

12th January 2021

CWU Response to Ofcom's - Modifications of the USP Access Condition for regulating access to Royal Mail's postal network

Introduction

1. The Communication Workers Union (CWU) is the largest union in the communications sector in the UK, representing approximately 192,000 members in the postal, telecoms, financial services and related industries. We are the recognised trade union for around 140,000 non-managerial staff in Royal.
2. The CWU believes it is important that Royal Mail identifies new ways to reverse or slow the structural decline in letters, and we accept that the proposed Economy Access service could help sustain letter volumes by offering access customers more affordable options. However, no historical or forecast data is provided to assess how effective the proposals could be in meeting this objective. In the absence of this information, **we are concerned that the proposals may not improve prospects for access volumes and could hasten revenue decline compared with existing services.**
3. In general terms, the CWU holds a longstanding opposition to the downstream access regime, which mandates Royal Mail to provide access to its inward mail centres and includes a regulatory margin squeeze control to secure a share of the letter market for rival operators. As the CWU has argued previously, we do not believe the DSA regime has benefited the majority of postal users and it puts pressure on the revenues needed to help ensure the financial sustainability of the universal postal service.
4. **Our overriding concern with the Economy Access proposals is that rather than prioritising letter volumes, the main aim is to drive cost efficiencies by reducing the number of walks per day in delivery, which will put jobs and services at risk.** We accept that Ofcom has a duty to ensure that the universal postal service continues to be efficient, and we recognise that Royal Mail's success relies on it being efficient. However, there is a limit to how far cost efficiencies can be taken in Royal Mail before the quality of postal services and the scope of the universal service are undermined.
5. **Instead of scaling back services and putting revenues and jobs at risk, the CWU calls on Ofcom to work with Royal Mail to find ways to protect and enhance the universal postal service through revenue growth.** This should include an extension of the USO to cover parcel delivery six days a week, helping to meet increased demand for parcels whilst also making six day letter delivery more efficient. Royal Mail also has enormous

potential to leverage its unrivalled network to develop more commercial, public and social services, as other universal postal operators are doing to sustain the economic viability of their networks.

Brief summary of the Economy Access service proposals

6. Royal Mail's proposed new D+5 Letters access services – known collectively as the Economy Access service - will allow access customers to inject bulk mail at the Inward Mail Centre (IMC) for delivery up to four days from the injection date. Ofcom considers that these new services currently fall outside of the USPA condition. Ofcom expects that there will be considerable demand for these new access services, although **existing mandated access volumes (Standard Access) are expected to migrate to the Economy Access service rather than new business and volumes being created**. Therefore, to protect access-based competition going forwards, Ofcom is proposing to extend the USPA condition to the new D+5 Letters access services.
7. Ofcom considers that its proposal to extend the USPA condition to D+5 Letters access services would be appropriate for promoting effective competition; promoting efficiency; and conferring significant benefits on postal service users. It also believes the proposal will help contribute to the financial sustainability of the universal postal service, by reducing the number of walks per day (and associated costs).
8. The introduction of this new service is made possible by the implementation of a Delivery to Specification programme (DTS). This programme allows for the sequencing and holding of any letters at the IMC until potentially the last day they can be delivered. This increases the number of items being delivered per address while reducing the number of times Royal Mail needs to visit an individual address. The DTS programme requires IT investment. Royal Mail says the investment has and will continue to go ahead regardless of whether the Economy Access service is mandated or not. However, if the service is not mandated then it will result in a lower take up of the service and any efficiency gains will be reduced.
9. Royal Mail says that feedback from its customers was overwhelmingly positive. However, there was consensus across the industry that the new service should be VAT exempt. Royal Mail also says its historical volumes with Retail products have clearly demonstrated an industry demand for a lower price, longer delivery window service.

CWU Response to Ofcom's proposals

Question 1: Do you agree with our proposal to extend the USPA condition to the new D+5 Letters access services?

10. **No, in the absence of reassurances that the proposals will sustain letter volumes and uphold revenues, we are concerned that the Economy Access services will reduce the capacity of Royal Mail's network whilst putting jobs at risk.** We believe Royal Mail

should focus on growing revenues in order to help ensure the future financial sustainability of the universal postal service.

