

Scottish Affairs Committee

Oral evidence: [Delivery charges in Scotland](#), HC 752

Tuesday 27 February 2018

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Members present: Pete Wishart (Chair); Deidre Brock; David Duguid; Hugh Gaffney; Christine Jardine; Ged Killen; John Lamont; Paul Masterton; Ross Thomson.

Questions 1 - 121

Witnesses

I: Nina Ballantyne, Programme and Postal Policy Team Manager, Citizens Advice Scotland, Lindsey Fussell, Consumer Group Director, Ofcom, and David MacKenzie, Trading Standards Manager, Highland Council Trading Standards

II: Lesley Smith, Director of Public Policy, UK & Ireland, Amazon, Laurence Garnett, Head of Home Delivery, Argos, and Mike Pitt, Director of UK Shipping and Logistics, eBay.

III: Tim Jones, Director of Marketing, DPD, Robert Gordon, Director, JBT, and Fraser MacLean, General Manager, Menzies Distribution.

Written evidence from witnesses:

- [Argos](#)
- [Highland Council](#)

Examination of witnesses

Witnesses: Nina Ballantyne, Lindsey Fussell and David MacKenzie.

Q1 **Chair:** Good morning and welcome to this one-off session on delivery charges in Scotland. We are very grateful to all our guests for coming along this morning at short notice. Just for the record, will you say who you are, who you represent and anything by way of a short opening statement? We will start with you, Mr MacKenzie.

David MacKenzie: Thank you, Chair. My name is David MacKenzie. I am the Trading Standards Manager at The Highland Council and I am also here to represent the Society of Chief Officers of Trading Standards in Scotland.

I would like to thank the Committee for the invitation to come along today. In Trading Standards, we get a lot of complaints about internet delivery charges, and so do the CABs, so do the media, so do elected politicians of all kinds, who then come on to ourselves. It is fair to say a lot of formal complaints are made about problems with internet delivery charges, but for me, living in the Highlands, it is the anecdotal evidence that really brings it home to me. Everybody you speak to seems to have a story about surcharges being added on after they have bought something or other problems with this particular issue.

One thing that I am absolutely clear about is that small business buyers and consumers feel there is a problem with this. We are not talking about huge sums of money every time, we are not talking about people being scammed out of their life savings or anything like that, but if you are on a low income, it can be a significant amount of money. The cumulative effect of this is very significant; the overall detriment across the board is very significant.

What to do about it? There is no magic bullet. If there was a magic bullet, we would have used that by now. It seems to us that what this needs is a series of different but complementary solutions to try to bring about change and improve the situation.

Chair: I am grateful. Is it Ms Fussell?

Lindsey Fussell: Fussell. I am Lindsey Fussell, I am the Consumer Group Director at Ofcom.

By way of a few opening comments, the UK enjoys online retail more than almost any other country in Europe. It is particularly popular here, so it must be right that consumers have the advantage both of buying online, but also having their parcels delivered in whatever corner of the UK they live. We know, as David has already said, the frustration felt, not just by people in the Highlands and Islands of Scotland, but in Northern Ireland, the Isle of Wight, the Scilly Islands and elsewhere, when they are asked to pay surcharges. Although we do not have formal regulatory



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powers in this area, we have used our powers to collect evidence from the parcel operators.

We talked to five of the largest and much of this has now been published. We found that four out of five of those operators, Royal Mail being the exception, do charge surcharges in some parts of the Highlands and Islands. The amount that retailers pay is extremely variable, because the larger retailers do negotiate very hard with the parcel operators to strike contracts for bulk delivery of goods. The amount that consumers then pay is also very variable, as I am sure we will hear this morning, with some retailers absorbing all the cost, all the surcharge, and others charging more than the operator is charging them for delivery. It is a very mixed picture.

The purpose for us in collecting this information is very much to provide it to policy-makers and others to try to tackle this problem for consumers. I am sure we are going to talk about some of those solutions this morning. We are very willing to work both with colleagues on the panel and also with the UK and Scottish Governments to do whatever we can to try to make things as good as possible for consumers in this area.

Chair: Thank you. Ms Ballantyne.

Nina Ballantyne: Hi, I am Nina Ballantyne. I would like to thank you for the invitation to speak here today. I am currently the Postal Policy Team Manager at Citizens Advice Scotland, and, for my sins, I had six years as a postie formerly with Royal Mail as well.

Q2 **Chair:** Thank you. Let me start with you then, Ms Ballantyne, because I think we have all been through your very helpful report, which demonstrates the scale of some of the issues and difficulties we have here. This Committee also asked for evidence from members of the public, which reflects what Mr MacKenzie was saying about some of the more anecdotal experiences with this. Could you perhaps help us just to try to describe, in your view, the scale of the issue? Are there any groups that are particularly impacted and what are we talking about when we are looking at these extra charges being surcharged?

Nina Ballantyne: One of the first points is that it is not a rural issue. It is often described as a rural issue—something for remote parts of the country—but the maps that Ofcom have very helpfully provided in their work show that the areas surcharged are in places like Mr Thomson's constituency in Aberdeen, which is a population of 200,000 people, and Inverness, which is a sizeable town, whereas rural places in Wales and even the Isle of Wight for some of the operators do not carry a surcharge. There is a fundamental inconsistency for consumers, whatever the logistical underpinnings of that decision-making. As a consumer, sat at your computer ordering online, it does not seem to be transparent or proportionate. I think that is where people's frustration really comes from.



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The area affected is kind of roughly north of the Highland Boundary Fault, so it is just above where the motorways stop in Scotland, pretty much. But like I say, that includes places like Aberdeen—big cities—as well as areas that are very rural and are very remote. In terms of the impact that they have or in terms of the scale of the charges, the work we did most recently in the report you mentioned suggested that on average people are asked to pay at least 30% more than other parts of mainland Great Britain. That average includes letterbox-sized items and it includes central Inverness. That can rise to up to 50% for island addresses, and even if you look at just small letterbox-sized items, we found that on average folk were asked to pay at least 13% more, so it is not nothing.

Q3 Chair: I know we use the phrase “postcode lottery” when it comes to the delivery of a number of services across the UK, but this does seem to be pretty much a postcode lottery. What we see is that sometimes the postcodes do not match and share no relationship with the actual geography of where places are. Is this something that you have found in your work, Ms Fussell?

Lindsey Fussell: Yes, it is. I will not give you a list of the postcodes, but I am very happy to provide that to the Committee, if that would be helpful. We found that at least one parcel operator of those we surveyed applied a delivery surcharge to addresses in certain postcodes in Scotland, which included Aberdeen and Inverness, as well as Shetland and Hebrides and those that you might be less surprised by. But it is worth saying that it is—as Nina was saying—not a consistent picture. Different operators apply surcharges in different postcodes and even within some of the postcodes, particularly perhaps those that are slightly more in the central belt, so not in the true Highlands and Islands, you will find that even within postcodes certain addresses will attract a surcharge and certain addresses will not. That is very much down to the contracts that the operators have with the particular retailers and of course it is then the retailers who ultimately determine what price the consumer pays for deliveries. There is not consistency, as it were, either in where the surcharge applies, but also on how and whether it is passed on to consumers in those areas.

Q4 Chair: I am grateful. Mr MacKenzie, I want you to comment about what you see as the scale of the issue and the difficulty here, but maybe you could help: is there anything that, in your view and in your experience, customers and consumers could do to avoid paying these charges?

David MacKenzie: One thing we have noticed is that people become more savvy as time passes. What we are supposed to do in terms of the regulation of consumer sales and so on is to think about what the average consumer would do in a situation. If somebody is misled by something, it has to be something that would mislead the average consumer. If you look at the average consumer—a Highland consumer or a northern consumer—they do shop around more than they used to and they are coming to these sites now a bit more aware than they probably were five, 10 years ago about what to do. But what we are hearing from



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people is, okay, they might abandon one purchase towards the end of the purchasing process because they have been hit with this late surcharge, they then go to another site only to find that a similar surcharge is there as well. They end up buying the product out of frustration or whatever or completely abandoning the sale.

How to avoid it: certainly if people shop around they may find lower surcharges, because as colleagues have said, there does not seem to be any rhyme or reason to this in terms that we can pin down. I was looking before I came in here about some of the recent complaints we have had about this, just to see if I could spot any trends and absolute clarity as to where these charges come from and I cannot work it out from that. It is very difficult. It is very difficult for consumers and it is very difficult even for savvy, aware consumers to avoid these charges.

Q5 Chair: It seems that the charges are pretty haphazard and indiscriminate. There does not seem to be any sort of logic or pattern to this, just from the evidence that we have secured in this Committee. Would it be fair to say that if people knew what they were dealing with, that would make it a lot easier for them to negotiate a purchase? Ms Fussell, I see you shaking unapprovingly there.

Lindsey Fussell: Nina may want to come in on the consumer end of that. As I say, I think the reason that they appear to be without logic is because of two factors. First, with the exception of Royal Mail, which charges a uniform price for all its products, wherever in the UK, pretty much all the other parcel operators negotiate individual contracts with individual retailers. They are not negotiating a price for the delivery of one product at a time, in other words; they are negotiating a price for a certain amount, potentially many thousands of products across the country over the course of six months or a year. That contract will obviously have different scales of charges depending on the type of delivery, whether it is next day, the size of the product and so on.

That will create a different effect in different places, but then, as I said before, different retailers will then take a view as to whether they pass that surcharge on to the consumer, whether they absorb it or whether they charge the consumer more in certain areas, regardless of whether or not they are paying a surcharge to the operator. I think that is why it feels inconsistent, because the actual price is not determined on a piece by piece basis; it is part of these large bulk contracts that are signed.

Chair: I am grateful. Let me just leave that there, because I know other members of the Committee have detailed questions about some of these issues. To start that ball rolling, Paul Masterton.

Q6 Paul Masterton: Thank you, Chair. Morning, panel. Could you talk a little bit about what additional costs the companies face when going into remote locations, just to get an idea of what perhaps underpins some of the justifications that they might use as to why these surcharges are applied?



Nina Ballantyne: We did some work on this, where we interviewed parcel companies directly and asked what were the facts involved. For a lot of them, the logistics industry in the UK is headquartered in the English Midlands, essentially, and there are just more miles between there and northern Scotland than elsewhere in Great Britain. The extra miles mean extra fuel costs, extra staff costs and if the return leg is empty, as it often is, then there is a double cost that maybe you would not get in areas where they were also exporting large amounts to come back up with on the road.

That said, it costs a slightly different amount to deliver a parcel to every single address in the UK. The parcel companies have decided that in some areas it is not worth distinguishing, but for the people affected in Scotland, they have drawn a line there, which is, "That is our cut-off point". What we would like to see, if possible, is a way for the differences in that cost to be reduced enough that it stops making sense to make that distinction.

Lindsey Fussell: Just to add to that, we also used our powers to seek this kind of information from the parcel operators. As Nina has already said, the three factors they picked out to us were what is slightly unfortunately called a "drop density", so the number of parcels that are being delivered in any area at the same time, because clearly there are economies of scale if you are dropping off lots of parcels simultaneously; the distance from wherever the parcel is located and the sorting hubs, the logistics hubs that Nina was talking about, which obviously leads to extra fuel; and the use of third-party operators. Quite a lot of the parcel operators—obviously not Royal Mail, but some of the others—do not deliver direct to Scotland, but will subcontract with third-party operators in those areas. Those are factors that can also increase the cost, but as I said earlier, and as Nina has just reiterated, that does vary quite considerably for each delivery individually.

Q7 **Paul Masterton:** But this is an example of somewhere where the ratchet only works one way, so if you take your drop density phrase, these companies do not apply a discount to areas where because of the number of parcels being delivered and the proximity to the distribution hub, it is very, very cheap to deliver.

Nina Ballantyne: Unless you consider the rest of GB to be getting the discount, which is another way of looking at it. You could argue that the extra prices that are charged to people in northern Scotland are a result of being able to offer cheaper prices to the rest of GB. There are just a couple more factors, I think. For the Islands, there is obviously sea miles, so you have ferry costs or plane costs. Ofcom's most recent research very helpfully also found that the surcharge applied by parcel operators was greater than the cost incurred in relation to third-party delivery. Again, it does not quite tally. There are multiple factors causing the differences.



Lindsey Fussell: Yes, and we can talk more about the third-party delivery question. You are absolutely right, but of course what you are seeing here is the business model of both the parcel operators and the retailers playing out. I should also have said that of course the price does vary quite considerably, depending on what service you are buying. Typically it will cost operators a lot more, for example, to provide a next-day service than it will for something that is delivered over three or five days. Some operators, like Royal Mail, are clearly looking at the potential cost of delivering parcels to every corner in the UK and spreading that cost over the whole of their deliveries in order to charge a uniform price.

Others are not doing that. In the course of the contracts they are negotiating with retailers, they are making assumptions, making estimates about how much their total costs are and splitting those in different ways, but they will vary contract to contract. It is not that there is a sort of published list price for most of them that shows how much they will charge different zones, because typically retailers will be driving a very hard bargain with these operators and will look to obviously drive down the cost wherever they can.

Q8 Christine Jardine: I have some experience of exactly what we are talking about. When I lived in rural Aberdeenshire, there was one occasion where it was cheaper for me to drive to Glasgow and buy something in a store than it was to buy it online and have it delivered. It was ridiculous, but as you say, a lot of that was to do perhaps with the couriers. What I wanted to ask was Ofcom's most recent postal market monitoring suggests that third-party couriers might be a contributory factor to higher costs. How significant do you think that is, bearing in mind that Royal Mail is committed to the universal service charge?

Lindsey Fussell: A couple of things here. It is probably worth saying that, as you say, Royal Mail is the universal service provider and as such provides a uniform price for parcels below 20 kilograms in weight. Most of these parcels are not being sent under the universal service obligation, although there is absolutely nothing to stop any of us, including Amazon, for that matter, walking into a post office and sending a parcel through the mail. In practice, the vast bulk of these are being sent through these large retail contracts, so the universal service regulations are not applying.

But to go to your point about third-party operators, that was something we picked up in the first tranche of our research. In the second tranche, we looked at that in detail. We found that on average—and it is only an average—the use of a third-party operator adds between around £2.30 to £4.50 to the average cost of a parcel operator. As I say, it will very much vary, depending on what product it is they are delivering and whether it is a next day or what kind of service it is. As Nina has already said, that does not account for the full amount of the surcharge, so it is clearly a contributory factor, but there are other factors that operators are also



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taking into account, such as the drop density and fuel costs and so on, as well as the third-party operator cost.

