

PUBLIC VERSION



# Response to Ofcom's Review of: Mail Integrity and Postal Common Operational Procedures

Part 2: Postal Common Operational Procedures

25<sup>th</sup> April 2013

Redacted confidential information in this document is indicated by: [X]

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## Introduction

- i. Royal Mail welcomes Ofcom's call for input on the Postal Common Operational Procedures (PCOP) code of practice and the intention to formally consult on the code in the summer. The market has developed significantly since PCOPs inception in 2006. It is therefore an appropriate time to consider the effectiveness of the current code and to identify an appropriate approach going forward.
- ii. Royal Mail believes that an industry managed framework, with a simple high level regulatory requirement to ensure participation, is the appropriate approach to PCOP arrangements. The current regulatory obligations are overly prescriptive, inflexible and restrictive. An industry code would increase flexibility, promote innovation and improve efficiency. Therefore, we believe it is unnecessary for Ofcom to specify an onerous regulatory code, and suggest that Ofcom revise CP2 to remove the reference to the PCOP Agreement as a default solution for handling of such mail.
- iii. Due to our position as the USP, a disproportionately large amount of this type of mail enters our network through our open access pillar-boxes; it is therefore in our best interest to ensure a workable commercial code is established and continues to operate successfully. An industry managed framework would adequately serve the needs of consumers, so long as all regulated operators participate, through the provision of a relevant and fair process that ensures mis-posted items are handled in the most effective way.
- iv. Royal Mail agrees, in part, with the views of UK Mail and the Mail Competition Forum (MCF), outlined in Ofcom's call for input, that there is no evidence of a problem requiring on-going regulatory intervention in its current form. However, due to low levels of industry participation in the current agreement (estimated at c.32% of regulated operators), Royal Mail asks that Ofcom consider imposing a simple framework condition to underpin an industry code, which requires all regulated operators, including end to end operators, to be signatories of an industry code to ensure effective repatriation of mail.
- v. Furthermore, by retaining an ability to step in, as mentioned in paragraph 3.14 of Ofcom's call for input, Royal Mail supports Ofcom holding the ability to advocate on any issue where agreement has not been reached by the industry and further ensure changes made by the industry are done so on a fair and reasonable basis. This would afford consumers the necessary protection, without the need for full regulatory intervention.
- vi. Royal Mail believes that Ofcom should ensure such a requirement is adequately enforced, in order to make it mandatory for all regulated operators to establish arrangements for misdirected mail under an industry managed scheme. Royal Mail believes that this would give an industry managed framework the best possible chance of success by ensuring all operators are involved. To date, under the regulatory regime, this has not been the case, and is one of its main failings.
- vii. Royal Mail believes that it would remain good industry practice to operate an agreement consistent with the principals of PCOP without being subject to extensive regulatory obligations and specification. Royal Mail would remain happy to continue as secretary to any industry owned agreement, in the same way as we have since the introduction of the regulatory agreement in 2006.

- viii. Royal Mail agrees with the view of DX Group, that an annual meeting of signatories would enhance the effectiveness of any agreement, and it would be a useful forum to discuss the on-going effectiveness of an industry managed solution. We believe this type of forum would be essential to the successful operation of an industry managed code and as such, if Royal Mail were to remain as secretary, we would facilitate such meetings at intervals determined by the industry.
- ix. Royal Mail is well placed to take an active role in the instigation of an industry managed solution, we already have existing relationships with all existing signatories, including the main [X] operators who regularly have items repatriated to them from the Royal Mail network under the existing regulatory code. Furthermore, we are already actively working to encourage non-signatories to become party to the agreement. To develop an industry framework Royal Mail would consult with relevant stakeholders in open forum to ensure that the resulting agreement reflects the requirements of the industry in a fair and reasonable way.
- x. Royal Mail considers that the current code is disproportionately burdensome. If (notwithstanding the comments set out in this response) Ofcom decide to maintain a regulatory code, it should address these concerns and ensure that that all operators covered by the code equally comply with its requirements. Further, it should ensure Royal Mail is able to recover the costs incurred from processing PCOP mail, currently we incur a significant loss on the processing of these items.
- xi. Royal Mail asks that Ofcom consider imposing a simple framework condition to underpin an industry code, which requires all regulated operators to participate.

