

Your response

Question	Your response
<p>Do you have any comments on our proposals?</p>	<p>Executive Summary</p> <p>We are pleased that Post remains a focus for Ofcom and welcome the review of the future regulatory framework forming a key strategic priority for 2021/22. The review will be vital in securing the sustainability of the USO now and into the future. We ask that Ofcom takes account of the following points in managing it:</p> <ol style="list-style-type: none">1. Concluding the review in a timely manner2. Targeting the scope of the review to areas of genuine concern3. Introducing greater regulatory flexibility to support innovation and enable Royal Mail to bring new products and services to market quickly4. Clarify the approach to USO financial sustainability <p>We also welcome Ofcom’s continued cooperation with the CMA, the ICO and Government on designing a new regulatory framework for the digital economy.</p> <p>Context</p> <p>Royal Mail welcomes the opportunity to comment on Ofcom’s proposed Plan of Work 2021/22. We are pleased that Post remains a focus for Ofcom and welcome the review of the future regulatory framework forming a key strategic priority for 2021/22. The review will be vital in securing a platform which permits both the investment required to deliver the USO demanded by the public and for that service to be delivered sustainably.</p> <p>The past year has been very challenging for Royal Mail. COVID-19 has presented unique operating challenges in protecting our people, our customers and the public, while responding to unprecedented changes in letter and parcels volumes. Despite this, our postmen and women have continued to deliver for the country throughout the pandemic – connecting consumers, communities and businesses across the UK. Royal Mail has been a key partner for the Government’s COVID-19 testing programme, delivering and collecting tens of millions of COVID-19 tests from addresses across the UK since April 2020. We have also delivered over 500 million items of personal protective equipment (PPE) to the NHS, care homes, GP surgeries, pharmacies, dentists, optometrists and children’s social care providers on behalf of the Government.</p> <p>The pandemic has also seen a significant shift in how people use postal services.</p>

While less people are now sending letters, parcel volumes have grown significantly as more people shop online. For the first time ever, parcels revenue at Royal Mail is now greater than letter revenue. It now represents 60% of total revenue, compared with 47% at the same time last year¹.

In December 2020, we announced that following the conclusion of talks, Royal Mail had reached an agreement with the Communication Workers Union (CWU) covering areas including the strategy and future direction of Royal Mail, operational change, and pay. The agreement was ratified by CWU members on 3 February 2021, with 91.5% of eligible members voting in favour of it. The agreement will allow us to push forward with our transformation programme.

Workplan Feedback

1 - Ofcom Regulatory Review for Post

Within context of the above, we ask for Ofcom to take account of the following points in managing the postal regulatory review:

Concluding the review in a timely manner. We are focussed on delivering our transformation programme including improving efficiency, modernising our parcels operation and delivering letters efficiently. We have increased the automation of parcel sorting and are making significant investments in new parcel hubs, with the first expected to come on stream in 2022/23.

We remain committed to deploying the level of capital investment required to deliver our transformation programme. However, we need regulatory certainty to support these decisions. For example, investments in upstream parcel automation require certainty that there will be the upstream volumes in the future. We would urge Ofcom to consider and conclude swiftly on areas of the regulatory framework that are working well and do not require change while also considering what changes are appropriate, given the rapidly changing customer needs and the risks to the financial sustainability of the Universal Service. We are concerned that periods of regulatory uncertainty could create a chilling effect on our transformation investments and impact our broader transformation agenda.

We note Ofcom's intention to consult on changes in Q3 2021/22 and publish a statement on a new regulatory framework in Q4 2021/22². To allocate our resources effectively, we ask that Ofcom provides a more detailed schedule for these activities. A workplan based on quarters does not provide sufficient detail to accurately plan and ensure appropriate resource are available at the required times. We also ask Ofcom to clarify whether the scope of its statement in Q4 2021/22 will include changes to the monitoring framework or whether it will be a separate subsequent consultation, as per the process followed for Ofcom's Review of the Regulation of Royal Mail in 2017.

¹ Royal Mail half year financial performance Q2 2020/21 vs Q2 2019/20

² Ofcom Draft Annual Workplan 2021-22 P37

Targeting the scope of the review. It is right that Ofcom reviews the regulatory framework for post. There have been significant changes in the competitive landscape and market dynamics over the decade since Ofcom put the current framework in place. However, the review should be targeted to areas of genuine concern. Ofcom should not widen its scope based on complaints or responses from stakeholders with no evidential basis. We would be happy to discuss this in more detail with Ofcom.

Regulatory uncertainty at this time over the regulatory framework could negatively impact our focus on our transformation journey. The wider the review becomes, the more uncertainty that creates. We would welcome an early proactive indication of the areas that Ofcom deems are working well and therefore outside of scope of the current review. This will ensure the resources used by Royal Mail, other stakeholder and Ofcom (which Royal Mail contribute to) remain proportionate and targeted.

Regulatory flexibility is vital. We welcome Ofcom's recognition in its proposed Plan of Work that: *"The breadth and rate of the change in the sectors we regulate highlights the need for Ofcom to keep pace. As we balance the protection of consumers with the importance of making sure businesses can invest, innovate and build for the future, we will ensure that our approach to regulation reflects the rapidly changing environment"*.³

The postal sector is changing at an unprecedented rate. In recent years, letter volumes have fallen dramatically, and parcel volumes have grown as consumers rely more on online purchases. The arrival of the global COVID-19 pandemic has only accelerated these trends.

Revenue growth is key to the financial sustainability of the Universal Service. We need a flexible regulatory framework that supports innovation and enables Royal Mail to bring new products and services to market quickly, without the need for a protracted consultation process. The e-commerce sector in the UK is one of the most mature in the world. It has introduced a new generation of users to post. Further, as environmental concerns become more important to consumers, it should be considered how this is reflected in the regulatory framework. The current regulations were written for a different generation of postal users. We urge Ofcom to consider these factors when carrying out its review.

USO Sustainability. As part of the review, we urge Ofcom to clarify its approach to financial sustainability. In 2012, Ofcom set the benchmark for a commercial rate of return for the Reported Business as 5-10% EBIT margin. It reaffirmed this rate in its Review of the Regulation of Royal Mail in 2017. However, the Reported Business has only earned this commercial rate of return in two of the nine years to 2019-20. We urge Ofcom to consider a more transparent framework and look forward to having further discussions on these issues.

³ Para 2.19. p6

2 - Continued cooperation with the CMA, ICO and Government on designing a new regulatory framework for the digital economy.

We welcome Ofcom's plan to continue its cooperation with the CMA, the ICO and Government to understand online business models, competitive dynamics and how they interact with online harms, to design future targeted online regulation.

Digital markets play a key role in the economy and deliver substantial benefits to consumers and businesses alike. However, the dynamics of these markets have changed significantly since their beginning and we now see the rapid accumulation and strengthening of market power by a small number of businesses. A trend which has accelerated further with the COVID-19 pandemic. The lack of effective competition is often due to specific market features such as network effects, economies of scale and unparalleled access to data. For instance, powerful global firms build "ecosystems" of complementary products and services around their core services, making it difficult for third parties to compete fairly at any level.

We encourage Ofcom to ensure that the scope of the ongoing digital review is comprehensive and covers all relevant digital players and services, including online marketplaces and their adjacent services. There is an entire ecosystem of services surrounding online marketplaces, including postal and delivery services, which can be affected and should therefore fall within the scope of the review, the future digital economy regulatory framework and be an area of focus for the Digital Markets Unit, once established.

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