



# Ofcom consultation: Review of second class safeguard caps 2024

THE CONSUMER COUNCIL RESPONSE

1 September 2023

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# 1. EXECUTIVE SUMMARY

The Consumer Council welcomes the opportunity to respond to Ofcom's consultation on its review of the price safeguard caps for second class standard letters, large letters and parcels up to 2kg.

The second class service is the most basic part of the universal postal service and the existing price cap mechanism is an essential regulatory safeguard for consumers. This must protect consumers from price increases that negatively affect access to the universal postal service including affordability issues.

We have recently engaged with a representative sample of consumers across Northern Ireland to develop our understanding on their views on the current and future price-related issues including the affordability of the products protected by the existing safeguard caps.

We provide evidence from this research throughout our response which demonstrates that it is essential that Ofcom protects consumers across Northern Ireland in the letters and parcels market by continuing with the regulatory price cap mechanisms.

## **Second class standard and large letters**

We welcome Ofcom's proposal to retain a safeguard price cap on second class standard and large letters. However, we recommend that Ofcom sets a specific price cap for each product for a 5-year period. Additionally, a 1-year freeze on CPI increases should be applied to protect consumers including the most vulnerable.

## **Second class parcels up to 2kg**

We have significant concerns about Ofcom's proposal to remove regulatory price protection for second class parcels up to 2kg. Our research shows there is a significant risk associated with removing the price cap and it makes a compelling case that this approach is retained.

Equally, our research shows the nature and extent of the negative impact on consumers the existing basket approach for parcels has had. This should be addressed by moving to a single simple price point cap for parcels. This approach is proportionate and is needed to protect consumers across Northern Ireland.

## **Targeted scheme**

The Consumer Council believes that consumers need the continuation of regulatory price protection through simple price point caps for letters and parcels which provides universal protection to all consumer groups. We do not support the removal of the letter price cap as a trade off in favour of a narrower standalone targeted scheme.

Any targeted scheme would need to be in addition to the regulatory second class price cap protection for the reasons discussed throughout our response.

As the statutory consumer body for postal services in Northern Ireland we look forward to discussing Ofcom's proposals and our response over the coming months. It is clear consumers still need regulatory protection.

## 2. ABOUT US

The Consumer Council was established in April 1985 as a non-departmental public body (NDPB) under the General Consumer Council (Northern Ireland) Order 1984 (The Order). We operate under the Department for the Economy (DfE) on behalf of the Northern Ireland Executive.

Our vision is to protect and empower consumers in Northern Ireland by ensuring the legislation and regulation for consumer protection works effectively for consumers here.

Our mission is to be the trusted go-to organisation for Northern Ireland consumers, working with governments and stakeholders to inform policy and decision making, using our research, insight and expertise to deliver positive outcomes for consumers.

We have statutory duties in relation to consumer affairs, energy, postal services, transport, water and sewerage, and food accessibility. These include responding to enquiries, investigating complaints, carrying out independent research, educating and empowering consumers, and advising government on matters relating to consumer affairs.

With regards to postal services, the Consumers, Estate Agents and Redress (CEAR) Act 2007 and the Office of Communication's regulatory conditions for Royal Mail, as the universal service provider, provides the Consumer Council with statutory responsibility for representing postal consumers in Northern Ireland.

Our work focuses on carrying out research, influencing policy, providing advice and information, and investigating complaints made by consumers in vulnerable circumstances, and gives us information gathering and investigation powers to help fulfil this statutory function. Our investigation powers also include issues relating to the number and location of post offices across Northern Ireland.

Our non-statutory functions educate and empower consumers against unfair or discriminatory practices in any market including financial services. We are also a designated super-complaints body under the Enterprise Act 2002 and the Financial Services and Markets Act 2013.

As an insight-led evidence based organisation, we:

- Provide consumers with expert advice and confidential guidance.
- Engage with government, regulators and consumer bodies to influence public policy.
- Empower consumers with the information and tools to build confidence and knowledge.
- Investigate and resolve consumer complaints under statutory and non-statutory functions.
- Undertake best practice research to identify and quantify emerging risks to consumers.
- Campaign for market reform as an advocate for consumer choice and protection.

We have responsibilities under the Rural Needs Act 2016 and Section 75 of the Northern Ireland Act 1998 to ensure government policies recognise consumer needs in rural areas, and promote equality of opportunity and good relations across a range of equality categories.

We represent and campaign on behalf of all Northern Ireland citizens, in particular those in vulnerable circumstances, and pay particular regard to consumers:

- who are disabled or have long term health conditions
- who are of pensionable age
- who are on low incomes
- who live in rural areas

We use a set of eight guiding principles developed by the United Nations to assess where the consumer interest lies, and develop and communicate our policies, interventions and support. These provide an agreed framework through which we approach regulatory and policy work.

**Figure 1: Consumer Principles**



The principles ensure we apply a consistent approach across our statutory and non-statutory functions, and in all our engagement with consumers and stakeholders.

They serve to protect consumers, setting out the minimum standards expected from markets when delivering products or services in Northern Ireland. They also frame our policy position and approach to resolving consumer disputes with industry, offering a straightforward checklist to analyse and validate outcomes, in particular among vulnerable groups.

### 3. BACKGROUND

The Consumer Council welcomes the opportunity to respond to Ofcom's consultation on its review of the price safeguard caps for second class standard letters, large letters and parcels up to 2kg.

The second class service is the most basic part of the universal postal service which must be affordable to all consumers across Northern Ireland. In this context, the existing price cap mechanism is an essential regulatory safeguard for consumers. This must protect consumers from price increases that negatively affect access to the most basic part of the service and ensure consumers do not have affordability issues related to the regulated prices for the services that are covered by the cap.

Our past research in February 2022 showed that too many Northern Ireland consumers had affordability issues with the price of those second class services covered by the price cap. For instance:

- 27% had affordability issues with the current price of the standard second class letter service.
- 46% had affordability issues with the minimum cost of sending a second class small parcel at a post office.
- 34% had affordability issues with the minimum online cost of sending a second class small parcel.

To obtain an up to date understanding of the issues we have recently engaged with a representative sample of consumers across Northern Ireland. This has developed our understanding on consumer views on current and future price-related issues including the affordability of the products protected by the existing safeguard caps.

We commissioned Cognisense to undertake independent research. It carried out a face-to-face survey with 1,013 Northern Ireland consumers in June and July 2023.

We provide evidence from this research when answering Ofcom's consultation questions. It is essential that Ofcom fully considers this evidence and protects consumers across Northern Ireland in the letters and parcels market.

## 4. RESPONSE TO CONSULTATION QUESTIONS

**Question 1: Do you agree with our assessment that our proposals will not discriminate against any groups with protected characteristics? Please state your reasons and provide evidence to support your view.**

Ofcom's proposals must not discriminate against any groups with protected characteristics in Northern Ireland. From the consultation document it is unclear how Ofcom specifically completed its assessment for Northern Ireland consumers.

However, the key findings highlighted below from recent Consumer Council research show that some groups may be disproportionately affected if the right regulatory decisions for consumers are not reached.

It is also essential that the universal postal service remains affordable for all consumers and that Ofcom protects consumers from price increases that would negatively affect their access to the universal postal service.

Ofcom's impact assessment must fully take account of consumers, and the key groups, at a Northern Ireland level. The key groups consist of those:

- who are disabled or have long term health conditions.
- who are of pensionable age.
- who are on low incomes.
- who live in rural areas.

Ofcom must also clearly demonstrate that these groups are not discriminated against. It should clearly address this in its decision document.

In our response to the consultation, we provide insight from the Northern Ireland consumer perspective and experience to help Ofcom make informed decisions. We highlight when key consumer groups are at a greater risk of negative consequences.

Our recent research helps to demonstrate the importance of Ofcom ensuring the key groups we highlight above are fully protected in Northern Ireland. For instance:

- One in five (20%) consumers are worried about the current cost of sending letters<sup>1</sup>. This concern increases significantly for those with a disability (28%) when compared to those with no disability (19%).
- About one in five (21%) consumers are worried about the future cost of sending letters<sup>2</sup>. Again, this concern increases significantly for those with a disability (31%) when compared to those with no disability (20%).

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<sup>1</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following when sending letters and parcels with Royal Mail ... ? I'm worried about the current cost of sending letters. Base: all respondents (n=1013).

<sup>2</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following when sending letters and parcels with Royal Mail ... ? I'm worried about the future cost of sending letters. Base: all respondents (n=1013).

- One in five (20%) consumers are worried about the current cost of sending parcels<sup>3</sup>. This increases for those with a disability (23%) when compared to those with no disability (20%).
- About one in five (21%) consumers are worried about the future cost of sending parcels<sup>4</sup>. This increases significantly for those with a disability (25%) when compared to those with no disability (21%).
- Over the last 12 months, when sending letters or parcels by first or second class services nearly one in four (24%) say they paid the price of sending the letter or parcel even though it was too expensive considering their financial circumstances at that time<sup>5</sup>. This affected a greater proportion of those with a disability (27%) compared to those with no disability (23%). This also affected a greater proportion of rural consumers (31%) when compared to those living in urban areas (21%).

### **Ofcom's proposal to retain a safeguard price cap for second class standard and large letters**

We welcome Ofcom's proposal to retain a safeguard price cap on second class standard and large letters.

We discuss this in more detail when answering Ofcom's relevant consultation questions and highlight how to better protect consumers with the proposed price cap approach. Overall, the right regulatory decision is retaining the cap for a further 5-year period for letters.

### **Ofcom's proposal to remove the regulatory price cap for parcels up to 2kg**

We have significant concerns about the proposal to remove the regulatory price cap for parcels.

Issues currently exist within the current basket approach for consumers in Northern Ireland. We are concerned these will worsen if Ofcom decides to remove all regulatory price protection in favour of relying solely on competition in GB to decide what outcomes are delivered to Northern Ireland consumers.

It is important to recognise that competition in the parcel market does not deliver equitable outcomes for Northern Ireland consumers when compared to many other parts of the UK for consumers sending parcels. Another important consideration is how future GB to NI parcel movements arrangements will affect prices.

Ofcom's focus should be on improving how the regulatory price cap operates such as introducing a simple price point cap for second class universal postal service parcel products (up to 2kg).