## ***The current regulatory approach has not worked***

### ***A 'one size fits all' regulatory approach does not align to a fast developing postal market***

1. The mails market has moved on significantly since the PCOP code was introduced in 2006 – for example, the emergence of direct delivery competition. The current 'one size fits all' approach is not able to adequately keep pace with the current rate of change in the postal market. Royal Mail believes that only an industry managed framework would have the necessary flexibility.
2. In order to comply with the regulatory code, Royal Mail has to implement a national solution. There is, however, significant regional disparity in the amount of PCOP traffic found at different sites. Operating the same 'one size fits all' framework for processing PCOP mail at each site with such wide variation in traffic is disproportionate. Royal Mail's traffic data [§<] for items carried under PCOP highlights how the operational impact is focused on a minority of sites. Currently just 3 Mail Centres handle the majority [§<] of PCOP items, meaning revenue protection facilities at these sites spend a disproportionate amount of time performing this task. An industry managed agreement would allow greater flexibility, where solutions could be developed to meet regional requirements.
3. In addition, a 'one size fits all' framework is not able to accommodate the significant disparity in PCOP traffic between operators. The largest two operators, who are signatories to the existing regulatory code, account for 91% of PCOP items extracted from Royal Mail's network, the smallest just 0.1%. A flexible industry framework could be tailored to reflect these significant disparities in operator traffic, through different framework specifications and pricing options.
4. As the market continues to develop, a regulatory approach would quickly become overly complex if it attempted to address differences, such as those highlighted above, necessitating frequent changes. This would place unnecessary burden on the industry. An industry managed solution, with a simple high level regulatory requirement to ensure participation of all regulated operators, would facilitate the creation of a new framework with sufficient flexibility to develop with the market. This would permit solutions that varied by operator size, and therefore better meet the needs of all regulated postal operators. Compared with the existing 'one size fits all' approach, this would represent a significant improvement, as the solution could develop to ensure a constant fit with the requirements of the industry.

### ***The PCOP regulatory framework has lacked adequate regulatory enforcement since it was introduced in 2006***

5. While Ofcom has reiterated that all regulated operators should belong to PCOPA, to date it has not taken any steps to enforce this. In spite of endeavours by Royal Mail, as secretary, participation remains low (estimated at c.32% of regulated operators). Many operators, who are theoretically obliged signatories under the existing CP2, have failed to sign up to the existing regulatory agreement. Following changes to the code and agreement in June

2012, Royal Mail wrote to 43 operators in December 2012, to encourage participation. From this only three additional signatories have been gained. This low take up rate further highlights that the Regulatory Code is seen by the market as unnecessary, indeed in the past 3 years only 5 of the 19 signatories have actually had mail returned to them by Royal Mail under PCOP.

6. Furthermore, the existing CP 3.2.17c requires that a *“regulated postal operator must be a member of a qualifying redress scheme in relation to consumer complaints about the provision of a regulated postal service”* – this requirement, as it is currently deployed, is unworkable. At present Ofcom does not publish a list of operators, without which a redress scheme for consumer complaints cannot adequately function. While Royal Mail endeavours to maintain a list of operators, there is no list made readily available to the industry as a whole. By maintaining, and enforcing, a simple high level requirement for regulated operators to participate in an industry framework, this issue can be easily resolved without the need for a burdensome regulatory code and agreement specification.

### ***Inclusion of end to end operators in any industry led solution***

7. If an industry led framework is established, Royal Mail suggests that it is essential for all regulated operators, including end to end operators, to be signatories of an industry code. This is particularly relevant for operators who are required to notify Ofcom when intending to deliver more than 2.5m items in a financial quarter<sup>1</sup>. Royal Mail suggests that such operators be required, by Ofcom, to sign up to an industry agreement as part of this notification process, where they had not already done so. This will ensure that any PCOP items resulting from their operation can be effectively managed by Royal Mail and the industry in general.
8. As the postal market continues to develop, end to end competition is already rapidly increasing the volume of PCOP traffic handled by Royal Mail. [X]. A flexible industry led framework is what is required to adequately keep pace with the current rate of change in the postal market.