Q9 Christine Jardine: We have had previous sessions in this Committee where we have talked about the fact that people living in rural communities are adversely affected by digital connectivity and they are about to be adversely affected by their banking facilities. Is this something that does make life less attractive—yet another factor in making rural life more expensive for people in these large swathes of Scotland?

Lindsey Fussell: I cannot comment on some of the things you raised there like banking, but I think the answer is it must do. It clearly will depend on where you live and who you buy from, but I think the answer is that it must do. On the other issues you raise, particularly in relation to digital connectivity, we are really conscious that while that is very much an improving picture in Scotland—I think over 85% are now having access, for example, to superfast broadband—there are 6% of properties in Scotland that do not have access to decent broadband at all. That is something we are working on with both the UK Government in relation to the regulatory universal service obligation for broadband, but also the Scottish Government in relation to their R100 programme. While obviously our aim is to promote competition and to make sure that all consumers benefit from that competition, we are acutely aware that there are people in rural communities where extra action needs to be taken to make sure that they enjoy the same benefits as others.

Q10 Christine Jardine: Just one last thing: is there a difference between the larger businesses? You mentioned Amazon. Do the larger firms bear the costs and is it smaller firms that are passing on the cost of couriers to the customer?

David MacKenzie: Largely it is. We have found that over the years most of the complaints we get now are about small SMEs, who are not in a position presumably to negotiate a very good deal with the carrier and it is, "Take it or leave it" in terms of the charges that they then feel they have to pass on to the buyer. I could quote you all sorts of quotes of that kind from small businesses based all over the UK that we have contacted, because that is who our dealings are with. Our dealings are with the retailers, the sellers, rather than the carriers. It really is the same story again and again, "What are you chasing after me for? You should be speaking to the carriers". That is where the root of the problem is.

Also, can I just quickly comment on your question about how this is affecting the quality of life in the Highlands and north Scotland? I would say yes, definitely. Let's not forget as well that this affects small businesses too. We get a lot of complaints from small-business buyers who are equally affected by this and it is certainly affecting the perception of their quality of life, as they see it, and I would say it is a substantial quality of life issue too.



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Q11 Christine Jardine: It is not a new problem, because Sir Robert Smith introduced a Private Member's Bill, which did not complete its passage through the House, I think in 2013, on exactly this issue. It is not as if it is something that people have not been aware of for a while and trying to fix.

David MacKenzie: That is right. I think there have been improvements. We have had lots of positive responses from retailers saying, "Look, we want to work with you on this", and positive outcomes. The good thing, but the problem of the internet, is people come online all the time, new sellers come online all the time, new sellers grow into slightly bigger sellers and it is a continually rolling issue of getting to all these people. The e-marketplaces like Amazon as well—I think we might come on to that later—there are some specific issues about them too. Yes, it is largely these smaller businesses that are affected, but they are the lifeblood of the economy, aren't they? They are everywhere.

Q12 Ged Killen: This is a question for Ms Ballantyne. Your most recent report did not find any evidence that higher prices represented systematic profiteering by companies, but it did conclude that they were the result of national delivery operators deciding to cross-subsidise costs in some areas, but not in others. What do you think is driving those decisions?

Nina Ballantyne: It is business decisions. It is where the bulk of their business is, so they know they are going to have most orders from an area, so it is in their interests to make it cheaper to deliver to that area. That said, as Ms Jardine touched on earlier as well, I think that consumers who live in northern Scotland, unless you are in central Aberdeen, are most likely to order online anyway, because you do not have a high street. It is a million consumers you are talking about and I think there is an opportunity for businesses in that area that they are missing out on as well.

There is quite a strong business case for improving efficiencies and driving down costs, because of the people we spoke to, about 83% said they would be buying more online if it wasn't for the surcharge. At the moment, most people who see them then go elsewhere, so you are driving business away. The commercial decision made is around where the bulk of the customers are now, the big population density where the orders are concentrated, but I think that does not consider potential growth in other areas—people who are more reliant on that kind of service anyway.

Q13 Ged Killen: That touches on your earlier point, that people in more remote parts of Scotland are effectively subsidising the delivery costs in areas where there is better business for the delivery companies.

Nina Ballantyne: You can look at it either way. You can say that there is cross-subsidisation across the UK; like with Royal Mail, for example, you could argue that is cross-subsidisation. It is a business making a decision on where it makes commercial sense for them to offer a flat rate or not.



Lindsey Fussell: Just to add to that, of course it is also the retailers making those decisions in the context of both the way they negotiate contracts with the parcel operators—they are presumably prepared to accept surcharges in those areas at the cost potentially of driving down costs elsewhere—and then in the way that they choose to charge consumers. It is both halves that are making certain sets of commercial decisions, I would suggest, about the size of their consumer base. I absolutely take your point about the potential, frankly, for further growth in those areas for companies.

Nina Ballantyne: Yes, it is quite a good point about the fact that the retailers, as Mr MacKenzie has said, will say, “Look at the parcel companies”, and the parcel companies will tell you to go and look at the retailers and both of them will say, “Go and look at the third-party operators”.

Q14 **Chair:** Is there collusion between the retailers and the couriers at all? It would strike me that there is an issue and a difficulty and a problem here and they could get together to resolve this. Is there any sense that they are doing that or are they working together in any way that is trying to make sure that we get some of these difficulties fixed?

Nina Ballantyne: We do not have any evidence of that yet, but that is where our focus is now, essentially more collaboration within the parcel companies and working with other partners who can talk to retailers more easily than we can, and encouraging them, for their kind of mutual benefit, to take action in that way.

Lindsey Fussell: I would characterise the situation as more one of aggressive competition than collusion. All our evidence around the revenues for parcel delivery companies suggests that they are earning successively year on year less revenue per parcel. I think that is a result of the competition in this market and the bargains that the larger retailers are driving them with. Of course there are always issues and if there is evidence, it should be very carefully examined, but that is not something that we have seen any evidence of at all.

Nina Ballantyne: I think we did find evidence—this was a few years ago now and I am pleased to say that this does not seem to be the case anymore—that initially when e-retail became very popular, some prices were artificially inflated by retailers and couriers to put people off ordering from awkward to deliver places. We do not think that is the case anymore, but that has happened in the past. We have had a couple of examples where people would artificially inflate prices to put people off. We do not think that is happening anymore and we are really pleased about that. The number of places where delivery is refused altogether has dropped, so that is really good. It is this last complicated issue that is a matter for the retailers and the operators.

Q15 **David Duguid:** I was going to ask Mr MacKenzie a question about the Provision of Services Regulations, but before I do, just following on from



the previous question, living in Aberdeenshire, as I do myself, I do a lot—or my wife does a lot—of shopping online. We are constantly frustrated by this issue. I have always assumed that there is a certain amount of ignorance that there is life north of Perth. Is that something that you have found—we just need some education of the retailers—or do they know better?

Nina Ballantyne: I honestly could not say for sure. It seems to me there is a mix of factors behind it. I think there are cases where you see folk declaring that Oban is definitely an island and that is why they are getting charged more. It is definitely not an island and they should not be getting charged an island price. There are some instances of that, but I think Mr MacKenzie will tell you when he has been in touch with retailers who have had that kind of issue, they are quite quick to change either the language used so it is clearer or take action in some way to address some of the issues.

David MacKenzie: Yes, absolutely. The retailers would say the key to this is with the carriers, not with them, and they maybe did not know about the geography, but they know now, but they are maybe still not in a position to change that charge because their contract says it must be this amount. There are all kinds of little examples that all add up into something a bit bigger, things like the KW postcodes for Caithness. KW is Kirkwall, but most KW postcodes are on the mainland in Sutherland and Caithness. Consumers in that area are getting charged an island rate, because it assumes a boat trip and all that, and it is just not there. You would think in this day and age that would not happen, but it does happen. We had a complaint just the other day about that, where the charge went from £6 to £36 because it was a KW postcode. There are lots of other similar examples of that kind. It seems to us the key to that does lie with the carriers.

On the previous question, it seems to us the incentive is not there, because it is such a small part of their customer base, although it seems to be increasing. It seems to me that this is stretching across the north of Scotland now. Aberdeenshire seems to be, if anything, more affected by this than previously. I cannot quite explain why that is, but that seems to be something that we have noticed.

Q16 **David Duguid:** Going back to the original question I was going to ask about the Provision of Services Regulations, which apparently forbids internet sellers from operating discriminatory provisions relating to the place of residence of recipients, unless this can be justified by, it says here “objective criteria”. Do we know what those objective criteria are? Are they objective enough? Do these regulations provide a means of recourse for consumers if they feel they have been unfairly treated?

David MacKenzie: These regulations are fairly untested, to be honest with you. They have been in for a few years. They are not particularly detailed. They come from a directive, so there is some relevant EU guidance to guide us to what objective criteria may be, but there isn't an



absolutely clear answer to this. Nobody has taken this to court to test it or anything like that. Our working understanding is that if a retailer is being charged that surcharge by their carrier as part of the contract with the carrier, that probably is going to be deemed to be objective criteria, because it is effectively outwith their control, if it is outwith their control, and we assume that it is.

It is not a particularly satisfactory answer, I know, but that is where we are with that. It is a slightly grey area, I suppose, in the law, but we certainly felt that we would not be strong enough to take a case to court or whatever if they were just passing on charges. If they are not just passing on charges and they are making up the charge—and that does happen from time to time, less often than it used to, but it still happens from time to time—then that clearly is a breach of this and we can do something about it.

On the second part of your question about whether the individual consumer has recourse, again that is not 100% clear. The requirement is really about providers not having discriminatory terms in their general terms that they offer to the public. That is the wording of it. It is clear that there is a requirement there and a breach of it can be acted on by us in terms of taking enforcement action against them, but whether an individual consumer has private recourse is not clear. We would certainly advise them to say it is an unlawful charge and to look therefore to a breach of contract, but again, that is fairly untested law, to be honest with you.

Nina Ballantyne: If Mr MacKenzie is not confident of making the case, I think it is fair to say that most individual consumers, who do not have the resources or the experience and knowledge, definitely wouldn't be confident in doing that.

David MacKenzie: Yes, that is a good point.

David Duguid: Yes, I understand that point.

David MacKenzie: It is a useful bit of law, but it isn't completely 100% clear.

Q17 **Chair:** Do we need to tighten the law up?

David MacKenzie: I must admit my view on that—and I think my colleagues' view on that—would be probably no. There are lots of laws that cover this situation, misleading acts, false claims of free delivery, free mainland delivery. If somebody is offering that and they are not really offering it to the whole population, then that is against the law. There is the concept of misleading omissions, which is about missing out important information. That is prohibited now. That is actionable by us. There is even a requirement that if there are delivery restrictions, such as a refusal to deliver to islands or something like that, that has to be indicated right at the start of the buying process. It is a very specific



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requirement that came in a couple of years ago to make that a requirement, so that is there too.

There is the Services Directive on the size of the charge as well. Certainly in terms of the consumer-facing element of this, there are probably elements in terms of the regulations of the carriers that we could discuss separately, but in terms of the retail consumer end of this, I do not think there is any need for any new regulations. The problem is the current regulations have to be enforced and that is the challenge.

Q18 David Duguid: You mentioned there the example of not finding out until you are at the purchasing stage that, "Oh, we can't get it delivered", so that is against the law?

David MacKenzie: Yes.

David Duguid: Okay. I might have to report something on that one then.

David MacKenzie: Absolutely, yes.

Q19 David Duguid: Unfortunately, it was for something to be delivered here in London, but it was not until the very last minute it said, "We do not deliver to Scotland". I almost cancelled the purchase there and then just on principle, but I needed it.

David MacKenzie: I think the legislators have recognised that that is a problem. The law has been made and it is there, it is on the statute book, but the problem is enforcement.

Q20 Chair: Is it more a case of, let's get a more effective code of practice and a regulator making sure all these regulations are happening properly? If it is all mixed up and there do not seem to be many people exercising their rights when it comes to this and challenging this in the law, do we not need to tighten this up in some way so we are doing something on behalf of the consumer here?

David MacKenzie: Yes. It strikes me there are two possibilities there. One is with the existing law as it is at the moment. This is a big issue for me and my authority obviously because of all the things we have said. One or two other authorities in the north of Scotland are quite active on this, but if you come down to England and there may be a city authority that has, let us face it, been cut back to a very small number of officers, it is not an issue for their consumers, it is not in their priorities. It is understandable that they are not going to give this a lot of time. A handful of officers in the north of Scotland cannot do this for the whole of the country. That is the challenge. There is good law, but enforcement is limited for those reasons.

The second possibility is to have, as you suggest, some sort of code of practice, some sort of quality system, if you like—a trusted trader type thing. This has been talked about for years and it strikes me as a good idea. The "Statement of Principles on Parcel Delivery", I do not know if



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the Committee is familiar with that, but it was a Scottish initiative that was adopted through the UK. There is really good stuff in there covering all these things that we have been talking about. The problem is it is not obligatory, it is not mandatory on anyone. It is all very well having a set of principles, but you need a code or a quality system or something to enforce that upon everyone.

- Q21 John Lamont:** Just one question to Mr MacKenzie regarding the postcode issue. You used Kirkwall as an example where it is split between Kirkwall and Orkney, but the bulk of the postcode is the mainland. It is a similar issue in my own area in the Borders of postcodes that are split between north and south of the border, TD12 and TD15. The consequence of that is not extra charges, but sometimes delivery companies will set off from Newcastle expecting to deliver into TD15 postcode, they get to the border and discover that it is in Scotland and then turn back and the goods have to be sent to Edinburgh to be delivered within the Scottish distribution area. That is adding an extra cost to the delivery company, not necessarily to the consumer, but I wonder if Royal Mail has a role in this in terms of better defining and drilling down on postcodes to ensure that you do not get those cross-border or island/mainland issues.

David MacKenzie: We think so. Back to my theme about the answer to this being a series of incremental different things in different areas, another example that we always use is the Isle of Skye. In fact, on the mainland before you get to Skye, there is Kyle of Lochalsh—I think it is IV40. It is quite remote, but it is on the mainland, but then there is the Isle of Raasay, which is very remote, relatively speaking, and yet that is IV40 as well. It seems to us that there will be lots of little micro examples of this, such as your own one, across the country. We are no experts on postcodes, but it seems to us that a review of postcodes to take account of 21st century e-commerce is something that would contribute to this.