In our response to the relevant questions, we highlight the barriers facing consumers across Northern Ireland accessing alternative operators, the dominance of Royal Mail and the impact of current prices and future prices on consumers, including the key groups we outline above.

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<sup>3</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following when sending letters and parcels with Royal Mail ... ? I'm worried about the current cost of sending parcels. Base: all respondents (n=1013).

<sup>4</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following when sending letters and parcels with Royal Mail ... ? I'm worried about the current future of sending parcels. Base: all respondents (n=1013).

<sup>5</sup> Cognisense Research. Question: Over the last 12 months, when sending letters or parcels by 1<sup>st</sup> or second class services, have you ever ... ? Paid the price of sending the letter/parcel even though it was too expensive considering financial circumstances at the time. Base: all respondents who had sent letters and/or parcels in the past 12 months (n=901).

**Overall, Ofcom should not proceed with its proposal to remove regulatory price protection for parcels up to 2kg. We are concerned that this will have a disproportionate negative impact on consumers across Northern Ireland including those that Ofcom has explained that have protected characteristics.**

**Question 2: Do you agree with our assessment under the Welsh Language Policy Marking Standards? Please state your reasons and provide evidence to support your view.**

The Consumer Council has no comment to make.

**Question 3: Do you agree with the objectives we propose to use for our review of the safeguard caps? Please state your reasons and provide evidence to support your view.**

The Consumer Council understands that Ofcom's proposed objectives are:

- Ensure universal services are affordable, particularly for vulnerable consumers.
- Provide protection to consumers where such protection is unlikely to be provided by competitive markets.
- Ensure any safeguard cap takes into account the costs of providing the capped service(s).
- Minimise the impact of any safeguard cap on the financial sustainability of the universal service, while retaining incentives for Royal Mail to operate efficiently.

We provide comments related to the objectives below.

**Ensure universal services are affordable, particularly for vulnerable consumers**

We support this objective, but it needs to specifically reflect each nation of the UK.

This objective is vital to protect consumers including those that are vulnerable and aligns to the affordability principle that underpins the purpose of the universal postal service. This objective must be successfully achieved in each nation of the UK for consumers to ensure equitable access to universal services.

We ask that Ofcom reflects this level of detail as part of this objective. For instance, this could be updated to:

- Ensure universal services are affordable, particularly for vulnerable consumers and for all consumers in each nation of the UK.

**Provide protection to consumers where such protection is unlikely to be provided by competitive markets**

We do not agree with the positioning of this objective in relation to Ofcom's proposal to remove the price cap for those parcel products.

The proposed objective creates a significant risk to consumers across Northern Ireland in the parcel market. It overly relies on the benefits of competition in parts of GB that do not exist in Northern Ireland so do not deliver equitable positive consumer outcomes. We discuss this in our consultation response supported by evidence.

We ask that Ofcom takes account of this to ensure its decision making process does not place consumers across Northern Ireland in a poorer starting position at the outset compared to GB consumers.

**Ensure any safeguard cap takes into account the costs of providing the capped service(s)**

The Consumer Council acknowledges these are important considerations for Ofcom. However, we are unable to provide a considered position in the absence of the specific details on the costs of providing the capped services to ensure the needs of the universal service provider and the consumer are balanced.

However, we do note that Royal Mail has no price regulation in most of the universal postal service portfolio so has greater pricing flexibility. This is an important consideration when taking account of the capped services as the second class service is working as a safety net for consumers. Ofcom should reflect this as part of the proposed objective to ensure a wider view is taken before Ofcom's final decision.

**Minimise the impact of any safeguard cap on the financial sustainability of the universal service, while retaining incentives for Royal Mail to operate efficiently**

We would ask that Ofcom repositions this objective. The safeguard cap is a vital consumer protection measure within the regulatory framework so the current wording implies the objective's primary purpose is to reduce this protection. Protecting consumers should be the primary regulatory objective in the review taking account of its focus on the most basic part of the universal postal service – the second class service.

The proposed objective should also take account of the pricing flexibility due to no price regulation in most of the universal postal service portfolio. It should also better balance the need for incentives instead of price increases within the capped services.

**Question 4: Do you agree with our analysis of the market in relation to Second Class standard letters and large letters? Please state your reasons and provide evidence to support your view.**

The Consumer Council provides its insight from the Northern Ireland consumer perspective to help Ofcom make informed decisions that protects all consumers in the letters market.

**Consumers need regulatory price protection for letter services.** We welcome Ofcom's proposal to retain a safeguard price cap on second class standard and large letters. We support this approach so that regulatory consumer price protections remain in place for the most basic part of the universal postal service.

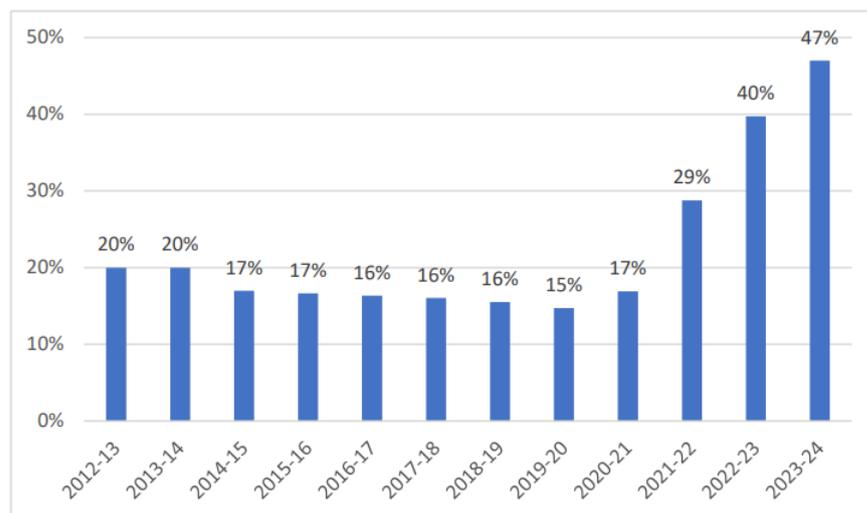
Consumers mostly use the cheaper standard universal postal services - first and second class – to send letters. Our recent research shows that over two-thirds (68%) of consumers used the standard first class service to send letters and over two in five (44%) used the standard second class service to send letters<sup>6</sup>. This excludes the services consumers use to send cards for special occasions such as birthday and Christmas cards.

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<sup>6</sup> Cognisense Research. Question: Thinking back over the past 12 months, when sending letters within the UK, which services have you used? Base: all respondents who had sent letters in the past 12 months (n=702 - note this base size relates to those sending letters only and does not include cards).

We agree with Ofcom that consumers will not buy more expensive universal postal services in response to price increases in the second-class service. Ofcom’s analysis displayed below helps to highlight this point which shows the significant % difference in prices between first and second class standard letters.

**Figure 11: Differential between First Class and Second Class stamped standard letter prices, 2012-13 – 2023-24**



Source: Ofcom analysis of Royal Mail Price Guides

**We also agree with Ofcom that Royal Mail remains a monopolist in the provision of end-to-end services for single piece standard letters.** This is the case for both second class and first class letters. Ofcom must protect consumers from price increases. Letters remain an important communication method for consumers across Northern Ireland with over three quarters (77%) sending a letter (including cards) in the past 12 months<sup>7</sup>.

We believe that consumers sending a letter with express parcel operators is an unrealistic switching option. There are several reasons but the most significant is the high prices of these services as we show in Table 1.

Our research also provides further insight on how consumers would respond to future Royal Mail price increases for sending letters<sup>8</sup>. In summary, almost half (48%) will continue to use the postal service with Royal Mail in the same way as before. An additional 17% say they will have no choice but to pay the price being charged by Royal Mail. This helps to highlight the strong position Royal Mail holds.

**We agree with Ofcom's position that e-substitution is not a meaningful constraint.** Many consumers (18%) in Northern Ireland have no access to the internet. There has been no material difference over a five-year period<sup>9</sup> between the proportion of those across Northern Ireland that do

<sup>7</sup> Cognisense Research. Question: How often, if at all, have you sent each of the following using Royal Mail in the past 12 months? All letters including cards. Base: all respondents (n=1013).

<sup>8</sup> Cognisense Research. Question: Which of these options best describes how future Royal Mail price increases will affect how you will use the postal service to send letters? Base: all respondents (n=1013).

<sup>9</sup> <https://www.consumerCouncil.org.uk/sites/default/files/2018-11/Consultation%20Response%20to%20Safeguard%20Cap%20Review%20-%202004%20October%202018.pdf>

not have access to the internet. For instance, Northern Ireland Statistics and Research Agency research in 2022 shows that<sup>10</sup>:

- Nearly one in five (18%) rural consumers do not have access to the internet.
- Over a quarter (27%) of consumers with a disability do not have access to the internet.
- Over a third (38%) of consumers aged 65 and over do not have access to the internet.

These are significant proportions of the population and clearly shows that Royal Mail is their only realistic option to communicate in writing with others which makes them captive within the letters market.

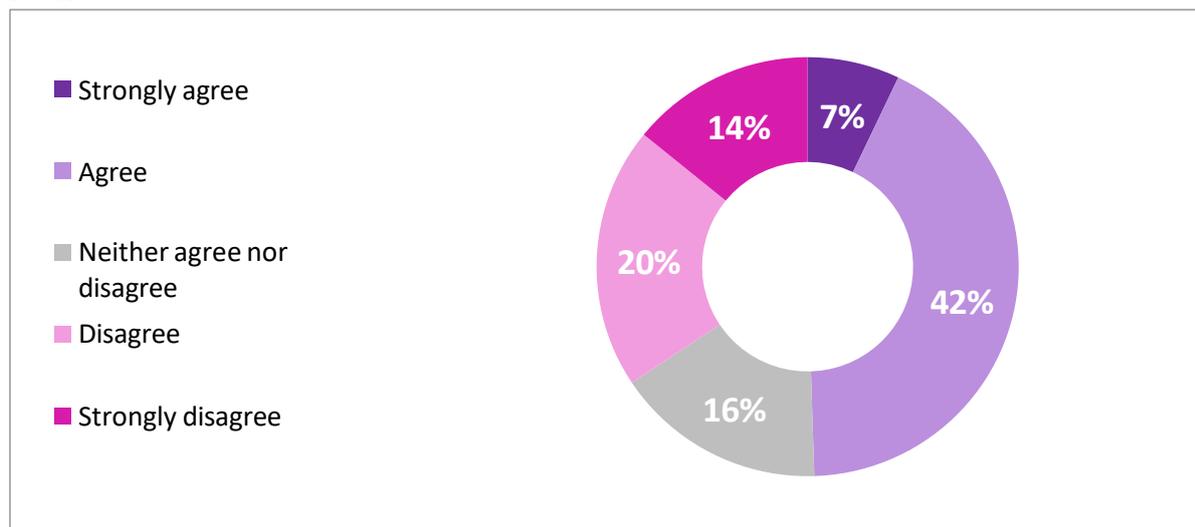
Findings from a separate Consumer Council study among those consumers that do have access to the internet shows that<sup>11</sup>:

- Over a quarter (28%) of consumers with a disability say they are not confident internet users.
- Nearly half (45%) of consumers aged 65 and over say they are not confident internet users.
- Over a quarter (27%) of lower income consumers<sup>12</sup> say they are not confident internet users.

