



ERGP Secretariat
DG GROW
Avenue des Nerviens 105
1040 Brussels
Belgium

Royal Mail
100 Victoria Embankment
LONDON
EC4Y 0HQ

5th January 2017

Dear Ms Corona,

Re. ERGP work programme for 2017

Royal Mail is proud to be the universal service provider in the UK, delivering a six-days-a-week, one-price-goes-anywhere postal service to more than 29 million addresses. We recognise the ERGP's commitment to the development of regulatory best practice across Europe. We believe the best way to achieve this is for the ERGP and its members to work closely with postal operators. As such, we welcome the opportunity to respond to the ERGP's 2017 workplan. We have provided detailed comments on each proposed work area, annexed to this letter, but in summary:

- **Implementation and evolution of the universal service obligation (USO)**
 - Royal Mail does not believe changes to the scope of the USO are necessary in the UK, nor do we wish to see a revision of the requirements within the Postal Service Directive.
 - The current Postal Service Directive provides member states sufficient flexibility to determine the scope of the USO for their postal operators.
 - For the universal service to stay contemporary and relevant, it needs to be in tune with market developments. Regulatory conditions should evolve over time with changing market conditions. But in doing so, policy makers and regulators should not do anything that would undermine the revenue pools needed to sustain the USO. Indeed, the regulatory onus should be on how to sustain the USO.
 - Any assessment of possible changes to the scope of the USO should start from the premise that revenue pools need to be sustained to fund the universal service. It should not exclusively focus on the potential cost savings generated by specification reductions.



- **Cross-border parcel delivery for e-commerce purposes**
 - Royal Mail believes the European Commission's draft regulation on cross-border parcel delivery services should be withdrawn. It is unwarranted and unnecessary. Competition for cross-border parcels in the UK and other member states is highly competitive.
 - The ERGP's recent technical input paper on the draft regulation is a helpful step forwards but does not go far enough. Consumers' interests are best served by competition not prescriptive regulation.
 - It would be beneficial if the ERGP considered to what extent the prices e-retailers charge for delivery reflect the prices charged by delivery operators.
- **End-to-end competition and access regulation**
 - Both the letters and the parcels sectors in the UK are highly competitive. There should not be additional regulatory intervention in the UK to facilitate further competition.
 - Letter volumes were growing when access competition was introduced in the UK. But now letter volumes are in structural decline across Europe.
 - The regulatory focus – in both the UK and elsewhere across Europe – needs to shift, to focus on the revenue pools necessary to pay for the universal service.
- **Regulatory accounting and price regulation**
 - Our regulator Ofcom has extensive oversight of how Royal Mail allocates cost. We do not believe additional regulatory intervention or oversight is necessary in the UK.
 - More broadly, any evaluation of costs incurred on the incumbent in providing access services should be done in strict compliance with the principle of proportionality and subsidiarity.
- **End user regulation and market outcomes**
 - Although the rate has varied from country to country, there has been significant growth in e-commerce across Europe. However, consumer protection regulation has not kept pace with these developments.
 - Consumer protection regulation varies by country. But most operators are subject to little or no consumer protection standards.



- There should be a single consumer protection standard for all major players in both letters and parcels.

We hope the ERGP and its members find our response helpful and look forward to engaging with you in the coming year.

Yours sincerely,

A handwritten signature in black ink that reads "David Gold". The signature is written in a cursive style and is followed by a long, horizontal flourish line.

David Gold

Director Public Affairs & Policy
Royal Mail



1. Implementation and evolution of the universal service obligation (USO)

- **Royal Mail does not believe changes to the scope of the USO are necessary in the UK, nor do we wish to see a revision of the requirements within the Postal Service Directive.**
- **The current Postal Service Directive provides member states sufficient flexibility to determine the scope of the USO for their postal operators.**
- **For the universal service to stay contemporary and relevant, it needs to be in tune with market developments. Regulatory conditions should evolve over time with changing market conditions. But in doing so, policy makers and regulators should not do anything that would undermine the revenue pools needed to sustain the USO. Indeed, the regulatory onus should be on how to sustain the USO.**
- **Any assessment of possible change to the scope of the USO should start from the premise that revenue pools need to be sustained to fund the universal service. It should not exclusively focus on the potential cost savings generated by specification reductions.**

Royal Mail does not believe changes to the scope of the USO are necessary in the UK, nor do we wish to see a revision of the requirements within the Postal Service Directive.

