



## **Royal Mail response to Ofcom's statement on Access contract changes**

Royal Mail plc (RMG.L) has been notified by Ofcom, this afternoon, that it has decided to open an investigation following a complaint brought by TNT Post UK about certain changes to Royal Mail's Access contracts due to come into effect from 31 March 2014.

Royal Mail believes TNT Post UK's complaint is unfounded. Royal Mail will cooperate fully with Ofcom and will share with it the comprehensive and robust rationale for our proposals. We considered carefully our legal and regulatory obligations before notifying Access customers of the changes. We believe that the changes are fair, reasonable and proportionate. They are an important part of Royal Mail's commercial response to both changing market conditions and to Ofcom's comments in its March 2013 guidance document on end-to-end competition in the postal sector<sup>1</sup>. In that guidance document, Ofcom noted Royal Mail could use its commercial freedom to amend the pricing and terms of Access contracts, to ensure they are reflective of relevant market costs. We wish to see this matter resolved as quickly as possible so that these planned changes can be put into effect to help secure the sustainability of the Universal Service.

We believe that the introduction of RPI related tariff increases for all Access customers is not impacted by this complaint. They will come into effect on 31 March 2014. Under the terms of our Access contracts, the price changes subject to Ofcom's investigation are suspended until the outcome of that investigation. They are:

- The introduction of a 0.25p price per item differential between:
  - a) a price plan that requires customers to provide monthly volume forecasts including significant changes for up to 2 years ahead, based on a national mailing profile across 86 local districts and,
  - b) price plans that do not require that forecast information, therefore providing additional flexibility for customers.

The price differential reflects the cost benefit Royal Mail would gain by being able to plan more accurately at a local level and deliver greater efficiencies.

- Changes to the zonal price differential between our four zones (London, Urban, Suburban and Rural), so they are more reflective of relevant costs and market conditions.

**ENDS**

**For further information please contact:**

### **Media Relations**

Mish Tullar

Phone: 07423 524154

Email: [mish.tullar@royalmail.com](mailto:mish.tullar@royalmail.com)

### **Investor Relations**

Phone: 020 7449 8297



Email: [investorrelations@royalmail.com](mailto:investorrelations@royalmail.com)

### **Notes**

1 Ofcom: End-to-end competition in the postal sector: Final guidance on Ofcom's approach to assessing the impact on the universal postal service – (27 March 2013):  
"Royal Mail could change its commercial strategy (i.e. pricing and terms). In particular, under the current regulatory regime Royal Mail has the ability to change the prices it charges access operators. This includes the ability to change how access prices are set for different geographic areas (currently the "zonal access pricing regime") to ensure they are reflective of relevant costs. This is particularly important given that in general an end-to-end competitor will still need to rely on access to Royal Mail's network to offer its customers full coverage of all addresses in the UK. Royal Mail's flexibility in setting zonal access prices can enable it to ensure that end-to-end competitors pay a cost reflective price for Royal Mail delivering mail in the areas where it has chosen not to enter (which may be the harder to reach, and hence less profitable parts of the UK). In this way, Royal Mail may be able to mitigate the impact on the universal service from an entrant 'cherry picking' by delivering in lower cost areas and handing over the rest of the mail to Royal Mail to deliver. In addition, Royal Mail has the flexibility to negotiate changes to its contracts both with its retail and access customers (subject to competition law and the existing ex ante regulatory conditions on access)."

### **About Royal Mail plc:**

Royal Mail plc is the parent company of Royal Mail Group Limited, the leading provider of postal and delivery services in the UK and the UK's designated universal postal service provider. UK Parcels, International and Letters (UKPIL) comprises the company's UK and international parcels and letters delivery businesses operating under the "Royal Mail" and "Parcelforce Worldwide" brands. Through the Royal Mail Core Network, the company delivers a one-price-goes-anywhere service on a range of parcels and letters products. Royal Mail has the capability to deliver to more than 29 million addresses in the UK, six days a week (excluding UK public holidays). Parcelforce Worldwide operates a separate UK network which collects and delivers express parcels. Royal Mail also owns General Logistics Systems (GLS) which operates one of the largest ground-based, deferred parcel delivery networks in Europe.