Commission for
Communications Regulation

An Post’s losses on international inbound mail in the universal postal service

Information Notice

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Additional Information

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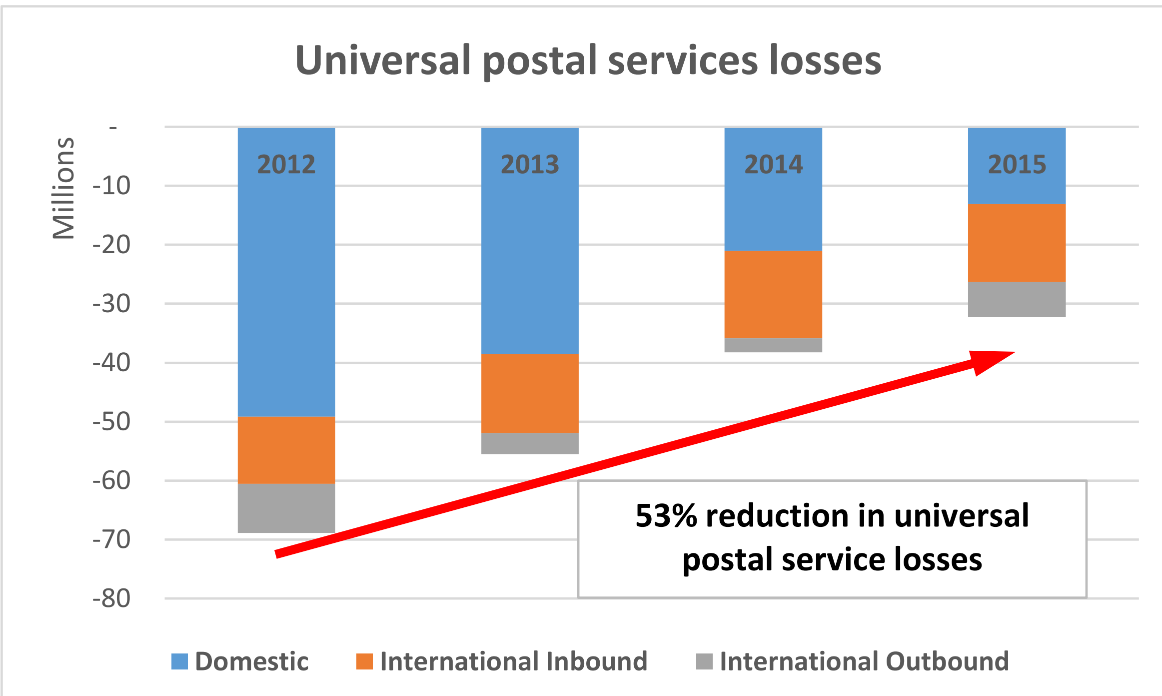
Background

1. The overarching remit of the Commission for Communications Regulation ("ComReg") in the postal sector is to ensure the provision of an affordable universal postal service that meets the reasonable needs of all postal service users. In 2014, and in line with legislation[1], ComReg put a 5-year price cap in place for certain universal postal services[2] provided by An Post, the designated universal postal service provider ("USP"). The price cap, in addition to ComReg's consent to price increases in 2013, appears to have resulted in significantly reduced losses on the universal postal service and it should, in due course, return those universal postal services which are subject to the price cap to profitability[3].



[1] The price cap was required by legislation - Communications Regulation (Postal Services) Act 2011 ("2011 Act").
[2] The universal postal services subject to the price cap are those for which the USP sets the price, for example, stamped letters sent for delivery in Ireland.
[3] c. €58 million profit over the 5-year period of the price cap dependent on actual volume decline being less than or equal to the forecast volume decline (as factored into the price cap decision) and the USP meeting or exceeding its year-on-year efficiency targets of 2% per annum (as factored into the price cap decision and as required by legislation).

2. However, An Post continues to incur significant losses in its universal postal services for international inbound mail[4], accounting for almost 40% of its total losses in providing the universal postal service. The delivery of international inbound mail into Ireland is an obligation under the Universal Postal Union ("UPU")[5] agreement, to which Ireland is party. Ireland is different to most countries in that it is a net importer of mail - more mail comes into Ireland than goes out. That being the case, it is particularly important for An Post to cover its costs on inbound mail, because any losses cannot be offset by gains on outbound mail.

