



Commission for
Communications Regulation

Response to Consultation

An Post's Proposals to increase the price of Domestic Postal Services 2003

Document No:	03/95
Date:	5 August 2003

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1 Foreword

In June the Commission for Communications Regulation (ComReg) published a consultation paper based on a proposal by An Post to increase the price of domestic letter post services. Under Section 70 of the Postal and Telecommunications Services Act, 1983, as amended, ComReg must approve the increases for services that are reserved to An Post, i.e. items weighing less than 100grams.

It is a statutory objective of ComReg to “to promote the development of the postal sector and in particular the availability of a universal postal service within, to and from the State at an affordable price for the benefit of all users.” [Communications Regulation Act, 2002. Section 12(1)(c)]. The Government’s key strategic goal in respect of postal services is ‘to ensure Irish industry and domestic customers enjoy competitively priced, high-quality postal services on a par with the highest quality standards in key comparator economies elsewhere in the EU: to maintain the nationwide postal services and network, with uniform tariffs applying throughout the State, where required by regulation, and to develop the Irish postal sector in such a way that it will underpin the key economic objective of Ireland becoming a knowledge economy.’

We have reviewed An Post’s application for price increases in the light of our obligations and in line with the Government strategy as well as the responses to our consultation. Apart from An Post and CWU, there was little support for the price increase proposals, with many respondents requiring a greater effort by An Post to tackle its own problems if there was to be any increase. A wide range of comments were made, with the following three key themes noted:-

- An Post should deal with its much documented problems by increasing efficiency. Comment was also made on the large increases in pay costs despite a substantial redundancy programme, and on the apparent lack of a return on An Post’s capital investment programme of nearly €100m.
- An Post’s quality of service is inadequate in terms of next day delivery and/or in terms of certainty of delivery date.
- The customer discounts proposed are unacceptable. They are not consistently priced, and do not take full account of the needs or the potential for expansion by either SMEs or substantial charitable organisations. They do not adequately reflect the avoided costs, in particular in respect of companies that ‘pre-sort’ mail. Such companies are a key source of competition in the market and it is important that there is no discrimination against them. A number of comments were also made on the lack of clarity in respect of the terms and conditions for discounts.

In addition concerns were also been expressed that the price proposals would not be enough to achieve full gearing to costs, with implications for the development of competition.

The price proposals and discount framework constitute a single package and ComReg has considered their effect as a whole. Having reviewed the responses, the commercial and financial position of An Post, and our obligations including the question of affordability for users, the Commission is, reluctantly, minded to agree to the “headline” tariffs proposed of:

- 48c rate for a POP (C5) envelope, together with the new wider weight step which has been increased from 50g to 100g
- 60c rate for larger (C4) envelopes and
- 96c rate for other packets

to apply in the reserved area. The Commission is also minded to agree to the proposed changes to prices for the Postaim direct mail service. However these changes will only be approved when the Commission has agreed on revised proposals from An Post in respect of discounts as outlined below.

It should be noted that these changes would leave Ireland unchanged in terms of the international competitiveness of its pricing (see Section 7 of the consultation paper). The impact on the CPI would be less than 0.007%.

ComReg has serious concerns about the proposals in respect of the discounts to be made available to businesses and other large users of postal services. In particular the differential between the proposed discounts for early presentation, pre-sorting and deferred delivery do not seem reasonable to ComReg nor to many of the respondents, and need to be revised. We are also unconvinced of the case for 65% and 90% auto-sortation categories – the requirements in terms of typeface, positioning on envelopes etc are well known and if followed, should result in 100% autosort. ComReg therefore requires these to be revised and approval of the total package will be contingent on satisfactory revised proposals being received from An Post.

An Post proposes that discounts are only available to customers posting 2,000 or more items at the same time. This discriminates against many small businesses / organisations that might for example wish to avail of the deferred delivery option, in particular those whose postal volumes are sufficient for them to use a franking machine. ComReg believes that a more satisfactory minimum posting amount in relation to deferred delivery should be much less and invites An Post to propose a revised threshold in the region of 350 mail items.

The revised proposal on discounts is required by 15 August 2003, and if it is satisfactory, it is expected that price changes including the new discount scheme could come into effect on 30 August next.

In relation to An Post's quality of service, ComReg is considering measures to enforce compliance and An Post are due to submit a draft code of practice in relation to complaints and redress procedures by 13 August. This must make provision for the payment of compensation or reimbursement or both.

ComReg believes that this approach is fair to all stakeholders, An Post, its staff, its customers – whether private individuals, small businesses or major financial institutions – and its competitors.

