



24 February 2015

Steven Ball
Ofcom
Riverside House
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London SE1 9HA

Dear Steven,

Citizens Advice Service (Citizens Advice and Citizens Advice Scotland) and Consumer Council for Northern Ireland response to Royal Mail Access Pricing Review

As the statutory representative for consumers of postal services across England, Wales and Scotland, the Citizens Advice Service and the Consumer Council for Northern Ireland are pleased to respond to Ofcom's consultation on Royal Mail Access Pricing and its specific aims to amend the regulatory framework relating to the Universal Service Provider Access (USPA) Condition.

We work with the consumer advocacy bodies across the UK (Citizens Advice Scotland and the Consumer Council for Northern Ireland) to conduct research and evidence on postal user needs and deliver strategic projects that contribute to improving the operation of the postal market for all consumers, assessing the value of postal services across the universal service obligation (USO), mail and parcels.

Our concerns on the proposed amendments to the regulatory framework centre around ensuring that whilst encouraging the sustainability of the universal service the new access arrangements are 'fair and reasonable' and do not adversely affect competition in the area of bulk mail delivery and USO mail. As such, we have provided in turn a partial response to the consultation focused on those areas we feel are within our remit to submit comment.

The case for intervening and the approach to focus on Royal Mail zones to develop a response to end-to-end competition (Q. 1 & 3)

It is our general view that customers and consumers 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 market for bulk mail delivery. In the consumer research to date it has been found that residential consumers are still reliant on the universal service and the UK consumer advocacy bodies consider that safeguarding of the universal postal service is the most important priority for postal consumers. Of concern is that the benefits of competition can be disproportionately spread across groups of social consumers. Consumers in rural and remote areas have been shown to have limited choice and are more reliant on

the USO for items such as parcels¹ and may not have equal access to services offered by competitors in the postal market. In this vein, access pricing should be set by Ofcom at 'fair and reasonable prices' which does not deter competition from entering the market or disadvantage groups of consumers from receiving bulk mail.

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 increases². We have seen that the presence of competitors in the postal market influence Royal Mail to innovate their service offering and be more responsive to consumer needs. For example in the parcels market, Royal Mail has responded to the presence of competition by lowering prices and changing parcel sizes to reflect consumer demand and compete with competitors in this market.³

It is our view that 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. We are thus in agreement with Ofcom's stated provisional view that competition from an end-to-end entrant is likely to lead to stronger net consumer benefits in the bulk mail market, relative to a market scenario where Royal Mail is able to act as a near monopolist in bulk mail delivery.⁴ As bulk mail delivery occurs over the same network as USO mail, efforts to reduce costs of bulk mail delivery and invest in improvements in bulk mail delivery and processes could impact USO mail delivery costs and services. As Ofcom has highlighted, these benefits could put downward pressure on industry costs and encourage Royal Mail to pass these benefits onto consumers. These potential benefits spill-over efficiency benefits for the delivery of USO mail will not occur in the scenario of Royal Mail maintaining a monopolist position in the delivery of bulk mail.

Proposed approach to definition of zones and proposals regarding Zonal charges (Q. 4 & 5)

We are satisfied with Ofcom's approach to defining zones (USPA 1.3) based on Royal Mail's existing methodology and contractual definition of 'Postcode Sector'. We also are in agreement with the proposed amendment to the definition of 'Delivery Point' to reflect the concept stated under the designated USP condition as 'any home or premises of any individual or other person in the United Kingdom and any delivery point approved by OFCOM for the purposes of a designated USP condition'.

Overall, we are supportive of the approach taken to define further three new non-London zones, Zone A (urban), Zone B (suburban) and Zone C (rural) and to distinguish between geographic and non-geographic post codes to create transparency, stability and certainty in

¹ BIS Select Committee Submission into Competition in the UK postal sector and the universal service obligation 2014

² BIS Select Committee Submission into Competition in the UK postal sector and the universal service obligation 2014

³ <http://bit.ly/1FpGnVt>

⁴ Ofcom's *Royal Mail Access Pricing Review Consultation* 2014 notes, 'the majority of access mail in the UK is carried by Royal Mail under national pricing plans and only a small minority under zonal pricing plans. Royal Mail is currently required to provide access on fair and reasonable terms and not to unduly discriminate'.

establishing access pricing for competitors. We trust that Ofcom will take measures in its monitoring to ensure access arrangements for any proposed zones will not have adverse effects on the provision of the universal service for consumers in any areas of the UK.