### ***The current PCOP agreement is over specified and lacks flexibility***

9. The current regulatory agreement requires that *“...the Receiving Operator shall use all reasonable endeavours to make those Misdirected Code Letters available for collection by the Intended Operator during the immediately following Exchange Slot...”*<sup>2</sup> This is overly restrictive, and is over specified. By nature a ‘Code letter’<sup>3</sup> is highly unlikely to be an ‘express’ item, and is therefore less time sensitive. It is disproportionate to impose a

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<sup>1</sup> Notification Condition 1.2: Requirement to notify intention to provide specified delivery services  
<http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex12.pdf>

<sup>2</sup> PCOPA (POSTAL COMMON OPERATIONAL PROCEDURES AGREEMENT) Amended on 1 June 2012: Para 7.1:

<sup>3</sup> As defined under CP 2.1.2 (p) - “Code Letter” of Consumer Protection Condition 2: Postal Common Operational Procedures  
<http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex8.pdf#page=6>

regulatory obligation which requires such items to be processed within such a short timeframe. Resultantly, Royal Mail incurs a loss on the PCOP items we process, since the costs incurred from operating a process that fulfils the existing regulatory specification far exceed the price permitted under the existing regulatory price control [3<]. An industry managed framework would allow a more effective and flexible approach for the timescale for handling PCOP items to be agreed in line with the requirements of the industry.

10. In addition to the financial losses incurred by Royal Mail, the processing of PCOP items represent a significant opportunity cost. The additional staff hours required to process PCOP mail could be spent on other activities to deal with revenue leakage, which would yield a higher return. Furthermore, the handover day requirement increases the resource Royal Mail has to devote to the processing of PCOP mail, since this task has to be prioritised in order to meet the regulatory specification. This risks delays to other key revenue protection tasks, and is likely to have an adverse impact on quality of service at peak times.
11. In addition, the current code, under CP2.3.1(b), and further reiterated under CP2.3.13, states that an operator must return items as the first option, even where this is not preferable for either operator. Other options for the receiving operator to deliver and surcharge such items, or return and surcharge may be far better suited to smaller scale operators. By limiting the scope to explore such solutions, the existing regulatory specification limits innovation and restricts the scope for Royal Mail explore new, lower cost, solutions which could help address the losses incurred from operating the existing specification. Such choices are not possible under the current regulatory code and agreement however they could be incorporated into an industry based solution if the industry required.

***The current PCOP agreement reduces incentives for the agreement of commercial solutions and imposes disproportionate compliance costs upon Royal Mail***

12. Whilst the current regulatory Code does permit bilateral agreements between postal operators<sup>4</sup>, no such agreements have been developed. The regulatory agreement's restrictive price control all but negates the incentive for operators to enter into such commercial agreements. The current prices are not cost reflective and essentially require Royal Mail to subsidise the cost of undertaking repatriation of mail.
13. The current price control does not allow for the full recovery of the costs Royal Mail incurs in handing PCOP mail. It imposes a significant cost of compliance upon Royal Mail, whilst at the same time it keeps the cost of compliance for other operators artificially low. Royal Mail believes that the costs of compliance should be borne by the operators to whom PCOP items originate - currently this is not the case. An industry managed agreement would result in prices that were reflective of cost. [3<].

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<sup>4</sup> PCOPA (POSTAL COMMON OPERATIONAL PROCEDURES AGREEMENT) Amended on 1 June 2012: Recital D: "This Agreement sets out the terms and conditions on which Regulated Postal Operators are to treat misdirected and miscollected mail and approach related issues insofar as Regulated Postal Operators do not have alternative arrangements in place which meet the requirements of the Code (including the Code Objectives)."