This identifies barriers and suggests these consumers are more likely to rely on Royal Mail to send letters rather than e-substitution.

**Consumers not online are reliant on Royal Mail to send letters.** Our recent research (Figure 1) for the review of the price cap also supports this with nearly half (49%) of those without internet access saying they are reliant on Royal Mail to send letters<sup>13</sup>. This shows the captive nature of these consumers.

**Figure 1. Percentage of those without internet access saying they are reliant on Royal Mail to send letters**



<sup>10</sup> Continuous Household Survey. Question: Do you have access to the internet? NISRA carried out additional analysis at an individual level instead of household level. This provided a better indicator on those consumers that say they do not have access to the internet.

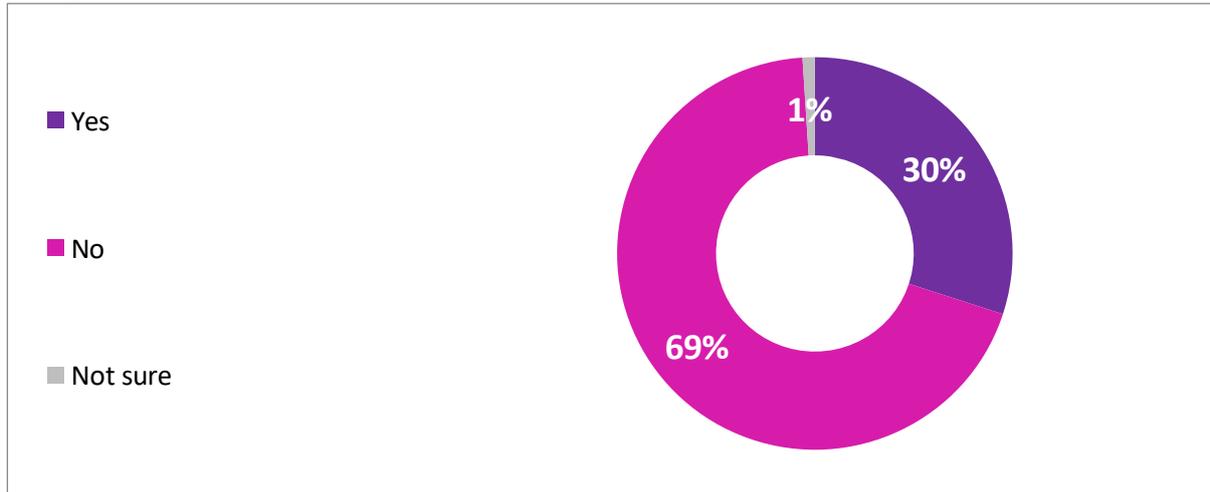
<sup>11</sup> Consumer Council Research. Northern Ireland Consumers and Online Detriment. Not yet published.

<sup>12</sup> C2DE consumers.

<sup>13</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following regarding sending letters and parcels with Royal Mail ...? I rely on Royal Mail to send letters especially as I am not online. Base: all respondents without online access (n=99).

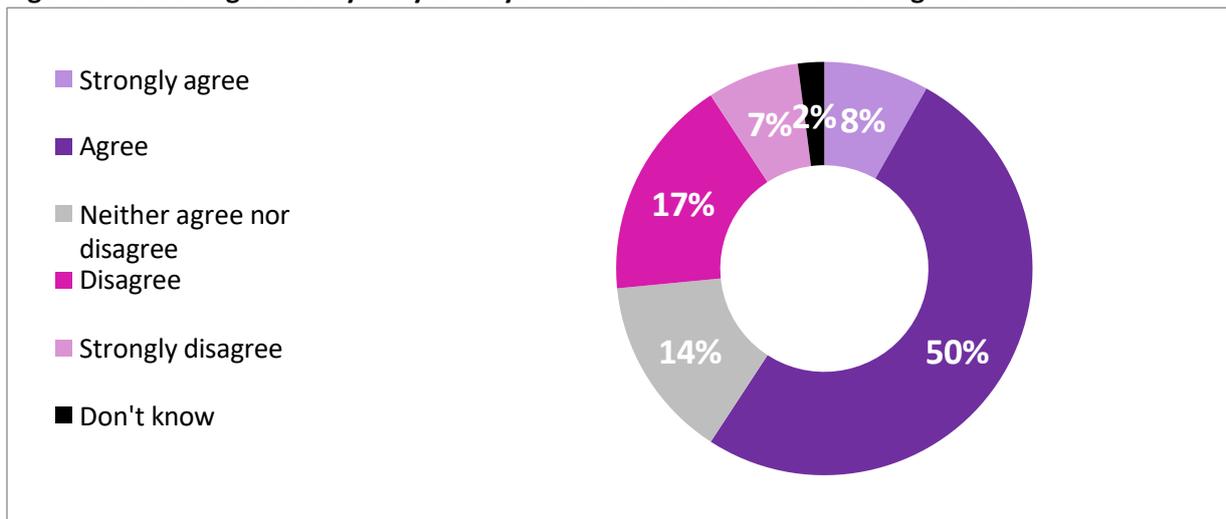
Additionally, some consumers feel they have no choice but to pay expensive letter prices as there are no digital alternatives available. Our recent research (Figure 2) shows that three in ten (30%) consumers paid the price of sending a letter even though it was too expensive as there were no alternative digital options available to them<sup>14</sup>. In this context price protected letters are also important.

**Figure 2. Percentage that feel they have no choice but to pay expensive letter prices as there are no digital alternatives available**



Another finding that more generally supports Ofcom’s position that e-substitution is not a meaningful constraint is that for those with internet access, nearly three in five (58%) say they too rely on Royal Mail to send letters even though they are online<sup>15</sup> (Figure 3). This was higher for those aged 50 – 64 (68%) and those aged 65+ (67%), and for those with a disability (66%). This is consistent with Ofcom’s view around the need for physical post over electronic communications for those with a disability, but this is also likely to be the case for consumers aged 50 and over.

**Figure 3. Percentage that say I rely on Royal Mail to send letters even though I am online**



<sup>14</sup> Cognisense Research. Question: Over the last 12 months, when sending letters or parcels by 1st or 2nd Class services, have you ever... Paid the price of sending the letter even though it was too expensive as there were no alternative digital communication methods that you could use (n=767).

<sup>15</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following regarding sending letters and parcels with Royal Mail ... ? I rely on Royal Mail to send letters even though I am online Base: all respondents who have online access (n=914).

Despite decreasing letter volumes in the postal market, our evidence underlines the continued importance of sending letters for consumers especially those that are more vulnerable and illustrates the monopolist position Royal Mail holds in the letter market.

**In summary, consumers across Northern Ireland need regulatory price protection in the letter market.**

**Question 5: Do you agree with our analysis of the market in relation to Second Class parcels up to 2kg? Please state your reasons and provide evidence to support your view.**

Ofcom's market analysis needs to understand the Northern Ireland consumer position. We provide this insight to help Ofcom make informed decisions that fully protects all consumers in the parcel market.

**Consumers across Northern Ireland need regulatory price protection for second class parcels up to 2kg.** Competition in the market alone is insufficient to protect consumers across Northern Ireland from price increases and to protect them from accessibility and affordability issues now, and in the future.

**Royal Mail remains the dominant parcel operator for consumers across Northern Ireland.** Ofcom's postal tracker shows Royal Mail remains the dominant parcel operator for Northern Ireland consumers with over nine in ten (92%)<sup>16</sup> using it to send a parcel in the past month. Our own research supports this. Nearly nine in ten (89%) have used Royal Mail to send a parcel over the past 12 months<sup>17</sup>. Indeed, Royal Mail is in a stronger position now compared to 2017 when our research at that time showed 81% of those that sent parcels did so with Royal Mail<sup>18</sup>.

We agree that Royal Mail has a significant advantage due to its longstanding role as the universal postal service provider. Our evidence provided above supports this.

Another indicator is that the strike action that affected Royal Mail has made no significant difference to its position for consumers sending parcels. Our research carried out in March 2023 reinforces Royal Mail's dominant position<sup>19</sup>. We believe this is due to Royal Mail's brand, its vital role as the universal postal service provider, and the captive nature of many consumers across Northern Ireland through lack of meaningful choice in the parcel market. We demonstrate this below.

**Nearly all unregulated parcel operators charge significantly higher prices for consumers across Northern Ireland to send parcels.** Alternative operators largely require consumers to have online access to enable them to access their products. As highlighted for letters, there are significant proportions of rural consumers (18%), those with a disability (27%) and consumers aged 65 and over (38%) not online which underlines Royal Mail's dominant position.

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<sup>16</sup> Ofcom postal tracker. Question: Which of the following companies have you used to send parcels in the last month?

<sup>17</sup> Unpublished Consumer Council research. March 2023.

<sup>18</sup> Millward Brown Ulster. March 2017. Question: Which couriers, postal operators do you use to send parcels Base size for all that send parcels (n=286).

<sup>19</sup> Nearly nine in ten (89%) have used Royal Mail to send a parcel over the past 12 months. Survey carried out in February 2023.

For those consumers online, there are those that are not confident internet users especially for lower income consumers (27%), those with a disability (28%), and consumers aged 65 and over (45%) so online platforms will be a barrier<sup>20</sup>.

Additionally, nearly all alternative operators **do not offer competitively priced alternatives for consumers across Northern Ireland sending parcels up to 2kg as shown in Table 1<sup>21</sup>**. This highlights the importance of the universal postal service, the pricing of these products and why regulatory price protection within the universal postal service is important to help ensure continued consumer access.