We would wish to thank all who took the time to respond to the consultation and to commend them to the thoroughness of their submissions.

**Etain Doyle,
Chairperson.**

2 Executive Summary

In transposing the EU Postal Directives, the Minister required the Commission for Communications Regulation (ComReg, previously ODTR) to issue directions to An Post about their accounting systems. Those directions were issued on 20 September 2001 and the first set of separated accounts became available to ComReg in May 2002. In the meantime, in order to address the commercial realities facing An Post, the ODTR approved an interim price increase of 3c for domestic mail which was implemented in April 2002.

Following that, An Post was to provide full information on their domestic pricing strategy by 30 June 2002. It was May 2003 before an adequately documented submission, which could be used for a consultation, was received.

ComReg issued a consultation paper on 13 June 2003 that outlined An Post's proposal to change the postage prices of the domestic mail services. The Commission would like to thank the 21 Respondents to the consultation paper whose views have been considered in completing this paper.

Assessment of Price Increase Proposals

An Post's financial position is well documented. ComReg, like many respondents to the consultation, are concerned that the proposals outlined will not on its own resolve An Post's problems. While overall volumes have increased in recent years, the rate of increase has slowed considerably, and items per delivery point have begun to fall back. An Post indicates that further increases may be necessary, while others note that the company continues to generate losses on international inbound mail whilst failing to realise projected savings from the investment in the automation programme.

Given An Post's present position, it is difficult to avoid granting the current proposed increases. However An Post needs to prioritise, focus its efforts on converting their commitments and their very significant investments made to date into tangible improvements in efficiency as well as becoming more proactive in its efforts to reduce unit costs by growing volumes rather than relying on future price increases. A serious commitment to quality delivery for customers must also be demonstrated by way of substantially improved quality of service indicators.

Like all other services, the Postaim service needs to be geared to cost. The An Post proposals represent a significant step towards achieving this. However there is still a larger discount offered to these customers than to bulk mailers. In line with the main services, the prices proposed are format based. As outlined in the consultation paper 'In the long term, however, An Post intends to merge this service into the other discount options'.

Retail prices

Although progress has been made in recent years, there are still anomalies in the current weight based pricing structure. Some customers are paying too much, others too little. The current proposals represent a significant step in addressing these issues and ComReg is disposed to accept the additional moves to format pricing as

set out. These changes are important as prices which do not properly reflect the cost of providing the service could act as a barrier to market entry. The extension of format based pricing will ensure a much better alignment between costs and prices.

Discounted Prices

The current price proposal is a “package” that includes an expanded range of discounted services. However, the package appears to be focused predominantly on major business customers. ComReg is of the view at least some of these discounts could be targeted at the wider business and charitable community in such a way as to stimulate additional volume growth.

The discounts proposed are based on the level of work eliminated at the sorting stage, a discount for the time available to do the work, and a discount for accepting deferred delivery. In most cases at least two of the discounts are bundled together, and it appears that the avoided cost attributable to each item may not have been measured consistently.

ComReg therefore requires that the current proposals be revised before a price increase can be approved. In revising their proposals on discounts An Post needs to address/reflect that:

- Estimates of the cost of the different types of sorting, i.e. manual sorting, machine sorting with video coding and automatic machine sorting, have already been made available to ComReg. These can be used to calculate the avoided costs for mail machine sorted with video coding, mail automatically sorted and for mail pre-sorted by the customer.
- Reasonable and consistently applied estimates need to be made of the cost avoided if the mail is presented at 15:00 or noon rather than 17:30. Pre-sorted mail could for instance, offer An Post the same level of savings as mail presented by noon that needs to be sorted.
- Equally if customers are prepared to accept a deferred delivery service then this too should be reflected in the discount level available. These avoided costs are, of course, greater than the avoided costs for the early presentation on the day of posting. There ought to be a reasonable relativity between these two types of avoided costs.

Terms & Conditions for discounts

ComReg acknowledges the many concerns expressed on the issue of terms and conditions. Its position is that changes to any of the terms and conditions which have an impact on the cost of providing service must be disclosed in advance and approved by ComReg.

ComReg from the outset has expressed its concern that setting a minimum posting quantity of 2,000 may militate against participation by a wider group of business users which could in turn act to stimulate growth in the market. The majority of respondents agree with ComReg's position and have suggested that lower minimum levels should be introduced ranging from 600 to 350 with the lower of the two applying in the case of a deferred delivery discount. ComReg believes that a more

satisfactory minimum posting amount in relation to deferred delivery should be much less and invites An Post to propose a revised threshold in the region of 350 mail items.