14. If PCOP volumes continue to grow as a result of direct delivery, the financial impact of PCOP on Royal Mail will significantly worsen. [X]. Unless Royal Mail is permitted to recover its costs, a higher level of PCOP traffic would result in Royal Mail incurring significant losses. The financial loss Royal Mail incurs from handling PCOP items is detrimental to the financial position of Royal Mail Group. A regulatory price control that enforces losses upon Royal Mail as the USP is contradictory to Ofcom's primary duty, to ensure *"the provision of a universal postal service to be financially sustainable"*.<sup>5</sup>
15. Furthermore, following amendments to the existing agreement made by Ofcom in June 2012, the price control description of 'RPI<sub>t</sub>' contains an error concerning the number of months. Royal Mail has previously requested that Ofcom correct this error, however it still remains. [X]. Royal Mail requests that this be addressed as a matter of urgency in the interim while Ofcom considers next steps for the PCOP as a whole.

## **Regulation going forward should be risk based**

### ***An industry managed framework will better meet the industry's needs both now and in the future***

16. Royal Mail believes that the right approach is an industry managed framework with a regulatory requirement for other operators to participate in such a solution. The current regulatory obligations are overly prescriptive, inflexible and restrictive. An industry code would increase flexibility, promote innovation and improve efficiency. Therefore, we believe it is unnecessary for Ofcom to specify an onerous regulatory code, and suggest that CP2 be revised to remove the reference to the PCOP Agreement as a default solution for handling of such mail.
17. Royal Mail believes that Ofcom should ensure such a requirement is adequately enforced, in order to make it mandatory for all regulated operators to establish arrangements for misdirected mail under an industry managed scheme. We believe that this would give an industry managed framework the best possible chance of success by ensuring all operators are involved.
18. Due to low levels of industry participation in the current agreement (estimated at c.32% of regulated operators), Royal Mail believes it necessary for Ofcom to maintain a simple high level requirement for all regulated operators, including end to end operators, to sign up to any industry managed successor of PCOP to ensure effective repatriation of mail to the intended operator. Ofcom should ensure such a requirement is adequately enforced, to give an industry managed framework the best possible chance of success by ensuring all operators are involved. To date this has not been the case, and is one of the main failings of the existing regime.

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<sup>5</sup> Postal Services Act 2011 (P29, Paragraph 29 (3)):

*"In performing their duty under subsection (1) OFCOM must have regard to— (a) the need for the provision of a universal postal service to be financially sustainable"*



19. Royal Mail believes that it would remain good industry practice to operate an agreement consistent with the principals of PCOP without being subject to extensive regulatory obligations and specification. Royal Mail would remain happy to continue as secretary to any industry owned agreement, in the same way as we have since the introduction of the regulatory agreement in 2006.

***Code identifiers remain necessary, regardless of whether the framework is regulatory or industry owned***

20. Royal Mail believes that, contrary to the suggestion of the MCF, code identifiers remain essential, regardless of whether the framework is regulatory or industry owned, in order to operate a framework where mail is handed back to the intended operator.
21. The alpha-numeric identifier offers a simple solution that ensures operator's mail is identifiable to Royal Mail revenue protection staff, and allows it to be easily segregated from downstream access mail which bears similar indicia.
22. Under an industry managed solution, as part of a condition to ensure participation, Ofcom could still retain the duty to issue operator indicia's, since it remains essential that an up to date list of operators is maintained. This is essential both for effective mail repatriation and for customer's misplaced complaints to be correctly directed to the relevant operator for resolution, as highlighted in paragraph 6.

***Consumers will not experience any adverse impact if an industry managed framework is adopted***

23. The current agreement stipulates two very similar courses for repatriating mail to the correct operator, both of which delay mail transmission, to varying degrees, and increase overall handling costs. An industry managed framework would lead to the considerations of more innovative and efficient options in an open forum, so that alternative options for conveying such mail can be considered while at the same time ensuring that mis-posted items are handled in the most effective way.
24. Furthermore, by retaining an ability to step in, as mentioned in paragraph 3.14 of Ofcom's call for input, Royal Mail supports Ofcom holding the ability to advocate on any issue where agreement has not been reached by the industry and further ensure changes made by the industry are done so on a fair and reasonable basis. This would afford consumers the necessary protection, without the need for full regulatory intervention.