- 1.1 Royal Mail believes the universal service helps bring social cohesion and economic benefits to all member states. It helps facilitate cross border commerce and underpins the continued developments in e-commerce. The universal service obligation remains important to residential customers, SMEs and larger businesses alike. Most member states currently provide a universal service without recourse to public subsidy.
- 1.2 Royal Mail is the proud provider of the universal service in the UK. We are committed to the Government's overarching policy objective of delivering a high-quality universal service without Government subsidy. The postal universal service is vital to UK economic growth. The current scope of the USO should not be reduced. It meets the needs of businesses and consumers. It optimises the revenues available to fund it.
- 1.3 However, USO finances are fragile and subject to significant risk. Royal Mail has commissioned a substantive piece of research on the optimum scope of the USO. The research shows that Royal Mail relies on revenues from non-USO commercial activities, particularly parcels, to help fund the USO. If any regulatory intervention were to reduce Royal Mail's ability to compete in these markets, this could challenge the USO's sustainability. The research concludes that the current scope



provides the best means of optimising the revenue available to fund the USO. We shared this research with Ofcom and the European Commission.

The current Postal Service Directive provides member states sufficient flexibility to determine the scope of the USO for their postal operators.

- 1.4 The benefits of the flexibility in the current Postal Services Directive were recognised by the European Commission. In its application report it stated that “a high quality universal service at affordable prices is provided in all member states” and “within the boundaries of the Postal Services Directive, member states have the flexibility to decide what exactly constitutes a universal service to fit their domestic circumstances”¹. Royal Mail agrees. The Postal Service Directive provides member states sufficient flexibility to determine the scope of the USO for their postal operators.

For the universal service to stay contemporary and relevant, it needs to be in tune with market developments.

- 1.5 The postal market and user needs are evolving. For the universal service to stay contemporary and relevant, it needs to be in tune with market developments. Conversely, opting not to update the USO will remove, over time, new or existing revenue pools essential to support a financially sustainable universal service. Regulatory conditions should therefore be able to evolve over time with changing market conditions. But in doing so, policy makers and regulators should not do anything that would undermine the revenue pools needed to sustain the USO. Indeed, the regulatory onus should be on how to sustain the USO.

Any assessment of possible change to the scope of the USO should start from the premise that revenue pools need to be sustained to fund the USO.

- 1.6 Any review should not only consider the potential cost savings from scope reductions but should also consider the revenue impacts of change. The focus of any future regulatory actions must start from an assessment of the impact on the revenues that support the USO. The critical centrality of letters and parcels revenue to the universal service, trends in the parcels sector, the continued importance of letters, and the recognition that reductions in specification may lead to asymmetric risk must all be considered.

¹ European Commission’s report on the application of the Postal Services Directive (COM(2015)568 final and SWD(2015)207 final), 17th November 2015



2. Cross-border parcel delivery for e-commerce purposes

- Royal Mail believes the European Commission's draft regulation on cross-border parcels delivery services should be withdrawn. It is unwarranted and unnecessary. Competition for cross-border parcels in the UK and other member states is highly competitive.
- The ERGP's recent technical input paper on the draft regulation is a helpful step forwards but does not go far enough. Consumers' interests are best served by competition not prescriptive regulation.
- It would be beneficial if the ERGP considered to what extent the prices e-retailers charge for delivery reflect the prices charged by delivery operators.

The European Commission's draft regulation on cross-border parcels delivery services should be withdrawn. Competition for cross-border parcels in the UK and other member states is highly competitive.

