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**Proposed Annual Plan 2019/20**  
**- Mail Users Association (MUA) Response**

**1. General**

MUA is the UK's only independent association of business users concerned wholly with commercially related postal matters. Its members are drawn from a wide range of business interests including direct mail, banking and finance, communications, publishing, mail production and other postal related industries. Collectively, it is estimated MUA members generate well above 10% of the annual volume of mail in the UK, and MUA represents a category of large volume mailers often referred to as *Super Users*.

MUA members thank Ofcom for the opportunity to respond to this consultation. MUA has carried out an internal consultation of its members on this matter, and the findings below represent the opinion of MUA's membership.

Our members' use of mail is across all of the services provided by Royal Mail, including Retail, Network Access and Meters, and while that use does include very large volumes of direct marketing mail and other customer relationship communications, the majority of the mail posted by members is transactional mail, using Royal Mail's bulk contract business mail services.

Although MUA members make comparatively less use of Royal Mail's USO services, we clearly see that our use of non-USO services is a very large contributor to the revenue Royal Mail needs to sustain provision of the Universal Service. In essence, it is MUA members' use of non-USO services that significantly supports provision of USO services.

Ofcom's regulation of the UK postal market in general, and Royal Mail in particular, is therefore of keen interest to MUA. In that context, we would emphasise to Ofcom its statutory duties in relation to mail users.

In this consultation on its proposed Annual Plan for 2019/20, Ofcom refers to its statutory duty under the Postal Services Act 2011 to secure the provision of a universal postal service. It is clear from Ofcom's statements in other recent consultations, that the Regulator does not consider such provision is currently threatened.



Therefore, MUA believes Ofcom must now have proper regard to its other primary statutory duty, under the Communications Act 2003, to further the interests of consumers in the markets that it regulates – including mail and the interests of major users such as MUA members.

MUA also urges Ofcom to act in pursuance of its duty under the Postal Services Act 2011 regarding “the need for the provision of a universal postal service to be efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times.”

MUA does not believe the Annual Plan as proposed includes sufficient projects for Ofcom to be furthering the interests of consumers (major mail users) or to address the need for provision of the universal postal service to be efficient and continue to be efficient.

## **2. Comments**

### ***2.1 Price Controls:***

MUA has been and continues to be gravely concerned at the series of very large price increases imposed by Royal Mail for its contract mail services over the past several years, many significantly above the rate of inflation; the most recent price increase, of nearly 10%, will have severe impact on the business of MUA members and is most likely to lead only to an increased rate of decline in their use of mail.

It is clear to MUA members that the absence of any large-scale competition to Royal Mail in the delivery of mail means Royal Mail is under no direct competitive threat that would cause it to limit its price increases.

While there is indirect competition through e-commerce and e-billing/e-statements, it is apparent to us that such competition is not a sufficient control on Royal Mail price increases – especially in the area of business mail, which is of most importance to MUA members and where Royal Mail has imposed the greatest price increases.

We therefore believe that in the absence of sufficient market forces to limit price increases, Ofcom as the Regulator should be actively considering whether and how appropriate price controls could be applied.

However, the proposed Annual Plan includes no such activity.

### ***2.2 Efficiency Targets:***

MUA members have been dismayed to see that Royal Mail has repeatedly failed to achieve its own, very modest targets for improved efficiency/productivity.

Clearly, pressure to improve efficiency and pressure to limit price increases are related and both would be present in a normally competitive market, but Royal Mail is not subject to such market pressures in relation to mail as it has extreme market power through a near monopoly in mail delivery.



Therefore, MUA members believe there is clear need and justification for Ofcom, as the regulator, to consider the application of external targets on Royal Mail for efficiency improvement.

The absence of such work in the proposed Annual Plan seems to MUA members to be inconsistent with Ofcom's statutory duties mentioned above.

### ***2.3 Understanding consumers' concerns:***

MUA notes that the proposed Annual Plan says Ofcom "*will monitor consumers' experiences in the postal sector*" and from the Annual Monitoring Report we see that Ofcom will "*run two separate surveys to track use of and attitudes to post, one focused on residential consumers and the other focused on small and medium enterprise (SME) business customers*".

While we would not argue with the need for Ofcom to understand the views of residential consumers and SME business customers of Royal Mail's services, MUA members are disappointed and concerned that Ofcom seems to have no similar plans to survey the needs and concerns of large business users, such as those represented by MUA.

As mentioned above, major users of Royal Mail's bulk mail contracts account for the majority of mail posted in the UK and the revenue from that use of non-USO services is the major contributor to the funding of universal service provision.

MUA members believe Ofcom needs to include the views of major mail users to get a balanced and realistic view from all postal consumers.

### ***2.4 Universal service needs:***

In providing these comments, we have a number of times mentioned the universal service and the inter-relation between USO and non-USO services. We believe it is important and necessary for Ofcom to maintain a clear understanding of what universal service provision is needed to meet the core needs of UK postal users, how those needs should be provided for, and whether their provision needs to be ensured by a regulatory mandate (the Universal Service Order), or if appropriate services would in any case be provided commercially by Royal Mail, as the designated universal service provider.

MUA members note that the Postal Services Act 2011 empowers Ofcom to review, from time to time, whether the existing universal service "reflects the reasonable needs of the users of postal services". It is our understanding that Ofcom has not carried out such a review since it became the postal regulator in 2012, some six years ago (the findings of the review were published in March 2013).

We recognise that undertaking such a review is a large task, but we believe the needs of consumers in relation to core postal services has changed significantly since 2012 as part of the rapidly developing communications market, and MUA members therefore believe Ofcom should include in its Annual Plan for 2019/20 work in preparation for such a review, and so clearly indicate that a review will be done in 2020/21 (which would then be eight years after the last such review).



## ***2.5 Competition in the mail market:***

As major users of mail, MUA members believe competition in the mail market is vital to the health of the market, with a good choice of suppliers offering a wide range of services, and competition between them leading to keener pricing and improved quality of service.

However, Royal Mail continues to have a near-monopoly in mail delivery. The only large-scale competitor (TNT Post/Whistl) ceased final delivery operation as a result of Royal Mail's pricing behaviour, which Ofcom's regulations did not prevent and which Ofcom has since concluded was illegal.

Hence, competition to Royal Mail is essentially confined to being through downstream access. While the proportion of mail carried through downstream access has increased during past years, there are now fewer access operators than in 2012. As a result, choice for large mail users has lessened, not improved.

Also, while fierce competition in the upstream market has to a limited degree mitigated the increases in Royal Mail's prices for downstream access (and so provided some support for mail volumes), MUA members now fear that the profit that can be earned by access operators is now at such slim margins that their ability to invest in improved services is minimal; indeed there are fears that at least one of the remaining main access operators, will exit the market and reduce choice (competition) still further.

In our view, Ofcom's regulatory regime for the mail market has not promoted competition and so has not furthered the interest of consumers, and the proposed Annual Plan does not include any work to consider how competition could be increased.

I hope that you find the above useful in your deliberations. Should you have any questions, do not hesitate to get in touch.

Yours sincerely,

A handwritten signature in black ink that reads "Jeremy G.F. Partridge". The signature is written in a cursive, slightly slanted style.

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