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## Who we are

On 1 April 2014, Consumer Futures (previously Consumer Focus) – the statutory representative for consumers of postal services across the United Kingdom, for energy consumers across Great Britain, and for water consumers in Scotland – became part of the Citizens Advice Service. Our responsibility for post in Northern Ireland transferred to the Consumer Council for Northern Ireland.

## Citizens Advice Service in England, Wales and Scotland

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The Citizens Advice Service provides free, confidential, and impartial advice to help people resolve their problems. As the UK's largest advice provider, the Citizens Advice Service is equipped to deal with any issue, from anyone, spanning debt and employment, to housing and immigration, plus everything in between. We value diversity, promote equality, and challenge discrimination.

### The service aims:

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- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives
- To ensure that individuals do not suffer through ignorance of their rights and responsibilities or of the services available; or through an inability to express their needs
- To exercise a responsible influence on the development of social policies and services, both locally and nationally.

Citizens Advice Bureaux deliver advice services from over 3,500 community locations in England and Wales, run by 382 independent registered charities. Citizens Advice itself is also a registered charity, as well as being the membership organisation for these 382 member bureaux. In Scotland, 61 Citizens Advice Bureaux help over 250,000 clients with over half a million new problems every year. More than 2,200 trained volunteers and 600 paid staff ensure that thousands of people in Scotland receive vital advice every day.

## General Consumer Council for Northern Ireland

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The General Consumer Council for Northern Ireland (the Consumer Council) is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to 'make the consumer voice heard and make it count'. The CCNI has a statutory remit to promote and safeguard the interests of consumers and have specific functions in relation to energy, water, transport, food and postal services. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

## Executive Summary

Postal services across the UK continue to play a key role in facilitating communications, despite the challenges from digital technology and the consequential reduction in letter volumes. The postal service is pivotal in the delivery of physical items, especially those purchased online, which has resulted in a significant increase in parcel volumes. Royal Mail, as the designated provider of the universal service (providing the service six days a week, at geographically uniform affordable prices), is still the most dominant operator within the wider postal market. It handled approximately one billion parcels and 13 billion addressed letters in 2013/14.<sup>1</sup> However, alternative end-to-end postal operators are handling increasing volumes of addressed letter mail.<sup>2</sup>

As the statutory representative for consumers of postal services across the United Kingdom, we believe that the role of the USO to maintain a social safety net for postal users that protects social inclusion and cross border trade, while also protecting the needs of each Member state, remains vital. This submission will provide recommendations for the future of the universal service obligation (USO) within the UK context. The submission highlights relevant consumer research on the variations between different areas, population density, age groups, and socio economic environments across the nations of the UK, as a basis for change where it is seen effective in improving choice, competition and price for consumers in the postal sector.

- For a sustainable USO to be achieved, we feel future Directives should reflect an outcome-based approach as opposed to an output-based approach, which to successfully enact would require stringent monitoring of national regulatory authorities (NRAs). Directives may also require the introduction of further regulation in this respect. Through our consumer research into USO services, competition and choice in the postal market, we do not feel that the USO should be maintained as a means to sustain the current regime of the USP.
- In setting out future weight requirements for the USO and the goals of developing a single market with full competition, the disadvantage experienced by rural and remote dwellers who often lack a choice of carrier for USO inclusion packets or parcels and are disadvantaged over non USP pricing and quality of delivery offerings needs to be considered.
- Future Directives should give distinction between rural and urban areas. This feature should be set out in a way which gives power to NRAs to decide how best to define rural and remote areas within their borders.
- Competition in the UK parcel market has had an innovative effect on the USP. In the UK parcel market, it has responded by seeking to innovate and increase flexibility of services such as parcel deliveries as it competes with increasingly sophisticated delivery alternatives for e-commerce, including improving track and trace capabilities,

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<sup>1</sup> <http://bit.ly/1A1jBPP>

<sup>2</sup> Ofcom Communication Market report 2014 <http://bit.ly/1oiQmpu>

offering out of out of hours deliveries and changing to parcel sizes and pricing to reflect consumer needs.<sup>3</sup>

- Future Directives must ensure that USO funding mechanisms are not skewed, and must maintain that the various elements of the USP function in an efficient manner and must limit the risk of financial burden. Clarification should also be outlined on the various VAT regimes that are set out across EU Member States to ensure that cross-border e-commerce can continue to grow without disadvantage to certain groups of consumers and retailers based on location.

## Introduction: The current UK USO operating environment

Postal volumes are declining in almost every country in Europe. This trend is apparent in most postal markets worldwide. When looking to the future of the USO, EU Member States have already begun to undertake changes to reduce the burden and cost of the USO by instituting reductions in the number of delivery days per week, postal establishments and collection boxes, removing of bulk mail, reducing the weight of domestic parcels to 10 kg in the aim of reducing heavier parcels and packages, and changing quality of service targets (reduction of post offices, frequency of delivery and removal of D+1 services).