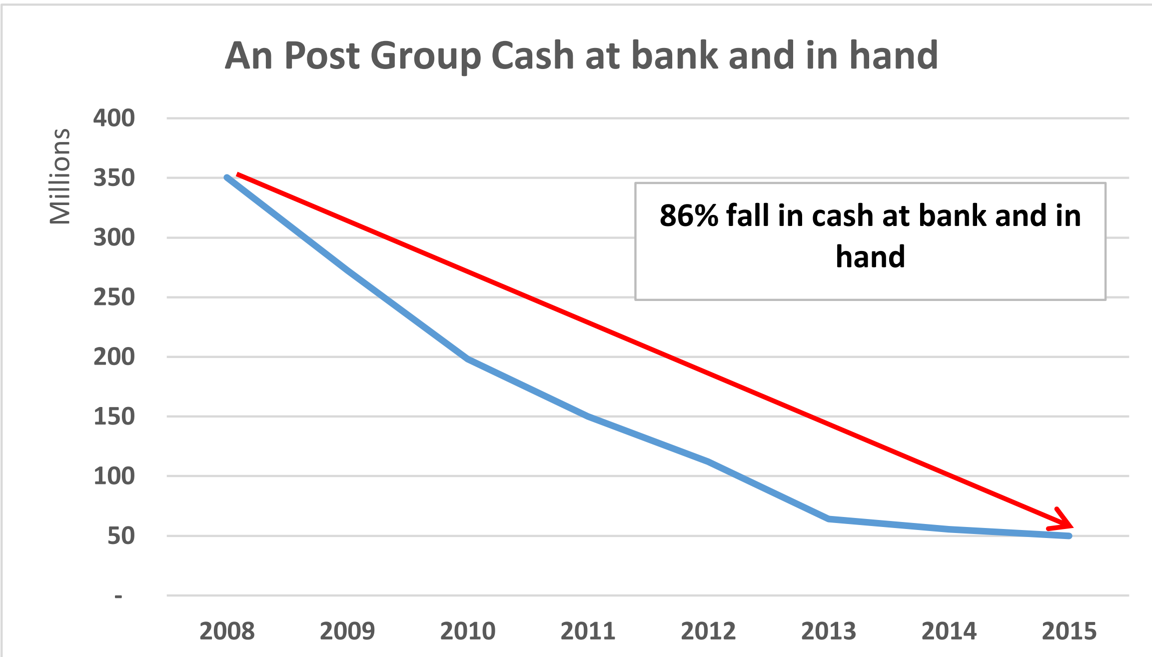
3. An Post states that its yearly losses on processing and delivering international inbound mail in the universal postal service are as follows[6]:

Year ending	€m loss
2011	-€14.6m
2012	-€11.4m
2013	-€13.4m
2014	-€14.8m
2015	-€13.2m

[4] This is mail posted in other countries for delivery by An Post in Ireland.
[5] The system of terminal dues covering most countries in the world is Universal Postal Union ("UPU"), which includes 192 designated operator signatories. The UPU Treaty, of which An Post is a signatory, requires An Post to deliver all international inbound mail items.
[6] Source: Summary Regulatory Financial Statements @ http://www.anpost.ie/AnPost/MainContent/About+An+Post/Annual+Reports/about-annualreports.htm