<b>Parcel Operator</b>	<b>0-1kg</b>	<b>1-2kg</b>
Royal Mail – online	£2.99	£2.99
Royal Mail – Post Office	£3.49	£3.49
Evri	£5.45 <sup>22</sup>	£6.62 <sup>23</sup>
Parcelforce	£6.90	£6.90
DPD	£28.32	£28.32
Yodel	£2.91	£3.91
DHL	£15.10	£15.10
UPS <sup>24</sup>	£11.81	£11.81

**Limited choice and higher pricing offsets any benefits of alternative operators’ network coverage.**

These factors – the need for online access and high prices – offset the potential benefits of expanding access points by alternative operators.

We note that Ofcom’s analysis does not present how the networks have changed in Northern Ireland and what the geographical coverage looks like for different consumer demographics. However, from past Consumer Council analysis **we do agree that alternative operator networks will have lower coverage in rural areas.**

Table 2 and 3 shows our high-level analysis of post office numbers and locations which underline the coverage of the network in rural areas.

<b>Location</b>	<b>Northern Ireland</b>
<b>Rural</b>	65%
<b>Urban Deprived</b>	16%
<b>Urban</b>	19%

<sup>20</sup> Perspective Insight. Northern Ireland Consumers and Online Detriment Survey. March 2023.

<sup>21</sup> Website price check in August 2023.

<sup>22</sup> Location charge is £2.75.

<sup>23</sup> Location charge is £2.75.

<sup>24</sup> Online platform positions itself as a small business platform rather than a consumer platform.

**Table 3: UK government access criteria - How Northern Ireland performs**

Measure	Northern Ireland <sup>25</sup>
99% of the population within three miles of their nearest Post Office outlet	98.2%
90% of the population within one mile of their nearest Post Office outlet	74.5%
99% of the total population in deprived urban areas across the UK to be within one mile of their nearest Post Office outlet	98.5%
95% of the total urban population across the UK to be within one mile of their nearest Post Office outlet	94.7%
95% of the total rural population across the UK to be within three miles of their nearest Post Office outlet	95.9%

With lower footfall in the rural network many branches across Northern Ireland would be commercially unviable without the UK government’s subsidy payment to Post Office Ltd which helps to keep vital rural branches open<sup>26</sup>. Without it there would be a significant risk of consumer detriment in rural areas. This would lead to increasing branch closures and loss of consumer access within local communities<sup>27</sup>. This need for UK government support shows why rival networks are unlikely to challenge Royal Mail in these areas.

**We also consider that rival networks will be inferior in their ability to reach disadvantaged consumers, those with a disability and elderly consumers compared to the post office network.**

We demonstrate this in the table below with our analysis of the Post Office network.

**Table 4: Accessibility key user groups - How Northern Ireland performs**

User Groups	Northern Ireland <sup>28</sup>
<b>Disadvantaged individuals</b> % of population within <b>one mile</b> of a Post Office branch	96.8%
<b>Disadvantaged individuals</b> % of population within <b>three mile</b> of a Post Office branch	98.5%
<b>Individuals with disabilities</b>	

<sup>25</sup> Consumer Council analysis of the Post Office Network in Northern Ireland.

<sup>26</sup> [https://www.consumerCouncil.org.uk/sites/default/files/2021-10/Join%20letter%20to%20Rt%20Hon%20Rishi%20Sunak%20MP%20-%20Securing%20the%20Future%20of%20Rural%20Post%20Offices%20%289%29\\_0.pdf](https://www.consumerCouncil.org.uk/sites/default/files/2021-10/Join%20letter%20to%20Rt%20Hon%20Rishi%20Sunak%20MP%20-%20Securing%20the%20Future%20of%20Rural%20Post%20Offices%20%289%29_0.pdf)

<sup>27</sup> [https://www.consumerCouncil.org.uk/sites/default/files/2023-05/Consumer\\_Council\\_Access\\_to\\_Postal\\_Service\\_report.pdf](https://www.consumerCouncil.org.uk/sites/default/files/2023-05/Consumer_Council_Access_to_Postal_Service_report.pdf)

<sup>28</sup> Consumer Council analysis of the Post Office Network in Northern Ireland.

% of population within <b>one mile</b> of a Post Office branch	79.9%
<b>Individuals with disabilities</b> % of population within <b>three miles</b> of a Post Office branch	98.5%
<b>Elderly Individuals</b> % of population within <b>one mile</b> of a Post Office branch	69.3 %
<b>Elderly Individuals</b> % of population within <b>three mile</b> of a Post Office branch	97.8%

While we welcome developments around other operators utilising the post office network for the C2X market and we see this as an opportunity, it is in its infancy. The high prices and surcharging remain a significant issue. **There is no strong incentive for consumers to switch when sending parcels with these operators.**

Another indicator is the many years consumers have been able to buy Parcelforce products at their local post office. However, very few do this due to its higher prices (Table 1). It is more likely that consumers use Parcelforce for international parcels.

Royal Mail through the post office network dominates the consumer parcel market (C2X) especially for those aged 65 and over, those with a disability, consumers living in rural areas and those in a household receiving benefits.

We believe Royal Mail's network advantage and long-established position through the post office network **has not** reduced in any significant way for consumers across Northern Ireland sending parcels.

Other parts of our research provide useful insight into how consumers across Northern Ireland send parcels with Royal Mail. Nearly nine in ten (88%) buy postage at the post office and send the parcel over the counter<sup>29</sup>. This increases to:

- 98% for those aged 65 and over.
- 98% for those with a disability.
- 94% for those living in rural areas.
- 93% for those in a household receiving benefits.

In comparison, nearly a fifth (17%) bought postage online from Royal Mail's website and took the parcel to the Post Office. This decreases to:

- 3% for those aged 65 and over.
- 4% for those with a disability.
- 9% for those in a household receiving benefits.
- 12% for those living in rural areas.

<sup>29</sup> Cognisense Research. Question: And how do you send these parcels? Base: all respondents who had sent parcels in the past 12 months (n=569).

**There is limited incentive for consumers to switch away from Royal Mail to alternative operators.**

We have highlighted the key reasons above. In addition, our research explores how future Royal Mail price increases will affect consumer usage of the postal service to send parcels<sup>30</sup>. Only 6% say that they would not send the items with Royal Mail. Despite the willingness of this 6% to look to alternative operators they are unlikely to decide to switch considering the more expensive prices (Table 1). Generally, we know consumers want to save money before they switch providers in various markets. Also Figure 4 shows that:

- Nearly half (46%) will continue to use the postal service in the same way as before with Royal Mail.
- About one in seven (15%) say that they would have no choice but to pay the price being charged.
- About one in seven (14%) say that they would reduce the number of items that they send with Royal Mail.
- Around one in eight (13%) stated that they would not send the item at all.

These findings show that most consumers will continue using Royal Mail even if it increases its prices.

**Figure 4: Which of these options best describes how future Royal Mail price increases will affect how you will use the postal service to send parcels?**

Base size (n=1013)



**We agree with Ofcom that as alternative Royal Mail prices for other products are more expensive than the price protected products consumers are highly unlikely to switch to these either.** Our research already shows that **58% say the minimum cost of sending a small parcel by second class post at a Post Office (£3.49) is expensive** and **46% say the minimum cost of sending a small parcel by second class using Royal Mail’s website (£2.99) is expensive**. This means that paying more by choosing a more expensive service is unlikely to materialise.

**Consumers have affordability issues with the second class parcel service.** On the specific affordability measure our research shows that 47% of consumers have affordability issues with the

<sup>30</sup> Cognisense Research. Question: Which of these options best describes how future Royal Mail price increases will affect how you will use the postal service to send parcels? Base: all respondents (n=1013).

current minimum cost of sending a second class parcel at the Post Office (£3.49). Also, 31% of consumers have affordability issues with the current minimum cost of sending a second class parcel through Royal Mail's website (£2.99).

Overall, we have significant concerns about Ofcom's proposal to remove regulatory price protection in favour of relying solely on competition in the GB parcel market to protect consumers across Northern Ireland that rely on the universal postal service.

#### **Wider market considerations – The Windsor Framework Agreement and parcel movements**

It is vital that Ofcom's market analysis considers the Windsor Framework Agreement related to parcel movements. **Ofcom will need to have a thorough understanding of how this will affect Royal Mail, as the universal postal service provider, Post Office Ltd and its network, and other parcel operators including the impact on their respective future prices.** This issue will be unique to Northern Ireland.

**Question 6: Do you agree with our approach to assessing affordability of postal services? Please state your reasons and provide evidence to support your view.**

**And**

**Question 7: Do you agree with our assessment of the affordability of Second Class postal prices? Please state your reasons and provide evidence to support your view.**

We address these two questions together.

Ofcom must fully understand the Northern Ireland consumer position. When assessing affordability, it is vital to engage with consumers across Northern Ireland. Their needs and concerns must be fully understood before making proposals and decisions that will affect their access to the universal postal service.

For both questions there is inadequate information contained within the consultation document for the Consumer Council to clearly understand how this, the Northern Ireland consumer position, was considered by Ofcom.

We outline below several measures we tested with consumers in June and July (2023) to build a better picture of the consumer perspective on affordability of the universal postal service with a focus on second class postal prices. We present the key findings below.

#### **Assessing affordability – Its importance for consumers**

It is vital to understand the importance of affordability for consumers. Our research shows:

##### **First class - no regulatory price protection**

- 67% say it is important that first class parcel prices are affordable. 9% say this is not important. Net importance is 58%.
- 73% say it is important that first class letter prices are affordable. 8% say this is not important. Net importance is 65%.

### **Second class - with regulatory price protection**

- 72% say it is important that second class parcel prices are affordable. 7% say this is not important. Net importance is 65%.
- 77% say it is important that second class letter prices are affordable. 7% say this is not important. Net importance is 70%.

Overall net importance scores are higher for second class products being affordable. We consider this shows the importance of regulatory price protection for the most basic part of the universal postal service.

### **Assessing affordability – measuring consumer satisfaction levels**

A key measure Ofcom needs to assess is satisfaction levels. When consumers are dissatisfied, it means they have reason to complain. The Consumer Council's recent research shows that concerns about affordability is the top reason for dissatisfaction with letter and parcel services for consumers across Northern Ireland for first and second class services<sup>31</sup>.

