

**Call for input: Review of postal regulation – pricing and affordability**  
**- Response by the Mail Competition Forum**

The Mail Competition Forum provides the following response to the CFI for Ofcom’s review of regulation relating to pricing and affordability (published by Ofcom on 4<sup>th</sup> November 2025).

This response is not confidential; it may be published in full and attributed to the Mail Competition Forum.

The Mail Competition Forum (MCF) is a group which represents the interests of several of the UK’s leading mail and parcel operators, who compete both with one another and with the incumbent Designated Universal Service Provider, Royal Mail (RM). The objective of the MCF is to support the development of conditions in the UK for fair, vibrant and sustainable competition to Royal Mail within a stable and undistorted market. The majority of MCF members offer services to customers using downstream access to handover mail to the local Mail Centre for onward processing and final delivery by RM (“Access”), through contracts with RM (Access Letters Contract, ALC)

As the focus of the MCF is on commercial and generally high-volume use of postal services, the CFI’s sections on the affordability of the Universal Postal Service and potential targeted discount schemes are not directly germane to the MCF’s interests. Hence, in this response we have not commented on these aspects of the CFI (though we may respond to any proposals which Ofcom consults on in Q4 2025/26).

This MCF response comments on two aspects of Chapter 5 of the CFI, on “Broader pricing concerns and access price regulation”.

*Access price control:*

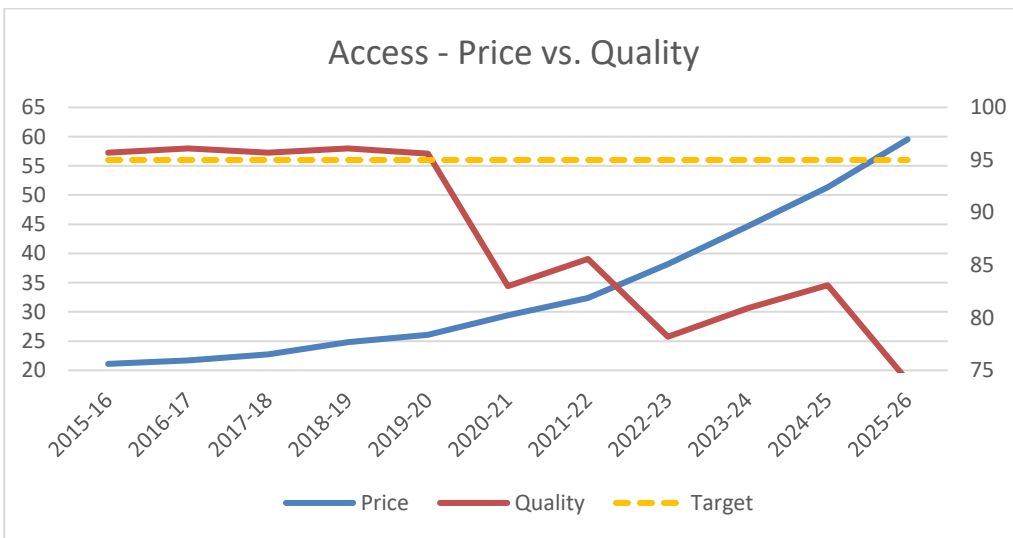
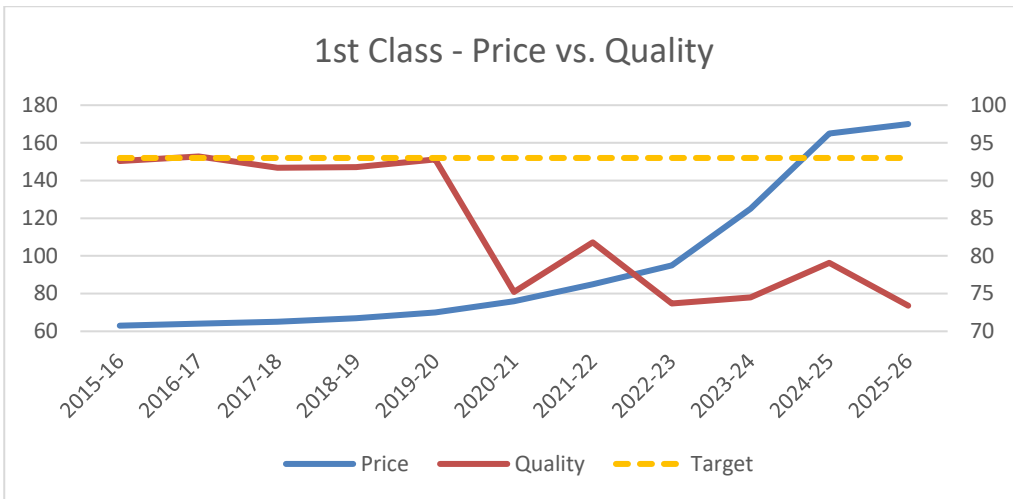
Ofcom acknowledges that many stakeholders, including Access operators, have argued for the introduction of new price controls, especially given several successive price increases when Royal Mail (RM) is chronically failing to even get close to the required Quality of Service (QoS) and it has failed to achieve substantial efficiencies. This has justifiably led to increasing customer dissatisfaction.