### ***Extension to the existing PCOP Code is unnecessary regulatory intervention***

25. Royal Mail maintains the view previously set out in our January 2012 response<sup>6</sup>, that extension of the code to cover all postal packets carried through our network is both unnecessary and disproportionate. The items PCOP covers should be determined by the industry when setting up a replacement framework and periodically reviewed to ensure that the selection remains appropriate.
26. Parcel networks are not open access i.e. items are not in general posted into pillar-boxes. This suggests that it is much less likely that items intended for other operators will enter the networks of parcel carriers. Evidence from PCOP traffic data for 2012/13 highlights that only [8<] of PCOP items found in the Royal Mail network are 'parcel' format. Royal Mail does therefore not believe it necessary for Ofcom to extend the code to include parcels.
27. Furthermore, Royal Mail believes that it is unnecessary to extend the code to cover unaddressed items. Royal Mail has existing procedures in place for handling unaddressed items we receive that are either not on the manifest, or bearing the logo of another operator. Extending the code to cover such items is therefore disproportionate as there no issue requiring regulatory intervention.

### ***If Ofcom determine that a regulation is necessary, a replacement regime must be proportionate and sufficiently flexible to develop with the industry's requirements***

28. If (notwithstanding the concerns with the current regime which are set out in this response) a regulatory code of practice were to be retained, it should not represent a disproportionate burden on Royal Mail, in terms of price and operational specification. Royal Mail strongly opposes the imposition of a price control; we must be permitted to recover the actual costs incurred, and earn a commercial rate of return, from the processing of items for repatriation under PCOP.
29. Under a regulatory solution, Royal Mail believes that it would be essential for Ofcom to maintain, and publish, a list of all regulated postal operators and enforce sign up to the regulatory code of practice. This has not been the case under the current regulatory code, as highlighted in paragraph 5.
30. If Ofcom were however to retain a price control, it must fully take into account the full costs of provision, be sufficiently scalable, and flexible enough to adapt to the needs of to ensure it is future proof.

### ***Need for a formal consultation***

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<sup>6</sup> Royal Mail January 2012 response to Ofcom  
[http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/Royal\\_Mail\\_response\\_to\\_Code1.pdf](http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/Royal_Mail_response_to_Code1.pdf)

31. Royal Mail supports Ofcom's proposal to formally consult on the PCOP code in the summer. The postal market has changed significantly since the code was first developed and we believe that it no longer remains fit for purpose. For the reasons highlighted in this response, we consider it to be appropriate to remove regulation in this area and allow the industry to develop an appropriate framework to meet the current and future needs of the industry as a whole.
32. The remainder of this document answers each of Ofcom's specific questions in turn.

## Q&A:

### ***Q3.1 Should the PCOP Code remain part of CP2 as set by Ofcom or should it be owned and managed by the industry subject to Ofcom supervision?***

- Royal Mail believes PCOP should be industry owned and managed under a regulatory requirement for participation by all regulated operators, including end operators
  - Royal Mail would be happy to continue to act as secretary if an industry owned agreement was created
  - Due to Royal Mail's role as the USP, it is highly likely that we will receive PCOP mail into our network through open access pillar boxes. Our input into any future agreement is therefore essential, and it is in our interest to ensure its operation is successful and that any framework is fit for purpose
- An industry managed framework with a simple regulatory requirement to ensure participation, would allow for greater flexibility and further would:
  - Represent minimal change from current practice in day to day operations, PCOP is a 'business as usual process' embedded in Royal Mail's operation
  - Allow the industry to decide what issues are important and to form appropriate solutions
  - Have a higher participation rate, when compared to the existing regulatory regime, if Ofcom implement and enforce a simple regulatory requirement to ensure participation
  - Comprehensive operator coverage would be beneficial to the industry and consumers, since it would make identification of the intended operator of mis-posed items easier and ensure repatriation of items is possible. Presently, it is often difficult to find the required details of non-signatories, this hinders the repatriation process.
- To facilitate the creation of such a requirement, Royal Mail believes that Ofcom should:
  - Revise the existing CP2 condition to remove the reference to the PCOP agreement as a default solution for handling of such mail.
  - Make it mandatory for all regulated operators to establish arrangements for misdirected mail under an industry managed scheme.
- Royal Mail believes that this would give an industry managed framework the best possible chance of success by ensuring all operators are involved.
- Regulatory intervention into PCOP is unnecessary, since:
  - It limits flexibility
  - It limits scalability
  - It limits incentives to innovate
  - It removes incentives for operators to negotiate commercial bilateral agreements

