.2 and 9.3).

9.80. The monopoly situations exist in favour of Pitney Bowes Inc together with Pitney Bowes Holdings Ltd, Pitney Bowes PLC and PB Leasing Ltd, being members of one and the same group of inter-connected bodies corporate; and in favour of CIT Alcatel SA and Roneo Alcatel Ltd, being members of one and the same group of inter-connected bodies corporate.

9.81. Various factors restraining the effectiveness of competition in the market for reference goods arise from the pricing policies and practices of Pitney Bowes PLC and Roneo Alcatel and constitute actions (or omissions) on the part of persons in whose favour the monopoly situation exists and which, in our view, are attributable to the monopoly situation (paragraphs 9.44 and 9.45). Other factors which restrict competition arise from the Post Office regulations and practice (paragraph 9.46).

9.82. The factors set out in paragraphs 9.44 to 9.46, taken together, constitute facts found in pursuance of our investigations which, in our judgment, by reason of their adverse effects on competition, operate or may be expected to operate against the public interest (paragraph 9.47).

9.83. We do not recommend measures to reduce prices or margins but we see advantage to the public interest in proposals to reduce or remove factors restricting competition in the market for postal franking machines (paragraph 9.48).

9.84. In order to allow more scope for market forces in the distribution and maintenance of postal franking machines the Post Office should be invited to give urgent consideration to amending its arrangements (including regulations where necessary) to allow for:

- (a) the distribution of postal franking machines by independent dealers approved by the Post Office;
- (b) the maintenance of integrated machines and meters by independent maintenance engineers approved by the Post Office; and
- (c) the refurbishment and supply of second-hand machines and meters by independent dealers or maintenance engineers approved by the Post Office (paragraph 9.54).

9.85. The Post Office should:

- (a) reduce without delay the requirement for regular maintenance and inspection visits to two visits a year and within the next two years consider introducing a further reduction to annual inspection for all established machines with a low fault rate (paragraph 9.56); and

- (b) issue appropriate guidance to users on its regulations and bring to their notice changes such as the reduction in maintenance and inspection visits we recommend (paragraph 9.57).

9.86. If the Post Office amends its requirements as we suggest in paragraph 9.54, Pitney Bowes PLC and Roneo Alcatel should require only that maintenance of purchased or leased meters (except during periods of guarantee) should be carried out by persons approved by the Post Office (paragraph 9.58), and the return of postal franking machines to the original supplier should not be a condition of arrangements between Pitney Bowes PLC, Roneo Alcatel and the leasing companies (paragraph 9.59).

9.87. The Director General of Fair Trading should give consideration under the provisions of the Competition Act 1980 to any persistent and unreasonable refusal to supply spare parts (paragraph 9.60).

9.88. The practice of Pitney Bowes PLC and Roneo Alcatel of not making price lists available to most of their customers impairs competition and has an adverse effect on the public interest (paragraph 9.61). Pitney Bowes PLC and Roneo Alcatel should be required to provide price lists for postal franking machines identifying the purchase prices, the terms of other methods of supply and maintenance charges (paragraph 9.62).

9.89. The *de facto* tie between Pitney Bowes PLC and PB Leasing is an uncompetitive practice intended to exploit and maintain the monopoly situation and has an adverse effect on the public interest. Pitney Bowes PLC should be required to include in its price lists (see paragraph 9.62) the current standard terms offered by PB Leasing and a clear statement that customers are free to obtain leases from other companies (paragraph 9.65).

9.90. Pitney Bowes PLC and Roneo Alcatel should maintain the necessary vigilance to prevent malpractices on the part of their salesmen and accept full responsibility for ensuring that if such malpractices occur in the future they will take necessary action to discipline any of their staff who use or permit such tactics (paragraph 9.67).

Subsequent action

3. Following the inquiry Pitney Bowes and Roneo Alcatel (now Neopost) gave undertakings in accordance with those of the MMC's recommendations which affected them, and the Post Office agreed to amend some of its arrangements relating to franking machines. The undertakings given by Neopost have since lapsed, but those given by Pitney Bowes are still in force. In summary, they are as follows:

- (i) To permit postal franking machines (save those under guarantee or rented from the Company) to be maintained by any person approved by the Post Office.
- (ii) Not to require leasing companies, or to require leasing companies to require the users, to return postal franking machines to the Company (though the Company may require the return of the dies used in the machines).
- (iii) To supply spare parts on reasonable terms to persons approved by the Post Office to maintain or refurbish and supply postal franking machines.
- (iv) To provide prospective customers for postal franking machines with a current price list containing, at least, the price, terms for any other forms of supply, maintenance charges, and the standard terms offered by PB Leasing Ltd together with a statement that leases may be obtained from other companies.
- (v) To supply to the OFT such information as may be required to monitor compliance.