Lindsey Fussell: Can I just add one quick point to that? The Royal Mail maintains something called the postcode address file database. You have been a postie; I used to sort the mail long years ago. I even remember referring to it, but one of the things it does is it contains really detailed information, which helps to deliver to pretty much every address in the UK. One of the things that Royal Mail has been able to help with here is—to take a literal example—addresses being recorded as on an island when they are not. It is about using that and correcting any errors on that, because they then make that database available to parcel operators and retailers so that they can see where properties are and if there any particular issues in delivering there.

- Q22 John Lamont:** But it is quite difficult to persuade the Royal Mail to change postcode allocation, from my experience.

Lindsey Fussell: In terms of changing somebody's postcode, yes.

- Q23 John Lamont:** Yes, or just splitting postcodes or recognising the issue that you have just described.



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Lindsey Fussell: Yes. It obviously is quite a significant undertaking and is sometimes not popular with residents as well.

Q24 **Deidre Brock:** We received a written submission and it points out that a carrier that this gentleman was dealing with, Debenhams Plus in this instance, took the trouble to differentiate between the postcodes of Hampshire, Sussex and the Isle of Wight, and between Cornwall and Isles of Scilly, but not between, he quotes, Renfrewshire and Bute or Ayrshire, Arran and Cumbria. I just wondered, is there any reason why those same distinctions could not be made up in Scotland or what you think lies behind that? Ms Ballantyne, perhaps you could come in here.

Nina Ballantyne: I do not have any insight on this, because I do not have access to the books where people are making these decisions. I cannot see any reason there should not be the same level of detail applied. I think maybe the reluctance to commit the same resources is to do with what I said earlier in terms of the bulk of customers. The south-east is obviously a massive population centre and I think that could drive some of the decision-making, but I just do not know. If we do not know, then a consumer sat at their computer definitely cannot work it out. I think it explains why people get so incensed by this issue.

Deidre Brock: Yes, indeed.

Nina Ballantyne: There is no other industry where a consumer is expected to be an expert in all of the tiny links in the chain and where everyone else's cost factor is coming from; with your broadband connection, you don't need to know where the wires are going.

Deidre Brock: Ms Fussell.

Lindsey Fussell: I would just very much echo that. I think probably the delivery company you mentioned there is one of the smaller ones, if I heard you correctly, so probably not one of the ones we surveyed. We looked at the big 6 or big 5. But I think it is exactly as you were saying. Clearly every delivery, even deliveries in Hampshire, no doubt cost more, depending on where you live in Hampshire. The delivery companies and the retailers are making certain decisions based on where they think they are going to deliver most parcels, what their overall costs are and then choosing to work out their charging structure as a result of that. There is no reason why that charging structure could not be different. Frankly, it is different contract to contract, but it is very much based on their own business models and their decision-making, rather than any other sort of factor or any sort of external factor that might make it difficult for them to distinguish between postcodes in different ways.

Q25 **Deidre Brock:** Mr MacKenzie, you were talking about a possible review of postcodes and how they are applied. What would you like to see that encompass?

David MacKenzie: The sorts of examples that I have mentioned are the sorts of things that we have seen, so I suppose it is just addressing



those. On what that would look like or how that would be done, I am no expert—that is not my thing. One thing I would say though, if I may add to what was said there a minute ago about Hampshire and the Isle of Wight being treated differently to the Isle of Bute or Skye or whatever, is that I think there is increasing awareness of that among people in the north. It seriously exacerbates the feeling that they have been ill-treated on this and people are getting, as I say, more savvy. They are finding out about these things and it does make the situation worse.

Q26 Deidre Brock: In your experience, do you think carriers are generally willing to take these sorts of criticisms on board and distinguish, where it is brought up with them, or do you think they cannot be bothered?

David MacKenzie: In our limited experience, because most of our dealings are with the retailers, which is sort of third-hand, we are getting retailers saying to us, "Look, the carriers aren't interested, because it is such a small part of their overall sales. Obviously you, in the Highlands, are obsessed with this, but not everybody is". That is the sort of anecdotal feedback that we are getting from retailers. I get that, but it seems to me that it has such a significant effect on people in the north that we would urge the carriers to look at this more closely and see if there are improvements that can be made.

Q27 Deidre Brock: Yes. Ms Ballantyne, is that your situation?

Nina Ballantyne: That chimes with me, to an extent. One of the tricky things about this area is that it is essentially unregulated other than Royal Mail and so when you are talking about dealing with the carriers, the opportunities for dealing directly with the carriers are tricky, especially for a consumer whose contract is with the retailer and does not know who is delivering their parcel until the van arrives. In the research we did most recently, there did seem to be an appetite to address this. There are reputational risks for parcel companies and there are also the opportunities for business that we discussed earlier.

What we are really focused on now is to encourage the industry to work together in this small part of the market, where the competition is not working for the consumers there. That is our position. The competition has not worked for the north of Scotland. However, we think that the benefits of working together in those areas should not really undermine their competitiveness elsewhere. Industries, individual companies, will make exceptions when it is in their commercial interest, so what we would like to see is more collaboration, potentially even working with local authorities. There are networks of vehicles and venues that could be utilised across northern Scotland and the islands. There has been some interest in that theoretically in our conversations to date. The next stage is whether we can firm up actions from this. That is where we are focused now, I suppose.

Q28 Christine Jardine: Although we are talking specifically about the surcharges here, is there a general problem in the relationship between



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couriers and carriers and retailers that affects the entire country? Because you talked there about Hampshire, maybe areas of Hampshire having to pay more. I know that even in Edinburgh there will be days when there has been somebody at home, but they have left a card at the foot of the stairs to say, "Come and collect your parcel five miles away". Is there a general problem with the relationship between delivery companies and retailers and companies?

Lindsey Fussell: I should probably clarify what I said; apologies if it wasn't clear. I was not suggesting that different postcodes in Hampshire typically pay different amounts, just that clearly they, in theory, probably could if you worked out the cost. Properties in the Isle of Wight do frequently pay higher charges along with Northern Ireland, the Isles of Scilly and the Isle of Man. There are other parts of the UK that are affected. Are you picking up there perhaps more on quality of service types of issue rather than just pricing?

Q29 **Christine Jardine:** Yes, that is a part of a more general issue with the relationship between the customer and the retailer and the delivery company.

Lindsey Fussell: Clearly these relationships are really important to retailers, because until the parcel is in the consumer's hands, it is the responsibility of the retailer. If your parcel does not turn up, then it is the retailer who is required to provide you with a replacement. No doubt they will then, within their contract, try to negotiate some kind of compensation from the parcel delivery, but as a consumer, your contract is with the retailer. As a result, those kinds of quality of service issues are really important to retailers. I think there are quite a lot of examples, for example, of retailers switching between parcel carriers if they are not happy with the kind of delivery they are getting. Of course it is always open to retailers to use Royal Mail, who will deliver to any household in the country, whether that is part of their universal service obligation through the normal postal network or through their business delivery network.

Q30 **David Duguid:** On the subject of pick up and drop off locations, this is something that Citizens Advice Scotland have proposed as an idea—creating a public or private network of PUDOs. Is that what you call them?

Nina Ballantyne: That is right.

David Duguid: Pick up/drop off, to help reduce delivery charges. How would that system work practically?

Nina Ballantyne: Our honing in on that particular area is as a result of understanding that it is a very complex chain of cost that the consumer sees eventually, but what we can find, by going directly to the operators, we know where some of the costs are and some of the costs are what we talked about in terms of the lower drop density, the lower population concentrations—what we call the final mile in the logistics industry. We



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think that consolidating deliveries in central points can reduce costs and in fact does reduce costs. That is why you have distribution centres in different parts.

Across Europe, there are examples for cities. I think in the Netherlands there is a centre outside a major city where everything goes in first and then it is just one carrier that does the city, because that is cheaper than six half-empty vans doing it, as opposed to three full vans. If you had a concentration of delivery points, it means that the drop density is higher, you are dropping off more parcels at once and that results in a cheaper operation for the parcel companies.

- Q31 **David Duguid:** As you were responding there, it occurred to me that supermarkets who do home deliveries will pretty much go anywhere, compared to some of the other deliveries. Is there an opportunity for supermarkets to get involved with some of these pick up/drop offs?

Nina Ballantyne: Potentially. They have a network across the country. It would be a matter for the individual supermarkets to get involved. We do not see any reason why that is not possible. The biggest obstacles I guess are around security of the whole process. Sometimes people are having quite valuable things delivered, sometimes fragile things, so the biggest obstacle, I think particularly for the smaller regional couriers who are doing that final mile, is to make sure it is a system that is sound and secure and can talk to the systems that the national guys use. That is what we have discussed: the options of leveraging support from central Government or local authorities to help overcome those kind of barriers to a system that works for consumers.

- Q32 **David Duguid:** What kind of response have you been getting so far from local authorities or whoever you might want to talk with?

Nina Ballantyne: At the moment we are trying to just deal with the ask from the operators. At the moment, it is getting a number of them together in a room, which does not happen very often, because as Ms Fussell said, it is quite a competitive market. But we are doing that with the ambition to have a priority list of where action can be taken and areas where action can be taken, because it is unlikely that we solve it all at once, but maybe we can push the boundary slightly further north, so it is fewer people paying it overall and maybe we push the surcharge further down as a result of this. They all have their own impacts on consumers as well and it would be seeing what was acceptable to folk in those areas. We are talking to parcel operators in the first place to get a unified industry position so that we can then facilitate connections with local authorities or central Government or third-sector organisations in the areas.

Lindsey Fussell: It is worth saying that our research shows that these types of PUDOs are pretty popular with consumers. Research last year suggested that around half of UK adults have now gone and picked up a parcel from somewhere other than having it delivered to their door. The



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two reasons that people give are absolutely avoiding delivery charges, but of course the second one is fairly obvious—it is because they are worried they will not be at home when the parcel arrives, so being able to go to their local mini-supermarket or garage or wherever it is is convenient in more ways than one, although I obviously realise that it does depend how far you are away from your pick-up point as to how convenient you see that.

Chair: Our own celebrity postie, Hugh Gaffney.

Q33 Hugh Gaffney: Thanks very much for that. I have signed the secrets Act, otherwise I would get involved in some of the stuff that has been said, but maybe I should have a wee meeting with you later on and talk about some of this stuff.

My question is based on the advertising side of things. You might be watching TV programmes that say, “Only 10 left, only 5 left, only 1 left”, and people just press the button, but they do not look at the surcharge on the side of it. The charge is often £8 or £10, and although they are selling it for £2 or £3, they are making their money on your postage, because I know for a fact it is something that comes through the Royal Mail. Companies are doing that. I know you have done a report and earlier you said that is not happening, but it used to be really bad. Maybe you have tightened up on it.

I would also like to say on postcodes, we would need to reset all the satnavs. This is why Royal Mail fights for a basic rate of postage because it is all about local knowledge when it boils down to it. I have seen some postcodes that can cover a five-mile area and that is just Ayrshire and that is the central belt as well. It is a problem nationwide. Maybe we should look at reviewing the postcodes and getting a better price.

But back to my question about advertising. How do you control the advertising? There is a lot of mis-selling through the advertising alone. I think that is the problem it suffers.

Lindsey Fussell: The regulations in this area are very clear. They say that advertising must not mislead and must be advertised prominently on the website in this case. For example, you cannot say, “Free delivery throughout the UK”, if you surcharge for any part of the UK. The Advertising Standards Authority I know has taken a number of investigations to get websites changed, but I know that you have also been active in this sphere.

David MacKenzie: Yes. I would just echo that, absolutely. I have touched upon this earlier, that the laws are there and they are good. The problem is the enforcement of them. This is so widespread, across so many websites across the country, there are not enough guys like me, I suppose, to enforce it. That is why we have to look at other things like codes of practice and other ways of ensuring this. I think there is a contribution to be made through business advice and more detailed business engagement with the retailers and indeed the carriers, because



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we do find that once you talk to them, they are interested and they want to comply and they want to treat their customers well. They do not want to lose sales, which goes back to Nina's point. But it is about getting that message out and getting to them. Part 1 of the solution to this is for there to be a campaign, if you like, to get that message across to retailers and to provide that information for them.

- Q34 **Hugh Gaffney:** Being in the business, there are 26 different couriers and it is a very competitive business. This is the problem. Retailers are trying to get the best price; the companies delivering, they are trying to get the best price. Who has a van in the area? Who is best at delivering in that area? It boils down to who can get the best price on that, but has anybody ever been charged for enforcing the prices? We do a lot of eBay now, a lot of people do it online. Nobody goes shopping anymore; everything is done online, so this is why the problem is probably getting highlighted and becoming bigger. Has it ever been enforced on anybody at all? I know some of these eBay sellers can add on prices and they might get banned from being on eBay or something like that, but big business-wise, has it ever been enforced?

David MacKenzie: We have not taken anyone to court on this topic at all. It is because of the positive engagement that we have had. The problem is it is time-consuming, there are lots of phone calls and e-mails, and it takes a while to just sort out one site. Yes, our experience is all informal, satisfactory solutions. We have not had to take anyone to court. We would if we had to, and we will if we have to, but so far we have not had to do that, which really makes the point, I think, that in a sense we are pushing against an open door here in a way, in that the vast majority of retailers out there are not wanting to mislead people; they are wanting to provide a good service, they are wanting to do more sales.

- Q35 **John Lamont:** I think my question I was going to ask has been dealt with. I wanted to return to the role of Parcelforce and the universal service obligation, which I think one of you touched on earlier. I have been drawn to the case by my colleague, the Member for Moray, of a gentleman called Kevin Stocks from Lossiemouth who contacted Mr Ross. I have to say that the Member from Moray was the reason why this Committee is looking at this just now. He has led a debate here at Westminster and he led a debate in the Scottish Parliament about this as well. It is an issue that affects many of his constituents. His constituent was raising the issue that Parcelforce were delivering this package and charging for it, but at the same time, if the constituent had gone into the post office and used the Parcelforce service, he would be paying much, much less, due to the USO. I just wondered if you can explain how all that fits together. Why is Parcelforce allowed to charge so much more, despite the fact the Royal Mail is committed to the USO?

