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By E mail

Date; 9th January 2013

Dear Ms Longman

Subject; End to End Competition in the postal sector, Draft guidance on Ofcom's approach

Please find comments and opinion from Unite on the issues raised in relation to the consultation document on End to End competition in the postal sector published on the 31st October 2012. These comments refer to the challenges being faced within the postal sector and also the actions that need to be taken to secure the Universal Service.

These comments are submitted by Unite the Union. Unite is the UK's largest trade union with 1.5 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, not for profit sectors, local government, education, the NHS and other health services, prisons and Royal Mail. Unite is a significant player in public services representing over 250,000 workers, including 60,000 employees in the not for profit sector.

Impact of End to End Competition

Within the consultation document Ofcom appears to be actively promoting access to the end to end competition in the UK postal market with the only safeguard and proviso being that the entrants give 3 months notification with a projected minimum of two and a half million items or an increase of 2.5 million items. This is at the time when the mails market is in decline and going through another period of change. At this juncture, and in the foreseeable future, any opportunity for an increase in end to end competition is unlikely to be to the benefit of consumers and is likely to lead to the decline in quality of service and job losses, as well as making the sustainability of the Universal Service less achievable.

Competitors to the Universal Service Provider (USP), given the current changes in the market, can only develop a business model that will focus on volume of mail and to deliver in densely populated areas without the need to consider the implications of the wider public service. To enable and promote this business model would inevitably and clearly undermine the ability of the USP to utilise the benefits of volume of scale to reduce the cost per item and to improve efficiency. End to end competition therefore is likely to increase the cost of the Universal Service and therefore undermine its sustainability in the longer term.

Because of the above points we consider that Ofcom should be more positive in fulfilling its responsibilities of securing the USO by being proactive in its approach to assessing the likely impact of end to end competition before it happens. Clearly a failure to do so would be an abrogation of Ofcom's responsibilities to ensure the future of the Universal Service being maintained as they will be assessing the impact of competition after it has happened and at a time when it is too late to resolve the position or to recover the situation.

End to End Performance

Ofcom appears to be suggesting that end to end items will continue to benefit from being free from any price control or quality of service requirements or measurement. Unite considers that this will contribute and accelerate a detrimental effect on the postal market and start a race to the bottom in terms of quality of service which would be a negative development. Accordingly we consider that as part of the condition upon which organisations can enter into end to end competition there should be a minimum requirement on price and on quality of service.

We also consider there should be a minimum wage in the postal sector in the UK. At this stage Unite is not setting out what that should be but we are calling for Ofcom to examine this further.

As we understand it there are a number of current concerns about the existing end to end competition in West London in respect of quality of service and that the experience of consumers is negative. There is no way of validating this information as it is not reported in a structured manner. There is however, we believe, a petition from those consumers that have experienced the service and from whom there are concerns about the quality and security of delivery services being provided and we call upon Ofcom to examine these issues.

Compensation Fund

We are opposed to the setting up of a compensation fund. We believe this would be cumbersome to create and bureaucratic to administer with little positive benefit other than to those organisations seeking to exploit this when entering the postal market. This would therefore, in real terms, be a subsidy to those companies and that would be inappropriate. We consider that the cost of any such fund, and its administration, should not be a cost to government, users of the postal service nor to the Universal Service provider.

Perverse Incentives

Ofcom suggest that if the Royal Mail's profitability was to fall below a certain level that there would be no incentive for them to improve efficiency. Whilst there is no doubt that this could be a particular scenario it has to be considered to the back drop of the last few years where Royal Mail has undertaken and continues to develop and introduce a huge amount of change through restructuring, reorganisations and job cutting exercises to either improve efficiency, remove duplication, or to indeed do things differently and more effectively.

Whether you accept support or agree with these changes is irrelevant. The point is that the organisation is heavily committed to change and cost reduction.

Inevitably some of these changes have mixed results but from a Unite perspective given that we have lost over 6000 members over the last 6 years there is no doubt that by whatever means cost cutting exercises have taken place. Neither do our members feel that their day to day responsibilities have become any easier. Indeed, the commitment of our members has been shown to return the organisation to profit and to pursue growth wherever possible. This has been recognised in activities such as the company employee opinion survey. Within this survey conducted by a respected independent party, 74% of respondents understood the need for change within Royal Mail Group with 11% of those respondents being neutral on the subject. This was 5 points above the global postal norm based on the Ipsos Mori benchmarking information. Further, in respect of the current pace of change 30% were positive with 56% being negative. 21% of that 56% felt that the pace of change was too slow.

We do not believe therefore there is any empirical evidence that Royal Mail would adopt a different approach to change than it has over the past few years and it is unlikely to rely on Ofcom to bail it out if it became unprofitable. We therefore consider that Ofcom is wrong in its assessment in this respect.

Use of General Universal Service Conditions

As things currently stand Ofcom is enabling entrants to the postal market to continue to cherry pick and cream skim high volume item cost to businesses that require minimal infrastructure. Unite considers this to be the wrong approach and that end to end competition should cease.

In the alternative, where Ofcom is hell bent on pursuing this strategy, we consider the time is right for Ofcom to exercise its wider powers in applying some Universal Service conditions that would require entrants, if they wish to enter the market, to take on a greater responsibility for covering a higher number of delivery days per week to each address and also to extend the geographical coverage to surrounding, suburban and rural areas equally to the same proportions as required by Royal Mail. The objective of this being to put competition in the postal market on a more level playing field. Put simply, the incumbent and others should be required to operate to the same service standards and delivery requirements including the number of days per week to each address.

Any failure by Ofcom to address this issue in a proactive way and to anticipate the negative impact that end to end competition will have can only result in them failing to secure the provision of a universal service.

Conclusion

The environment in which the postal sector operates is a difficult one. Many countries are experiencing the challenges brought about by liberalisation at the same time as recession, as well as electronic substitution and the change in the mix of mails with the increase in packet and parcel traffic.. No organisation has found the simple solution as it does not exist.

From evidence and experience it is clear that Royal Mail, and Unite members working in Royal Mail, have been through and continue to go through a period of change. These changes are aimed at securing the organisation and to improve and maintain efficiency and effectiveness in providing the universal service. To ignore the points above will have an impact on the service quality provided and on job in the postal sector. Any attack on jobs will

also include a drive towards more part time and casual labour with a less skilled workforce delivering that poorer quality service.

Unite calls upon Ofcom to respond positively to these points and to ensure that it does fulfil its obligation of securing the universal service obligation, of which it is in danger of failing to do if it does not address the dangers of uncontrolled end to end competition.

Yours sincerely

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www.unitetheunion.org.uk