This had occurred under the umbrella of the EU Community Postal Policy Framework, which states that the universal postal provider (USP) must provide a 'minimum range of services of specified quality ...in all Member States at affordable prices for the benefit of all users, irrespective of their geographical location [and] ensure[s] that the needs of users, the interests of employees and the general importance of the postal sector for the economic, cultural and social development and cohesion of the Community (including the special difficulties encountered by remote regions) are taken into account when regulating the sector.'<sup>4</sup>

Outside the EU, reforms such as the move to community mailboxes have been undertaken as ways to sustain the long term sustainability of universal service. Within the context of regulation of postal services within EU law, while being subject to national regulation, it remains the imperative to accommodate differences in geography, culture, usage, habits and behaviour, socio economic factors at a national level. Each EU Member State is in different stages of economic development, for instance, what works for digitisation of mail in one State, may not work in another State, due to different broadband infrastructure, accessibility and development timelines.

Given these potential significant differences in digital e-substitution and user habits across EU Member States, a one size fits all approach to significant changes to the USO to ensure its long-term sustainability is not possible.

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<sup>3</sup> 'Royal Mail to "transform parcel tracking" with £130m investment' <http://bit.ly/10FChu1>

<sup>4</sup> EU Postal Legislation <http://bit.ly/1u58RAH>

The 1997 EU Postal Directive on common rules for the development of the internal market of Community postal services and the improvement of quality of service requires Member States to ensure that the universal service provision evolves in response to the technical, economic and social environment and to the needs of users. Within that framework and the subsequent 2<sup>nd</sup> and 3<sup>rd</sup> Directives, Member States may define the postal universal service differently, but all countries must ensure that users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory and at affordable prices for all users. Moreover, they must comply with the common European minimum requirements set out in article 3.

Royal Mail, the USP in the UK, remains the largest player in the UK postal market and retains market power in the letters delivery market and in the delivery of lower weight parcels, although it is becoming less preponderant in relation to the market as a whole and delivery of higher weight parcels is generally more competitive.<sup>5</sup> Research in 2012 indicated that Royal Mail's share of the wider postal market declined from 69% in 2007 to 64% in 2011.<sup>6</sup> We expect that this market share has continued to fall in line with the intensity of competition in the parcels segment of the postal market. Developments in internet fulfilment (and broader retailing) markets such as the growth of Amazon Logistics, the online retailer's own courier delivery network, and consumer use of click and collect services are likely to have a greater impact on the sustainability of the universal service than either end to end or access competition.

Independent UK consumer research conducted by consumer advocacy and postal regulatory bodies has shown the importance and economic value of USO provision to both residential consumers as well as SME communication and logistics needs.<sup>7</sup>

The nations of the UK as well as the regional remote, rural and island differences are of ongoing importance to consider when mapping out the ways in which the current and future USO can operate sustainably in the UK. This is especially important given the fact that research by our predecessor body, Consumer Focus, has shown that rural and remote consumers consider services such as online shopping as essential.<sup>8</sup>

This is illustrated in Scotland where almost one million people live in rural areas and 280,000 of those live in remote rural areas. Rural Scotland accounts for 98% of the land mass of Scotland<sup>9</sup>. Scotland also has approximately 96 inhabited Islands with a total population of around 100,000<sup>10</sup>. Its geography and topography affects the provision of postal services in a number of ways. Almost half (45%) of the 3000 addresses exempt from the USO, for health and safety or difficulty of access reasons, are in Scotland. The three postcode areas in the UK exempt from Royal Mail's quality of service standards are all in Scotland—HS (Outer Hebrides), KW (Kirkwall), and ZE (Lerwick). There is also substantial evidence of the difficulties consumers in Scotland. For example, those in rural

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<sup>5</sup> Based on turnover in the wider postal market including letters, packets and parcels up to around 20 kg.

<sup>6</sup> *Postal Market Review, Consumer Focus* (April 2013); *Ofcom Communications Market Report 2014*

<sup>7</sup> *Consumer Focus Sense and Sustainability 2012*

<sup>8</sup> *Consumer Futures Signed, Sealed, Delivered?* 2013

<sup>9</sup> Scottish Consumer Council; *Rural Advocacy in Scotland*, 2007

<sup>10</sup> General Register Office for Scotland; *Scotland's Census 2001 - Statistics for Inhabited Islands*, 2003

and remote areas, experience problems with parcel deliveries by operators other than Royal Mail and beyond USO obligations. These issues include: -

- higher costs of delivery;
- no delivery to their location;
- longer delivery times;
- lack of transparency of delivery costs; and
- a lack of up-front information about delivery costs.<sup>11</sup>

For these reasons, the regulation set out in the Directive (postal packages up to 10kg), and the Postal Services Act to provide for items weighing up to 20kg, is important to ensuring rural and remote consumers receive delivery of parcels. However, if more information was made available from the USP and other parcel operators, on the volumes of parcels sent in different weight categories, it could be seen if and where competition exists and where the USO is vital to ensuring service to rural and remote consumers receiving parcels.

