CWU- Additional context for a network fund

To be clear, the commercial agreements between Royal Mail and parcel courier companies provide for the delivery of these products. However, the commercial environment in which these agreements have been made must be considered.

Firstly, the areas in which most parcel couriers choose to use Royal Mail's services to deliver their products (i.e. parts of Cornwall, Isle of Wight, Highlands and Islands) are the most expensive and hard to reach areas of the country.

It needs to be made clear that Royal Mail makes a significant loss on products delivered through the universal network to these areas. For example, a first-class letter posted from Lands End to John o Groats costs approximately **£30** to deliver. The cost of a first-class stamp is £1.80. **Royal Mail subsidises this cost by delivering parcels to these areas, both their own products and those of other couriers but the pricing structure is nowhere near enough to cover the losses.**

The Committee may naturally then ask why the commercial agreements do not reflect the cost of delivering to these areas. The truth is that Royal Mail does not have the commercial resilience or negotiating power against companies like Amazon, who are worth over $2 trillion globally, with a UK revenue of £29bn- it would be ludicrous for Ofcom to suggest that it does. Put simply, Royal Mail would be at risk of jeopardising other more beneficial commercial arrangements with these companies if they were to introduce a pricing structure reflective of costs. In fact, it is more likely that less areas of the UK would even be able to receive products from these companies if Royal Mail did not deliver them. Amazon will simply not invest millions in their infrastructure in places like rural Scotland where profits are almost negligible.

The Committee may then also ask why Royal Mail chooses to deliver these products at all. The stark reality is that they do not have a choice. Couriers like Evri and Amazon are able to undercut Royal Mail on pricing and therefore, have captured more parcel market share in recent years despite their poorer delivery services. This is due to their utilisation of bogus self-employment (another significant abuse of the UK's employment status system which the union has been campaigning on for years) and their cross-subsidisation from global streams of revenue.

Royal Mail is the only postal provider charged with providing a daily service to these parts of the country that are severely loss-making to deliver to, for a uniform price and service. **Therefore, Royal Mail has no commercial freedom, no choice but to accept business from companies like Amazon** to partially subsidise these losses, though the pricing structure does not reflect the cost of maintaining such a vast network.

Again, we must emphasise to the Committee that, as the universal service provider, Royal Mail is mandated to make letter deliveries across 32 million addresses each applicable day, regardless of whether additional parcel traffic can somewhat mitigate the costs of this delivery. As costs of maintaining the network increase (rapid rises in energy costs/fuel etc) and letter decline continues, **the company no longer has the economies of scale advantage of previous years where letter volumes were high.**

These delivery costs are becoming more unmanageable, at a more rapid pace. The letter posted from Lands End to John o Groats will soon cost £35 to deliver and **yet the commercial agreements do not allow for a consistent contribution to these running costs** nor does Royal Mail have a choice in making the delivery in the first place as they must pay for infrastructure to deliver the letters.

This is a huge factor in the **'perfect storm' of poor regulation** which will eventually drive the company into the ground. Royal Mail may be a privatised company but its network is inherently inflexible and cannot benefit from market fluctuation or the complexities of delivering in the 21st century.

The CWU is clear that we are committed to protecting the universality of the network and the ability for our members to deliver everywhere from cities to islands around the country. However, since privatisation, the regulator and successive Governments have ignored the clear imbalance in the structure of our postal service and its unique mission.

A government subsidy has been raised previously as an option of stabilising network costs. Though the union's position is for Royal Mail to be renationalised, we do not believe that (under any form of ownership) that **customers or taxpayers should have to compensate for global conglomerates' market manipulation** in this regard. A network fund is clearly the fairer and more sustainable option, compared to a subsidy.

Ofcom must accept the commercial reality and develop a fair system for network maintenance that is forward-thinking and understands the dynamics of the current market as impacted by letter decline and soaring costs. If not, lip service is being paid to the commitment to fair competition and a decent service in the sector.