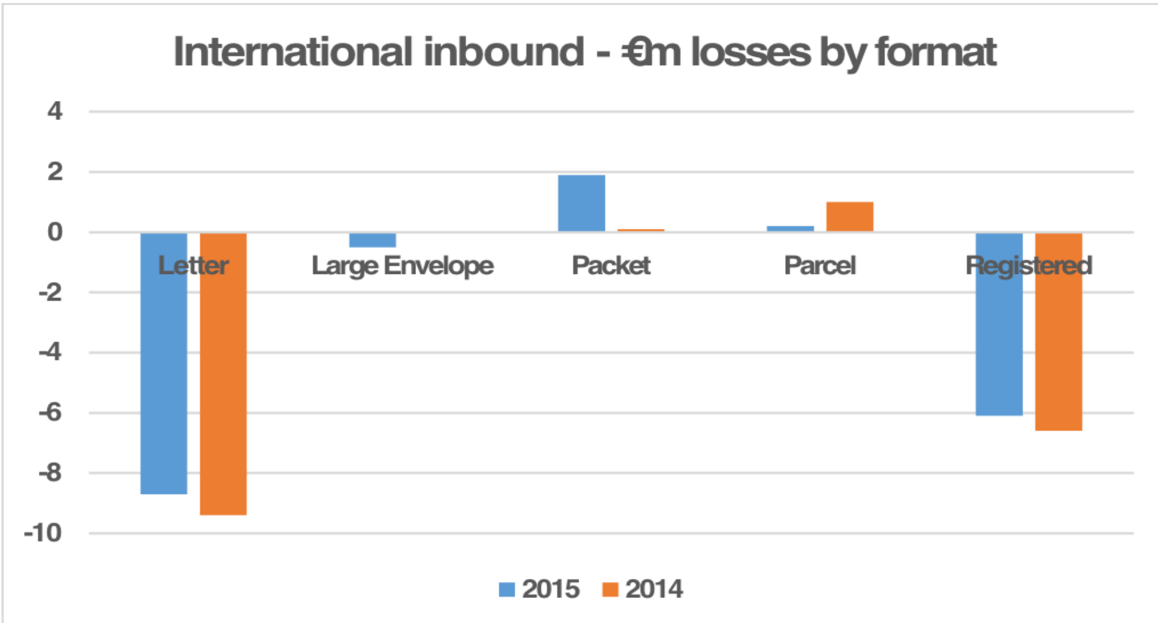
4. International inbound mail is not subject to any price cap control. Instead, prices for international inbound mail are set by "terminal dues" agreements. Such agreements should cover the cost to An Post of processing and delivering international inbound mail, upon its arrival in Ireland and into Irish postal service users' hands. In particular, Irish legislation[7] requires An Post to cover its costs in processing and delivering mail from other EU states.

5. The impact of An Post's losses on international inbound on its ability to provide the universal postal service is of further concern given its liquidity position[8]. An Post's company cash at bank and in hand has steadily fallen by c. €300m over the past 7 years (from c. €350 million at end 2008 to c. €50m at the end of 2015[9]).



[7] s.29 of the 2011 Act.
[8] See ComReg Documents Nos. 15/135, 14/59, 13/21, 12/138.
[9] Source: An Post's audited Annual Reports @ http://www.anpost.ie/AnPost/MainContent/About+An+Post/Annual+Reports/about-annualreports.htm

6. According to An Post[10], its losses on international inbound mail are mainly on letters (c. €8.7m at end 2015) and registered letters (c. €6.1m at end 2015). International inbound packets (small parcels) and parcels appear to be profitable. In 2015, a significant profit (almost €2m) was made on the international inbound packets. The break-out of losses on international inbound mail, by format, is as follows[10]:



Review

7. ComReg commissioned Frontier Economics to review An Post's terminal dues agreements against the three criteria set out in section 29 of the 2011 Act which require an assessment as to whether:

    a. An Post's terminal dues are fixed in relation to the costs of processing and delivering incoming cross-border mail;

    b. Levels of remuneration related to the quality of service are achieved; and

    c. An Post's terminal dues are transparent and non-discriminatory.

[10] Source: An Post's Regulatory Financial Statements @ http://www.anpostmedia.com/Media/An_Post_2015_Regulatory_Accounts%20_Summary%202015.pdf

A redacted extract[11] of Frontier Economics' report is published as ComReg Document No. 16/53a.

8. The conclusions of Frontier Economics, which ComReg concurs with, are set out below.

Conclusions

9. An Post's[10] losses in the international inbound segment of the universal postal service account for almost 40% of its total losses in providing the universal postal service.

10. The impact of losses in the provision of any universal postal service on An Post's delivery of the universal postal service is of even greater concern given An Post's overall financial and liquidity position.

11. An Post's losses in international inbound mail (primarily in letters and registered items and not in packets and parcels) will continue unless:

    - action is taken in upcoming negotiations on new terminal dues multi-lateral agreements to increase revenues. There may be a role for the State in these multi-lateral negotiations.

    - action is taken by An Post to reduce its costs to an efficient level[12].