Looking to postal trends in the UK, it is important to consider the increasing significance of communication infrastructure and the role of the internet, which is a big factor in the types of activities consumers engage in. The national postal regulator in the UK, Ofcom, has highlighted that more and more UK citizens are going online and becoming more confident using the internet. People in the UK are some of the most frequent online shoppers in the world, ranking first among European and a range of other countries. The internet is increasingly important for citizen-related activities as well. The UK government has a “Digital by Default” strategy for the provision of public services and information. But take-up of public, citizen-focused services is not as high as it is for consumer services: the UK ranks fourth out of the EU5 for regular engagement with government services online.<sup>12</sup> Ofcom cites that internet take-up has increased from around 53% of homes in 2004, to 82% in 2014. Whilst there has been an increased proliferation of online services and devices that give access to consumers, those that remain ‘offline’ will face arguably greater risks of exclusion than they did ten years ago. Also those that are online, require ongoing development of their skills and knowledge to remain safe and confident users.<sup>13</sup> These findings reinforce the need for the EPRG to be mindful of ensuring the scope of the postal USO, to allow for the growth in digital communications and e-commerce. EPRG should also be mindful that other less developed countries still have access to a fit for purpose postal service.

Other UK consumer issues and trends relate to the growth of e-commerce. UK features as having the highest rate for e-commerce online turnover per capita, as share of GDP

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<sup>11</sup> Consumer Focus Scotland; *Effective parcel delivery in the online era: what consumers in Scotland need*, 2012; Citizens Advice Scotland; *The postcode penalty: how some online retailers are disadvantaging Scottish consumers*, 2012; Office of Fair Trading; *Price and choice in remote communities*, 2012

<sup>12</sup> See *The European Broadband Scorecard 2014*, Ofcom <http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/bbresearch/scorecard-14>

<sup>13</sup> Ofcom *Citizens and communications services 2014* <http://bit.ly/1ogHHG4>

per capita for e-commerce is found in the UK (4.5 per cent).<sup>14</sup>, This is impacting on the competitive environment for sending and receiving parcels, as well as the related concerns over cross-border mail. In particular, the concerns over cross-border mail between Northern Ireland and the Republic of Ireland, where research by Consumer Focus, found that the large majority of consumers (87%) considered it unsatisfactory that mail to the Republic of Ireland is more expensive than mail to the rest of the UK. 77% of consumers suggested that the tariffs should be the same.<sup>15</sup> Currently, tariff policies for cross-border parcels vary by EU member state, with different tariff zones existing at country or zone specific levels, as highlighted in the EU Commission Intra-Community cross-border parcel delivery report. We consider that this is adverse to growing cross-border e-commerce.<sup>16</sup>

As the universal service provider, Royal Mail has voiced concerns and sought government intervention on what they argue is the threat posed by end to end operators “cherry picking” the lowest-cost delivery areas. Royal Mail are concerned this may result in there only being able to serve the more expensive delivery areas and eliminate the geographic cross-subsidy vital for a sustainable uniform price.<sup>17</sup> However the slower growth rate of end to end competition means that these operators deliver less than 1% of total addressed mail and Ofcom estimates that end to end competition is less than 0.4% (although acknowledging that the number of items carried by alternative operators represents a six-fold increase on 2011 mail volumes).<sup>18</sup>

Competitors argue the USO should be kept to minimum so as reduce the potential for competitive distortions created by the VAT exemption.<sup>19</sup> Yet the role of the Universal Service Obligation (USO) remains key to act as a safety net and provision of service solely guided by commercial considerations. In 2012, Royal Mail was given significantly more pricing freedom by the national regulatory authority (NRA), Ofcom, to secure the ongoing provision of the universal postal service. This is subject to certain safeguards (such as the safeguard cap on Second Class stamp mail (up to 2kg) to ensure vulnerable consumers could continue to afford a basic universal postal service.<sup>20</sup> Given this increased pricing freedom, Ofcom carried out research into the needs of citizens on low incomes and those who may be particularly reliant on postal services including, for example the elderly and disabled, or those who lack internet access. They found that in light of this change, universal postal services remained affordable for virtually all citizens and consumers (including low income and other vulnerable consumers) at current prices.<sup>21</sup>

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<sup>14</sup> Data for online turnover: IMRG (2013); Data for GDP per capita: Eurostat

<sup>15</sup> Consumer Focus (Post NI); *Cross-border post: Improving mail services between Northern Ireland and the Republic of Ireland*, 2010

<sup>16</sup> FTI Consulting *Intra-Community cross-border parcel delivery: a study for the EU Commission* 2011

<sup>17</sup> Royal Mail, *Direct Delivery: A Threat to the Universal Postal Service, Regulatory Submission to Ofcom* (June 2014)

<sup>18</sup> *Ofcom Communications Market Report 2014*

<sup>19</sup> BIS Select Committee Submission into Competition in the UK postal sector and the universal service obligation 2014

<sup>20</sup> <http://stakeholders.ofcom.org.uk/binaries/post/affordability.pdf>

<sup>21</sup> Ofcom <http://stakeholders.ofcom.org.uk/binaries/post/affordability.pdf>

## The scope of the USO: minimum European standards for the common USO and reflections on the UK position

Given the research completed to date both in the UK and abroad, it would seem that a logical way forward for the European minimum standard would be to base EU regulatory conditions around outcome rather than output based regulations. These can cater to different levels of development and provides feasibility around issues around delivery and collection such as frequency and number of delivery and collection days per calendar week, uniformity, socially desirable outcomes and the designation of rural and remote areas. Currently there is no distinction between rural and urban areas given within the minimum scope of the Directive.