Lindsey Fussell: Parcelforce is not subject to regulation; they are not part of the USO. They are a separate part of the Royal Mail's business, so as you say, the regulation of Royal Mail, which is obviously set out in legislation, applies to the parcels and letters that consumers are sending



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themselves, rather than to business to business transactions and requires Royal Mail to set a uniform price across the UK for parcels up to 20 kilograms. It also has all sorts of other things like the quality standards that we set for them, the safeguard price that we have on a second-class stamp and so on. Royal Mail, not Parcelforce, then do choose to set a uniform price voluntarily on all their business deliveries as well, so when they have a contract with Amazon, they will again charge a uniform price across the UK. That is not part of the USO; that is something they voluntarily choose to do. Parcelforce are entirely separate from this and not subject to that regulation.

Q36 **John Lamont:** So if the constituent goes into the post office in Lossiemouth or wherever and tries to post a parcel—

Lindsey Fussell: That will be sent via Royal Mail rather than via Parcelforce, if that is what they want to do. They can choose to send it via Parcelforce.

Q37 **John Lamont:** Yes, provided it fitted within the dimensions of the permissible package sizes.

Lindsey Fussell: Yes.

Nina Ballantyne: One of the things we found that maybe exacerbates it is that the price differential increased with the weight or size of an object that people were ordering as well. When you get past the 20 kilogram limit, that is when Royal Mail USO ends and there is a real jump at that point where people are paying, I think on average, more than four times than urban areas, like in the centre of Inverness you will be paying four times as much for the delivery for 30 to 50 kilograms. That is often also small businesses, which is really frustrating for folk. They are the kind of people who need to be buying printers or desk chairs or those things that are a little bit larger, so therefore they are getting disadvantaged that way.

Just on the universal service point for Royal Mail, one of the things we found is that a barrier at the moment to offering Royal Mail services from retailers is that their contract with their current parcel carrier will prevent them from using another carrier. There is something in that as well, where if there was an option for consumers to choose Royal Mail when it was cheaper, for example, that could work, but the contract prevents them.

David MacKenzie: Or if the retailers were obliged not to charge any more than what the Royal Mail would be charging under the USO for those packages that fit within the USO size restrictions, that might be a solution. If you are ordering something from a retailer and they are insisting on using a courier, which is going to charge you a premium or excessive rate, if they were obliged to charge no more than what the Royal Mail could charge for that USO, that would certainly deal with the smaller packages.



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Nina Ballantyne: Yes, it could do, but I think it is not regulated.

Lindsey Fussell: No. Generally, and obviously there will be exceptions to this, Royal Mail is not always the cheapest carrier.

Chair: I am grateful for that. We have a few minutes left. I know Deidre Brock is desperate to come in.

Q38 **Deidre Brock:** Thank you, Chair. Further to that, of course it would be remiss of us not to mention Richard Lochhead MSP's considerable amount of work on this very issue. His submission to the Committee mentions—and I think it is taken from the debate he led in the Scottish Parliament on the issue—a constituent who said that spare car parts were sent for free from Germany, but a UK retailer imposed a £45 charge on it. Is that something you are familiar with? It sounds unbelievable.

David MacKenzie: Yes, absolutely. From my list of recent ones here, I can quote you ones where the retailer has said, "We can send it abroad cheaper", where consumers have reported that to us too. Yes, absolutely. That is one of the daft anomalies that just bring this into focus.

Nina Ballantyne: Sometimes even in the same carrier. It was a few years ago, but a customer in Shetland ordered one CD from California and one CD from the south-east of England, both being delivered by UPS. They were different prices and different delivery times and the California one was cheaper and faster to arrive.

Q39 **Chair:** Just to wind things up, because we have the retailers, who are coming to speak to us next, it is just a matter of trying to pin exactly where responsibility for this is. If individuals are selling goods via an online marketplace like eBay or Amazon, where does responsibility for delivery charges lie between the seller and the platform? Who is responsible?

David MacKenzie: The seller is primarily responsible. The platform probably has obligations too, but it is primarily the seller. This is a significant issue, as far as we are concerned, because the likes of Amazon and eBay are so big now, they have so many sellers on their marketplace. We see them as potential allies in making this better, because Amazon, for example, have a pricing structure where it is flattened out and they are not allowed to surcharge and they have to stick within Amazon's rules. The problem we find is that sellers on the marketplace will circumvent those rules. They will contact the consumer afterwards and say, "Oh, you are going to have to give us another £10 or £20".

Q40 **Chair:** Your confidence, Mr MacKenzie, in the way all this is working itself out and that we can gently deal with it by seeking a more stringent enforcement—it just isn't working, is it? We are seeing another example here where there is a huge grey area and people are being ripped off.



David MacKenzie: Yes, and the answer to that is in the marketplaces. If we find out about something and we can contact them, they are genuinely sorry, but it is so big, that marketplace, with so many sellers and there are so many examples of this that we feel they need to be taking proactive steps to stop it happening, because it is against their rules, as well as being against the law, and as well as it being not in the interests of consumers. That is something that I hope will come out of this piece of work and other pieces of work that are being pursued on this matter.

Chair: Thank you ever so much for that. We are very grateful for getting this session kicked off on such a comprehensive and informative basis, so thank you for that. Can we have our next guests, please?

Examination of witnesses

Witnesses: Lesley Smith, Laurence Garnett and Mike Pitt.

Q41 **Chair:** We do not have much time today, but we are all very grateful for the three of you appearing before this Committee this morning at relatively short notice. Just for the record, will you say who you are, who you represent and anything by way of a short statement? We will start from the right-hand side this time. Mr Pitt.

Mike Pitt: I am Mike Pitt. I represent eBay. I am the Director of Shipping and Logistics for the UK for eBay.

As eBay, we are obviously a pure marketplace. We are not a retailer. We do not buy or sell or deliver directly. We share the frustrations of the delivery charges and exclusions in the Highlands and Islands. From our perspective, I agree with Mr MacKenzie, it doesn't feel like there are any obvious silver bullets or easy solutions, but it is in all of our interests, I think, to try to find a good solution to this. I think the delivery parcel market is certainly an area where we need to do more work.

We have over 200,000 mainly very small businesses who trade on eBay and our responsibility is to try to make it as easy as possible for all of them to trade and to drive the best consumer practices for them as well. It is very much in our interests to make it as simple and as low-cost as possible for our sellers and buyers across the market. We are certainly very keen to help drive a solution, and again, I agree with Mr MacKenzie that I think we are absolutely allies. It is in all of our interests to try to make this as good as possible. From eBay's perspective, the Highlands and Islands is a very significant area for business for us, both for sellers and for buyers, so it is an important area for us.

Laurence Garnett: Good morning, everyone. I am Laurence Garnett, Head of Home Delivery for Argos, so part of the Sainsbury's Group now. My responsibility is both the warehousing and the relationship with the final mail carriers for all of the products that you can buy online at Argos.



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Again, I agree this is a very important issue. I think this is something that we have made important steps in improving over the last five years in terms of making sure that all of our products are accessible—all of our small-item products, 30,000 of them—with no delivery surcharge across the Highlands and Islands. But again, I accept we are on a journey, there are further improvements that we can make and we take obviously customer feedback very seriously.

Lesley Smith: Thank you for the invitation, Chair. I am from Amazon. I am Director of Public Policy. We have been in Scotland since 2004 and we have a very big commitment to the whole of Scotland, including the Highlands and Islands. We deliver tens of millions of parcels to the Highlands and Islands every year without any surcharge, for the same rates we do for the rest of the country. I am grateful to the gentleman from Trading Standards, who pointed out that we do insist that marketplace sellers charge exactly the same rate for all over the country and they are not allowed to surcharge. We are very committed to making sure we get this right for all of our customers throughout the country and we do look very carefully at what marketplace sellers are doing.

I think there are some difficulties in certain circumstances—and I am sure we will discuss those—where they are delivering heavy or bulky items and there are a small number of exceptions where items need special handling, things like hazardous materials, things with batteries and so on, where there are some difficulties delivering to island locations, but we work very hard to limit those difficulties and to ensure that we deliver the same promise to our Highlands and Islands customers as to those in the rest of the UK.

Q42 **Chair:** That all sounds very plausible and no problem here. So why is this happening? Why are there these surcharges for rural and Highland areas? What is going on, in your view? Ms Smith.

Lesley Smith: Again, as the gentleman before me said, in most cases there should not be.

Chair: Okay, but why is there?

Lesley Smith: There should not be. Marketplaces that have a contract with us undertake that they will deliver the same service to every location in the UK. We monitor order defect rates and if that order defect rate exceeds 1%, we warn the seller, we remind them of our policies and if they do not put things right and they do not remove any surcharge, then they will not be allowed to sell.

Now, the way out for them, if they find it is uneconomic to deliver to the Islands—and many do complain that it is very difficult to get courier services to certain areas and they are paying higher costs—is what we offer from Amazon, so they can put their goods into our warehouses and we will deliver for a flat rate anywhere in the UK. That allows them to level out that cost to their businesses and avoid very big costs.



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There are a very small number of exceptions. We have the same difficulty in getting couriers to go with very heavy and bulky items, which a very limited number of couriers will take, where sometimes you need two-man delivery, and in particular if you are delivering things like sofas, the customer has to be in.

Q43 **Chair:** I do not want to interrupt you, but we are not particularly interested in bulky items. We understand they are different.

Lesley Smith: That is fine.

Chair: What we are talking about is general delivery charges—

Lesley Smith: Fine. In that case, the policy is clear.

Chair: We heard Hampshire being mentioned several times. Why is there not a surcharge for Hampshire and there is for the Highlands of Scotland? Mr Pitt, you have given this impression that nothing is going on, that everything is fine. Why is this happening?

Mike Pitt: I certainly do not think that there is nothing wrong and I do not think everything is fine. I think the reason why it is happening from an eBay perspective is we do allow surcharges for our sellers, so to be clear, we allow any of the range of different special delivery areas. The reason—

Q44 **Chair:** Special delivery areas? These are the postcodes?

Mike Pitt: Isle of Wight, Isle of Man, some postcodes in the Highlands and Islands, the Channel Islands and Isles of Scilly, so those special delivery areas where we allow sellers to choose, if they want to. The reason why we allow that is effectively because the carriers do still charge those sellers—and as I say, many of our sellers are very small sellers—and they are negotiating those rates directly, so we do allow them to pass on those charges from the delivery companies.

Having said that, we have a relatively low rate of surcharges, so with our average surcharge or average chain, there is about a 5% gap to the Highlands and Islands versus the UK as a whole in terms of the delivery charges that are applied.

Q45 **Paul Masterton:** Mr Garnett, I want to talk about Argos's specific changes, because you abolished your ones for the Scottish Islands fairly recently. I would be interested to know, what was the driver behind that change and also what the financial impact was in terms of your cost for delivering to those areas compared to what you are now charging.

Laurence Garnett: You are absolutely right, yes, we changed just over a year ago now, so we have entered into a contract with Yodel, who are able to provide us delivery to all UK postcodes and all UK households. We negotiated that at a standard rate, so what was important to us was that there was no delivery surcharge for those small items, wherever you are in the UK, whether that is Scotland or the rural parts of England and



Wales. Therefore it is something we have been really pleased with and we have had some great customer satisfaction since we have done that. 90% of our customers that are surveyed have come back saying they are highly satisfied and more satisfied than other parts of the UK, because obviously there is no delivery surcharge. We are very clear on the timescale it takes to get there and we have a high delivery success rate with that, so we are very pleased with the change.

Q46 Paul Masterton: Have you noticed an uptick in business orders from those areas? Are you seeing behavioural change in customers now using you because they know that they will not have to pay a surcharge?

Laurence Garnett: Absolutely. Previously it was not a service that we advertised or offered, so customers would have had to contact one of our stores or our customer service team to then arrange a delivery. That was something that they would have had to do themselves with the carrier, so now what we have been able to do is they can put in their postcode online and then arrange delivery. It is something that we have obviously been able to really see an increase in.

Q47 Paul Masterton: Your experience has definitely been that removing the surcharge has had no detrimental effect to your business operations; in fact, it appears to have had the opposite effect?

Laurence Garnett: We have been really pleased we have been making the service accessible to all the Highlands and Islands for our small items. As I say, yes, we have seen high levels of customer satisfaction since we have done that.

Q48 Deidre Brock: I wonder, could you, Mr Pitt, to an extent, and Ms Smith, just set out the actual extra costs that your carriers incur when delivering to more remote areas? What are the extra things that add to the cost? What makes the delivery charges higher in your experience?

Mike Pitt: Primarily I would say that the carriers incur charges, as was mentioned in the previous panel, around their drop densities and the amount of vehicle fill I suppose they get. It is certainly a question that would have to be directed more to them, but that would be the primary area of the cost, I would say—less fill, so you have the same vehicle with the same manpower, but with fewer parcels being delivered. I assume that that is what is driving the cost up.

Lesley Smith: I would agree. If you have a courier service delivering in Edinburgh, you might drop 50 parcels on a single run or 100 parcels on a single run. If you are delivering to Dornoch, you might take one, so all the cost is loaded on to one item. There are limited opportunities to offset that or share that; you might be able to share that. We do use a huge variety of different carriers. We use Royal Mail, we use DPD, Hermes, then we use lots and lots and lots of small carriers—in fact, we use Menzies, who will be in in the next session—to try to provide as many opportunities as possible to keep that cost down or we encourage sellers



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to use our services, so effectively they can offset and they can reduce that price.

Q49 Deidre Brock: To what extent do you subsidise your delivery operations? We have just heard from Argos that they have obviously been able to do this and it is creating a lot of customer satisfaction. I am just wondering—

Lesley Smith: Argos are doing what we already do, so that is very good news, but effectively you are doing a very large volume of deliveries right across the country and that means that you take a loss on some of them if you are delivering to long distances. Effectively that is what we have to do. It is much more difficult for very small players to try to do that, because they do not have the volume to take that loss.

Q50 Deidre Brock: Mr Pitt, is there any sort of intervention from eBay? Can you just tell us a little bit about that, what you are doing to try to address this?

Mike Pitt: Yes, certainly. There are a number of things that we do. Probably the biggest one that we have at the moment is we set up an operation that is just called eBay Delivery. In effect, we started negotiating directly with the carriers and providing those services on our platform for our sellers to purchase those services for delivery anywhere in the UK. Of course our sellers can still buy from the Royal Mail and take advantage of the universal service obligation. What we have done is try to supplement that with a range of other carriers. We do see the surcharges coming in from those carriers at a various different range, but when we sell that to our sellers, we do not pass on any surcharge at all.