The MCF has consistently and for several years set out why some form of direct price constraint is warranted for Access services, not least because of the many, excessive price increases that have been imposed by RM on Access customers – often more than once during a 12 month period and always with a level of increase far greater than the rate of general price inflation at the time.

Despite abysmal QoS performance, RM has been able to exploit Access customers through excessive price increases because there is no direct pricing constraint or Ofcom-required QoS targets for Access services.

RM has, in the view of the MCF, abused its monopoly position in delivery of mail in the absence of regulation to protect customers from such abuse.

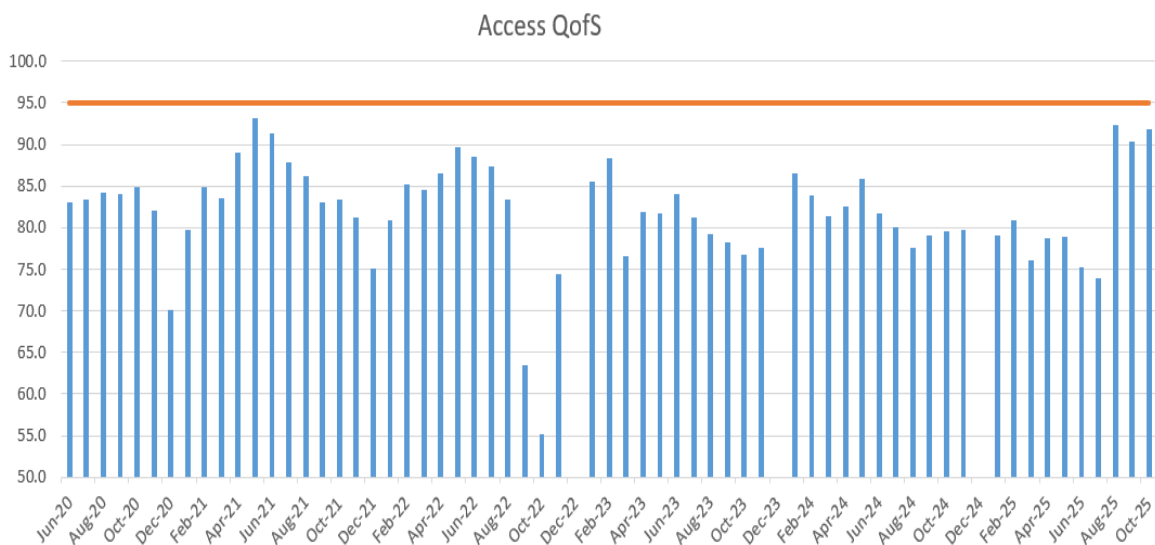
Last year, the MCF met Justin Madders MP, the Minister with postal services responsibility, and as part of that the Minister was shown the charts below:



This chart does not include the average 9.4% increase that will be imposed from 5<sup>th</sup> January 2026. These mean that the benchmark Access price (for the now D+3 service) will soon be **63.8p**.

It also doesn't reflect the fact that (resulting from Ofcom's 10<sup>th</sup> July 2025 decision on changes to postal service regulation) the price for a D+2 Access service is now at least **120p**

These price increases have been imposed (in the absence of any constraint by Ofcom) while Access QoS has failed to achieve the 95% target in any month of the five years since the Covid pandemic and typically has been below 85%



[N.B. Since August, the 95% target has been against the D+3 service rather than the D+2 service, but even with an extra day to deliver, the target is still being failed]

We also note that the RM Regulatory Accounts for 2024/25 show that RM made a 7.5% profit on Access, thanks to price increases and failing QoS.

The MCF therefore reiterates once more that it is evidently clear Ofcom should apply some form of pricing constraint for Access services.

At 5.7 of the CFI, Ofcom describes potential options for new controls on prices – several of which are already in use by the postal regulators in other European countries, or (with Outcome Incentives) is already used by monopoly utility regulators in the UK.

If such direct, regulatory control is appropriate and in operation for other national posts or utilities (which need to manage possible tension between price control and universal service sustainability) – why is such control not appropriate for the UK mail market and RM?

Of the potential options for new controls on prices, the MCF sees Outcome Incentives as being the most practical:

- It allows a direct link between RM's ability to increase prices and RM's QoS performance, thus addressing the prime stakeholder concern of ever and steeply increasing prices while QoS is chronically and abysmally poor;
- It can be graduated, with different levels of price increase allowed for different levels of QoS performance;
- It could be enhanced by also including an element related to RM's performance in achieving efficiency improvement;
- Importantly, it need not require the extensive work by Ofcom necessitated by the other options (such as Re-Authorisation)
- It would, hence, be transparent to stakeholders and RM, and be forward-looking for a period of years

In the CFI (e.g. at 5.20), Ofcom note that “the regulatory framework for USO services and bulk/access services is different” and “the affordability requirement for a universal service does not apply to bulk or access services”. Ofcom seems to be concerned that the statutory basis on which it can control Universal Service prices does not also apply to Access services, meaning it “may require a different legal basis.”