An outcome based approach has thus been taken in response to the following questions around the guaranteed and regulated elements of the USO. For this approach to be successfully taken, it would be essential that effective national regulatory authorities (NRAs) are integral in national USO regulation and monitoring. To achieve this and ensure the Directive is being followed, there would therefore need to be stringent safeguards for different regulators, which could be further developed within the requirements of the NRA as outlined in the Directive beyond the monitoring of fair conditions, and ensuring compliance of tariffs.

In other potential areas of change to the Directive, given the ways in which the mail market is declining in the UK, and in many other EU countries, we do not feel as a consumer body, that quality of service measures need to be introduced within the context of a Directive, which would be required if a priority service for letters was introduced.

This opportunity to discuss the sustainability of the USO could provide a chance to include standardised VAT regimes for cross border postal services to address differences between countries such as having VAT exempt bulk mail. Common standards are required to ensure there is a viable single market for doing business within the EU, and also when EU Member States do business internationally. Quality of service targets would be required as part of standardisation.

The requirements of the Postal Services Directive are reflected in section 31 of the Postal Services Act 2011, which sets out the services which, as a minimum, must be included in the universal postal service in the UK. The minimum requirements of the Act comply with, and in some aspects exceed, the requirements of Article 3 of the Postal Services Directive.

To further assist in answering this question, we have completed a table attached in the Appendix (page 14), to summarise the current regulatory conditions of the Directive, along with Postal Services Act requirements and where we believe there is scope for change.

## Outputs versus outcome based approach to USO implementation

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The regulatory approach to the universal service needs to address what consumers really need from a universal service as outlined in the Directive. Consumers need a consistent and high quality service that provides greater delivery convenience and control and product innovation to meet consumer needs in the communications environment. Currently the Directive and UK regulation takes an output approach, and below we have presented an outcome based approach for consideration which would require significant further research at a national level.

### Number of collection and delivery days

Currently, the Directive stipulates that delivery and collections must occur every working day and not less than the timeframe of 5 days for collection and delivery. Within the UK, the USP must provide delivery and collections Monday – Saturday for letters, and Monday to Friday for packets.

To assess the benefits and costs of aspects of the universal service, Ofcom, the UK NRA carried out some quantitative and qualitative research to assess user needs and reasonable needs in relation to the USO. Ofcom completes this review regularly. Ofcom's most recent Review of Postal User Needs in 2013 has shown that overall, residential users value Saturday collections and deliveries, in particular users who are largely at work or in education during Monday to Friday said Saturday is the only real day they can use postal services and receive deliveries. While at the same time, Ofcom's research shows that some users, in particular business users, are less reliant on collections and deliveries six days a week, specifically on Saturdays.<sup>22</sup>

Research by our predecessor body, Consumer Focus, *Sense and Sustainability* pointed to user needs being more than met by the current specifications of the service.<sup>23</sup> Both reports reveal that although the current universal service largely satisfies users' core needs, respondents are willing to consider some changes to the service, such as removal of Saturday deliveries, providing there was greater innovation and they were given more convenient packet services and re-delivery options. This includes extending the number of pick up points; longer opening hours; and more convenient locations, including pre-specified locations such as pubs or corner shops. Meeting these needs is the key to future sustainability of the service.<sup>24</sup>

If the number of weekly deliveries were to be reduced, UK residential consumers expect this to be matched with greater innovation in terms of the delivery options for packets and parcels by extending the number of pick up points to include longer opening hours and

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<sup>22</sup> Ofcom Review of Postal Users' Needs 2013 <http://bit.ly/1tEEnW6>

<sup>23</sup> Ofcom *Consultation document on the reasonable needs of users in relation to the market for the provision of postal services in the United Kingdom* (October 2012) <http://stakeholders.ofcom.org.uk/consultations/review-of-user-needs/>

<sup>24</sup> Ofcom Review of Postal Users' Needs 2013 <http://bit.ly/1tEEnW6>; Consumer Focus *Sense and Sustainability* 2012

more convenient locations. It would also help allay any residential consumer concerns about reducing the number of daily deliveries.<sup>25</sup>

If an outcome approach was to be taken in addressing this USO requirement in setting out the number of collection and delivery days in a way that left open the minimum and maximum number to each EU member state, the number of days of delivery and collection could be reduced and/or vary by rural and urban location, taking into account user preferences at a more defined level. In order for this approach to be successful, it would be required that NRAs have the capacity to define rural and urban areas in order to ensure all users received service regardless of location in a way that best meet their needs while maintaining a sustainable USO. An ambitious programme of research across EU Member States so that results are comparable would need to be undertaken to achieve this measure.

Outcome based recommendation: The number of collection and delivery days to be set forward as 'reliable and frequent for delivery and collection of items throughout the week monitored against user needs and willingness to pay.'

### **Registered and insured services**

Currently, the EU Directive stipulates that there must be registered and insured services at affordable prices. Within the UK, this is provided through Recorded Signed For and the Special Delivery service (which is also a priority service offered for next day delivery at 09:00 or 13:00) at both uniform and affordable prices.

Our past consumer research has highlighted that one reason users do not necessarily choose the best service to meet their needs is that they have low awareness of the features of Royal Mail services. This was also found in Ofcom's qualitative research on user needs.<sup>26</sup> In addition, Ofcom research found that users expressed a need for simplicity, and identified a number of areas where this could be achieved by ensuring that users have the right information available. Many users lack clarity over differences between Special Delivery and Recorded Signed For; as we discuss in relation to the next day service, there are also some misconceptions about the First and Second Class services; and, finally, users are not always aware of all the characteristics of the service, notably redelivery of items that cannot be delivered first time.