The failure to provide access to discounted services except in Dublin, Cork, Athlone and Port Laoise again does not appear to fully address the potential for further commercial development and ComReg urges An Post to reconsider its position. In particular the needs of businesses in some of the other major centres such as Limerick, Galway, Waterford, Sligo and Drogheda needs to be addressed.

Quality of Service & Complaints Procedures

As prices are moving towards being more geared to cost ComReg must be mindful to ensure that the customer receives the level of quality that should be afforded to the product paid for. This is particularly relevant for those customers who pay the full tariff and have a right to expect next day delivery.

An Post is required to submit to ComReg their code of practice for dealing with complaints and redress procedures by 13 August 2003. This is required, in accordance with Regulation 15(1) of S.I.No. 616 of 2002, to make provision for payment of reimbursement or compensation or both.

ComReg is considering what measures may be necessary to enforce full compliance by An Post with its Quality of Service requirements.

Conclusion

In these circumstances, ComReg is minded to approve the new 48c rate for a POP (C5) envelope, 60c rate for larger (C4) envelopes and 96c rate for other packets, and the proposed changes to Postaim prices, provided that the discount proposals are revised satisfactorily. Implementation of the new rates and revised discount proposals on 30 August 2003 is envisaged, provided that a satisfactory proposal on discounts is received from An Post by 15 August 2003. Any changes to terms and conditions which have an impact on the cost of providing service must be disclosed in advance and approved by ComReg. An Post's submission to ComReg in relation to their code of practice for dealing with complaints and redress procedures must make provision for payment of reimbursement or compensation or both.

3 Introduction

The Commission for Communications Regulation ("ComReg") is responsible for the regulation of Postal Services in Ireland in accordance with National and EC legislation. ComReg is the National Regulatory Authority ("NRA") for the purposes of that legislation¹.

One of ComReg's functions under the legislation is to monitor compliance with Regulation 9 Tariff Principles and Transparency of Accounts as set out in the EC "Postal Directive"². These require, inter alia, that the prices charged for all services within the universal service obligation are "affordable to all" and "geared to cost". Under Regulation 9 (3) tariffs for businesses, bulk mailers or consolidators of mail from different customers shall take account of the avoided costs. The onus is on An Post to comply with these principles and ComReg's functions are concerned with ensuring, on an ex-post basis, that there is such compliance.

The Commission has a separate responsibility under section 70(2) of the Postal and Telecommunications Services Act, 1983³, to consider proposals to increase prices for services reserved to An Post and such increases cannot be implemented without ComReg's concurrence. It should be noted that ComReg may take into account factors⁴ other than compliance with the tariff principles in making any decision under this section of the 1983 Act.

3.1 Consultation Paper

In transposing the EU's Postal Directives, the Minister required ComReg (ODTR) to issue directions to An Post about their accounting systems. Those directions were issued on 20 September 2001 and the first set of separated accounts became available to ComReg in May 2002. In the meantime, in order to address the commercial realities facing An Post, the ODTR approved an interim price increase of 3c for domestic mail which was implemented in April 2002.

As part of that approval An Post undertook to provide costing information to support their domestic pricing strategy by 30 June 2002. On 6 June 2002 a letter was sent to An Post outlining the range of information that would be required to complete the review. It was December 2002 before a first attempt at a submission on Domestic pricing was received. It was May 2003 before an adequately documented submission which could be used for a consultation was received but, even at this stage, all the information sought in June 2002 had not been supplied.

In carrying out its functions under the legislation, ComReg is obliged to take into account the views of interested parties. On 13 June 2003 ComReg launched its consultation on An Post's proposals to increase the price of domestic letterpost services reserved to the Company. The process involved the publication of a consultation document (ComReg 03/65) which addressed the issues that required

¹ See Appendix A for further details on legislation

² Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service. OJ L 15 21.1.1998, p. 14

³ As amended by Regulation 8(4) of SI 616 of 2002

⁴ As outlined in Appendix A

careful consideration in advance of forming a definitive response to the proposal to increase prices.

The responses received to the consultation paper have been of assistance to ComReg in helping it to form a view as to whether the price increases in the reserved area are warranted based on the information provided by An Post and to decide whether any other appropriate regulatory measures are required in relation to approving or rejecting the proposal.