It is not for the MCF to set out the basis on which Ofcom could apply the much needed direct price control on Access, but we note:

- The Communications Act 2003 sets out Ofcom's general duties that apply across all of its functions (i.e. including post), with a principal duty “to further the interests of consumers in relevant markets”; in the case of post, “consumers” includes commercial users of bulk mail services (including Access)
- Additionally under the Communications Act 2003, Ofcom must take into account “Advancing the interests of consumers, in particular to the interests of those consumers in respect of choice, price, quality of service and value for money”
- Section 38 of the Postal Services Act 2011 allows Ofcom to set an Access Condition on RM if it “is appropriate for each of the following purposes - (a)promoting efficiency, (b)promoting effective competition, and (c)conferring significant benefits on the users of postal services.
- Under that Section, Ofcom “may not impose any price controls on a universal service provider in a USP access condition unless it appears to them that the provider concerned - (a) might otherwise fix and maintain some or all of its prices at an excessively high level with adverse consequences for users of postal services”
- Ofcom's existing Universal Service Access Condition USPA 3.1 already requires that Access services “shall be provided on fair and reasonable terms, conditions and charges and on such terms, conditions and charges as Ofcom may from time to time direct”

The MCF suggests that those each and jointly allow Ofcom to set direct Access price controls.

Ofcom also note that RM “has contractual agreements with access operators on quality of service, meaning it is required to pay compensation when it does not achieve certain standards.”

Those contractual arrangements for a Performance Rebate were negotiated with RM such that they offer some compensation for significant underperformance of the Access QoS targets and they were agreed by RM in exchange for contract changes which removed a real potential for RM to be required to pay far more substantial compensation for failing to deliver the service for which they had been paid.

Also, RM will soon announce unilateral changes to the Performance Rebate terms which will lessen the likelihood of compensation being paid and the scale of compensation.

### Margin squeeze control

Ofcom refers in the CFI to the MCF’s repeated concern that the existing margin squeeze control should include a wider set of mail products, namely unsorted mail varieties. This is because Access operators argue that RM, absent any margin squeeze regulation, has priced some of its unsorted bulk retail products close to, or even below, the prices it charges for access services.

Ofcom say that “if the margin squeeze test was failing to provide adequate protection to access operators, then we would observe Royal Mail gaining market share in the supply of bulk mail services, including in the supply of unsorted bulk retail services” and “there was little evidence of Royal Mail winning customers from access operators”.

The MCF continues to believe Ofcom is missing the point here. It is not that the exclusion of unsorted mail services from the margin squeeze control and the pricing RM is hence allowed to apply is causing RM to win customers, rather it is the case that RM is able to foreclose the unsorted mail market against Access and prevent Access operators from gaining business through fair competition.

Despite the evidence MCF members have provided, Ofcom continues to reject this and so continues to allow RM’s anticompetitive practices.

The MCF has also repeatedly explained to Ofcom our belief that the margin squeeze controls do not work in a transparent way. RM is required only to show it only expects the controls to be met following a price change, with it not being apparent whether Ofcom has actively checked whether that expectation is correct or whether Ofcom has subsequently checked that the controls have actually been met, based on actual volumes and prices;

The MCF hence supported Ofcom’s proposal to comment (in its annual Post Monitoring Report) on whether RM has been compliant with the margin squeeze test. However, we argue that Ofcom must also make a public statement after each RM Access price increase on whether Ofcom has provisionally assessed that the margin squeeze test will be met.

However, the overriding issue which the MCF has with the margin squeeze controls is that they are ineffective and redundant, applying no constraint at all in practice on RM’s pricing behaviour.

The margin squeeze controls only require there be sufficient headroom between RM’s Retail prices and its corresponding Access prices to allow Access operators to commercially offer Access services as efficient competitors to RM. They do not apply any constraint at all to the level of Retail or Access prices.

This is because RM no longer effectively competes with Access with its presorted bulk mail services, so RM has no interest in constraining those Retail prices.

Instead, RM is happy to increase both the Retail and Access prices repeatedly and severely without any control – knowing that there will be excessive revenue gain from greatly increased Access prices while the pricing of its very little used bulk Retail services is of no consequence.

For this reason, the MCF sees Ofcom’s suggestion (of replacing the current, single basket of services for the margin squeeze control with multiple baskets that contained products sorted by their delivery frequency) as being essentially irrelevant.

While that may reduce RM's ability to margin squeeze the most competitive services, it would have no practical effect as the margin squeeze controls apply no constraint on RM's pricing behaviour in practice.

The MCF urges Ofcom instead to focus development of its regulatory regime on controls that will directly constrain RM's exploitation of its monopoly position in mail delivery through excessive pricing and dire service quality.