- 2.1 In the UK, competition for cross-border parcels into and out of the UK is very competitive, characterised by low barriers to entry, low switching costs and a plurality of operators. We look to the ERGP and its members to put pressure on policy makers to withdraw the regulation.
- 2.2 Royal Mail has a proven record of price transparency, understood as the publication of public list prices. Moreover, there should be no regulation of Royal Mail's cross-border parcel prices. High multiples between domestic and cross-border prices are not evident in Royal Mail's prices. Sending a standard parcel to Europe never costs more than 2.5 times the domestic parcel price², well below the European average of 3.30³. Royal Mail should not need to commit significant resources and costs to justify its prices every year.

The ERGP's recent technical input paper on the draft regulation is a helpful step forwards but does not go far enough.

- 2.3 The European Commission's proposals – covering regulatory oversight, price transparency, affordability, and access to multilateral agreements on terminal dues – are unwarranted and unnecessary. Consumer needs are already being met by market forces. Additional regulation could inadvertently negatively impact Europe's delivery services and their customers.

² http://www.royalmail.com/sites/default/files/RoyalMail_2016_Prices.pdf

³ Le Groupe La Poste, The drivers of cross-border parcel delivery prices, April 2016



2.4 We appreciate that the ERGP would like to ensure that article 6 – regarding access to multilateral agreements on terminal dues – is proportionate. We believe article 6 should be deleted. There is no need to mandate access where it can be demonstrated that competition is working effectively, with a range of alternative providers. Against the backdrop of intense competition, it is important that regulators do not take actions that could distort competitive market forces.

It would be beneficial if the ERGP considered to what extent the prices e-retailers charge for delivery reflect the prices charged by delivery operators.

2.5 Copenhagen Economics, a leading economic consultancy, provided independent advice to national postal operators on the principles of cross-border parcel delivery prices at the beginning of 2016. It found that the prices online shoppers pay for cross-border parcel delivery do not reflect the prices charged by delivery operators. Royal Mail believes the ERGP and its members would be better placed to look into these practices, rather than putting pressure on what is already a competitive market place.

3. End-to-end competition and access regulation

- **Both the letters and the parcels sectors in the UK are highly competitive. There should not be additional regulatory intervention in the UK to facilitate further competition.**
- **Letter volumes were growing when access competition was introduced in the UK. But now letter volumes are in structural decline across Europe.**
- **The regulatory focus – in both the UK and elsewhere across Europe – now needs to shift to focus on the revenue pools necessary to pay for the universal service.**

Both the letters and the parcels sectors in the UK are highly competitive. There should not be additional regulatory intervention to facilitate further competition.

3.1 In letters, the UK access market is, by some distance, the biggest in Europe. Access operators now handle c.59% of addressed inland letters, and over 70% of addressed mail posted by large businesses, which is one of the most profitable segments of a declining market. The market is working well. Royal Mail works collaboratively with access operators. Our price increases have been fair, reasonable and cost reflective. Quality of service is high and terms and conditions of access are clearly balanced. Mandated letters access was originally intended to incentivise competition. It resulted in the loss of significant revenue to support the universal service. The highly developed nature of letters' competition in the UK means that there should be no extension of mandate in letters.



- 3.2 UK has one of the most competitive parcels markets in the world. There are a number of major players in the sector. It is changing at a rapid pace with intense competition, greater disintermediation and disruptive business models. This sector is working well for operators and consumers. Mandated access for parcels is unwarranted and unnecessary. Effective competition exists - there are many alternative providers to Royal Mail. Competition is already strong and delivers benefits to consumers. Parcel mandation would undermine the financial sustainability of the universal service, given the critical centrality of parcels revenues.

Letter volumes were growing when access competition was introduced in the UK. But now letter volumes are in structural decline across Europe.

