9th October 2017

Dear Mr Cardani, Mr Hamande,

RE: ERGP work programme for 2018

Royal Mail welcomes the opportunity to comment on the ERGP’s Draft Work Programme for 2018. We recognise the ERGP’s commitment to 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. It is important to minimise the regulatory burden and keep a focused programme that will deliver benefits to postal users.

We welcome ERGP’s emphasis on the sustainability of the Universal Service. Given market dynamics, we have called upon our regulator - Ofcom - to develop positive, pro-active tools to secure the provision of the postal Universal Service. The proposed report on net cost of the USO calculation and funding mechanisms will be a helpful contribution to this debate. In the UK, an explicit focus on the revenue pools needed to sustain the Universal Service is vital. We also welcome the ERGP’s work on quality of service, consumer protection and complaint handling. Royal Mail is proud to provide high standards to customers. However, consumer protection standards in the UK have not kept pace with the growth of e-commerce. There is not a level playing field. We believe high standards are required to grow and sustain e-commerce.

On the other hand, we are concerned with certain elements of the ERGP’s proposed work programme. There is no one-size-fits-all approach to cost allocation. Differences in the nature of operator’s networks necessitates different approaches to cost allocation. It will therefore be difficult to draw meaningful conclusions from this stock take. We also believe there is no need for the ERGP’s proposed report on transparency, non-discrimination and proportionality to focus on member states, such as the UK, where competition is highly developed. On cross border parcels, we recommend that the ERGP should wait for a decision from legislators before working on either implementing acts or guidance under Article 5.

The Annex to this letter provides further comments on proposed areas of work. We look forward to working with you throughout the coming year.

Yours sincerely,

Pamela Allsop
Director of Regulation and Competition Policy
cc: Fiona Hamilton, Stuart Jordan (Royal Mail)
1. Promoting a sustainable provision of the universal postal service

The current regulatory system only has tools of restraint. The focus for future regulation should instead be on the revenue pools needed to sustain the Universal Service.

The Universal Service helps to bring social cohesion and economic benefits to all member states. It helps facilitate cross-border commerce and underpins the continued developments in e-commerce. It therefore remains important to residential customers, SMEs and larger businesses alike. Most member states currently provide a Universal Service without recourse to public subsidy.

We do not believe changes to the scope of the Universal Service are necessary in the UK. We believe that the current Postal Service Directive provides member states sufficient flexibility to determine the appropriate scope for their designated postal operators. We therefore do not see a case for revising the requirements within the Postal Service Directive.

Royal Mail welcomes the ERGP’s proposed report on market developments, implications for regulation and drawbacks of the current regulatory system.\(^1\) In the UK, the continued financial sustainability of the Universal Service relies on the revenue pools generated from both USO and non-USO activities. It is essential when calculating the net cost of the USO to place equal weight on revenue lost as well as potential cost savings from specification reductions. It should consider 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 to Universal Service finances.

The current scope of the Universal Service in the UK provides the best means of optimising the revenue available to fund it. Royal Mail commissioned a substantive piece of research on the optimum scope of the Universal Service. The research – which we shared with Ofcom and the European Commission – concludes that Royal Mail relies on revenues from non-USO commercial activities, particularly parcels, to help fund the Universal Service. If any regulatory intervention were to reduce Royal Mail’s ability to compete in these markets, this could challenge its sustainability. The regulatory onus for policymakers should be on how to sustain a market-funded Universal Service.

The current regulatory system in the UK has promoted competition at the expense of Universal Service sustainability. There are currently only tools of restraint. It does not include supportive regulatory tools to help sustain the Universal Service. We therefore welcome the ERGP’s proposed report into net cost of the USO calculation and funding mechanisms. We think it would be beneficial for this report to be made public.\(^2\) We also think it is important that any net cost calculation explicitly recognises the importance of one-off transition costs to reform the postal pipeline.

\(^1\) We note that Deliverable 1 and Deliverable 7 in the Draft Work Programme are similar. To avoid unnecessary duplication, we suggest the two reports are merged and deliverable 7 is removed.

\(^2\) We note that Deliverable 2 says “internal report”.

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

Parcels markets are increasingly competitive. Royal Mail believes decision makers should apply their own ‘better regulation’ principles before acting. This will ensure that any policy changes are the best and least burdensome way to reach objectives.