Another measure which offers insight is the net satisfaction score. Below we highlight these scores for Northern Ireland consumers.

Our key findings show:

#### **First class - no regulatory price protection**

- 22% are dissatisfied with first class parcel prices being affordable. 38% are satisfied that first class parcel prices are affordable. Net satisfaction is 16%.
- 22% are dissatisfied with first class letter prices being affordable. 41% are satisfied that first class letter prices are affordable. Net satisfaction is 19%.

#### **Second class - regulatory price protection**

- 10% are dissatisfied with second class parcel prices being affordable. 44% are satisfied that second class parcel prices are affordable. Net satisfaction is 34%.
- 10% are dissatisfied with second class letters prices being affordable. 60% are satisfied that second class parcel prices are affordable. Net satisfaction is 50%.

### **Assessing affordability – price cap second class postal prices**

While net satisfaction scores are better for second class prices, they are still low and testing specific prices with consumers is important. Our research shows<sup>32</sup>:

- 16% have affordability issues with the minimum cost of sending a second-class letter (75p). A greater proportion (22%) of those with a disability have affordability concerns.

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<sup>31</sup> Cognisense Research. Question: To what extent are you satisfied or dissatisfied ...? Base: all respondents (n=1013).

<sup>32</sup> Cognisense Research. Question: How affordable do you find the current minimum cost of postage for sending second class standard letters? Base: all respondents (n=1013).

Cognisense Research. Question: How affordable do you find the current minimum cost of postage for sending second class small parcels at a Post Office? Base: all respondents (n=1013).

Cognisense Research. Question: How affordable do you find the current minimum cost of postage for sending second class small parcels buying postage via Royal Mail's website? Base: all respondents (n=1013).

- 31% have affordability issues with the current minimum cost of sending a second class parcel through Royal Mail’s website (£2.99).
- 47% have affordability issues with the current minimum cost of sending a second class parcel at the Post Office (£3.49).

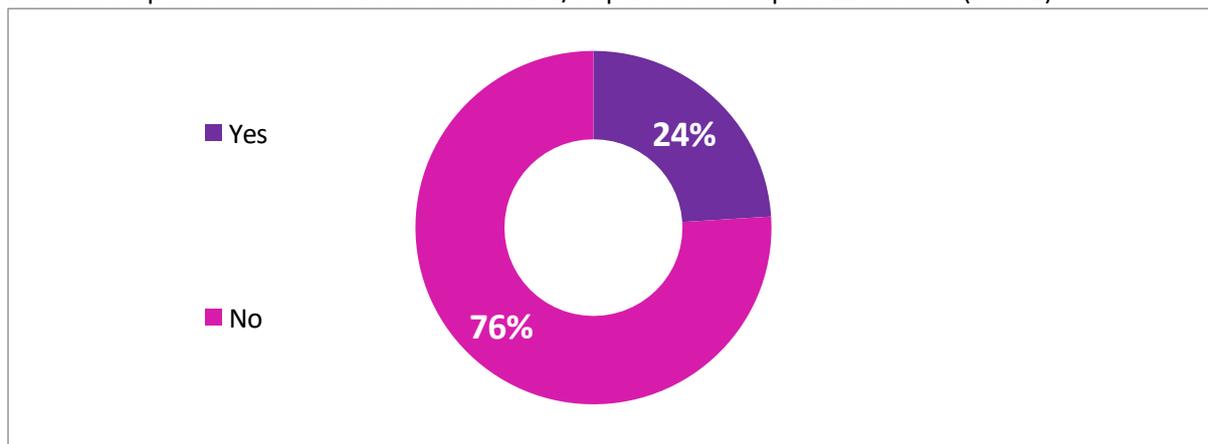
These findings support the need for regulatory price protection.

**Assessing affordability – establishing if consumers have paid the price of sending the letter or parcel even though it was too expensive for them considering their financial circumstances at the time**

Our research shows that almost a quarter (24%) of consumers had paid the price of postage even though they thought it was too expensive given their financial circumstances. This points to another indicator showing affordability issues for consumers using first and second class letters and parcels and the proportion that are more captive to higher prices. This increased to 27% for those with a disability and 31% living in rural areas.

**Figure 5. Over the last 12 months, when sending letters or parcels by first or second class services, have you ever - Paid the price of sending the letter/parcel even though it was too expensive considering your financial circumstances at the time?**

Base: all respondents who had sent letters and/or parcels in the past 12 months (n=901)



Alongside this our research shows 6% say they went without essentials to pay for postage as they needed to send the item urgently. This increased to 10% for those with a disability.

**Assessing affordability – establishing consumer concerns about the current and future cost of sending letters and parcels.**

**Letters**

Our recent research shows that one in five (20%) consumers are worried about the current cost of sending letters<sup>33</sup>. Those with a disability (28%) are more concerned when compared to those who are not disabled (19%), and those living in rural areas (25%) when compared to those living in urban areas (17%).

<sup>33</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following when sending letters and parcels with Royal Mail ... ? I’m worried about the current cost of sending letters. Base: all respondents (n=1013).

Additionally, over one in five (21%) are worried about the future cost of sending letters<sup>34</sup>. Again, those with a disability (31%) are more concerned when compared to those who are not disabled (20%).

### **Parcels**

One in five (20%) consumers are worried about the current cost of sending parcels<sup>35</sup>. Additionally, over one in five (21%) are worried about the future cost of sending parcels<sup>36</sup>. Again, those with a disability (31%) are more concerned when compared to those who were not disabled (20%).

Increases in postal prices especially for second class standard letters and parcels up to 2kg will lead to a greater proportion of consumers experiencing detriment. Those with a disability across Northern Ireland are most at risk.

**Overall, our evidence brings us to a similar position to Ofcom but with more certainty that increases in postal prices will lead to a greater proportion of consumers experiencing detriment. Also, considering the above evidence related to the safeguard products this is likely to have a more negative effect on those with a disability across Northern Ireland.**

There is insufficient information available to assess if other USO services are all affordable. We do not share the same view as Ofcom related to its last point around other USO services all being affordable. We believe the evidence presented in the consultation document does not sufficiently support this. This is an area that requires further work.

**Question 8: Do you agree with our analysis of the impact of the caps on the financial sustainability of the universal service? Please state your reasons and provide evidence to support your view.**

The Consumer Council does not have access to the confidential information available to Ofcom so we are limited in how we answer this question. However, we do provide general comments and demonstrate the potential effect of increasing prices on consumers for letters and parcels protected by the existing price caps for second class services.

We note that the safeguard caps only apply to a small proportion of USO services which shows Royal Mail has pricing flexibility in the majority of the other USO products it is responsible for as the designated USO provider.

We also note that second class standard letters and large letters represent less than 5% of its revenue for its reported business. This suggests the existing price cap does not negatively affect the financial sustainability of the universal postal service in a material way. We acknowledge that Ofcom explains this as well in the consultation document.

We note that Ofcom states that safeguard caps only impact on Royal Mail's revenues by leading it to set lower prices than it would otherwise do. Or without the caps Royal Mail will increase prices. In

<sup>34</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following when sending letters and parcels with Royal Mail ... ? I'm worried about the future cost of sending letters. Base: all respondents (n=1013).

<sup>35</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following when sending letters and parcels with Royal Mail ... ? I'm worried about the current cost of sending parcels. Base: all respondents (n=1013).

<sup>36</sup> Cognisense Research. Question: To what extent do you agree or disagree with the following when sending letters and parcels with Royal Mail ... ? I'm worried about the future cost of sending parcels. Base: all respondents (n=1013).

this context our research is useful as it shows how the current price and future price increases affect consumer access to the most basic part of the universal postal service. We discuss this below to highlight the risk of increasing prices on consumer access to the second class service.

Our research provides insight into how expensive or inexpensive the current price of sending a standard letter (75p) by second class is to consumers. **Our analysis shows that a greater proportion of those aged 65 and over, those with a disability and those not online find the service expensive compared to those that say it is inexpensive.**

**Table: 5. The price of sending a standard letter second class is 75p. Letters sent by second class post typically arrive within three days anywhere in the UK. To what extent do you find this service to be expensive or inexpensive?**

Base: all respondents (n=1013).

Standard letter – 75p	Expensive	Inexpensive
Consumers (all)	29%	37%
Aged 65 and over	35%	28%
Those not online	32%	20%
Those with a disability	30%	25%
In household receiving benefits	26%	36%
Rural consumers	32%	34%

#### The effect of current prices and future increases on consumers

We also asked consumers at what price would they regard sending a standard letter by second class to be so expensive that they would not consider buying at all. This is a useful scenario as it outlines the proportion that would walk away from this service which would affect the volumes sent by consumers so would be counterproductive, significantly undermine the value of the universal postal service and its purpose, and ultimately be detrimental to consumers.

**Table: 6. At what price would you regard sending a standard letter by second class to be so expensive that you would not consider buying at all?**

Base: (n=1003).

% that would not buy at the standard letter service at:	75p (Current Price)	80p	90p	£1.00
Consumers (all)	23%	33%	42%	73%
Aged 65 and over	25%	35%	40%	71%
Those not online	28%	37%	40%	83%
Those with a disability	17%	28%	32%	65%
In household receiving benefits	12%	17%	22%	52%
Rural consumers	25%	33%	40%	71%

It is unclear from the consultation document what proportion of the safeguard parcel basket products contribute to Royal Mail's reported business revenue. We assume this is small which means it too would have a limited negative impact on financial sustainability so would make no material difference.

Again, we can offer insight into the effect of increasing parcel prices on consumers' use of second class small parcels up to 2kg (Table 7 and 8). **Our analysis shows that a greater proportion across all key groups find this service expensive at the existing price. This issue is more pronounced for the price charged at the post office.**

**Table: 7. The minimum cost of sending a small parcel by second class post at a Post Office is £3.49. Parcels sent by second class post are typically delivered to anywhere in the UK within three days. To what extent do you find this service to be expensive or inexpensive?**  
Base: all respondents (n=1013)

<b>Post Office - £3.49</b>	<b>Expensive</b>	<b>Inexpensive</b>
Consumers (all)	58%	15%
Aged 65 and over	63%	10%
Those not online	68%	6%
Those with a disability	56%	17%
In household receiving benefits	51%	24%
Rural consumers	58%	34%

**Table: 8. The minimum cost of sending a small parcel by second class post using Royal Mail's website is £2.99. Parcels sent by second class post are typically delivered to anywhere in the UK within three days. To what extent do you find this service to be expensive or inexpensive?**  
Base: all respondents (n=1013)

<b>Royal Mail website - £2.99</b>	<b>Expensive</b>	<b>Inexpensive</b>
Consumers (all)	46%	23%
Aged 65 and over	52%	12%
Those not online	56%	8%
Those with a disability	47%	25%
In household receiving benefits	42%	30%
Rural consumers	56%	24%

### **The effect of current prices and future increases on consumers**

We also asked consumers at what price would they regard sending a parcel by second class to be so expensive that they would not consider buying at all.