We are trying to provide that, especially for those smaller sellers who cannot get access to the really good rates that big retailers can get hold of. We are trying to provide that service for them at a really good rate. There are a number of other things we do to encourage our sellers not to surcharge. We have our fees on total cost, which means in effect our sellers get charged. The way that we make our money is by charging a commission on sales. That is not just based on the item price, it is on the item plus any shipping costs, so we are encouraging sellers not to charge any extra shipping costs.

We have a range of detailed seller ratings, so you get a five-star rating if you offer free shipping automatically, so again, that impacts on where they appear in our search ranking. Our search algorithm puts people with cheaper shipping or free shipping towards the top of the list, so if you are a buyer in the Highlands and Islands, then you are most likely to see those items that have free shipping at the top of the list. Although it is not a stick, it is definitely a carrot in terms of offering those sellers the nudge to say, "If you offer free shipping, then this is going to work better for you".



Finally, we have a discount programme for our fees. There are a number of requirements in order to get access to that discount. One of them is offering free shipping on your listings, so in order to get access to that discount, we ask people to offer free shipping. We are encouraging in a number of different ways a way to try reduce those costs. We do also encourage on our seller information on our site both the importance of free shipping and low-cost shipping and how it can help their businesses and we do have a link to the "Statement of Principles on Parcel Delivery", which was mentioned in the earlier panel as well. We are always trying to push our sellers, in a nudging way rather than through strict enforcement. Our policies are still very clear, but we do enable it for those smaller sellers who do not want to work through our delivery platform, but if they feel like they have to offer a surcharge in order to recoup their costs, then we enable them to do that.

Q51 John Lamont: My question relates to this, in that Ofcom identified that the use of third-party delivery companies was contributing or was a significant factor in the higher delivery costs. Could you explain a bit more the use of these third-party delivery firms and whether you think that is resulting in these extra costs on these customers living in these more remote postcodes?

Lesley Smith: I was a bit surprised that Ofcom made that comment, because we use a wide variety of carriers in order to minimise cost, because it keeps our costs down, it keeps the overall cost of operational delivery down. Obviously if you are using third-party carriers—I just explained to Ms Brock the difficulty of a single load going to Dornoch—if you are using DPD, Hermes, or Royal Mail, then they are carrying multiple units from multiple different businesses and that lowers costs.

We have a similar scheme to eBay. We have a buyer shipping label from Amazon and you get our discounted rates with Royal Mail or a slightly lower rate. But we have a network of 15 delivery service providers in addition to the big players that work with us and they are people like Menzies, who you will see next, who are very small businesses, and they have a network of independent drivers who deliver for us and for all sorts of other people as well. That is part and parcel of trying to keep the costs low.

Laurence Garnett: I would agree. I can obviously speak from our own experience. We only use the one courier, which is Yodel, but in these remote areas they are also partnering with local carriers to make sure they can provide the service as frequently as possible and mitigate cost by combining with other retailers and obviously private sellers as well. That is why they were able to offer us a standard price with no surcharges there.

Mike Pitt: I would agree with Ms Smith. I think that where third-party operators are being used, generally it is to try to provide the best coverage at the lowest cost. I think the intent is right. Again, I am not quite sure of the details of the Ofcom comment.



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Q52 John Lamont: Would you agree with the statement that it is just not fair for people living in certain parts of Scotland to be paying more excessive charges to get access to retail services?

Lesley Smith: I think excessive charges are of course unfair. I think there is a difference between what is excessive and where a small business is trying to recover the cost, but as I say, we make every effort to ensure that they do not have to do that. We offer them services to ensure that we can deliver on their behalf to remote areas or they can deliver at the lowest cost possible. We do not accept that excessive charges can or should be made.

Q53 John Lamont: How much would you define excessive to be?

Lesley Smith: It hugely depends on what the customer wants. We do not have charging by region, that is the long and the short of it. Delivery is free if you order something over £20 anyway, wherever you are in the country, and marketplace sellers can set their own rates, but those rates are dependent on speed of delivery, so we have to offer standard rate and express rate. It is not dependent on where it is going to.

Q54 John Lamont: The last point is what was your reaction to the Minister's announcement that there is going to be a Green Paper on how businesses treat customers, particularly in relation to delivery charges. This was an announcement she made during the Member for Moray's debate in Westminster Hall about delivery charges. There is going to be a Green Paper about a range of issues, but this will be captured within that. I just wondered if you intend to respond to that Green Paper and whether you have made any representations to the Minister in light of her announcement before Christmas.

Lesley Smith: We have not yet made representations, but we may yet do so. I think it is an important debate and it is important people understand the dynamics of it. We welcome the review; we are happy to look at that review.

Q55 John Lamont: Would you agree?

Laurence Garnett: Yes, I absolutely agree. We would welcome being involved. It is an important issue, and one where we are seeing success, where we have been able to open up the Highlands and Islands with no surcharge. We would welcome further investigation into it.

Q56 Chair: Amazon must have a huge share of the online retail business marketplace just now. Could you give us a sense just how big that share is?

Lesley Smith: I have no idea. We have no idea. Sometimes people perceive that they are buying lots of things from Amazon because they have a regular small—

Q57 Chair: This is as a marketplace, as opposed to you as a company, the Amazon Marketplace.



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Lesley Smith: Of our business, half the items that are sold by us across the world are sold by third-party sellers and half the items in our fulfilment centres are provided by third-party sellers. Overall, we offer UK customers 250 million items. We could not possibly stock 250 million items. A very large proportion of those comes from third-party sellers. It is about half of the sales that are made on our site.

Q58 **Chair:** I am trying to square all of this up. You are a massive marketplace and you have all these third-party sellers and I would imagine eBay takes up quite a slice of the total retail market pie too.

Lesley Smith: Online retailing is still under 15% of total retailing. It is not enormous enormous, but it is—

Q59 **Chair:** But we are dealing with the online retail just now and this is the issue that we have. I am trying to square this by looking again at what Citizens Advice Scotland told us, where they are saying 1 million people are impacted by high delivery charges. That suggests that this is a big problem, it is not something that can conveniently be tucked away and if a problem emerges, we are dealing with it immediately. Are there ongoing issues that are impacting people in remote areas in the Highlands of Scotland? This Committee wants to know what you feel about your responsibility for this and what you are proactively doing to ensure that this does not continue. If we are all saying that it should not happen, and you are all saying your business models say that it is built into it, "This is not how we trade", what are you doing to make sure this does not continue to happen? We will start with you, Mr Pitt, with that one.

Mike Pitt: In addition to some of the earlier comments about trying to provide an intermediated delivery service and the other rules and policies we put in place, our sellers get rated on their delivery charges as well as anything else. If we see significant defects on those, then there is a range of actions we can take against them, as Ms Smith was saying, so we go through a process of education and discussion and trying to encourage them to do things. But the ultimate sanction is to say that they can no longer trade on eBay.

Q60 **Chair:** On that, in terms of a process then, just say you have somebody living in Moray or Inverness or wherever who has been hit by one of these, because we have loads of them and we will share them with you, like the personal examples of people who wrote to this Committee about what they felt about these charges. If they got in touch with eBay or Amazon Marketplace and said, "We have been hit with these charges. This is the name of the third-party courier who hit us with these charges", you would proactively take action against that?

Lesley Smith: Yes.

Q61 **Chair:** What would that involve? Mr Pitt is saying that it might involve the ultimate sanction of no longer using that company. Is that how you would approach this?



Mike Pitt: Ultimately that would be the end sanction. If there was a repeat offender or egregious offender, then ultimately we do have the sanction of telling people they can no longer trade on eBay. That would not be the first step. If the first question comes in, then it would be a discussion with the seller and an education and an attempt to try to make sure they understood what we were trying to achieve. But ultimately, yes, if it was a repeat offence or if it was egregious, then we would tell the seller they could no longer trade on eBay.

Q62 **Chair:** Would that be the same sort of approach that Amazon would adopt?

Lesley Smith: Yes, exactly. It is exactly the same. We make it very clear as part of the signing-up process what people are allowed and not allowed to charge. If we get a seller complaint, we will act on it immediately, but we also, independently of seller complaints, would monitor if there are order defect rates or if we become aware that someone is charging outside of our system, we would intervene. They are not allowed to do that.

Q63 **Chair:** What we need therefore to do when people have written to us is just get a general education and say, "Get in touch with Amazon. If you have been sold something on Amazon where you have been hit, get in touch and they will put it right for you"?

Lesley Smith: Yes. We have an A to Z guarantee. On our website it says clearly, "If something has gone wrong, use our A to Z guarantee, get in touch and we will sort it out". That is there to give people confidence in buying from marketplace sellers, that it is still backed by the A to Z guarantee with Amazon.

Q64 **Christine Jardine:** You have just asked exactly what I was about to ask. However, and I should have known the answer to the question anyway, because my late husband at one time did have a business, and I cannot remember whether it was eBay or Amazon Marketplace, but the relationship with those companies is a contractual one, rather than them being part of Amazon or eBay, if I am correct.

Lesley Smith: That is right.

Christine Jardine: But do you think that the consumers understand that and they are aware of the difference between Amazon and Amazon Marketplace and eBay and the eBay marketplace, that they get that it is separate and do you have an issue there?

Lesley Smith: We are asked that question very often, but if you go to buy a Dyson, whatever they are called, a Hoover—a vacuum cleaner, obviously—it will come up with a number of offers and that will sometimes depend on whether you are in Prime or not. If you are in Prime, the ones that are delivered by Prime will come up first. But it comes up, "Sold by X and fulfilled by Y" so it will say, "Sold and fulfilled by Amazon" or, "Sold by Mrs Jardine and fulfilled by Amazon" or, "Sold



and fulfilled by Mrs Jardine". That is visible on the page and then that also links to whether you are being charged or not, because if you are in, "Fulfilled by Amazon" you will just get the Amazon delivery cost or if you are in Prime, it is free throughout the country. If you are the seller and you are doing your own fulfilment, it will say, "Mrs Jardine charges £7 for delivering this anywhere in the country" and that appears before you hit the "buy" box. It will also say, "Available from these other sellers at". If you buy it in Prime, it will say, "Available from these other sellers for maybe less but you will pay extra for delivery". It is difficult on a small screen. It is more difficult still on a handheld to make that available. We try our best to make sure customers see who they are buying from and the total offer before. They have to see that before they get to the purchase box.

- Q65 **Christine Jardine:** Basically, if someone in Moray, since we have been talking about Moray, or Inverness-shire or Aberdeenshire is buying something from either Amazon or eBay, they can see whether the same product is cheaper if they buy it from somebody else because there will be lower delivery charges or higher delivery charges. There is a mechanism by which they can check that.

Lesley Smith: Yes. You can see a list of all the people selling that particular item. It may be that you are buying something that only one seller has or only we have—something like that—but very often lots of people will offer you that product. It will give you a list of, "Available from these sellers" and some of them will have a low price and a higher delivery price and some of them will have free delivery and a slightly higher purchase price, but it will give them in a list.

Christine Jardine: That is a distinctly different situation from if you just buy online from a major retailer; you simply have the one option. Thank you.

Chair: We have a couple of supplementaries; first Hugh Gaffney, then Ged Killen.

- Q66 **Hugh Gaffney:** It used to be that if you bought three items you would get charged for three items, obviously, but you would also be charged for three single deliveries, even though they were going to one address. Has that been picked up? How do you control that? Every time you buy something—let us say you buy three items from Amazon—is it one charge for each item for delivery as well or do you put the three of them together?

Lesley Smith: Mostly they are put together. It slightly depends on who you buy from. If you, say, bought two items from Amazon and one from a third-party seller, if that third-party seller was fulfilled by Amazon, then you would basically get one charge for the whole delivery. You will get free delivery for £20 worth of eligible items, which basically means items that we sell or fulfil. If you had two items from us and one from a third-party seller and the third-party seller is fulfilling their own item, they may be charging for that delivery because they are delivering it from their



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shop or wherever they are. Then you pay the delivery charge for Amazon's delivery and then the delivery charge for them.

We offer you the option as well. You can tick a box that says, "You can have your items quickly in one bundle or you can have them as they come in, but we will not charge you extra for that. We will charge you the price that goes with the value of your order". The only difference is if it is a marketplace seller who is doing their own fulfilment, they will charge you separately.

- Q67 Hugh Gaffney:** Basically speaking, that is two and one, but the question I want to ask is: are most carriers still charging one item, one price for delivery as well, even though it is going to the same address? Is that still happening overall with companies? If you buy an item, you pay a delivery charge. If you buy three items, they are not getting lumped together, it is three separate charges and that is extra cost. Is that still happening in most firms? If there were three items from you, would you only charge for one delivery?

Lesley Smith: Yes, it is one total charge.

Laurence Garnett: We would be in the same position in that we would only charge the customer once even if they have bought multiple items in the transaction. The carrier, if it turns out it is multiple items, would charge us for each of those items, but obviously that is something that we would take on ourselves. We are only passing the one delivery charge to the customer.

- Q68 Hugh Gaffney:** Has eBay tightened up theirs?

Mike Pitt: eBay is a pure marketplace. In effect, it is the seller who is setting the delivery charge on each item. If it is three items from three different sellers, it could be three different delivery charges. Having said that, around about 80% of all our deliveries are free deliveries anyway, so the vast majority of our deliveries do not incur any delivery charge.

- Q69 Ged Killen:** I just wanted to come back to Ms Smith's answer to Ms Jardine about the charges being listed quite clearly on Amazon. We have written evidence that, as the Chair said, will be shared with you later that directly contradicts what you have just said about that from someone who was buying something from Amazon. The first thing being listed says, "Free UK delivery", then at the bottom of the page, "Delivery charges apply in the following postcodes" and it lists mainly Scottish postcodes. Then, "We will contact you regarding delivery charges if applicable once your order has been placed". That person is taking a gamble.

Lesley Smith: That is absolutely against the rules.

- Q70 Ged Killen:** Why are you allowing these companies to say there is free UK delivery?



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Lesley Smith: Well, we are not. We are absolutely not. They cannot do that. We monitor that, we try to find those cases, and if they are doing that, we will intervene and make them aware of the rules. If they do not accept the rules, then they will not be able to sell on Amazon.