Parcels markets are increasingly competitive. As set out by Ofcom, in the UK there are 14 major national operators alongside hundreds of smaller operators looking to increase their market share. We are also seeing increasing competition in parcels markets across Europe. Royal Mail Group’s GLS is one of the largest ground-based delivery networks in Europe, serving 41 countries across the continent and seven states in the United States. It is seeing an increasingly competitive environment. Operators are providing innovative, high quality services at cheaper prices to meet customer demands. As such, Royal Mail believes decision makers should apply ‘better regulation’ principles before acting to ensure that any policy changes are the best and least burdensome way to reach objectives.

Royal Mail remains of the view that the European Commission’s draft regulation on cross-border parcels delivery services is unnecessary. If there is regulation, it should be as targeted as possible. For example, it should only focus on those products and services provided under the Universal Service. This in line with the Commission’s objective to target measures at more vulnerable consumers and small businesses. It should avoid unnecessarily increasing the administrative burden. National regulators and postal operators should not need to commit significant resources and costs to justify their prices every year.

National regulators should decide whether to assess the affordability of Universal Service prices. In 2013, Ofcom assessed Royal Mail’s public list prices. This included international prices. It looked at average weekly household spend and found that “universal postal services are affordable for almost all residential consumers, including low income and other vulnerable consumers, ...businesses, including small and medium businesses”. Ofcom recognised our price increases since 2013 have been “relatively restrained”. Our cross-border parcel prices represent good value for money. The price of a standard parcel to Europe never costs more than 2.5 times the domestic price. This is well below the European average.

The ERGP is well placed to provide technical input on legislation going through the EU legislative process. This is in line with the ERGP’s role to advise and assist “the Commission as to the development of the internal market for postal services and as to the consistent application in all member states of the regulatory framework for postal services”. We believe, however, that the ERGP should wait for a decision from legislators before working on either implementing acts or guidance under Article 5.

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3 Ofcom, The affordability of Universal Postal Services, March 2013, paragraph 1.8 and 1.9.
5 Commission decision 2010/C 217/07.
3. End-to-end competition and access regulation

Both the letters and the parcels sectors in the UK are highly competitive. There is no need for the ERGP to focus intervention on markets where competition is well developed.

The UK has one of the most competitive parcels sectors in the world. It is changing at a rapid pace with intense competition. There are 14 major players in the sector. In letters, the UK access market is, by some distance, the biggest in Europe. Access operators now handle nearly 60% of addressed inland letters. The market is working well. Ofcom recently concluded a 20-month Review of the Regulation of Royal Mail. On access, it concluded “Access competition continues to perform well and meets the needs of larger senders of mail”.

There is no need for the ERGP’s proposed report on transparency, non-discrimination and proportionality to focus on sectors where competition is highly developed.

4. Regulatory accounting and price regulation

The ERGP’s proposed report on allocation of delivery costs is not necessary. Any thinking on cost allocation needs to go back to first principles and consider the true cost of delivering the Universal Service first.

Our regulator, Ofcom, has extensive oversight of how Royal Mail allocates cost. It 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. Circumstances in each member state vary significantly. This has caused postal operators to set up their networks differently, therefore requiring different approaches to cost allocation. Given the bespoke nature of each operator’s network, there cannot be a one-size-fits-all approach to cost allocation. It will therefore be difficult to draw meaningful conclusions or inference from any analysis.

Royal Mail’s network is set up to deliver a six-day-a-week national service. A fully allocated, activity-based costing approach does not reflect the true cost of delivering the Universal Service. Evolution and analysis on cost allocation needs to go back to first principles, attributing the cost of the Universal Service network to Universal Service products in the first instance. This would reflect the true cost of delivering the Universal Service.

5 End user regulation and market outcomes

Consumer protection regulation has not kept pace with the growth of e-commerce. Standards vary by country. But most operators in the UK are subject to little or no consumer protection standards.

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

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6 Ofcom, Review of the Regulation of Royal Mail, March 2017, Executive Summary, (pink box)
criminal offences, whether those parties involved are internal or external to the business. Royal Mail is proud to provide high standards of consumer protection. We pay compensation for loss, damage and delay on Universal Service products as set out in our published schemes.

We welcome the ERGP’s proposed report into quality of service, consumer protection and complaint handling. 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 in the UK – 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.

We have called on our regulator Ofcom to raise consumer protection requirements. This will support growth in e-commerce. There should be a single consumer protection standard for all major players in both letters and parcels. This would ensure consumers are protected irrespective of the company that delivers their parcel. With increasing competition, high delivery standards must be maintained to ensure ongoing consumer confidence in e-commerce.