



Richard Orpin
Ofcom
Riverside House
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20th September 2017

Dear Richard,

Re: Recovering Postal Regulation and Consumer Advocacy Costs
Mail Competition Forum (MCF) Response

The MCF represents the interests of many of the leading postal and parcel operators who compete fiercely with both one another and with the incumbent holder of the USO, currently Royal Mail. The industry needs a strong and healthy Royal Mail and Ofcom have met its primary duty to preserve the USO with Royal Mail meeting the EBIT targets set. However the MCF believe that Ofcom could and should be doing more under its Consumer Act Duties now to further the interests of consumers where necessary by promoting competition and that **these proposals would represent a regressive step and damage competition.**

Both Postcomm and Ofcom recognised that competition was a good spur for Royal Mail and the concept of postal competition through Access was born and grew rapidly in terms of both volume and service providers. The change in regulator to Ofcom in 2012 saw the granting of greater commercial freedoms to Royal Mail and a turnaround in Royal Mails financial performance, thanks in part to significant price increases authorised by the outgoing regulator Postcomm. **In reality competition has weakened since this freedom was granted to Royal Mail, by both their activity and the Regulatory regime:**

- Ofcom's data shows that the volumes in Access have remained **largely static** at around 7.1 billion items per annum. Royal Mail demonstrably **do not wish to offer wholesale access to streams not in their mandate**, volumes have stagnated and **users of postal services have missed out as a result**. The MCF have argued that there are significant benefits to posters of metered items and light weight parcels should these segments be opened to competition.
- **Upstream prices have continued to fall** as a result of ferocious competition between upstream operators. **Downstream prices conversely have increased.**
- The number of operators delivering any significant volume into Royal Mails network has **decreased to four main carriers**, including Royal Mail.
- The prospect of country wide alternative End to End delivery has been halted by Royal Mails alleged **anti-competitive 2014 proposed contract changes, still the subject of an Ofcom competition investigation nearly four years later.**

The MCF believes that Royal Mail have been emboldened by the actions of the Regulator and that these proposals are a manifestation of this. The subject was debated and rejected by the industry as recently as 2014 and we seem to be in a regulatory déjà vu thanks to Royal Mails considerable lobbying efforts. A clear case of the tail wagging the dog and a sad reflection on the priorities of regulatory oversight in post. The MCF arguments were clearly set out in the 2014 submission and

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the arguments then were much the same as now, perhaps even stronger now that no material End to End is likely. However, these are summarised in the answer to Ofcom's six review questions below:

Question 1. Do you agree that single piece end to end letter delivery services should be taken into account for the purpose of setting administrative charges?

Yes providing this is clearly limited to single piece, end to end letter delivery.

However, the MCF believes that it is entirely appropriate for Royal Mail to cover the whole costs of the administrative charges as they have done to date. The charges levied by Royal Mail in both its Retail, Wholesale and Parcels parts of the business in providing its services will already cover the costs associated with these administrative charges so the whole postal community is already paying for the regulatory and advocacy charges.

Upstream operators operate on wafer thin margins and in reality there would be little opportunity to recover the administrative charges from posting customers, many of whom trade on fixed term multiyear contracts. Consequently the proposals would further weaken upstream competition with the sole beneficiary being Royal Mail, through both improved profitability and weakened competition.

The MCF, Ofcom and users of postal services would welcome further end to end competition and Ofcom must take care that administrative charges are not set at a level or threshold that would undermine any expansion or potential new entrant.

The MCF would also be supportive of other funding vehicles being explored that were not tied to volumes, such as funding through fines as used in other markets for example.

Question 2. Do you agree that revenues from bulk mail and access services should be taken into account for the purposes of setting administrative charges?

No.

These services do not fall within the scope of the universal postal service.

Moreover, the MCF totally rejects Ofcom's twisted and convoluted arguments on interchangeability. The arguments put forward focus on collection volumes but fail to consider other important factors such as physical payment methods and payment in advance vs. on account. Users of Postal Services will be clear on these issues even if Ofcom are not. Access and Bulk mail services are provided on entirely different terms to those of single piece end to end services and in the majority to entirely different audiences.

Furthermore, the MCF can see no justification for contributing towards CAB administrative charges. These services are not provided to customers who use bulk mail or Access. The focus is on the end recipient and provision through the Post Office network, all of which are matters for Royal Mail.

Question 3. Do you agree that turnover from Access should be calculated on a net revenue basis?

The question is moot since there is no justification for including Access explicitly.



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Royal Mail will already be using revenue derived from its Access, Parcels and USO businesses to pay the administrative charges. No change is needed.

Question 4. Do you agree that turnover from parcel services should not be taken into account for the purposes of setting administrative charges?

The question is moot since there is no justification for including parcels explicitly. Royal Mail will already be using revenue derived from its Access, Parcels and USO businesses to pay the administrative charges. No change is needed.

Question 5. Do you agree that the minimum revenue threshold for payment of administrative charges should be lowered to £5million?

No.

The MCF would dearly love to see a regulatory regime that actively encouraged alternative end to end delivery and the imposition of charges of this sort will act as an additional hurdle. The MCF continues to believe that the threshold should increase to £15 million and that this threshold should be increased each year either inline with inflation or Royal Mails average price increase, whichever is the greater.

Question 6. Do you agree with the proposed changes to CP1 that are set out in Annex 6?

No.

The MCF does not believe that change is necessary, fair, reasonable or desirable. As such it does not believe that the charging principles should be changed at all unless Ofcom come up with alternative funding models which obviate the need for CP1 entirely.

In summary the MCF believes that these proposals are utterly misconceived, urge Ofcom to drop them in their entirety and focus their considerable efforts on generating value for consumers of postal services through promoting rather than penalising competition.