



Future Development of the Postal USO Team  
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## **Consultation: Review of the universal postal service and other postal regulation**

### **- Follow-up to Response by the Mail Competition Forum**

As part of its response to this Consultation (submitted on 10<sup>th</sup> April), the Mail Competition Forum (MCF) set out the several reason why we believe an implementation period is required between Ofcom's publication of its Decision and the effective date for new/revised regulatory Conditions to be effective.

This is because Royal Mail (RM) in its 19<sup>th</sup> December Contract Change Notice had directly linked the implementation of its notified changes to Access services to the publication of Ofcom's Decision and the MCF firmly believes there needs to be an implementation period between the Ofcom decision and the changes to Access services being effective.

The MCF had already raised this issue with Ofcom (and with RM).

On 27<sup>th</sup> March, RM provided new information on transition arrangements for the changes to D+2 Access. These include customers being able to post items on the D+2 service from 2<sup>nd</sup> June using the new product codes (RM expecting 2<sup>nd</sup> June will be at least four weeks before the Ofcom decision). Customers adopting the new D+2 product codes from 2<sup>nd</sup> June will be required to comply with the changed D+2 specifications. However, RM will not enforce the requirement to use the new D+2 indicia between 2<sup>nd</sup> June and the date four weeks after the Ofcom decision.

Ofcom asked (2<sup>nd</sup> April) for the MCF to include its views on the RM letter in the MCF Consultation response. Given the timing of the RM letter, the subsequent Ofcom request, the next MCF meeting when the letter could be discussed and the 10<sup>th</sup> April deadline to respond to the Ofcom Consultation, it was not practical for that to be done. Hence, the MCF agreed with Ofcom to provide by 17<sup>th</sup> April a follow-up to the MCF response, specifically relating to the RM letter and the MCF's belief in the need for an implementation period.

The MCF now provides that follow-up.

(This is not confidential; it may be published in full and attributed to the Mail Competition Forum).

The MCF does not consider the arrangements covered in the RM letter address the reasons why an implementation period is necessary and we continue to urge Ofcom to include that in the effective date for the regulatory changes.

While the transition arrangements now offered by RM may allow customers to avoid the need to implement the D+2 changes immediately (on the unknown date of the Ofcom decision),

they do not resolve the major concerns set out by the MCF in our consultation response. Instead they raise new concerns and uncertainties.

The principal reason for an implementation period is to allow Access customers to make the changes as easily as possible and so make using the revised D+2 service effective rather than chaotic.

Although RM have said the new D+2 requirements can be used from 2<sup>nd</sup> June, customers can't know how long that is before the unknown date of the Ofcom decisions. (The MCF thinks it likely the Ofcom decision will not be published until at least late July, at least seven weeks after 2<sup>nd</sup> June).

Given that the price of D+2 Access will increase dramatically after the Ofcom decision, customers will be very reluctant to make the changes required to use D+2 from 2<sup>nd</sup> June when they may only continue to use D+2 until the Ofcom decision (and then use D+3).

This is especially so if, as well as D+2 costing very significantly more after the Ofcom decision, Ofcom also reverses its proposal that D+2 Access continues to be regulated – a reversal for which RM is lobbying intensively. If D+2 Access were to become unregulated, it would no longer be VAT-exempt and for many, large volume users of Access that additional 20% would be a further, significant cost increase and so mean they no longer used the D+2 service.

It is also the case that, if D+2 Access were not to continue to be regulated, RM could drastically increase the price still further or even withdraw the service.

In effect, customers will not decide on their use of D+2 until there is an Ofcom decision.

Customers and the Access supply chain will be unlikely to commit to the expense and complexity of revising their systems to use the new D+2 specifications if D+2 use does not continue after the Ofcom decision.

This will also give RM a false impression of the extent to which use of D+2 continues after the Ofcom decision, when the new D+3 service starts.