Need for structured compliance process for proposed remedies (Q. 16)

We agree with Ofcom that the application of regulation of the USPA Condition cannot be subject to any operational discretion on the part of the USP in order to maintain transparency and stability of prices.

The proposal for Royal Mail to notify the regulator in writing of any changes to be made to proposed London Standard Selection Codes (SSCs) using the results of the Mails Characteristics Survey (MCS) of the stability of mail volume within London SCCs over a period of at least five consecutive months will increase OFCOM's capacity to accurately monitor changes to mail delivery volumes within the London Zone. OFCOM's subsequent proposal to expand the definition of the Mails Characteristics Survey to include its remit to make reference to 'such rules, requirements or processes as OFCOM may direct by or under the USP accounting condition' will ensure this monitoring function is in place with further regulation possibly required as part of the upcoming review to the USPAC condition.

The proposed further restriction on pricing under zonal access contracts (USPA 6A.) to 2 decimal places in assessing compliance will assure that Royal Mail is unable to set charges at a ratio that increases the suburban charge unnecessarily.

We are aware that some smaller regional access operators operate predominately within specific zones. The presence of these operators, particularly in rural zones helps to ensure some form of postal competition exist in these areas so that small businesses can benefit from reduced postal costs and improved choice. In discussions with Ofcom we are encouraged that it is cognisant of the impact of potential changes to access pricing on smaller regional access operators and the wider benefits their operations bring to consumers in rural areas. However, we would ask Ofcom in their final decision to outline how it has considered the impact of their access pricing proposals on these smaller regional operators and ultimately consumers in rural areas.

Proposals to address concerns and ways that Royal Mail could take action to undermine effectiveness of proposals (Q. 19)

We are supportive of Ofcom's action to consult on changes to access pricing given the potential for new entrants to withdraw from the bulk mail delivery market and the possibility for a near monopolistic environment for Royal Mail. We note Ofcom's findings that e-substitution for senders of bulk mail has reached a plateau and those who have switched are likely to have already done so while it has been found that those remaining consumers who receive bulk mail face some barriers such as lack of access to internet⁵ or concerns over security of e-communications.⁶

If the constraint of competitors within the delivery of bulk mail is removed, Royal Mail could have the scope to attempt to further offset reductions in bulk mail volume trends by increasing prices for bulk mail services. Conversely if the constraint of competitors in bulk

⁵ Ofcom *Communications Markets Report 2014*

⁶ PricewaterhouseCoopers, PwC – *The Outlook for UK mail volumes to 2023*, 15 July 2013

mail delivery is present, Royal Mail will have a stronger incentive to reduce costs and continue to innovate mail services as it has done in the upstream mail services and parcels market.⁷ Ideally the efficiencies created in its delivery network will be passed along to consumers.

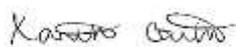
Given the implementation of the proposed regulatory amendments, Royal Mail could continue to raise concerns over the long term sustainability of USO yet we are doubtful Royal Mail would seek to reduce the scope of the USO at this stage as it would seem it still continues to benefit from economies of scale given its delivery network for USO mail.⁸

Assessment of impact of proposals and agreement (Q.20 & 21)

Citizens Advice considers it important that the USPA Condition is fair and reasonable in line with the regulatory guidance set out by Ofcom. It is equally important that Ofcom continues to play an active monitoring and oversight role. This will ensure that the new regime for access pricing does not negatively impact on either the USP or other access operators, and is able to maintain an ongoing balance between the need for new entrants to spur competition and innovation in the postal market as well as maintaining the sustainability of the USO.

Should you wish to discuss any of the above further then please do not hesitate to contact us.

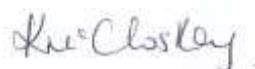
Yours,



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⁷ Previous research conducted for Consumer Futures 2013 Postal Services Market Review concluded that upstream competition for mail services (in the collection of mail) has benefitted customers and consumers by restraining price rises in this area.

Innovation in the wider postal services 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 and investing in new tracking technology. <http://bit.ly/1G2paDe> / <http://bit.ly/1pMeGSI>

⁸ Royal Mail *Monitoring Report*, paragraph 6:26, 2013-14