This is a useful scenario as it outlines the proportion that would walk away from this service. Again, this would affect the volumes sent by consumers so would be counterproductive, significantly undermine the value of the universal postal service in the UK and ultimately be detrimental to consumers.

**Table 9. At what price would you regard sending a small parcel by second class to be so expensive that you would not consider buying at all?**

Base: (n=999)

<b>% that would not buy the parcel service at as it is too expensive:</b>	<b>£2.99 (Small - Online)</b>	<b>£3.49 (Small - Post Office)</b>	<b>£3.99</b>	<b>£4.49 (Medium – Online)</b>	<b>£5.00</b>	<b>£5.49 (Medium – Post Office)</b>
Consumers (all)	18%	32%	45%	65%	96%	96%
Aged 65 and over	19%	33%	45%	68%	96%	96%
Those not online	21%	40%	54%	77%	99%	99%
Those with a disability	11%	24%	41%	64%	94%	94%
In household receiving benefits	8%	18%	30%	59%	91%	93%
Rural consumers	18%	33%	43%	61%	97%	97%

Our research shows price increases present a significant risk to consumer access to the most basic part of the universal postal service.

Taking account of the available information the existing price caps for letters, large letters and parcels up to 2kg do not have a material negative impact on financial sustainability. Ofcom must ensure Royal Mail makes sufficient consumer focused efficiency gains and that it does not unfairly rely on price increases for those products protected by the existing safeguard cap.

**Question 9: Do you agree with our proposal for the structure of the safeguard cap to be based on a single basket which includes Second Class standard and large letters? Please state your reasons and provide evidence to support your view.**

Consumers need regulatory price protection for letter services.

We welcome Ofcom’s proposal to retain a safeguard cap on second class standard and large letters. For letters, this is the minimum level of regulatory protection that consumers require. We support the principle of this approach so that regulatory consumer price protections remain in place for the most basic part of the universal postal service. This will help maintain consumer access at a minimum level.

Importantly, our research shows that the price cap approach for second class products has been a more effective consumer protection measure when you compare it to the regulatory approach for first class letters. This supports why the second-class letter cap must be maintained.

However, Ofcom should reconsider its approach to protecting consumers in the first class part of the letter market. To illustrate the importance of this, a greater proportion (21%) of consumers are dissatisfied with first class letter prices being affordable compared to the proportion (10%) dissatisfied with second- class prices being affordable. Further analysis shows that the net satisfaction is 19% for first class letters.

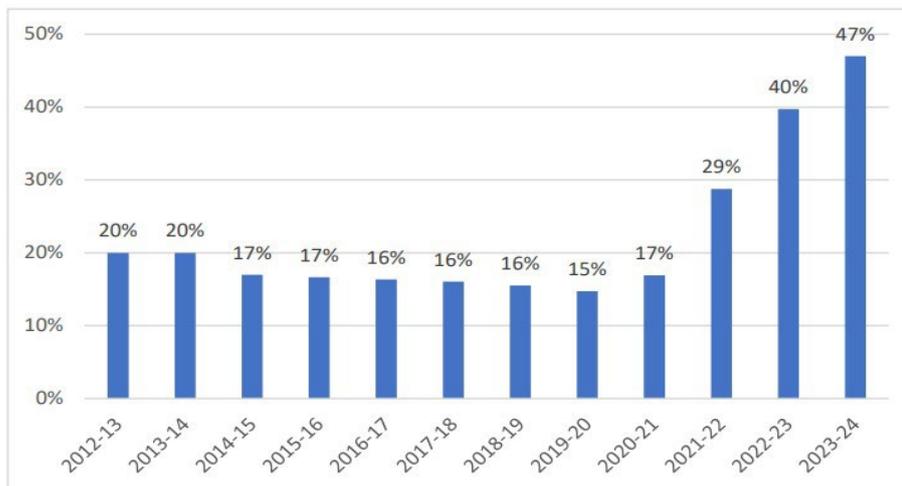
It is also important to consider the quality-of-service consumers receive in this part of the universal postal service. It is well documented that Royal Mail has continuously not achieved its regulatory

quality of service targets for several years. In this context, Ofcom’s analysis highlights that consumers have experienced price increases while getting a poorer level of service. It is unacceptable that consumers find themselves in this situation in a regulated market.

Additionally, Ofcom analysis on the percentage difference between first class and second-class standard letter prices provides valuable insight. Over the last three years Royal Mail’s pricing decisions in this part of the market are a cause for concern. The price gap has increased significantly. Any positive anchoring effect of the existing letter cap for second class letters no longer exists.

This highlights two fundamental points. The first is that Ofcom must retain a safeguard cap for second class letters. If removed these prices are likely to increase. The second is that Ofcom should examine how to protect consumers that use the first class letter service which is another cornerstone of the universal postal service.

**Figure 11: Differential between First Class and Second Class stamped standard letter prices, 2012-13 – 2023-24**

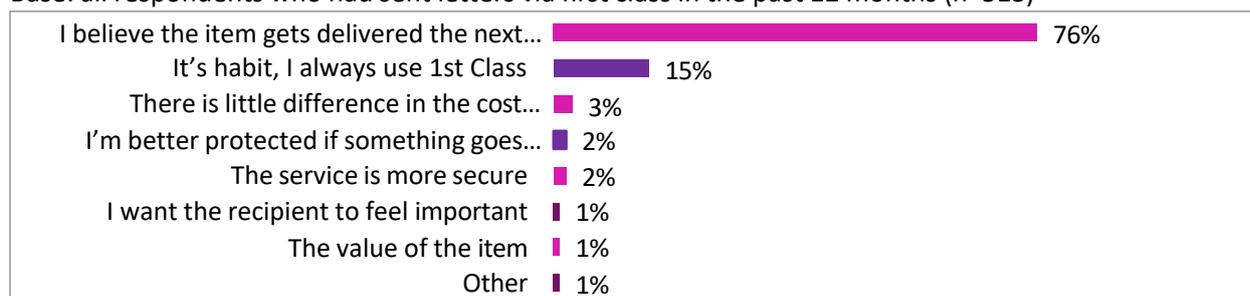


Source: Ofcom analysis of Royal Mail Price Guides

While we appreciate the point Ofcom makes around consumers switching from first class to second class, it is unfair to pass the onus onto consumers in this way when Royal Mail’s prices are increasing, and the quality-of-service consumers are receiving is poorer. Our research clearly shows the top reason consumers pay for first class to send a letter is that they believe the item gets delivered the next day.

**Figure 6. Which of these options best describes why you buy first class services to send these letters rather than second class services?**

Base: all respondents who had sent letters via first class in the past 12 months (n=513)



**The proposed basket approach must not allow for price differences between online services and the price paid at post offices.** The Consumer Council is concerned about the way prices have developed at the post office compared to when buying these services online for parcels. Our concern is rooted in the negative impact this has had on consumers (Table 7 and 9). Ofcom must ensure this does not happen with letter services. **Setting a specific price cap for each product will better protect consumers and improve transparency.**

Our recent research demonstrates why it is important not to charge consumers more for universal postal service products at a post office. Nearly all consumers across Northern Ireland (96%) send letters by purchasing postage at the post office and sending the letter over the counter. **This increases to 99% for those aged 65 and over, those with a disability and those receiving benefits.** There is limited take up of Royal Mail’s online platform to buy postage from its website to send letters among consumers across Northern Ireland. This means they would be left paying higher prices for the same service.

**Figure 7. How do you send these letters?**

Base: all respondents who had sent letters in the past 12 months (n=702)



Taking account of our evidence and the above discussion, **Ofcom should examine if sub caps for individual products within the basket will better protect consumers.** We believe setting specific simple price caps for each product will better protect consumers, improve transparency and provide certainty to consumers throughout the price cap period.

**Question 10: Do you agree with our proposal to set the basket cap for Second Class standard and large letters at current prices plus CPI? Please state your reasons and provide evidence to support your view.**

We agree with Ofcom that above inflation price increases will have a more significant negative impact on consumers. We use a scenario where the price increases to 90p. Table 10 shows the negative impact this will have on consumers and the key groups. Overall, 42% say they would not buy the service as it is too expensive.

However, we disagree that CPI will have no material negative impact on consumers including the more vulnerable. We use a scenario where prices increased to 80p which is around CPI - 7.9%<sup>37</sup>. Table 10 shows that even this leads to a greater proportion that say they would not buy the service as it is too expensive.

<sup>37</sup> The Consumer Prices Index (CPI) rose by 7.9% in the 12 months to June 2023. Estimated increase of around 6p.