Q71 **Ged Killen:** Are you not able to stop that from being posted on your website in the first place? You have to wait until after the event? You cannot stop them? Do they not have to notify you what charge they are going to apply in these circumstances? You are relying on catching it after?

Lesley Smith: It is a difficult thing to detect is the simple answer. We make very clear rules and sellers sign up to those rules. Occasionally, sellers break those rules and we spend a lot of time trying to prevent that happening. We use seller education. We explain what the rules are. We explain what the penalties are. We explain that they will not be able to trade if they break those rules. Sometimes there are sellers who break the rules, but we will do our level best to stop them doing so.

Q72 **Ross Thomson:** What role, Mr Pitt, do you as Amazon have in ensuring that sellers comply with the regulations that require sellers to set out delivery charges at the beginning of the ordering process?

Mike Pitt: Sorry, I am eBay, not Amazon.

Ross Thomson: Oh, sorry, apologies.

Mike Pitt: That is okay, it is no problem. Again, our policy is very clear that all charges must be visible on the site at the point before purchase with a very small exception around freight items. It is a tiny proportion of our site, but again that applies not to individual postcodes. That is if you are delivering a freight item, then it is always a delivery price on application. That is to meet the specific needs of the spot market for freight. In effect, it is a variable price for some items, which might be, "I need to go and find out for this particular item how much it is going to cost". For everything else, the price has to be visible in advance.

We are in a position where we know where all of our buyers and all of our sellers are, so we present that price exactly as it should be and, as I say, mostly it is free. We do not allow sellers and buyers to publish e-mail addresses or phone numbers. If the seller needs to contact the buyer afterwards and if they do contact the buyer and say, "I know I have just accepted this order, and now I am going to charge you some more money", that message is on our site so we can see that immediately. We have lots of behind the scenes algorithms that try to assess what is going on, both for those sorts of messages and key words, but also if transactions are cancelled after the event for any particular reason. Then we will investigate that proactively as well and find out what is going on. If we then see that message, that is a clear breach of our policy. We take those actions. We go down the action path I was outlining earlier.



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So, we do not allow it. We do track it through backend algorithms. We do capture all the messages between buyers and sellers, and they are not allowed to provide post-event surcharges, with the exception of freight, which is clearly stated at the beginning as delivery price on application.

Q73 Ross Thomson: That ties very nicely into my next question. I do not know if you are aware of it, but Highlands Council's trading standards department themselves suggested that online platforms such as eBay and others could be more proactive in identifying sellers who are not complying with the delivery charges regulations rather than just responding to complaints about sellers. First, is there any other proactive action that you are taking as a company beyond what you have said? Secondly, what do you think the industry could do to be further proactive?

Mike Pitt: I think I have probably outlined the things that we do. I do not want to underestimate the impact of those backend algorithms, which do check all of those messages and they do understand if there is anything abnormal going on on the site. Any post-transaction cancellation is an abnormal event for us. There is a lot of work that goes into that.

I am certainly open to suggestions. I am not sure what else specifically we could do, but I am very open to ideas on what else could be open and what the Highlands specialists are suggesting.

Q74 Chair: This is for you, Ms Smith. I was intrigued by your response to Mr Killen saying that you will address these issues if they are spotted and you will take them down if there are people who—

Lesley Smith: Yes.

Q75 Chair: What about the issue, and we heard this repeatedly from people who got in touch with this Committee, that when placing an order—and this is through Amazon Marketplace—that advertises free delivery right across the United Kingdom, then they get further down the purchasing process only to find near the bottom that a surcharge will be administered?

Lesley Smith: The same one that Mr Killen mentioned?

Chair: It is a different issue. People are seeing on your site there is a free delivery, but then as they go further down, committing themselves to this purchase, they find all of a sudden that a surcharge is going to be put in place. This is a regular complaint that we secured, and again we will share this information with you. Maybe this is why you are missing this and maybe it is a suggestion. You are seeing all these third parties emerge from Amazon Marketplace who are telling you that it is free delivery across the UK, and then as you go down and start to confirm your purchase you see—

Lesley Smith: We have a very similar process to eBay. We monitor order defect rates. We monitor cancellation rates. We see customer



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reviews of deliveries. We are monitoring fairly constantly. I think I know what you mean. You are saying they are advertising free delivery at the top and putting a footnote at the bottom.

Chair: Yes.

Lesley Smith: Before the customer orders, that should be visible anyway because when the customer orders, the price of the item appears and then the delivery charge is filled in when you select the delivery. You select "standard delivery". Different sellers can set different times for standard delivery, but it might be two to three days. Then you select "express delivery" or "expedited delivery" and those will have a different charge and that will populate that. Customers would always see that before they get to the buying decision. I accept it is totally misleading to have two things on the same page, and where it is at all possible to do so we intervene and we stop them doing that.

Q76 **Chair:** Just say there was an example where somebody was charged what you and I would normally consider to be an excessive delivery charge, and they got in touch with Amazon and said, "We want our money back for this", because Amazon quite clearly states that there should be no delivery charge. Would Amazon be in a position to refund that consumer?

Lesley Smith: What we would usually say, first of all, is in the first 24 hours you should go back to the seller and the seller has to give you the money back. If they have advertised free delivery, they have to offer free delivery. If the seller does not sort it out, we will sort it out.

Q77 **Chair:** You would refund the consumer on that basis?

Lesley Smith: Yes, and then we have the argument with the seller about it.

Q78 **Chair:** I think that is a commitment that we are hearing very clearly in this Committee.

Lesley Smith: The A to Z guarantee is there to ensure that the customer has those safeguards.

Q79 **Chair:** If possibly one good thing could come out of this hearing, we could encourage people who have been hit by delivery charges through Amazon Marketplace to get in touch with Amazon and they will be refunded the excessive delivery charges that they were levied.

Lesley Smith: Yes, we would absolutely encourage people. Well, they will be refunded if they have been misled.

Chair: All right. I think that is progress.

Q80 **David Duguid:** We heard from Citizens Advice Scotland earlier and we discussed their suggestion for creating a network of pick-up and drop-off office locations using a mix of public and private locations. What is your view on this suggestion?



Lesley Smith: We have 1,500 of them in Scotland or Highlands. We work with the post office networks. We have 10,500 post office branches across the UK, of which about 1,000 to 1,500 are in Scotland, many in the Islands. The Islands are fortunately, thus far, still well endowed with post offices. We also have that network extended by corner shops and newsagents and so on pretty much everywhere. We also have about 140 locker locations in the Highlands, and that is for exactly the reasons that the Committee earlier mentioned. People want to be out, they might be at their place of work; if they are in a remote area it is a real nuisance for them if someone has come all the way up to their house, cannot find a safe place to leave something and takes it away again. A much better option is a local drop-off point and it has been great to be able to do that.

Q81 **David Duguid:** Okay. Amazon is blazing a trail, but I guess the question is more about a more general facility that any delivery company can use.

Lesley Smith: A lot of those they can. The Click and Collect networks are available—all sorts of retailers use those—as is the post office, I think.

Laurence Garnett: As a retailer with stores, obviously customers can come and pick up from Argos stores across the Highlands. Now we are part of the Sainsbury's group, we are also opening up for those products to be picked up in Sainsbury's supermarkets as well. Sainsbury's also has a relationship with DPD for customers to get their parcels dropped off in Sainsbury's supermarkets regardless of retailer. It is just a service that DPD would offer. Again, I think it is something that is becoming more commonplace, whether that is post offices or corner shops through CollectPlus. Our customers can drop our small item products back to their local corner shop if it is part of the CollectPlus, which has thousands of locations around the UK.

Q82 **David Duguid:** Is this something, then, in that case that would be more beneficial to individual traders that might be more inclined to use platforms such as eBay?

Mike Pitt: Yes, very possibly. I fully support that. I think the principle of operating a relatively independent pick-up and drop-off solution sounds like a really interesting idea, and I think it can cover some of the challenge.

There are a few other big challenges. I think the post office will not accept deliveries from any carriers other than Royal Mail, and given they have a big network that is a challenge in itself. The underlying root cause of the surcharges here is around lots of carriers with relatively small volumes and finding a way to aggregate those small volumes into larger groups. That is where we can directly address the underlying root cost issue. I think the pick-up/drop-off relatively independent but aggregated volume could be a great solution to that.



The other thing is trying to provide a lot more simplicity or trying to drive the carriers into providing a lot more simplicity and structure around their charges as well. Our sellers certainly find it complicated when they are negotiating directly with a carrier, so providing some sort of structural solution around Highlands and Islands charging I think would be very useful, and the pick-up/drop-off solution could be one of the solutions to do that.

Q83 Deidre Brock: You have possibly answered my question. You mentioned Argos using Yodel and them partnering with other retailers and private sellers in the area to make it more cost effective. Is there further scope for that sort of collaboration, if you like, or co-operation between private businesses so that the delivery networks can be shared more? You seem to be referencing that, Mr Pitt. Is that something, Ms Smith, that you are looking at in Amazon?

Lesley Smith: We use Hermes and DPD and Royal Mail. Whenever we are delivering to any customer anywhere in the country, our algorithms will try to work out what is the fastest and most cost-effective way of delivering that customer's promise. We scan: should we give it to one of those carriers? Should we do it within Amazon logistics using a much smaller third-party carrier who works with one of our delivery service providers? You will see Menzies in the next session, and they are one of those providers. We are constantly looking at it. The driver for us is getting it there fastest because that is what customers really want, and if they have specified a delivery time it is really important. We are very keen to see lots of collaboration. We are very keen to see lots of couriers providing for lots of people because that drives more efficient delivery.

Q84 Deidre Brock: Okay. Anything to add, Mr Pitt?

Mike Pitt: I would definitely like to see more collaboration among the carriers, especially in areas that are underserved and overcharged at the moment, including the Highlands and Islands.

Chair: I am grateful. Thank you very much, lady and gentlemen, for coming at short notice in this inquiry.

Examination of witnesses

Witnesses: Tim Jones, Robert Gordon and Fraser MacLean.

Q85 Chair: Thank you very much for attending this inquiry this morning and helping us out with delivery charges in Scotland. Could you say for the record who you are and anything by way of a short introductory statement? We will start in the middle this time, Mr Gordon.

Robert Gordon: Robert Gordon. I am a director of JBT Distribution and also ParcelinQ with depots across Scotland, including the Orkney and Shetland Isles. I live, and was born and bred, in the Highlands so the



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matter is quite important to me as a consumer as well as a service operator.

Tim Jones: I am Tim Jones. I am from DPD. We carry on behalf of most of the UK's major retailers based from a depot network of about 56 depots up and down the country. We have five depots currently in Scotland. We are just in the process of building our sixth depot in Glasgow at Eurocentral. That represents an investment for us of about £4.7 million, so it is a very important market for us.

Fraser MacLean: I am Fraser MacLean. I was previously one of the owners of AJG Parcels, which was the biggest independent parcel operator in Argyll and the Highlands and Islands before being acquired by Menzies Distribution in 2015. Since then, Menzies has acquired various parcel companies in Grampian, Argyll and in the Highlands and we are a neutral consolidator for the national parcel carriers across the Highlands and Islands, Grampian and Argyll.

Q86 **Chair:** As you know, we have been inundated with people who are very upset and quite angered by excessive delivery charges in the Highlands. You are obviously familiar with Citizens Advice Scotland's report, which suggests that up to a million people have been impacted by high delivery charges. Why do we have them, Mr MacLean?

Fraser MacLean: First of all, like Robert I live on the Black Isle in Culbokie with a young family, so the matter is important to me, having to pay them. The cost of delivery in the Highlands is slightly higher than the rest of the UK in terms of the parcel market. We operate a hub and spoke network with 15 depots around the Highlands and Islands. The drop density is less. The stem mileage is more. The population is less.

However, the issue for myself is not that the charges are higher, it is the excessive and quite ridiculous charges that seem to appear on a regular basis that do not bear any resemblance to what companies like ourselves are paid for doing the delivery or, in many cases, what the carriers are paid. They seem to be very arbitrary and without a lot of basis or transparency. It has happened to my own family regularly where you suddenly see £75 given as a delivery charge to the Black Isle. It does not make any sense to me. These are major retailers that it is on behalf of and it does not bear any resemblance to the revenue that companies like ours are paid for fulfilling the task. I know why it is slightly higher based on the cost of delivering in the area, but certainly not some of the nonsense that has been going on for a number of years.

Q87 **Chair:** As a company, you do levy an additional charge for a Highlands postcode?

Fraser MacLean: No, we have various contracts with various retailers and carriers. DPD is one of our current contracts. All the parcels are delivered into our hub in Linwood and we get paid a consignment rate to take them all over the Highlands and Islands from there. We get paid the



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same price for going to Barra as we do for delivering to mainland Inverness, and that is based on a volume basis over a term period that we get. Because we are delivering for DPD, UK Mail, APC, UPS, DHL, TNT, we are consolidating the price. We are providing a consolidated service with an integrated IT solution that gives them their PODs and their tracking information back because we are often delivering high-value items—mobile phones, laptops—that require a signature from the recipient as part of the contractual obligation with the retailer.

Depending on the service—the speed of the service, the time that it is delivered—that will be reflected in the cost. For example, one of our contracts does not arrive in Inverness until 10.30 in the morning. We have to deliver all of that the same day we get it, right up to Dornoch, so to fulfil that contractual obligation is more expensive than consolidating it over the next day and putting a van out with double the volume.

Q88 Chair: Okay. Mr Gordon, why do we have these charges then? You live in the Highlands. Tell us why we have them.

Robert Gordon: I would echo what Fraser said. There are additional costs in terms of operating in the Highlands. Our distance away from the predominant source of the material that we are delivering is one, so getting it into the density area of Inverness. Then you have a more rural delivery profile as well, so vans going out with slightly fewer parcels than you would even in the dense areas of the Inverness and Elgin communities. When we go further north and we go into ferries, we have ferry costs, and then we have an even lower drop density when we go into the Highlands and a timeframe with which to deliver them.

There are lots of restrictions there, but the excessive charging I would say is disproportionate to the actual cost that we are applying to our customers. I was quite pleased because one of my customers, Argos, just echoed that through Yodel we are delivering that service to Orkney and Shetland and we have seen a benefit, so I am pleased to have had that endorsement earlier on today.