While within Ofcom's survey of user needs, UK respondents oppose lowering the current quality of service of the next day service, there are some users who expressed the view that the quality of service should be higher. However, Ofcom has found that the quality of service target for First Class should not be increased as it is already challenging for Royal Mail. Consumers have a need for a higher quality of service. They can, and already do, use the registered and insured service (for which the target is 99% by 1pm next day). The issue of the quality of service target for the next day service is by necessity linked with the service itself, but would highlight that the value to users of each may result from different needs, one for predictability, and the other for actual speed. Of course, a need

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<sup>25</sup> Consumer Focus *Sense and Sustainability* 2012

<sup>26</sup> Ofcom Review of Postal Users' Needs 2013 <http://bit.ly/1tEEnW6>

for a fast service would also require a high quality of service, as otherwise a high proportion of items would not arrive next day.<sup>27</sup>

Consumer Focus research conducted as part of the *Sense and Sustainability 2012* report found that both consumers and SMEs state that they need a guaranteed next-day service. SMEs outlined there will be a need for a premium and trackable service. Whoever is delivering the post, residential consumers wish to see a continued service whereby delivery is to the individual's home under a USO to ensure that no households are disadvantaged by any change to the current system. It may be the case that additional details should be included in the next Directive which adds clarity around the definition of 'registered' items to include if Track and Trace are viewed as an additional aspect of this requirement.<sup>28</sup>

Ofcom also found that while choice was identified as a core need of users by the qualitative research and the need for a range of services needs when put in context, identified as a need which users said would allow them to trade-off between services and meeting other needs such as speed or value for money. In addition, the research also identified a need for simplicity, i.e. the ability to easily calculate what to expect from a service which would allow users to make an informed decision and plan one's usage of post.

Outcome based recommendation: Options for combinations of registered, insured and reliable services to be offered at affordable prices.

## **Cross-border mail**

Currently, the EU Directive stipulates that postal packages received from other Member States weighing up to 20kg must be delivered within their borders.

A packet can be characterised as an item that is of a similar size to a letter, but that marginally breaches the traditional letter size dimensions. Different Member States have different dimension restrictions for packets, but the sum of these products length, height and width is usually no more than 900 millimetres. A packet cannot weigh more than 2 kilograms, while parcels have much higher weight restrictions and can be of a much larger dimension with a maximum weight of 20kg within the USO. For the purpose of regulation, packets are letter mail. As highlighted in the Intra-Community cross-border parcel delivery completed for the EU Commission, there is little public information on the overall size of the market, in terms of both value and volumes, yet the size of the market of delivery of packets and parcels is estimated to be worth 46bn euros. Twenty-nine National postal operators, competitors or integrators do not release volume or sales data for different parcel products or specific geographic areas, because it is crucial business information which they wish to keep confidential. Moreover, as markets become increasingly competitive, any information that may exist on national postal operators only, such as that gathered by the UPU, is not sufficient to assess market size, since it does not represent the whole market. In addition, there is no public data on Royal Mail

<sup>27</sup> Ofcom Review of Postal Users' Needs 2013 <http://bit.ly/1tEEnW6>

<sup>28</sup> Consumer Focus *Sense and Sustainability 2012*

domestic and cross-border parcel volumes (also the case in Germany, France, Spain, Belgium and the Netherlands) because national postal operators do not release postal volumes data due to commercial sensitivity, and these countries are the most likely to have commercial competitors.<sup>29</sup>

The scope for using partners and subcontractors for parcel deliveries depends on the scale of the cross-border operations in the destination country, as well as on its market structure and geography. Large urban areas have more available options than remote areas. In peripheral areas with low parcel flows and/or low population density there may be no delivery alternative to interconnecting with the national postal operator. This is what occurs in the UK. In addition, small, infrequent senders, such as individual consumers, micro enterprises, and small enterprises do not have the same access to discounts and therefore pay higher prices. Choices, and hence competitive pressures on prices, are also more limited in countries with low population density and/or low parcel flows, where the scale necessary to achieve the economies of scale required for large price reductions is absent and therefore competitive entry is reduced and traditional postal pipelines face less competitive pressure.<sup>30</sup>

The Copenhagen Economics Study for the EU Commission completed in 2013 found that for most products bought online in business to consumer e-commerce, (62 per cent, on average) are shipped by means of parcels weighting up to 5 kg. 19 per cent are shipped as packets (200g -2 kg) and a similar share is shipped as heavier parcels (weighting 5-30kg).

The report also found that the most important aspects of delivery for consumers, regardless of whether located in a high or low e-commerce country is low delivery prices, delivery to home address, access to track and trace notification, convenient return options. Less important was next day delivery, Saturday or evening delivery.<sup>31</sup>

If more data was made available to the EU on parcel and packet volumes from all USPs it would be possible to make recommendations on reducing the USO weight requirement for postal packages to that area, within the market where competition will not provide affordable prices for consumers. In setting out future weight specifications for a single market, it remains important that groups of users are not disadvantaged by location, as can occur with rural and remote consumers. These consumers can also face a lack of choice in carrier, be disadvantaged over non USP pricing and quality of delivery offerings.