***Q3.2 Should the PCOP Code be extended to cover all postal operators or specific types of postal operator (in addition to or instead of access operators and regulated postal operators)? If so, please set out your reasons for this proposed extension.***

- Royal Mail believes that the scope of the items PCOP covers should be determined by the industry when setting up a replacement framework and periodically reviewed as necessary to ensure that the selection remains appropriate.
- Royal Mail believes that extension of the code to include parcel operators is unnecessary, since:
  - Parcel networks are not open access, making it far less likely that items for another operator will enter such networks; this is highlighted by the low number of PCOP parcel format items [X].
  - Royal Mail has existing procedures in place to handle unaddressed items we receive that are either not on the manifest, or bear the logo of another operator
- Royal Mail believes any replacement to a regulatory code should only apply to regulated postal operators and exclude express parcel or unaddressed mail operators
  - Royal Mail reiterates that any code should cover End to End mail operators, Downstream Access Operators and operators conveying Customer Direct Access (CDA) traffic
- Royal Mail suggests that any end to end operator notifying Ofcom of their intention to deliver more than 2.5m items per quarter should be required to become a signatory to an industry framework as part this notification process

***Q3.3 Do you think the current scope of the PCOP Code (in relation to the type of items to which it applies) is appropriate? Please set out your reasons.***

- Currently PCOP covers items up to 350g and costing less than £1 (CP2)
  - These criteria were set in accordance with the 'old licenced area' and have no practicable basis under today's regime
  - Royal Mail considers that the scope of items to be covered by PCOP should be determined by the industry when setting up a replacement framework and periodically reviewed as necessary to ensure that the selection remains appropriate
- As highlighted in our answer to Q3.2, Royal Mail believes it unnecessary to extend the scope of the current code to include either unaddressed or parcel operators

***Q3.4 Do you think the costs of complying with the PCOP Code are proportionate? Please set out your reasons.***

- In Royal Mail's view, the cost of compliance with the code for non-Royal Mail operators is minimal. Not least because the cost of repatriation of items have been

kept artificially low due to the PCOPA current price control preventing efficient cost recovery. [✂]

- [✂]
- Royal Mail experiences opportunity costs from processing PCOP items, due to:
  - The revenue protection resource PCOP utilises, which could be better used in protecting USO revenues elsewhere
  - The cost of customer complaints we receive relating to other operators code mail
- The PCOPA stipulates an unnecessarily rigid price controlled charging structure which does not reflect:
  - Royal Mail's actual operational cost
  - Geographically specific fall to ground of PCOP traffic – e.g. concentration on certain mail centres
  - Format of PCOP items
- The price control governing PCOP is disproportionate, Royal Mail believe operators should be able to recover their actual cost of handling

***Q3.5 Are the current requirements in CP2 and the PCOP Code appropriate? Please set out your reasons.***

***CP2:***

- To date, neither Ofcom nor Postcomm have enforced the PCOP Code under CP 2.2.2, as highlighted in paragraph 5, the vast majority of operators who are obliged to be signatories to the Agreement are not.
- Royal Mail believes that it is necessary for Ofcom to maintain a simple high level requirement for all regulated operators, including end to end operators, to sign up to any industry managed successor of PCOP to ensure repatriation of their mail. Ofcom should ensure such a requirement is adequately enforced, to give an industry managed framework the best possible chance of success by ensuring all operators are involved. To date this has not been the case, and is one of the main failings of the existing regime.