It can work. I do think there is a degree of lack of understanding from a lot of retailers about what the opportunities are, where they can maybe go and source alternatives, and better pricing opportunities. I think the consumer needs to become a little bit more aware of that as well. We are trying to market now our own business, ParcelinQ, giving the opportunity for local consumers to sell and buy something through us. So, if you want something picked up in the south of England, we can deliver that.

Q89 Chair: Obviously, you are saying you do not levy excessive charges and I do not think anybody would suggest that you do—we brought you here as three representatives—but you would levy proportionate charges?

Robert Gordon: Correct. There is an increased cost.

Q90 Chair: Could you help this Committee try to understand how you would determine how that charge would be levied? What would be taken into



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account for a charge to be given to somebody to seize a package?

Robert Gordon: It is often depending on the volume of scale that we are getting from individual customers. It is often how customers wish to see that cost back. Often they are looking in terms of an easier financial operating model, so they are saying, "Can you give me one price for covering the Highlands and Islands?" Obviously, there is a higher cost for delivering to Lairg and Durness than there is for Inverness. We have to take that volume matrix, look at the cost per van per route, put that all together and then we come out with a price per parcel and we offer that. It can be disproportionate even within the rural area of Highlands, but the rural Highlands benefit from that, I guess.

Tim Jones: I completely agree with what Robert and Fraser have been telling you. From our point of view as a national carrier, we would deliver directly on behalf of, let's say, retailers—we are mainly talking about e-commerce retailers—ultimately to the end consumer for three areas that we break it down to. We offer a rate to our customers on those bases. One would be—for simplicity, let's call it the mainland UK. The next area would be for the Highlands—and in our instance we give those parcels to Fraser—and then there would be a third rate for deliveries to the Islands. There are three pricing bands that we would offer our customers.

What I would say was touched on earlier on in the first session. As a national carrier we are operating in a very, very competitive and extremely price-sensitive market. The idea that there is some ability to charge significantly higher for Scotland is not true. The other point I would like to make and just re-emphasise is when it comes to the national carriers, the prices that we charge to our retailers are agreed in advance and are well known to the retailers in the three bands that I have spoken about.

Q91 **Chair:** We just heard from Amazon that they do not charge at all. If anything is bought through the Amazon Marketplace there is no charge to the consumer, which surprised the Committee. They are even now prepared to reimburse people who have been charged. Where is this coming from then?

Tim Jones: As I say, in our point of view the prices that we charge for the different areas we have are agreed with the individual retailer in advance.

Q92 **Ross Thomson:** Ofcom has found that the use of third-party delivery companies appears to be a factor in the high delivery costs to remote areas. Do you think this causes disproportionate costs to consumers?

Tim Jones: I do not think in the case of DPD parcels going via Menzies that causes disproportionate costs. There is another factor that we really need to talk about that a lot of people have not touched on today. Everybody has talked about surcharges and prices. Something else that is extremely important to consumers is service. People get annoyed about paying additional charges. They get very annoyed if parcels do not arrive



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when they should do or when they were promised. One of the ways that we service these more remote areas through a third party, in our case Menzies, yes, does lead us to charging our customers, the retailers, a higher price. It is up to them what they charge end consumers. I am confident that we have the best delivery solution to give people in those areas the best service from parcel delivery at this stage.

Fraser MacLean: I disagree with the point because I think in a third-party model there is an assumption made that there is an increment getting added to the cost or that someone else is skimming a bit off the top of it, whereas if you look at what has happened within the parcel market it is very rare that competitors allow collaboration to occur. If DPD is competing head on with another carrier, UK Mail, for example, in the UK, they would have a UK Mail van potentially in Glasgow and a DPD van in Glasgow but both of them allow a Menzies van to drive up to Durness with both their parcels on them. It keeps the cost down for both of those companies. By using third parties, they are all gaining an aggregate reduction in cost as opposed to dealing with one third party who is skimming on top of the rate that they are making.

Tim Jones: From our point of view, we would not be able to service the areas that Fraser services for us cheaper than it is for us to pay him to do it.

Q93 **Ross Thomson:** Just to clarify, Mr MacLean, you said you disagreed with the point there. Does that mean you disagree, therefore, with the findings of Ofcom?

Fraser MacLean: No, the point that was being made implied that the third parties were adding cost into the process, and I think that in this instance with parcels being shared across a third-party carrier for more than one, then what I am saying is that dealing with the third party is reducing the cost to a considerable number of carriers as opposed to increasing it.

Q94 **Ross Thomson:** To touch on something that my colleague Christine Jardine raised earlier in a previous session, it was about the wider relationship with the customer, the retailer and the delivery network, which I think was a really valid point. It is something that we all come across either through our own direct experience or with constituents. Do you think there is more that can be done? Would you agree that there has been a breakdown in that relationship? There are a number of instances that are raised with us on a regular basis whereby, as Christine said, someone has been sitting at home all day to finally get at the bottom of the stairs a ticket stuck through the door saying you have to travel five miles or whatever to now go and collect your parcel.

Fraser MacLean: Our software base integrates with all the carriers. People can go on to our website and see when the parcel has been scanned to van. If they have a tracking number from DPD or UK Mail or UPS, they can see that it is out for delivery. We have developed an ETA



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service in the last year that we are hoping to integrate with all our customers that will allow people to see the expected time of delivery within a four-hour delivery window. Technological advances have helped and I think that we have developed and spent a lot of time and money on it. It is not quite where it is in the rest of the UK. The point is valid that it is not, so there needs to be a further push, which I think will come in the next year. We are certainly pushing our customers to say, "This service is available. Why is it not up and running yet?"

- Q95 **Deidre Brock:** You have been sitting through all the evidence and you have heard quite a lot of talk about the discrepancies in charges in postcodes. Could you comment on that and what you are doing to address it? You mentioned, I think, consolidation of pricing and that is your approach to it. You mentioned a matrix that you use in terms of where the trucks are heading and what you have put on it and the sheer amount that you have put on to your trucks.

Fraser MacLean: I think it has been touched on that there is a bit of a postcode lottery. The KW postcode is obviously an issue. I have been involved in this process for a number of years and some of the retailers had the postcodes turned off. I think Toys R Us were one that did not even deliver to KW.

- Q96 **Deidre Brock:** Turned off?

Fraser MacLean: During the various things that have been done with the process through the Scottish Parliament, et cetera, that was highlighted and they made sure that that was reactivated and people could order.

It really is up to the retailers and how they manage the postcodes for delivery, but from our point of view we have depots in all the different areas we deliver in with local delivery drivers who know where they are going. The idea of that local person that knows how to find the place, knows how to do the delivery, is very important in making sure that the delivery is successful first time because with companies like DPD, who have a high service level, we have to provide them with that service on a daily basis.

- Q97 **Deidre Brock:** I see. Mr Gordon?

Robert Gordon: The postcodes are very specific to the client that we are working with and often the way they want to see the prices submitted to them. Across our two businesses, our ParcelinQ business is more partial to the final end user, internet, online shopping, and the JBT business is delivering a larger volume product, more palletised freight. With that, we are through a pallet network, and with a pallet network business you have regional members spread across the whole of the company tying into a hub. Those regional members have that local expertise and that drives down a bit of the cost.



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It also has created a proper banding structure across the whole of the UK so that you have different charges in the Highlands as you do to London. London is becoming significantly more expensive to deliver into for a larger product through movement of HGV vehicles and is going to become an increasing issue going forward. There are very much geographical issues across the whole of the country and it is very much dependent on the client that we are talking to and how they want to see that presented.

Q98 **Deidre Brock:** What is DPD doing to address this?

Tim Jones: Again, it is very clear to the retailers that we carry on behalf of which postcodes that we deliver to fall into, again for simplicity, our mainland UK addresses. They are aware of that and they are aware of the price. For areas that are covered by our third parties, which again for simplicity are the Highlands and Islands, they are publicised. They know which those postcodes are. The separate rates are agreed for all those postcodes.

Q99 **Deidre Brock:** If you felt that someone was overcharging in the instances that we have spoken of where a single postcode covers a wide variety, including particularly remote areas, would you step in, or what actions would you take?

Tim Jones: We would be talking about our customer in that instance, so obviously we are providing a service. We have an agreed rate that we provide to them. We could see perhaps the retailer charging online for delivery to separate areas, but that is a relationship between them and their customer, the online purchaser. It is not something that DPD is directly involved in.

Q100 **Chair:** Could I try to better understand how all this happens? I am a consumer. I go online. I want to buy that very nice tie that Mr Jones has. I may be living in Caithness, for example, and I see that that very nice tie is £24 and I am told, because it is maybe through Amazon Marketplace, that there are no online delivery charges for me to secure this product. Then all of a sudden you are saying that to get it there it requires an additional charge for your company to deliver this. How does all this work? How the relationship works with the marketplace is what I am trying to get at here. If there is a guarantee for a free online delivery and then there is a delivery charge factored in, how does this work?

Tim Jones: Marketplace would not be something that DPD is servicing. Let us take Amazon. If we took an item that Amazon was selling, or any other retailer, let's say it was this tie as a good example, what happens is we would already have agreed rates with that retailer of the tie in this instance and we would agree three rates with them, essentially. Again, it is simplifying it slightly, but mainland UK, Highlands, and Islands. They would know, if they were shipping a parcel to those three zones, what they would pay us. That would be basically put together and negotiated by them.



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Someone mentioned earlier that the retailers are very good at driving a hard bargain. I can absolutely assure you that they are and that we are operating in a very, very competitive market. You have to be keen on the prices and make sure you have the right price, but the retailers then would take that delivery charge. There are a number of different ways they do it. Many retailers—you talked about multiple purchases—will offer a basket value and after the basket value is hit will give free delivery. They will then take the full cost from us into that sale. Other retailers will add a percentage of retail—

Q101 **Chair:** The retailer sets the delivery charge? That is their responsibility?

Tim Jones: Yes, to the consumer, absolutely. We do not ever interact pricewise with the consumer. We do not charge consumers anything. This would be our point. We work with the retailers. We agree a price with those retailers in advance before they start shipping with us. There is no surprise in terms of what our price to them for going to the Highlands would be.

Q102 **Chair:** The way this works as a business, then, is that the price of that delivery charge is factored into the product that the consumer would then secure and your fee as the delivery operator is agreed by the retailer? Is that roughly right?

Tim Jones: Yes, the retailer has agreed with us what they will pay us for deliveries to mainland UK, what they will pay us for deliveries into the Highlands, what they will pay us for deliveries into the Islands. What they then charge consumers is entirely a matter between the retailer and the consumer who purchases from them. We would not have any interaction on the pricing with the consumer.

Q103 **Chair:** As we heard from Amazon, they have this commitment that there is no charging for mainland UK. You do not get anything then, is that how that works?

Tim Jones: Again, just to be clear, in our dealings with Amazon, as I say, we have three prices. I should not just pick on Amazon; on any retailer we would have three pricing zones for them. What they then charge the consumer is entirely a matter between them and the consumer.

Q104 **Chair:** That is roughly the same with your models?

Robert Gordon: I think what you are saying absolutely typifies the problem for the consumer. There is advertised free delivery. You will have some surcharges that people get told about as well. People do not know. People have a difficulty equating a value to the cost of transport and the cost of delivery. If you do not understand what that cost might be, it is just a number. How do you know whether that is a fair number or not? I think that is the challenge. The end consumer when they are buying something, maybe not from some of the bigger retailers but on a smaller scale, has no ability to conceptualise whether that is a fair price or not.



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Fraser MacLean: Just to highlight Robert's point, if we take a good example of someone living in Caithness and how that parcel would get there and the costs associated with it getting there, DPD would collect it from the retailer in the Midlands or somewhere like that and take it into their hub. It would be processed through their hub and scanned before it left the hub. It would make its way up the M6. If it were coming to our hub in Linwood, we would scan it into Linwood. It would then go up the A9 in one of our vehicles, get into Inverness, be scanned in Inverness, go up to the depot in Thurso, be scanned in the depot in Thurso, and then go out on a delivery van from Thurso to the end recipient, the person in Caithness. That hopefully explains the journey and the costs associated: the overhead in Linwood, overhead in Inverness, overhead in Thurso, and final mile delivery van and employed driver in Thurso doing the delivery.

Q105 **Ged Killen:** Perhaps it is commercially sensitive, but is it an option for you to clearly set out what it costs you to deliver to these parts of Scotland so that people can clearly see a difference if they are being charged more by the retailer as opposed to what you are being paid to deliver that item to them?

Fraser MacLean: It is too commercially sensitive to go into the individual part of it because I have 13 carriers that I deal with. They are all on different rates on their volume and size and timing and service level that they have. Certainly, from my own point of view I know roughly what it costs in each area to deliver to. It is just very difficult to make that information available to anybody because it is made up of 13 different parts, volumes, timings, overheads, costs. It can be broken down into sortation cost, line haul, final mile. There are various bits that make it up.

I am not really answering your question but it is very difficult to make that available with competition in the market. Someone would say, "Why am I paying that and he is paying this?", in terms of the big carrier contracts.

Tim Jones: I could perhaps give some stats that might help explain that again. Clearly, commercial sensitivity does not allow us to talk individual price, but to give you an idea we have talked a lot about volume, and drop density is a term that many of you now have learnt. To give you an idea for the volumes that we take to Scotland every day, we have the same number in Aberdeen city centre that we give to Menzies for the whole of the Highlands, the same number for one city centre as the whole of the Highlands. We have 10 times that number going into Glasgow, which we deliver ourselves through our own depot network. When you start to understand the huge difference in the geographical area and the number of parcels, you can understand why prices are different into those areas for us. It would come down to the best price we can negotiate with third parties to deliver into the Highlands.

It is true to say that both these gentlemen have competitors, so we do have other companies operating in the Highlands and Islands and we do



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frequently review our arrangements to make sure that we are getting the best possible price from the third party for delivery into those areas.

- Q106 **Ged Killen:** I just think that it feels to the consumer there is a real lack of transparency because they are not getting to see the actual cost of what that product costs to get to them. There is a transaction that takes place in the background between you and the retailer, we have heard, and then the consumer just has to take whatever. There is no competition that they can choose and there is no clarity for them. If there is any mechanism, perhaps on the website a maximum cost or something that you could say that it is not going to exceed—

Fraser MacLean: They can choose to do the delivery themselves. They do have the option to organise a collection from the customer via a third-party website to say, "Okay, I am not prepared to take the charges. I will book the collection and get it delivered to myself". There are options. We have our own website that does that. There is Parcel2Go, which is a price comparison site. There are websites that you can go on and say, "I am not accepting the delivery charge. I will organise the delivery myself".