**Table 10. Percentage that would not buy the standard letter service at different prices<sup>38</sup>**  
Base: (n = 1003)

	75p (Current Price)	80p	90p	£1.00
Consumers (all)	23%	33%	42%	73%
Aged 65 and over	25%	35%	40%	71%
Those not online	28%	37%	40%	83%
Those with a disability	17%	28%	32%	65%
In household receiving benefits	12%	17%	22%	52%
Rural consumers	25%	33%	40%	71%

### Impact of future price increases

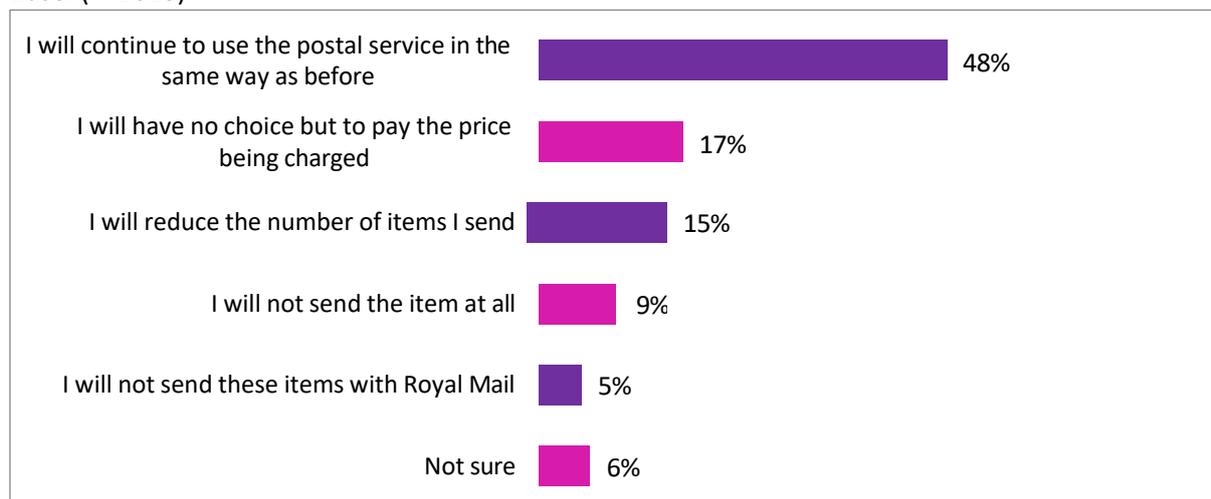
In response to future price increases (Figure 8) it is concerning that 17% say they will have **no choice** but to pay the price being charged<sup>39</sup>. This indicates the captive nature of these consumers.

Our research also illustrates the risk to consumer access and the potential harm this will cause. Overall, this affects nearly one in four (24%) consumers. The risk takes two forms. The first is that nearly one in ten (9%) consumers say they **will disconnect** from the universal postal service for letter services.

A further 15% **will reduce** the items they send. A greater proportion of those with a disability (17%) will take this action compared to those who are not disabled (14%).

**Figure 8. Which of these options best describes how future Royal Mail price increases will affect how you will use the postal service to send letters?**

Base: (n=1013)



<sup>38</sup> Cognisense Research. Question: At what price would you regard sending a standard LETTER by 2nd Class to be so expensive that you would not consider buying at all?

<sup>39</sup> Cognisense Research. Question: Which of these options best describes how future Royal Mail price increases will affect how you will use the postal service to send letters? Base size (n=1013).

**In this context, we would ask Ofcom to assess if freezing CPI increases, for at least standard letters, will have no significant impact on the financial sustainability of the universal postal service. This could be applied for year 1 of the new cap and Ofcom can reassess after that period.**

Another important consideration is that pricing issues are key drivers for consumer dissatisfaction. Our research shows that one in ten (10%) are dissatisfied with second class letter prices being affordable. This increases to 13% for those aged 65 and over, and to 17% for those with a disability. This is further evidence supporting the need for regulatory price protection.

**Overall, we agree that the cap should be set at the current prices. It should include simple specific price point caps for standard and large letters.** Additionally, as already discussed, a freeze on CPI increases, for at least standard letters, will benefit consumers.

**Question 11: Do you agree with our proposal to set the cap for five years? Please state your reasons and provide evidence to support your view.**

It is vital that a regulatory price cap protection remains in place as Ofcom must protect all consumers across Northern Ireland.

We agree that five years is a reasonable period to assess the level and scope of a price cap for the most basic part of the universal postal service.

However, Ofcom will need to robustly monitor the effect of current and future price increases allowed within the caps on consumers across all the nations of the UK including on affordability, the impact on consumer access to the universal postal service, value for money, and satisfaction levels on pricing and its effect on their usage.

When consumers are negatively affected Ofcom must proactively intervene and do so quickly. Alongside this, Ofcom must ensure Royal Mail's makes efficiency gains that are consumer focused.

**Question 12: Do you agree with the structure of the basket set out in Annex 5 in which stamp prices are weighted by volumes of each service type based on the volumes measured two years prior to the control? Please state your reasons and provide evidence to support your view.**

Please see our above discussion and evidence presented for question 9, 10 and 11.

**Question 13: Do you agree with our proposal to remove the safeguard cap from Second Class parcels up to 2kg? Please state your reasons and provide evidence to support your view.**

The Consumer Council disagrees with Ofcom's proposal to remove the safeguard cap from second class parcels up to 2kg.

Consumers across Northern Ireland need regulatory price protection for second class parcels. We believe it is in the consumer's interest that Ofcom changes its provisional view and sets a simple basket cap covering all parcels weighing up to 2kg at the appropriate level for consumers.

Our research shows there is sufficient concern among consumers already and a sufficient future risk which supports the case for Ofcom continuing with regulatory price protection but changing its structure to a simple price point cap.

We believe that the continuation of a price cap is a proportionate approach especially as it only affects a small part of the universal postal service and Royal Mail's revenue.

To support our view, we have assessed several important factors including:

- Royal Mail's position as a parcel operator for consumers in Northern Ireland to access parcel services.
- The price consumers in Northern Ireland need to pay to access alternative parcel operators.
- The consumer likelihood of switching to alternative parcel operator access points considering higher prices and surcharges, and the need for online access.
- The consumer outcomes of the current basket approach and if consumers consider the price of sending second class parcels expensive or inexpensive.
- The importance of affordable parcel prices to consumers, and existing and future affordability issues.

**Royal Mail remains the dominant parcel operator for consumers across Northern Ireland** with over nine in ten (92%)<sup>40</sup> using it to send a parcel in the past month.

Its network advantage and long-established position **has not** reduced for consumers across Northern Ireland sending parcels. Nearly nine in ten (88%) buy postage at the post office and send the parcel over the counter<sup>41</sup>. This increases to:

- 98% for those aged 65 and over.
- 98% for those with a disability.
- 94% for those living in rural areas.
- 93% for those in a household receiving benefits.

**There is limited choice for those consumers online due to the high prices of alternative operators and surcharging practices. This limits the benefit of alternative operators' access networks for consumers sending parcels.**

Our analysis shows that nearly all parcel prices offered by other operators in the unregulated market are significantly higher for consumers across Northern Ireland to send to other parts of the UK (Table 10). We know that the primary reason consumers switch to alternative providers is to save money. This means for consumers across Northern Ireland there is very limited choice.

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<sup>40</sup> Ofcom Postal Tracker. Which of the following companies have you used to send parcels in the last month?

<sup>41</sup> Cognisense Research. Question: And how do you send these PARCELS? I buy postage at the post office and send over the counter (Base size = 569).

**Table 10. Parcel prices when sending from Northern Ireland to other parts of the UK**

Parcel Operator	0-1kg	1-2kg
Royal Mail – online	£2.99	£2.99
Royal Mail – post office	£3.49	£3.49
Evri	£5.45 <sup>42</sup>	£6.62 <sup>43</sup>
Parcelforce	£6.90	£6.90
DPD	£28.32 <sup>44</sup>	£28.32
Yodel	£2.91	£3.91
DHL	£15.10 <sup>45</sup>	£15.10
UPS <sup>46</sup>	£11.81 <sup>47</sup>	£11.81

High pricing and surcharging also offsets any benefits offered by improved access coverage of alternative operators for consumers sending items from Northern Ireland regardless if this is a standalone network or a shared network. For instance, it costs consumers in Northern Ireland £7.21 more to send a parcel with DHL to other parts of the UK when dropping off at its access network and £2.41 more to send a parcel with EVRI to other parts of the UK. This represents nearly double the price consumers here have to pay.

As already discussed, alternative operator networks will have lower coverage in rural areas so are very unlikely to challenge Royal Mail. Even if alternative operators do access the Post Office network higher delivery prices are a barrier to switching.

**There is very little choice for those consumers not online.** Consumers not online (18%) have poor choice in the parcel market when sending items. They largely rely on Royal Mail. This has a more significant negative impact on those with a disability (27%), and consumers aged 65 and over (38%) that our not online.

**The pricing decisions enabled by the existing basket cap for parcels has resulted in consumers paying significantly more for the same basic universal postal service product compared to those using the online platform.** Consumers must pay 24% more to access the basic second-class parcel products at a post office for the cheapest product and 28% more to access the basic second-class parcel products at a post office for a medium sized parcel.

Current prices for second class parcels are viewed by many as expensive including those across all the key consumer groups (Table 11). Many consumers (58%) currently say the price of sending parcels by second class at a Post Office is expensive. The view is shared by all key consumer groups especially those not online (68%) and consumers aged 65 and over (63%).

<sup>42</sup> Location charge is £2.75.

<sup>43</sup> Location charge is £2.75.

<sup>44</sup> Delivery fee for a consumer sending from Northern Ireland is £20.65 more expensive.

<sup>45</sup> Delivery fee for a consumer sending from Northern Ireland is £4.80 more expensive.

<sup>46</sup> Online platform positions itself as a small business platform rather than a consumer platform.

<sup>47</sup> Delivery fee for a consumer sending from Northern Ireland is £4.80 more expensive.

**Table 11. Percentage that finds this service to be expensive or inexpensive**

Base: all respondents (n=1013).

Post Office - £3.49	Expensive	Inexpensive
Consumers (all)	58%	15%
Aged 65 and over	63%	10%
Those not online	68%	6%
Those with a disability	56%	17%
In household receiving benefits	51%	24%
Rural consumers	58%	34%

Our analysis based on our recent research shows the nature and extent of the negative impact on consumers through this pricing approach. **This is a concern and in part can be addressed by moving away from the basket approach to a single price point cap.**

**Table 12. Percentage that would not buy the parcel service at certain prices<sup>48</sup>**

Base: (n=999)

	2.99 (Small - online)	3.49 (Small - Post Office)	% change in the proportion that would walk away	4.49 (Medium - online)	5.49 (Medium - Post office)	% change in the proportion that would walk away
Consumers (all)	18%	32%	14%	65%	96%	31%
Aged 65 and over	19%	33%	14%	68%	96%	28%
Those not online	21%	40%	19%	77%	99%	22%
Those with a disability	11%	24%	13%	64%	94%	30%
In household receiving benefits	8%	18%	10%	59%	93%	34%
Rural consumers	18%	33%	15%	61%	97%	36%

**There is existing harm and the increasing risk of future harm related to affordability issues.** Our research shows that the majority (72%) of consumers say it is important that second class parcel prices are affordable. But Figure 9 shows nearly half (47%) have affordability issues with the current minimum cost of sending a second class parcel at the Post Office (£3.49).