- 3.3 Mandating access to Royal Mail's network, together with the introduction of a headroom control which disincentivised Royal Mail to compete for letters volume on price were the key planks in the regulatory regime designed to stimulate competition in the letters market. The access market is working well. It has developed rapidly since its introduction in 2004. It is now by far the biggest postal access market in the EU. Access customers compete with each other and with Royal Mail for customer volumes. Large contracts are won and lost over a fraction of a penny.
- 3.4 Royal Mail operates within a fragile ecosystem. We see the same circumstances across most of Europe - structural decline in letters and competition in parcels.

The regulatory focus - in both the UK and elsewhere across Europe - now needs to shift to focus on the revenue pools necessary to pay for the universal service.

- 3.5 As discussed in paragraph 1.3, research we have shared with the European Commission shows that Royal Mail relies on revenues from non-USO commercial activities, particularly parcels, to fund the USO. If regulatory intervention were to reduce Royal Mail's ability to compete in these markets, the sustainability of the USO could be challenged. Policy makers need to be especially vigilant. Regulatory changes which damage the sustainability of the USO may have major consequences.

4 Regulatory accounting and price regulation

- **Our regulator Ofcom has extensive oversight of how Royal Mail allocates cost. We do not believe additional regulatory intervention or oversight is necessary in the UK.**



- **More broadly, any evaluation of costs incurred on the incumbent in providing access services should be done in strict compliance with the principle of proportionality and subsidiarity.**

4.1 Royal Mail's costing system produces fully allocated cost on an activity based costing basis. The costs of each activity are spread proportionately across the products that use that activity. Ofcom has set out in its Universal Service Provider Accounting Conditions and Regulatory Accounting Guidelines the detailed accounting and cost allocation rules we are required to follow. We publish our Costing Manual that explains in depth how our costing system works. We share changes to our methodologies with Ofcom in advance. We also share detailed information on our financial results. We therefore believe our regulator has sufficient oversight and understanding on how costs are allocated to all products, including access products. Further oversight in the UK is therefore not required. Evolution and analysis should focus on member states where access competition is less developed.

5 End user regulation and market outcomes

- **Although the rate has varied from country to country, there has been significant growth in e-commerce across Europe. However, consumer protection regulation has not kept pace with these developments.**
- **Consumer protection regulation varies by country. But most operators are subject to little or no consumer protection standards.**
- **There should be a single consumer protection standard for all major players in both letters and parcels.**

Although the rate has varied from country to country, there has been significant growth in e-commerce across Europe. However, consumer protection regulation has not kept pace with those developments.

5.1 Consumer protection regulation has not kept pace with the growth of e-commerce. End recipients typically do not choose the parcel delivery company when purchasing online. In most cases, the e-retailer makes that choice for them. Most operators – including major new delivery operators such as Amazon Logistics and Argos – are subject to little or no consumer protection standards beyond the requirement to provide a basic and cost effective complaints process. General consumer protection law is, broadly speaking, aimed at the goods and services provided at the point of sale, rather than the delivery necessary to fulfil the order. This is not a level playing field.



Consumer protection regulation varies by country. But most operators are subject to little or no consumer protection standards.

- 5.2 Royal Mail offers high quality, punctual, reliable and secured delivery. We are proud to meet our mail integrity obligations. We often go above and beyond these minimum standards. We have a zero tolerance approach to breaches to our requirements for honesty, integrity or security of the mail. We investigate and prosecute any criminal offences, whether those parties involved are internal or external to the business. We pay compensation for loss, damage and delay for USO service.
- 5.3 We believe that industry and Europe-wide regulatory consumer protection requirements are needed to grow and sustain e-commerce. These should apply to both domestic and cross-border delivery. This would ensure consumers are protected irrespective of the company that delivers their parcel.

There should be a single consumer protection standard for all major players in both letters and parcels.

- 5.4 We call on the ERPG to work to lift consumer protections across Europe by developing appropriate regulatory requirements. With increasing competition, high delivery standards must be maintained to ensure ongoing consumer confidence in e-commerce.