On 15<sup>th</sup> April, RM wrote again to Access customers with further information about how it will act during the period between 2<sup>nd</sup> June and four weeks after the Ofcom decision, in relation to its stance on surcharging D+2 mail that did not comply with the new D+2 requirements. This is also positive, as it gives customers further information and, perhaps, a little more confidence for those considering use of the changed D+2 service, but it does not give the certainty that an implementation period would and still creates a risk for customers.

Although RM's 27<sup>th</sup> March letter says it will allow customers to continue to use the existing D+2 indicia for up to four weeks after the Access Conditions are changed by Ofcom, that is "up to" not a firm commitment and the Access Contract does not allow for such a period; instead RM has the power to immediately require compliance with specifications (including indicia) and to apply surcharges or even to reject the mail.

While RM has provided much detail about the new mailing data requirements for the changed D+2 service, Access operators and the supply chain need time to develop their own systems (e.g. the product and service codes, and pricing data) and processes for the physical presentation of mail (e.g. the sortation of items and the labelling of mail containers). Not knowing the 'go live' date makes that much more difficult. RM saying the new D+2 requirements can be used from 2<sup>nd</sup> June does not help – it just sets an earlier deadline.

It will be confusing for customers, the supply chain and Access operators (and RM) to have a period when D+2 mail is being posted on both the current and the new specifications and with different indicia, especially when that will be the situation for an unknown period from 2<sup>nd</sup> June.

The RM transition arrangements also do not address the issue of RM needing to give notice (after the Ofcom decision) in order to change the delivery specification for Economy from

Working Day to Weekday, which would mean a period of 30 days when the D+3 and D+5 delivery specification would be different – even though RM has been clear it intends they be the same.

We believe this will cause significant confusion for customers when seeking to choose the best Access service for their mail, as D+3 and Economy deliveries will have different delivery patterns. It may also cause disruption to RM's smooth introduction of D+3, as Economy items would (for at least 70 days) have to include Saturday as a delivery day (which would mean using the D+2 delivery operation).

For these reasons, the MCF continues to believe the only, clear and effective approach is to have an implementation period between the Ofcom decision and the regulatory changes (and hence the Access Services changes) being effective.

The reason for RM's notification and Ofcom's proposal that the changes to D+2 and D+3 would happen immediately after the Ofcom decision seems to be (in the words of the Ofcom Consultation) to "give Royal Mail the flexibility to begin changing its operating model for both USO and access as soon as possible. This is because these changes are likely to be complex and would require Royal Mail to make significant changes to its network." It may also be because the changes should bring financial improvement for RM and so should happen as soon as possible.

However, the MCF believes there are benefits to posting customers, the supply chain, Access operators and RM in having a clear date for implementation, rather than the unknown date of the Ofcom decision followed by a grace period and (from 2<sup>nd</sup> June under the RM transition arrangements) a lengthy period of likely confusion and uncertainty. It's also uncertain (probably unlikely) that RM will be able to fully implement the changes operationally and UK-wide on the likely timing of the Ofcom decision.

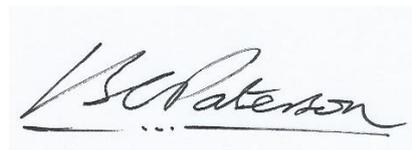
Financial improvement for RM is more likely to come from the orderly change that would be enabled by a clear implementation period.

Also, the MCF is not calling for the implementation period set by Ofcom to match the 70 days period for RM to change the Economy service.

We believe customers, the supply chain and operators can agree with RM a common implementation period so that the D+2, D+3 and Economy changes happen on the same date, and for that implementation period to be less than 70 days after Ofcom publishes its decision statement.

The delay in RM starting to secure the financial benefits of the changes would not be long, while Access users would benefit from clear knowledge on which to decide and implement change in their use of Access services.

The MCF's position remains that we urge Ofcom to set an implementation period as part of its Decision statement.



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MCF Secretary