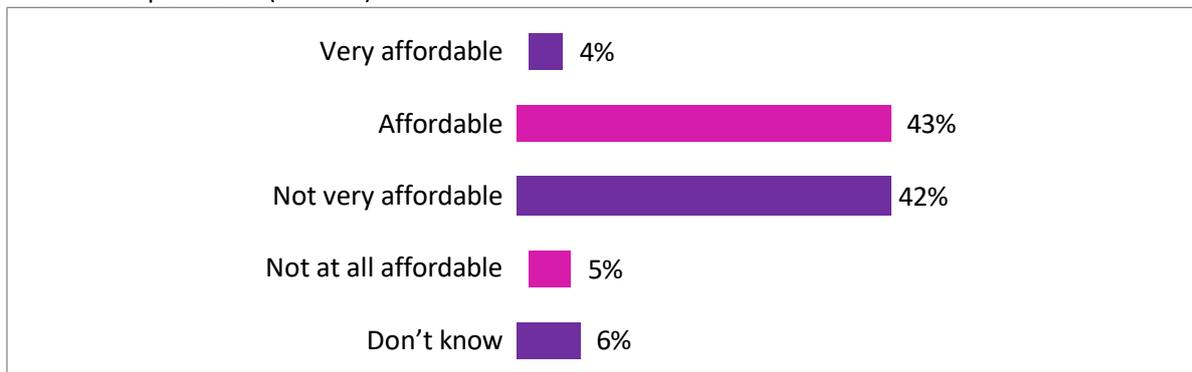
Further analysis of our research shows that for 5% this service is not affordable (Figure 9). This means detriment is taking place now. While this is a small proportion it is vital to highlight that for those with a disability 11% say the price is not at all affordable when compared to 4% of those who are not disabled.

**Additionally, for 42% there is an immediate risk of harm as they say the price is not very affordable so future price increases are a significant worry.**

<sup>48</sup> Cognisense Research. Question: At what price would you regard sending a small PARCEL by 2nd Class to be so expensive that you would not consider buying at all? (Base size = 999)

**Figure 9. How affordable do you find the current minimum cost of postage for sending 2nd Class small parcels? At a Post Office**

Base: all respondents (n=1013)

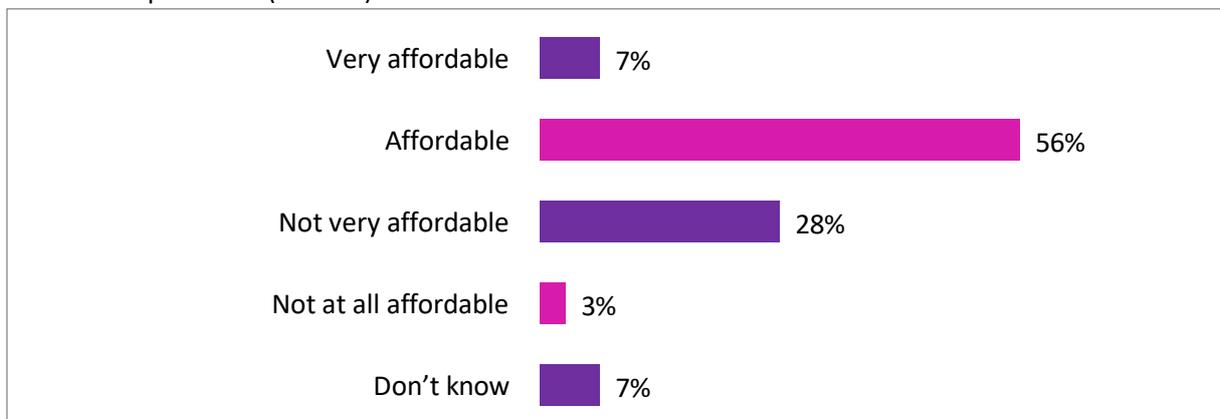


Additionally, Figure 10 shows nearly a third (31%) also have affordability concerns with the current minimum cost of sending a second-class parcel through Royal Mail's website (£2.99).

Further analysis shows that for 3% this service is not affordable. While this is a small proportion it is vital to highlight that 7% of those with a disability say the price is not at all affordable compared to 2% of those who are not disabled. **Additionally, for 28% there is an immediate risk of harm as they say the price is not very affordable so again future price increases are a significant worry.**

**Figure 10. How affordable do you find the current minimum cost of postage for sending 2nd Class small parcels? buying postage online**

Base: all respondents (n=1013)



Our recent research findings reinforce the above points when considering the current prices. For instance:

- The average tipping point for all those **with affordability issues** for the price at the post office is **£3.60** and **£3.50** for the online price.
- The average tipping point for all those **with no affordability issues** for the price at the post office is **£4.32** and **£4.18** for the online price.

Further analysis shows the proportion that would no longer access the service as they believe it is too expensive. In Table 13 there are significant differences between those with affordability issues and those with none. The differences are a concern and clearly support the need for consumers to be protected.

**Table 13. Percentage that would not buy the parcel service at certain prices**

Parcel Price	PARCEL PRICE AT PO (£3.49)		PARCEL PRICE ONLINE VIA ROYAL MAIL (£2.99)	
	Affordable	Not Affordable	Affordable	Not Affordable
£2.99	15%	21%	15%	24%
£3.49	26%	40%	28%	43%
£3.99	34%	58%	37%	63%
£4.49	52%	80%	58%	82%
£5.49	93%	99%	95%	99%

Taking account of the factors discussed above and evidence provided **we believe that the continuation of a price cap is a proportionate approach and is needed to protect consumers across Northern Ireland.**

However, taking account of the existing headroom and our evidence obtained from consumers **the existing cap needs to work better. It should change in structure from the basket approach to a simple price point cap.** But the specific price point will need further investigation by Ofcom.

**Question 14: Do you consider that there is value in developing a targeted scheme focussing on vulnerable consumers? If yes, your views on characteristics of such a scheme including target groups, nature of support and delivery options. Please state your reasons and provide evidence to support your view.**

As discussed above the Consumer Council believes that consumers need the continuation of regulatory price protection through simple price point caps for letters and parcels. We have provided evidence throughout our response to support this position. This is the right regulatory approach for consumers in Northern Ireland.

A standalone targeted voluntary scheme solely focussing on second class letters and only being available to a narrow group of consumers is inadequate to fully protect consumers and to ensure they have access to the most basic part of the universal postal service.

We believe removing the second class letter price cap and replacing it with a targeted scheme would be detrimental to many consumers especially given the likely increase in second class letter prices, and the prices of other products which will lead to negative consumer outcomes.

We are also aware that Royal Mail was exploring a targeted stamp discount scheme in advance of the price cap review. It is our understanding that Royal Mail’s longstanding position is that it believes the second class letter and parcel caps are unnecessary and these should be both removed as they act as a constraint on its wider mail pricing structure and that it restricts its pricing flexibility. We consider Royal Mail has sufficient pricing flexibility within the other universal postal service products.

However, we do appreciate a targeted scheme may have the potential to help protect some of the most vulnerable consumers that have reached a crisis point, which leads them to choose between sending a second class letter and other essential expenditure. This could help in the context of a

positive response to the cost-of-living crisis that is currently affecting consumers rather than a trade off to remove consumer price protection regulation.

For the reasons discussed above, **any targeted scheme would need to be in addition to the regulatory second class price cap protection** which protects all consumer groups from affordability issues and better supports equitable access to the universal postal service. Any targeted scheme must not lead to other groups being placed in vulnerable positions or being exposed to unfair price increases or price increases that non eligible consumers pay to recover the costs of a targeted scheme.

At this stage there is insufficient information available to the Consumer Council to be able to make a more informed response.

However, dealing with consumer vulnerability is complex. It requires a clear strategy, agreed principles and commitment from all the key stakeholders to deliver positive consumer outcomes. There must be a clear understanding of and response to consumer vulnerability. A thorough assessment of the risks and unintended consequences is required. Other fundamental features are shared decision making between the key stakeholders and inclusive design.

As the statutory consumer body for postal services in Northern Ireland we look forward to discussing any proposed schemes in more detail.

We also believe there is merit in the regulator developing a UK wide sector specific consumer vulnerability strategy supported by a forum to address a range of issues that affect consumers. This can usefully look at other proposed initiatives such as supporting those with no fixed address to receive letters, and the consumer issues around Royal Mail's request to reduce letter deliveries from 6 to 5 days.

**Question 15: Do you have any others comments on the proposed modifications to the relevant DUSP conditions through which we propose to implement our proposals, attached in Annex 5? Please state your reasons and provide evidence to support your view.**

The Consumer Council has no comment to make.

## 5. CONCLUSION

The Consumer Council is pleased to respond to Ofcom's consultation on its review of the second class safeguard caps.

### **Second class standard and large letters**

We welcome Ofcom's proposal to retain a safeguard price cap on second class standard and large letters.

However, setting a specific price cap for each product will better protect consumers and improve transparency, and provide certainty to consumers throughout a 5-year price cap period.

Additionally, a freeze on CPI increases will benefit consumers. We suggest this is applied for year 1 of the new cap.

### **Second class parcels up to 2kg**

We have significant concerns about Ofcom's proposal to remove regulatory price protection in favour of relying solely on competition in the GB parcel market to protect Northern Ireland consumers.

Our research shows there is a significant risk associated with removing the price cap. The price cap approach should be retained.

However, our analysis shows the nature and extent of the negative impact on consumers through the existing basket approach. This is a concern and in part can be addressed by moving away from the basket approach to a single simple price point cap for parcels. We believe that this approach is proportionate and is needed to protect consumers across Northern Ireland.

While the specific single price point will need further investigation by Ofcom our research clearly shows how different prices are affecting consumers now and how further price increases would affect consumers in the future.

### **A targeted scheme**

The Consumer Council believes that consumers need the continuation of regulatory price protection through simple price point caps for letters and parcels which provides universal protection.

Any targeted scheme would need to be in addition to the regulatory second class price cap protection. This complementary approach could help in the context of the cost-of-living crisis that is currently affecting consumers rather than it resulting in a trade-off to remove universal consumer price protection regulation.

## **CONTACT INFORMATION**

To discuss our response in more detail, please contact:



The Consumer Council consents to this response being published.