***PCOP Code:***

- In Royal Mail's view 'Code identifiers' remain necessary in a solution where mail is repatriated to the intended operator, as they ensure each operator's mail is identifiable to Royal Mail revenue protection staff and allow it to be easily segregated from downstream access mail
- Under an industry managed solution, indicia could be issued by the industry, or Ofcom could retain the duty
- In Royal Mail's view it is essential that an accurate and up to date list of operators is maintained

***Q3.6 Should the modification process for the PCOP Agreement remain part of CP2 or should it be managed by the industry? Please set out your reasons.***

- Royal Mail seeks removal of the Agreement from CP2:
  - An extensive regulatory code and specification are not in the interest of, or able to reflect a fast, developing market
- In Royal Mail's opinion a more effective framework could be derived from industry discussion
  - It would allow the industry to decide what issues are important and form solutions around them
  - It would give flexibility for other options to be explored in addition to the current process which is used to return mail to the intended operator
  - Future changes and new solutions could be easily added to an industry owned agreement without having to undertake burdensome regulatory amendment process
- Royal Mail believes that it is necessary for Ofcom to maintain a simple high level requirement for regulated operators, including end to end operators, to sign up to any industry managed successor of PCOP
- Furthermore, by retaining an ability to step in, as mentioned in paragraph 3.14 of the call for input publication, Ofcom would retain the ability to advocate on any issue where agreement has not been reached by the industry and ensure changes made by the industry are done so on a fair and reasonable basis. This would afford consumers the necessary protection, without the need for full regulatory intervention.

***Q3.7 Are there any issues relating to the PCOP Code or the PCOP Agreement on which you believe we should consult, that are not set out in this document? Please set out your reasons.***

- Royal Mail believes that the current regulatory agreement's price control is overly restrictive, and needs to be removed
  - It removes incentives for operators to enter into bilateral agreements since it keeps the cost of compliance for non Royal Mail operators artificially low
  - This prevents price being used to incentivise more efficient solutions through bilateral agreements
  - The losses made by Royal Mail Group on PCOP items are detrimental to the financial position of the company. Unless the existing price control is not removed these losses are likely to worsen as PCOP volumes grow and Direct Delivery competition develops. See Annex 1.
- Royal Mail believes that the current code removes operator choice by requiring items to be returned as the first option, even where this is not preferable for either operator under CP2.3.1(b).
- Royal Mail believes that the timescale imposed under current PCOP Agreement is overly prescriptive, requiring PCOP items to be returned to the intended operator by the receiving operator by Day B.

- Royal Mail proposes that this specification is higher than the market actually requires, as PCOP items are unlikely to be time sensitive
  - An industry managed framework could yield a handover time that is determined by the industry, and therefore will be more efficient. A regulatory framework cannot achieve this as it would lack both scalability and flexibility
- [§<]
- Following amendments to the existing agreement made by Ofcom in June 2012, the price control description of 'RPI<sub>t</sub>' contains an error concerning the relevant number of months. Royal Mail has previously requested that Ofcom correct this error, however it still remains. [§<]. Royal Mail requests that this error is corrected promptly in the interim while Ofcom considers next steps.
- In Royal Mail's view the provision of redirections data to direct delivery operators would not represent a solution, since:
    - It is not mandatory for individuals moving house, or business moving premises to take out an official redirection service with Royal Mail, this means that items will still be unofficially forwarded, or returned to sender
    - The second largest generator of PCOP traffic extracted from the Royal Mail network is DX, who do not use standard addresses



**Annex 1 –**

*Royal Mail cost of handling PCOP items*

[✂]

**Annex 2:**

*2012/13FY Number of Misdirected Code Letters Received by Royal Mail (by Intended Operator)*

[✂]

**Annex 3:**

*2006/7FY to present: Number of Misdirected Code Letters Received by Royal Mail (by Intended Operator)*

[✂]

**Annex 4:**

*Detailed PCOP Traffic and Charges: [✂] (2012/13FY)*

[✂]

**Annex 5:**

*Detailed PCOP Traffic and Charges: [✂] (2011/12FY)*

[✂]