Outcome based recommendation: Reliable and affordable services for cross-border items that facilitate tracking of registered and insured items.

## **Parcel weight**

Currently, the EU Directive regulates that the USO must provide for items of up to 2kg and postal packages up to 10kg. Within the UK, the USP provides for items up to 20kg.

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<sup>29</sup> FTI Consulting *Intra-Community cross-border parcel delivery: a study for the EU Commission 2011*

<sup>30</sup> FTI Consulting *Intra-Community cross-border parcel delivery: a study for the EU Commission 2011*

<sup>31</sup> Copenhagen Economics *E-commerce and delivery a study for the EU Commission 2013*

In the UK, Ofcom has found that both residential consumers and many small and medium businesses use a small sub-set of Royal Mail universal postal service products. In particular, First and Second Class standard Letters, Large Letters and packets up to 2kg comprise the bulk of mail by volume and value for these users. Residential users' reliance is more on the receipt of 'official correspondence' and parcels; except for a few types of content where original documents need to be sent. These are important, but not frequent, occasions. Business users are sending a wide range of items, but also turning to alternative providers or means of communications. Most users still rely on post to send and receive packets, for instance Consumer Focus' quantitative research shows that 35% of residential users now receive packets at least once a month. This figure has increased from 27% in 2010. Residential users were also likely to anticipate that personal communications and packets would continue to go by post.

Research by both the UK NRA and our own findings has found that consumers would like more convenient and reliable options for the delivery of parcels.<sup>32</sup> We agree with Ofcom that given the steps the USO is taking in this area and the competitive nature of this part of the market, it benefits will be delivered to consumers through by Royal Mail and other postal operators than through additional regulation.

If more data was made available to UK parcel and packet volumes it would be possible to make recommendations on reducing the USO weight requirement for postal packages to that area within the market where competition will not provide affordable prices for consumers.

Outcome based recommendation: Reliable and affordable services for items that facilitate tracking of registered and insured items up to the weight the NRA sees as needed to maintain USO service.

## **Essential elements that should be guaranteed and regulated through the USO**

In addressing this question we considered whether or not there were points within the USO that are being provided by the market, and not required to be regulated. Ofcom's Review of Postal User's Needs included quantitative surveys and questions aimed at eliciting users' preferences for different aspects of the universal service. This was achieved through conjoint analysis and gave two measures relating to the needs of users. Firstly, the measure of "utility" enabled Ofcom to see how much more users were willing to pay to retain a feature of the service; and secondly, the measure of "tolerability" or "acceptability" measured the percentage of users who found a change to the service "tolerable" (i.e. who would continue to use the service which helped inform the view on the impact of a change on social benefits). Where possible the costs and benefits of certain aspects of the universal postal service were considered. The results on users' willingness to pay, estimated the total private value of specific aspects of the universal

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<sup>32</sup> Ofcom Review of Postal Users' Needs 2013 <http://bit.ly/1tEEW6>; Consumer Futures *Signed Sealed Delivered?* 2013

service, to respondents of the quantitative research. The consultation identified that with the increase in other forms of communication, consumers were using the post less – including for receiving official documents. This was coupled with a shift in sending letters to using electronic media and greater receipt of packets due to online purchases.<sup>33</sup> Ofcom also found that post also remains important for certain types of communications, in particular personal communications and packets. For instance post is one of the most frequently used methods to send greetings. Residential users' reasons for continuing to use postal services seem to be changing, with the emotional significance of post becoming relatively more important.

Quantitative research by Ofcom among residential users found that that post is more important to users aged 65+, disabled users and housebound users, and those in rural areas, deep rural England and offshore areas. There were notable differences in how older and younger residential users use postal services. Older users feel more of an attachment to post than electronic methods of communications, with some conducting their financial transactions on paper for security and safety reasons. Younger users are sending very little post except official forms, application forms and packets, and their reliance on the post is primarily from a receipt-of-goods-and-products perspective. Rural and urban users had different core services preferences, with rural users tending to be more sympathetic to the postal service and less demanding in terms of quality of service.<sup>34</sup>

As identified in *Sense and Sustainability*, SME and residential consumers expect reliability and punctuality to be regulated to ensure product and delivery frequency changes do not result in reduced quality of service. Therefore it was recommended that the regulator would need to be given powers to act to ensure all consumers are protected. The study found both SME and residential consumers are concerned that the most vulnerable members of society will be further disenfranchised if changes to the USO are allowed to happen unchecked.<sup>35</sup>

The majority of UK residential consumers are willing to accept a reduced number of deliveries to three or four times a week, given declining letter mail. SME consumers are also willing to consider a reduction in the number of deliveries but only to exclude the Saturday delivery. Whilst they accept that their reliance on letter mail will decrease they are still nervous about giving permission for a weekday delivery to be dropped. This would, however, need to be matched with tighter regulation of the Royal Mail USP to ensure this change in delivery frequency is not used as an opportunity to reduce service levels.<sup>36</sup>

This mode of USP service has recently been established in New Zealand, where collection and delivery to urban areas is no less than 4 days and no less than five days a week in rural areas. More research would need to be done across European states to assess the impact of this given the substantial variations that exist between EU Member

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<sup>33</sup> Ofcom Review of Postal Users' Needs 2013 <http://bit.ly/1tEEnW6>

<sup>34</sup> Ofcom *Review of Postal Users' Needs* 2013 <http://bit.ly/1tEEnW6>

<sup>35</sup> Consumer Focus *Sense and Sustainability* 2012

<sup>36</sup> Consumer Focus *Sense and Sustainability* 2012

States. It is also important that EU level legislation has a national impact, and measures for consistency of interpretation would be required.