11. The CWU understands that the proposal to extend the USPA condition to the new D+5 Letters access services will provide customers with more choice by offering another stream of affordable products. We accept that this could help to sustain letter volumes if lower prices means customers are less likely to transition away from letters. However, neither Ofcom or Royal Mail have provided any historical or forecast data on expected mail volumes based on the Economy Access proposals compared with current services. Without this information, we have no confidence that the proposals will improve prospects for access volumes and revenues.
12. **Our main concern is that the key objective of the proposals is not to sustain letter volumes, but to drive cost efficiencies by reducing the number of walks per day and the associated costs.** We are particularly concerned about the impact this will have on resourcing requirements and jobs in Royal Mail.
13. **Our concerns about volumes, revenues and jobs are reinforced by comments in Royal Mail's letter to Ofcom,** which states that it does not anticipate the D+5 service will generate significant, if any, new volumes.¹ Instead a proportion of existing mandated access volumes (Standard Access) will migrate to the Economy Access service. **This suggests that, with lower prices for longer time window for delivery, there will be a negative impact on Royal Mail's revenues.** We are therefore sceptical of assurances we have received from Royal Mail that the changes will have relatively little impact on delivery, and that they will have a positive impact on revenue.
14. Our concerns are also reinforced by Ofcom's consultation document, which notes (para 5.38) that **Royal Mail estimates potential additional cost savings to be within a defined (confidential) range per annum,** subject to take-up among other factors. Ofcom also notes that **the introduction of the new D+5 access service will have an impact on revenue** which is not reflected in this figure, but overall Ofcom would only expect Royal Mail to launch the new service if it expects a positive net impact on its profitability compared to the counterfactual.² Improved profitability is of course important for Royal Mail, but we believe this should be driven by long term sustainable growth, rather than through cutting costs.
15. We have other concerns about the direct operational impact of the proposals, especially on delivery staff. For example, the average call rate each day is expected to reduce, but it is unknown at this stage how the deferred mails will be captured in a new workload

¹ Letter from Royal Mail to Ofcom on Economy Access Service, 21st August 2020, accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0017/207125/annex-5-royal-mail-letter-economy-access.pdf

² Modifications of the USP Access Condition for regulating access to Royal Mail's postal network, 11 November 2020, Para 5.38, p.24, accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0016/207142/consultation-modification-usp-access-condition.pdf

calculation. There could be a situation where all the items are added to one single delivery day each week, therefore adding significant volumes not forecast and putting excessive pressure on employees.

There is a limit to how far cost efficiencies can go before damaging postal services

16. We recognise that Ofcom has a duty to ensure that the universal postal service continues to be efficient, and we understand the importance of efficiency for Royal Mail's success. Substantial changes have been delivered in partnership with the CWU and the workforce to help Royal Mail modernise and remain efficient since its modernisation programme began in 2008. However, there is a limit to how far efficiencies can be driven and costs taken out of the business before services are weakened. We believe that **the proposed changes could result in job losses that will undermine the integrity and capacity of Royal Mail's network, putting the future scope of the universal service at risk.**

The CWU calls for a more ambitious strategy to secure the universal service based on revenue growth

17. **Instead of scaling back services, we believe there must be far more ambitious thinking about ways of leveraging the postal network to offset the decline in letter revenues and sustain the USO.** We disagree with Ofcom that the financial sustainability of the postal USO depends on cost cutting measures. This will only lead to a reduction in what is a vital public service, especially for customers who are more difficult or expensive to serve.
18. We call on Ofcom to work with Royal Mail to find ways to protect and enhance the universal postal service through revenue growth. In particular, **we believe there should be an extension of the USO to cover parcel delivery six days a week.** This will help to meet increased demand for parcel delivery whilst also making letter delivery more efficient and helping to offset the decline in letter volumes.
19. **We also want to see the postal regulatory framework supporting and incentivising the introduction of innovative new services and revenue streams that maximise the potential of Royal Mail's unrivalled network.** Royal Mail is the only company in the UK that can deliver to every address, every day. It is also a highly trusted brand. This presents significant opportunity for Royal Mail to diversify and grow based on a mix of commercial, public and social services. Many other postal operators around the world, including La Poste and Deutsche Post, have pursued revenue diversification strategies to help sustain the economic viability of the postal network. These include, for example, providing storage and delivery solutions for local businesses, delivering food and medicines to people with limited mobility, and checking on the elderly and vulnerable at home.
20. Furthermore, the coronavirus crisis has highlighted the importance of universal postal services as critical national infrastructure in delivering essential goods and services and

maintaining economic activity and social cohesion. We believe **Ofcom should be working not only with Royal Mail, but also with Government to explore the potential for investment in the postal network to help meet key public service objectives.** These include, for example, the delivery of testing kits and vaccines, and tackling loneliness and isolation. This will also help to secure the future financial sustainability of the universal postal service.

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