- Q107 **Christine Jardine:** It was just something you said. You used the examples of Aberdeen, the Highlands and Glasgow. As someone who has lived in Aberdeen and in the Highlands and Glasgow, perhaps you could understand why I might find it a little galling, and other people might, that the same product would cost me something different living in each of those three places. Is there not some mechanism whereby you could level out the cost so that it was factored in at the very beginning that you were only going to have 10 deliveries in the Highlands, 20 deliveries in Aberdeen and 100 in Glasgow, that the cost was spread over the whole of your network rather than focused on the Highlands or Aberdeen?

Tim Jones: Again, from our point of view, where we have delivery operations and where we have a depot in Aberdeen, we are able to keep control of those costs. That is down to us then and we are able to offer the retailers, who again would offer the final price to the consumer, costs that we are in control of and base our pricing on that. Where we do not have operations, and we do not have operations in the Highlands and Islands, we are dependent on a third party and our ability to negotiate the best price with them. That is why our customers would see different charges from us for those different zones and in turn why consumers might see different prices from some retailers. Other retailers may not charge surcharges, as we have heard from some of them this morning.

- Q108 **Christine Jardine:** What I am saying, though, is when I lived in Glasgow if I had had the choice of free delivery or £2.50 so that when I lived in the Highlands I did not have to pay £5, I might have been happy to pay the £2.50 in Glasgow or in Aberdeen so that you had the one cost and that you spread your costs over the delivery bases, and I did not get it free if I was prepared to live in Glasgow but have to pay £5 if I lived in the Highlands.



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Tim Jones: One of the ways we can address some of these frustrations is to work with retailers on—and I do not want to use industry jargon—things like a blended rate. That would mean that they would negotiate with us exactly what you talked about, one price for everywhere. There is a limited appetite for that among the retailers that we deal with. We do have one customer that we have that arrangement with and in that instance we charge them the same price regardless. That does, of course, mean that they pay slightly more for the rest of the UK, or I have used this term “mainland UK” just to keep it simple for the point. To do what you were talking about, we would need to negotiate more blended rates with more retailers. We have found there to be little appetite or interest in that, to be brutally honest with you.

I am looking at other ways. We have been working with Citizens Advice Scotland and engaging with them fully to look at this issue. As I said at the start, Scotland is an important market. We do not in any way want to be seen to be penalising or taking advantage—certainly not—of anyone in Scotland, so we have been actively engaged in this. I think some of the solutions that hopefully we can all work towards are towards these pick-up/drop-off networks, which is increasingly becoming an important part of the market in the rest of the UK. There is an increasing amount of acceptance that this is a good alternative. You have to give consumers choice I think is the point. With the pick-up and drop-off network, as Sainsbury’s said, you are able to have sites that are agnostic: a Sainsbury’s store, for example, in mainland UK is able to receive parcels from ourselves and other parcel operators as well, which again gives a lot more choice to consumers and because they are based out are far more accessible for people. As you say, you do not want to be driving 50 miles for a parcel you expected to deliver at home.

What else is really interesting is the possibility of using the post office network. That is currently closed to all other bodies and that is really the densest and most easily recognisable network up and down the country. I mean the whole of the country in that sense.

Q109 **Christine Jardine:** It is interesting that you talk about the pick-up and drop-off locations. You deal with Sainsbury’s or, I don’t know, Tesco?

Tim Jones: Not Tesco for our own network at this stage but it expands all the time.

Q110 **Christine Jardine:** Would you investigate which companies were the most appropriate to do deals with in, say, the Highlands? Because I think you might find that—I will stand corrected by some of my colleagues—if you had to pick up a parcel from Sainsbury’s in the Highlands you would maybe have to drive to Perth.

Tim Jones: That would be a long way, yes.

Q111 **Christine Jardine:** Yes, so that does not really solve the problem. Perhaps the post office, as you say, is better or maybe if there was some



way of finding the appropriate customer for an area like Caithness?

Tim Jones: One idea that we have found to be very successful in our own pick-up network is pharmacies. A lot of people do have a pharmacy nearby. There are independent, smaller pharmacies. There are big chain pharmacies. A pharmacy does provide a great pick-up experience. It is a nicer environment typically than perhaps going to a lock-up or a petrol station. As you say, if we are talking about major supermarkets, I am sure their density decreases in the more remote rural areas as well. We think pharmacies—that type of business—are a great way to do that.

We will keep looking into that. As I say, we are absolutely not in the business of not wanting to serve Scotland. I talked about our investments in some of the other areas in Scotland and I think the pick-up/drop-off network is a definite part of the longer-term solution.

Q112 **Christine Jardine:** But you are thinking about the post office? Particularly in rural areas, the thing you will find most commonly is a sub-post office.

Tim Jones: I absolutely agree with you and if it were open to carriers I can confidently tell you there would be interest and appetite from carriers to access those drop-off points.

Q113 **Deidre Brock:** Although, of course, you are in competition with the post office, really, aren't you? The post office has a universal service obligation that private carriers do not have.

I just wanted to pick up on something you said, Mr Jones, with regard to the blended prices and that solution not apparently being popular with your retailer customers. It seems to me to suggest that they are, in effect, more concerned in keeping costs down in the rest of the UK than providing a fairer solution for Scotland. Would that be your take on it? What would you say in regard to that?

Tim Jones: No, it would not be my take on it. Often with blended rates it is retailers coming to us to discuss that matter rather than something that we proactively sell. I come back to the fact that we are in a highly competitive and price-sensitive market. There are a lot of national carriers operating, some with different ways of operating. Every time we go into a negotiation with a retailer, they are holding the whip hand in that they have the volume to carry; we want to carry that volume for them. What we will do is agree with them in advance what those rates are, as I say, simplistically for mainland UK, for the Highlands and for the Islands. It is an individual negotiation of contracts with each retailer that we go and see. As the provider of this service, we have to respond, essentially, to what the retailer wants from us.

Q114 **Chair:** That strikes me as just being maybe slightly unfair. I represent a semi-Highland constituency. I have Highland Perthshire, for example, so I have places like Pitlochry, Aberfeldy, right out to Glen Lyon. None of the PH postcodes in my constituency are in any of the Highland areas, but



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Glen Lyon, for example, is much more remote than Inverness or Fort William, which is easily accessible. My constituents, thank goodness, will not be hit by any of your appropriate charges for this, but that hard border of a postcode means if you are beyond that you will be hit for that. Surely there must be some sort of case for a blending or a massaging of what are quite hard postcode borders, to use a common term that we have just now. Is there not a sense that we should be looking at distance just now?

Tim Jones: Absolutely I think we need to look at this on a number of measures, but again under the current arrangements that we have the postcodes that we cover through our own operations and those that are covered through third-party suppliers are clearly agreed between us and any retailers we enter into a contract with. They are aware of the differences in the costs from us to those three areas.

I do think, though, to pick up your point, yes, there are a number of options that are now being considered. The other point as well is that there were comments earlier on that the whole e-commerce sector is very well established in the UK. It is by no means a mature market. This is an embryonic market. It is changing year by year. Factors like Black Friday, Cyber Monday, peaks that we now get and how they impact the whole e-commerce market are very interesting. The situation will change and as we have more volume overall we will have more options to provide more solutions.

Q115 **Hugh Gaffney:** This brings us back to the Royal Mail USO service six days a week. A lot of competitors do not do that. Maybe you bank it. DPD collect it, then you give it to the carrier who is up in the Highlands and Islands, for argument's sake, and maybe you will take it, but you do not do the final mile. Do you do it to remote places like the farmers and all the rest of it?

Fraser MacLean: We have to deliver everywhere otherwise we are fined, and the fines we get from most of the carriers are over double the rate we get for delivery. Once we get the parcel, the clock starts ticking and if we do not deliver it within an agreed timescale—which means we have to go everywhere every day.

Q116 **Hugh Gaffney:** Which then brings it back to the reason why you do a cluster because that covers the cost. I have seen it. You travel 30 miles for one wee parcel that is worth a fiver. That is a lot of cost and that is the problem. That is basically the nub of the whole problem we have here. It is all about the mileage you do to deliver that one parcel. Royal Mail do do that and we did have a post office network in every remote place. An ideal solution for the last question to you, how we can share that, is basically it is the drop-off point. You are talking about the pharmacies, the garages, the local shop, but that then means the customer has to come and pick up the parcel. They have to do the final mile. It is the opposite effect. If we end up doing that, the price of staying in a remote place is you will need to come and pick up your mail,



but there would need to be a massive drop in the surcharges I think to do that because that takes away the final mile.

Fraser MacLean: Yes, I think you are right. The difficulty as well with a volume increase is we now have four vans on Mull every day. One of the vans goes to Iona on a Tuesday and a Thursday, so when the volume gets to a certain point you have to put another vehicle on to go on to the island and the cost then becomes—you never have that sweet spot that you are always at.

I think you are right. The biggest challenge is that there is no high street and there are no shops in a lot of the Highlands and Islands and the online retail is the only opportunity that people have of getting certain goods delivered to them. The neutral consolidation model that has been in place for a number of years with integrated IT technology is keeping the cost down. I think the options elsewhere in the UK around lockers, Click and Collect and other things just are not there at the moment in Argyll and the Highlands and we need to try to find a way of introducing that.

Q117 **Hugh Gaffney:** That is why I say Royal Mail was not for sale or gain, but Royal Mail had the one price fits all. It did not matter where you stayed. The difference between Royal Mail and, for those who did not know, Parcelforce is like DPD—it is a UK express. You want your item within 24 hours or 48 hours, you cannot get 24 hours anyway with most of them. It is mostly 48 hours in these places we are talking about because you end up banking it. There is no point taking 10 parcels out when the next day you are going to be in the same area so you can take 20 or 30 parcels out to cover your costs. That is why you cannot really get a good service.

Fraser MacLean: But we have to take it out. That is part of the deal. We have to go everywhere every day even if we only have—

Q118 **Hugh Gaffney:** Then you have a cluster of different companies who can maybe help you reduce your costs. DPD and Parcelforce would struggle to do that every day.

Fraser MacLean: We do it for DPD in Argyll and Highlands. We do it for Parcelforce with certain items the post office will not take, the oversized and the heavy items. We consolidate for just about everybody.

Q119 **Hugh Gaffney:** The last question is: you are doing that just now, you are sharing that business interest?

Fraser MacLean: Yes, and part of the issue is we have a slightly different model. A lot of the UK parcel market is owner-drivers—self-employed, gig economy—whereas our business is full employment, with national insurance and a pension. We have a fully employed model, which we have always had in the Highlands because it is just a different working environment.

Q120 **Hugh Gaffney:** They have put the onus back on owner-drivers who are



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on low pay, some of them, because—I will not go there, that is a different chapter.

Fraser MacLean: No, it is a very valid point in terms of the cost differential that we do not operate that model. That model I do not think is the right model. That is a personal opinion, but particularly for the Highlands and Islands I think that that is not a model that works. It works everywhere else in the UK.

Q121 **Chair:** I think there was a very good point emerging from Mr Gaffney's questions there. This is the expectation across the United Kingdom with the experience of the universal service obligation. It is something that everybody understands and respects and you know you have an equity of service across the UK. I think there is an emerging view that this should apply to online retail. Where we are just now we do not have that and for some reason it is not applying to the Highlands of Scotland and the Islands of Scotland. They are paying a premium to access the retail marketplace.

We have sat through three sessions here and I am looking around my colleagues. I am still not clear about how we have got to this situation. I am getting the sense that this is set by retail and you guys are there and this is factored into the retail charges. I think we are going to have to, as a Committee, start to explore a wee bit more about what is happening here because a lot of this is unsatisfactory. What we are sat with is constituents of several of us around this table being hit by a premium because of where they live in an online marketplace that they should have equal access to and expect the same level of service from. I am not saying it is anything to do with you guys because you have your own costs and you have explained that perfectly today, but I think we have a job as a Committee to try to better understand a little bit about how all this is happening and why certain parts of Scotland are being hit.

I do not know if you have any great brainwave that could help us resolve this dilemma. Is there anything that you could suggest so we can get this equity across the UK when it comes to accessing the online market? Mr Jones, you have lots to say. What do you have to say about this?

Tim Jones: You have covered a lot of them already. I do think that the pick-up/drop-off network is definitely part of the future answer. I am with you. The more parcels going into Scotland the better for us. One of the ways to get more parcels going into Scotland is to obviously get rid of some of these charges. If you are able to find ways of retailers charging less, then, of course, that is good for carriers, so we would roundly support the work you are doing.

Robert Gordon: There are lots of good and bad practices and I think it is changing. We are seeing online sales increasing so people are gaining more confidence with online purchasing, but there are still a number of retailers there that put a charge out because they are possibly not testing the market properly in terms of the potential carriers that are out there and they are sticking with what they know and what they have had and



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what has been tried and tested for them in the past. Maybe the Highlands will not be their core business, let's be honest. It is a small, small proportion, so if they have negotiated a good rate in their core area, they maybe just see themselves as providing a service to the Highlands and in actual fact if they went and negotiated a price properly with someone they would be able to do it and maybe increase their sales. There is an opportunity there for the retailers.

Fraser MacLean: One of the frustrating things, living there, has been when you get this arbitrary massive amount and it is always over £50, £70 excess. You just do not know where that number came from. I think the average price in the last Citizens Advice report was £5.10 or something for the UK that people would pay, so if you put a little bit on top of that and said, "Well, it is a little bit more", you would still be under £10 for the Highlands and Islands and Argyll. When you get hit with £50, £60, £70 you think, "Where did that number come from?" What we should always be doing is going back to the retailer and saying, "Where did you get that number from? Can you show us how you arrived at £75?", because I know what we get paid for delivering it. The carriers will know what the charge is, so where did that number come from? I think that is the key, because there have been a lot of high-profile people that have come to myself and Robert and Richard, who we have spoken about, who has had this campaign with people who have been highlighting individual examples. It would be to go back individually and say, "Break that down for us. Where did that number come from?"

Chair: Okay. On that very thoughtful ending, we will maybe just leave it there. Thank you for your attendance today. If there is anything else that you could suggest or help this Committee with, we are more than happy to take any correspondence from you. Thank you for today's session.