



Ofcom's Draft Annual Plan 2016/17: Royal Mail response

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Ofcom Draft Annual Plan - Royal Mail response

The Ofcom Annual Plan forms an important part of Ofcom's engagement with stakeholders. It helps develop understanding of Ofcom's strategic direction and priorities for the year ahead. It also assists in the efficient planning of Ofcom's resources for its scheduled activities throughout the year.

Royal Mail notes Ofcom's three high level goals for 2016/17 to:

- Ensure that consumers and businesses benefit from a range of communications products and services, and that the market can provide good outcomes in terms of choice, price, quality, investment and innovation.
- Secure widespread availability, affordability and accessibility of communications and services, of good quality, for end-users across the UK.
- Ensure that consumers do not face sharp practice and that vulnerable consumers are protected from specific harms from which they are at risk.

We broadly support Ofcom's high level goals set out in the draft plan. We believe they form an important cornerstone in ensuring the communications markets works well for consumers and businesses and that the interests of users are protected.

Ofcom's proposed plan for post

Specifically on post, Ofcom have committed to:

- Reviewing the regulation framework of Royal Mail
- Reviewing the parcel market and parcel surcharging in the Highlands, Islands, and Northern Ireland.
- Investigating the Competition Act complaint from Whistl UK Limited in relation to Royal Mail's access prices and terms and conditions

In delivering its plan for post, we believe Ofcom must focus on its primary duty to secure the provision of the Universal Service. We believe Ofcom's duty in post is unique within the markets it regulates. The Universal Service is valued by consumers but operates in a fragile ecosystem. The letters market is in structural decline and there is intense competition in the parcels market. The regulatory framework must reflect these unique and challenging circumstances. These circumstances were present in 2012 when Ofcom deregulated and remain very much in place today.

Ofcom's review of the regulation of Royal Mail

Ofcom announced a fundamental review of the regulation of Royal Mail on 16 June 2015. The purpose of this review is *"to ensure that regulation remains appropriate and sufficient to secure the universal postal service"*.

Royal Mail made a comprehensive submission to Ofcom as part of the call for evidence for the fundamental review in September 2015. The submission put forward the case for further intervention not being required or appropriate to sustain the Universal Service, including independent evidence on Royal Mail's efficiency.

We believe the Universal Service needs an appropriate and settled regulatory regime. As we have already discussed with Ofcom, the sustainability of the Universal Service rests on market funding. We believe that, as the primary obligation of Ofcom is to secure the provision of the Universal Postal Service, Royal Mail's revenues and potential revenues should not be put at risk by regulatory intervention. In letters we operate in an environment of ongoing volume decline and potential volatility not seen in other regulated industries due to the possible acceleration of the decline from increased e-substitution. In parcels, competition has intensified and disintermediation, new delivery models and growing alternatives to traditional delivery are continually heightening the potential volatility of the market.

The more intervention to control and regulate the delivery of the USO, the more responsibility Ofcom assumes for its continued sustainability without a Government subsidy. We believe the right way forward is for Ofcom to recognise the competitive intensity of the industry. This is not the time for further regulatory intervention.

Structural decline in letters volumes means that the incentives on Royal Mail to reduce costs are already strong. The intensely competitive parcels market adds to these efficiency drivers. So too does the discipline of being a listed company. Regulatory measures are not required to enhance the focus on efficiency.

Royal Mail note the government's intention to ensure that all regulations are fair and effective and where possible unnecessary regulation is reduced. This principle was laid in relation to post by the then Secretary of State for Business, Vince Cable in 2011, *"The Government is keen to ensure that regulation is lifted wherever possible and appropriate to give the universal service provider the necessary financial and commercial flexibility to deliver the universal service in what is clearly a declining market."*¹

We believe economic regulation should remain as efficient as possible to deliver the maximum benefits for citizens and consumers while reducing the overall regulatory burden on operators. We therefore note and welcome Ofcom's ongoing intention of reducing regulation and minimising administrative burdens on stakeholders.²

We will respond to Ofcom's fundamental review of postal regulation, and look forward to working with it to create a sustainable framework for the Universal Service going forward.

Promoting competition and ensuring that markets work effectively for consumers

Royal Mail believes it is an important function of Ofcom to monitor the development of competition in the postal market. As Ofcom are aware, the UK has the most developed and largest access market in Europe, having developed rapidly since its introduction in 2004. Access operators now handle about 70% of all addressed letters posted by large businesses.

Royal Mail has worked with access operators to ensure sending and receiving customers enjoy a great service. Since 2004, Royal Mail has made changes to its access contracts to reflect changing customer needs. Many of those changes have been made in response to access customers' requests. Further, Royal Mail's prices for access and contract letters have been fair, reasonable and cost-oriented. Quality of service is high and terms & conditions of access are clearly balanced.

¹ Vince Cable's letter to Ofcom (April 2011)

² Ofcom simplification plan 2007

In the parcels market, competition is intense. There has been rapid change, greater disintermediation, and disruptive business models. This has resulted in pricing pressure with Royal Mail having to reduce prices in many segments. We have also invested in many product and process innovations. Royal Mail has made concerted efforts to deliver better value for money to its parcel customers.

We believe it is important that Ofcom monitor these new business models and their effect on consumers as part of its work plan to ensure there is no consumer detriment.

Securing standards improve quality and protect consumers from harm

The increase in competition in the parcels market has seen a variety of different operators now delivering goods that consumers have bought online. We believe Ofcom must ensure that consumers are not disadvantaged by new entrants. Research has shown³ that in some areas consumers have been unable to request delivery, or have been required to pay a surcharge for delivery. This is especially prevalent in rural areas such as the Highlands, Islands, and Northern Ireland.

We believe delivery surcharging by parcel operators is an important issue for Ofcom to consider. Without an affordable postal service to all corners of the UK, the full benefits of the Government's plan to roll out super-fast broadband to 95% of the UK by 2017 cannot be realised.

The UK was one of the early adopters of e-commerce. Penetration rates are high. Internet shopping has developed very substantially in recent years. The UK has the highest share of online retailing in the world⁴ - and a one third share of the entire European e-commerce market. However, for the benefits of broadband to be realised, there is the need for a high quality postal Universal Service, to deliver the goods to people's homes. Only the Universal Service provides a high quality uniformly priced next day service right across the UK.

As such, Royal Mail welcomes Ofcom's intention to review the parcel market and parcel surcharging in the Highlands, Islands, and Northern Ireland as part of its review of postal regulation. In addition, we believe Ofcom should focus on ensuring that consumer protections are applied to all operators in a fair and consistent manner. When something does go wrong, we believe all consumers should be afforded redress and a right of independent appeal, irrespective of who carries their parcel or letter.

We would be happy to engage with Ofcom further on how the market can work more effectively for consumers in the UK.

Ofcom's future work in Post

We note Ofcom's current work load in relation to postal matters. Royal Mail believes it crucial that Ofcom develop a sustainable regulatory framework in which to secure the Universal Service in the future. Following the completion of Ofcom's Fundamental Review, Royal Mail would expect Ofcom's focus to shift to a monitoring role, with less direct involvement in postal matters. We would expect this to be reflected in Ofcom's work plan in future years.

We look forward to working with Ofcom to create a sustainable framework for the Universal Service going forward.

³ CCNI – "Online Parcel Premium" June 2015

⁴ Enders Analysis and Ernst & Young, 'Digital UK 2015', February 2015: <http://www.digital-uk.london/~media/Files/D/Digital-UK/pdf/digital-uk-2015.pdf>