12. An Post's ability to negotiate increased terminal dues tariffs is limited. The UPU provides for what are essentially default terminal dues rates which apply in the absence of any individual agreements between postal operators (multilateral or bilateral). However, the default UPU rates are already lower than the rates under REIMS or under any bilateral agreement to which An Post is party. Because the default UPU rates do not reflect An Post's actual costs, it may be difficult for An Post to negotiate increased rates, under REIMS or bilateral agreements, which would cover its actual costs.

[11] Frontier Economics' full report cannot be published as it contains confidential information provided by An Post.
[12] ComReg, in its 2014 price cap decision, noted that An Post, based on internal benchmarking, was up to 22% inefficient.

13. Additionally, the multilateral terminal dues agreement known as REIMS[13] limits terminal dues rate increases. Under REIMS, terminal dues rates can only be increased by a small percentage amount, per annum. This is important as An Post's domestic prices increased significantly in July 2014 (c.13% on stamped letter) and by more than the maximum % under REIMS. As a result of the maximum increase allowed to terminal dues rates under REIMS, it will take quite a number of years for all of that domestic price increase to be fully reflected in higher terminal dues rates under REIMS. Moreover, there are no equivalent automatic price adjustment mechanisms in any of the bilateral agreements negotiated by An Post.

14. Nevertheless, ComReg considers that some action can be taken by An Post and the State in the upcoming terminal dues negotiations, with the aim of ameliorating losses in international inbound mail:

    - **UPU**: The UPU agreement is an important factor in An Post's losses on international inbound mail as it provides for what are essentially default terminal dues rates which apply in the absence of any individual agreements between postal operators (multilateral or bilateral). The current UPU agreement on terminal dues expires at the end of 2017. Because this is a Treaty-level agreement, there is a role for the State to negotiate increased UPU rates which would reflect An Post's actual costs. The next round of negotiation will occur at the UPU Congress in Istanbul, in September 2016.
    - **European agreement**: Upcoming European negotiations are likely to focus on the Interconnect (eCIP) agreement which will replace to REIMS. An Post advises that these negotiations are likely to conclude within the next two years. Effective representation of the State's interests at these negotiations will be important.

      REIMS currently allows for only a small per annum terminal dues rate increase. This is impacting An Post because it will take several years for the large increase in the price of domestic stamps in 2014 (c.13%) to flow through to terminal dues rates, set under REIMS. Negotiation in relation to REIMS or eCIP to remove this maximum per annum terminal dues rate increase would make a difference to the economics of An Post's inbound international mail delivery service.
    - **Bi-lateral:** An Post is currently in bilateral negotiations with the operator that accounts for most of Ireland's international inbound mail. The rates which An Post has negotiated thus far are insufficient to meet its costs.

[13] Remuneration for Exchanges of International Mails ("REIMS").

ComReg will ask An Post to share the outcome of the bilateral negotiations, so that ComReg can monitor An Post's compliance with the 2011 Act which requires An Post to cover its costs in processing and delivering international inbound mail within the universal postal service from other EU Member States.

15. An Post could become more efficient in its costs. ComReg, in its 2014 price cap decision, noted that An Post, based on internal benchmarking, was up to 22% inefficient[14]. If An Post becomes more efficient then its cost base should reduce, thereby reducing its losses on international inbound mail.

Next steps

16. ComReg will:

- continue to review An Post’s terminal dues agreements against section 29 of the 2011 Act (including that it will ask An Post to share the final outcome of its bilateral negotiations);
- engage with the Department of Communications, Energy and Natural Resources about how the State’s interests might be best represented at upcoming terminal dues multi-lateral negotiations;
- monitor An Post’s performance against the efficiency target set by the 2014 price cap decision as the gap between terminal dues rates and associated costs could be closed considerably if this target is met.

17. Any comments on this matter are welcome and can be sent to postal.team@comreg.ie. Please note that all submissions received will be published by ComReg in due course and that any claim for confidentiality will be assessed in accordance with ComReg's guidelines on the Treatment of Confidential Information (Document No. 05/24 available at www.comreg.ie).

[14] See ComReg’s price cap decision @ http://www.comreg.ie/_fileupload/publications/ComReg1459.pdf