Currently, the UK is not the only EU nation which provides collection and delivery of letters more than five days a week. This group includes Germany, France, Denmark and Norway.

## **Uniform base levels for country specific solutions**

Consumer research conducted as part of *Sense and Sustainability* found that the current pricing structure is greatly valued and most consumers (residential and SME) would be very reluctant to see this change - especially those from Northern Ireland.

Zonal pricing is for EU Member States to introduce and regulate based on consumer needs. In the UK a minority of younger, urban residential consumers are willing to consider zonal pricing (typically 18-30 year olds). They are unlikely to be sending much letter mail in the future but expect to see an increase in parcels and packets and do not expect to be disadvantaged by zonal pricing. Some SME consumers whose suppliers and customers are predominantly located within a local radius are also willing to consider zonal pricing.

## **Targeting USO user categories through the USO and identifying changes with a forward looking perspective**

The UK Postal Services Act requires that the universal postal service to include registered and insured services, international services, and two free services (services for blind and partially sighted people and petitions and addresses). This remains important to protect, as well as USO services for disabled consumers in all areas of the UK.

Consumer research conducted as part of *Sense and Sustainability* found that individuals in rural areas, lower income households and the elderly, should also be targeted by USO services, as there is concern for disenfranchising vulnerable members of UK society as and when changes are made to the USO.<sup>37</sup>

Similarly, in Ofcom's *Review of Postal Users' Needs 2013*, residential consumers were found to be sending and receiving far more packets and parcels as online shopping and trade continues to grow. This has more significance for rural consumers who traditionally have more limited capacity for personal choice and flexibility in their consumer decisions. It has also raised awareness of packet and parcel delivery and carrier options.

SME consumers rely increasingly on email for communication but many still use the post for everyday items. There are, however, certain business types that have not been able to fully maximise the potential cost and time savings that could be offered by moving online and they are still heavily reliant on the postal system. Ofcom has also found that

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<sup>37</sup> Consumer Focus *Sense and Sustainability* 2012

size of business (which is linked to spend on post) is an important factor in understanding responses from businesses, with smaller businesses less likely to use and value post than larger businesses. Despite this, qualitative research identified that many small businesses have not yet moved their payment systems online and are still receiving payments in the mail by cheque. Post therefore has a direct impact on cash flow, magnifying its importance to small businesses.<sup>38</sup>

## **Financing: excessive costs within the UK USO and the consequences of scope for change**

The economic reasons behind an efficient provision of the USO are delivery at least cost to maximise benefits for customers. Also economies and compensation of net cost of a USO delivery at least cost to avoid distortion to competition and ensure the efficient use of taxes.<sup>39</sup>

Regardless of which changes are enacted to the USO for ongoing sustainability, social inclusion must remain as an integral part of USO provision, along with affordability, contributing to a social safety net.

## **Competition: protecting competition**

Given the recent privatisation of Royal Mail in 2014, the consideration of how social benefit for postal services is maintained in a privatised environment also now features in debates around developing competition for the public interest within the UK.

Since full opening of the market, access to competition where one operator collects and sorts mail (“upstream”) and then injects it into the network of another operator (usually the incumbent) for final delivery (“downstream”) has grown at a far greater rate than end to end entry which involves the operator both collecting and delivering the mail. About 49% of mail volumes in 2013 were carried by access operators and the access market is now considered mature.<sup>40</sup>

Access competition has the lowest impact on the sustainability of the USO as Royal Mail still retains 85 to 90% of the total revenue for access mail.<sup>41</sup> As a result, regulatory submissions from Royal Mail have stressed the threat from competing end to end operators. The largest alternative end to end operator is Whistl (previously known as TNT Post)<sup>42</sup> who since commencing end to end operations in April 2012 in London (in addition to its access operations) have expanded operations to other urban areas in Liverpool and Manchester with an aim to cover 42% of addresses by 2019.<sup>43</sup> There are also smaller

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<sup>38</sup> Ofcom *Review of Postal Users' Needs* 2013 <http://bit.ly/1tEEnW6>

<sup>39</sup> Frontier Economics presentation on principles to calculate the net costs of the USO

<sup>40</sup> Ofcom *Communications Market Report 2014*

<sup>41</sup> Ofcom *Annual Monitoring update in the postal market – Financial Year 2012 – 2013* (November 2013) at para. 6.26

<sup>42</sup> TNT Post UK changed to Whistl on 15 September 2014.

<sup>43</sup> Extension of time period from 2017 to 2019 for meeting this target was highlighted in presentation by Nick Wells, CEO, Whistl at Marketforce, *Future of UK Postal Services Conference*, 21<sup>st</sup> October 2014

end to end operators such as cycle couriers and local delivery companies who focus on geographically based delivery.<sup>44</sup>

In the consumer research to date it has been found that residential consumers are still reliant on the universal service and the Citizens Advice Service considers that safeguarding of the universal postal service is the most important priority for postal consumers.<sup>45</sup> The universal postal service is most likely to be financially viable over the long term in a fully competitive postal market where consumers and customers choose to use the universal service and purchase postal products which meet their needs. Customers and consumers will benefit from additional choice under a competitive environment with economy wide benefits from the lower prices that are likely to be generated in a competitive parcels and letter market.

We see that the presence of competitors in the postal market influence Royal Mail to innovate their service offering and be more responsive to consumer needs. The intensity and level of competition in both the letters and parcels segments of the postal market which have accelerated since market liberalisation in 2006 have delivered clear benefits to customers and consumers through increased choice, innovation, increased incentives on improved efficiency and reduction in costs, price stability through lower levels of price increases.

Choice in the letters market has primarily developed for larger mailers with consumers still reliant on the universal service provider but the parcels market offers greater options for consumers and small and micro businesses accessible through a variety of shop front and online avenues. Innovation in the wider market has also accelerated with valued features such as use of barcode technology, timed delivery slots and Sunday deliveries becoming standard part of market offerings by all postal operators. Royal Mail itself has taken innovative strides introducing Sunday opening at 100 delivery offices across the UK, trialling Sunday deliveries within the M25 and offering Click and Collect with Post Offices. Over time these types of features and innovations may help safeguard mail volumes.

Previous research conducted for Consumer Focus concluded that upstream competition for mail services (in the collection of mail) has benefitted consumers by restraining price rises in this area. However the introduction of size based pricing and price increases in 2012 for both end to end retail product and access services would have impacted and led to increased consumer prices for mail products. Although stamp prices remained steady in 2013 they increased again in April 2014. More recently Royal Mail has launched promotional pricing on small parcel sizes arguably in response to offerings of competitors.<sup>46</sup>

Of concern is competition has not benefitted all groups of social consumers equally, particularly those in rural and remote areas who have limited choice and are more reliant on the USO. We have a significant body of evidence of detriment to rural and remote

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<sup>44</sup> *Ofcom Communications Market Report 2014*

<sup>45</sup> *Consumer Focus Sense and Sustainability 2012; Ofcom Review of Postal User Needs 2012*

<sup>46</sup> *BIS Select Committee Submission into Competition in the UK postal sector and the universal service obligation 2014*

consumers in the parcels market including non-deliveries, delivery surcharges and lengthy journeys to collect undelivered items.<sup>47</sup>

## Designation: designating a USP

It may be the case that different postal operators could provide the USO to different areas of the UK more efficiently. However there is a risk that rural and remote areas would not be economically viable for an operator to be allocated and government aid would be required. Uniform pricing ensures cross-subsidy of remote and rural areas served by the USP. If the USP was removed it would be much more difficult to incentivise postal operators to serve rural, remote and island areas. It would seem to make sense that Royal Mail remains the USP in the UK given the extensive infrastructure they have established. Designated USP(s) must be maintained in order to ensure postal services where the market will not naturally provide. There is no one designated universal service provider in Germany, and this example could be worth investigating further to see how services are provided via different operators across the country.

## Conclusions

In setting forward our evidence at a UK consumer level, we have sought to present findings and recommendations which help reinforce the need for the EPRG to be mindful of ensuring the scope of the postal USO and ensuring a safety net is maintained so that all consumers can access affordable postal services. This is at the same time as allowing for the growth in digital communications and e-commerce. It is also important to ensure all countries can regulate access to a fit for purpose postal service. For this to be achieved we have provided evidence on how future regulation will be best set out in an outcome based approach, which requires increased monitoring of NRAs to ensure appropriate interpretation of the Directive. The importance of providing access to all users whether in rural or urban locations remains paramount in any changes to the USO. It could be the role of the NRA in deciding how the different user needs within EU Member States should be addressed in order to maintain the sustainability of the USO.

## Recommendations

In closing, we recommend that:

- Any changes to the USO need to be evidence based and assessed by the relevant NRA with research gathered from the unique geographical, socio economic, cultural and behavioural factors at the national level of each EU member state;
- The Directive should seek to introduce an outcome driven regulatory framework to embed a nation level perspective within implementation that supports the growth of domestic e-commerce, as well as cross border trade and reflects the state of development of member states and user needs;

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<sup>47</sup> BIS Select Committee Submission into Competition in the UK postal sector and the universal service obligation 2014

- Future proofing be considered in any future Directive design in order to ensure that social benefit can be monitored, and
- The minimum standards of the Directive are established as ways to create measurable standards across the EU that further the sustainability of the USO.

**The statutory watchdog for postal services is Citizens Advice and Citizens Advice Scotland in Great Britain, and the Consumer Council in Northern Ireland.**

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[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)  
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Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.

Registered charity number 279057.

BIS/14/973

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**Citizens Advice Scotland**

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[www.cas.org.uk](http://www.cas.org.uk)

Scottish Association of Citizens Advice Bureaux - Citizens Advice Scotland (Scottish charity SC016637) is a company limited by guarantee no. 89892.

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The Consumer Council was established under The General Consumer Council (Northern Ireland) Order 1984.