In any pricing consultation not all detailed information will be publicly available due to its confidential and commercially sensitive nature. In this case it is only An Post and ComReg that have access to the full An Post cost accounting information. We recognise that it is difficult for users to make a strong argument based on general principles. However, the expertise of respondents, their knowledge of the industry and the standard of the actual responses received in this consultation support the position that these matters can be handled from a point of principle.⁵

ComReg wishes to express its thanks to everyone who contributed to the consultation. In total, 21 responses to the consultation paper were received, as follows:

- An Post
- A.S.A. Marketing Group
- Mr Richard Barry
- CWU
- DAFIL
- Hays DX
- Eircom
- IDMA
- Irish Association of International Express Carriers
- Irish Missionary Union
- ISME
- MBNA
- Merrion Telecom
- Missionaries of the Sacred Heart
- NTL
- Mr Maitias O Gormaile
- Royal Mail
- South Dublin Chamber of Commerce

⁵ In its response An Post states – '*Other than ComReg and An Post, who have access to the relevant detailed costing information, An Post is unaware of any other party who would be in a position to offer an informed response to this question*' (i.e. question 7 - discount prices)

- TICO
- Trimfold
- Mr Brendan Walsh

All points raised by respondents have been considered, although readers will appreciate that it is not feasible to refer to every point made by every respondent in a document of this nature.

With the exception of material marked as confidential, the written comments of respondents are available for inspection at ComReg's offices in Dublin.

3.2 Format of the Document

This report deals with the main issues raised during the consultation. There is a section for each of the major topics, which is divided into three sub-headings:

- A summary of the issues and the questions raised in the consultation paper.
- A summary of the views and responses to the questions raised.
- ComReg's views on the issues.

Section 10 brings the analysis together, outlining the overall conclusion.

This paper does not constitute legal, commercial or technical advice. ComReg is not bound by it. This response to the consultation is without prejudice to the legal position of ComReg and to its rights and duties under legislation.

4 Justification for Price Increase proposals

4.1 Summary of Consultation Issues

An Post has sought ComReg's approval to increase the price of postage for the domestic letterpost services reserved to the company in order to address its current financial difficulties. As indicated in Section 3.1 of the consultation paper, the An Post Group was highly profitable for much of the 1990's, benefiting from economies of scale arising from increasing letter post volumes.

Year	Group Operating Profit €'000	Total Volumes (m)	Items per delivery point per day
1990	(12,468)	482.0	1.65
1991	(3,711)	494.1	1.73
1992	(376)	483.5	1.69
1993	9,267	518.1	1.76
1994	13,838	551.7	1.83
1995	11,409	559.8	1.82
1996	15,025	578.0	1.83
1997	17,686	646.6	2.00
1998	10,534	669.8	2.04
1999	13,389	705.4	2.10
2000	9,780	733.6	2.08
2001	(6,687)	779.8	2.10
2002	(17,396) ⁶	790.6	1.98
2003⁷	(11,000)		
2004⁷	(12,900)		

The long term trends changed around the turn of the century. While overall volumes continued to grow, there was a reduction in the number of items per delivery point. The reduction in items per delivery point is expected to continue into 2003 and 2004 unless action is taken by An Post to stimulate growth.

An Post indicated in their 2001 Annual Report that it was planning to 'invest €125m⁸ in the modernisation and automation of facilities'. This amount, in the form of depreciation together with the associated extra operating costs has been reflected in the accounts, but the forecasted savings have not yet been realised. An Post has indicated that the associated cost savings will eventually be realised but the timeframe will be longer than originally forecasted.

In 2002 the An Post Regulatory Accounts show that there was a significant trading loss in the domestic letterpost services reserved to An Post (€9m loss on a turnover of €243m). An Post explained that the main factors giving rise to this were increased pay costs over 2001, growth in delivery points and a deceleration in domestic letterpost volume growth during the year.

An Post have indicated that the proposed price increase is necessary to ensure that the business will not incur even greater losses in 2003 while enabling them to continue to fund the provision of the USO. Overall the proposal is forecast by An Post to result in a net annual yield in 2004 of €18.4m (€12.6m for the reserved area).

⁶ This excludes an exceptional item of expenditure of €52.5m for restructuring.

⁷ Budget figures for 2003/2004 based on tariffs as at 2002

⁸ In response to the consultation An Post pointed out that this sum is correct for the An Post Group as a whole, and that the figure for the Letter Post Automation Programme was €96.5m

The impact of the price proposal versus the current state can be seen in the following table.

Profitability (Operating Profit)	Actual 2001 €m	Actual 2002 €m	Budget 2003 €m	Forecast 2004 €m
<i>No Price Increase</i>				
Total An Post Group	(6.9)	(17.4) ⁹	(11.0)	(12.9)
Domestic Letterpost	7.5	(5.8) ¹⁰	(16.9)	(12.2)
<i>With Price Increase</i>				
Domestic Letterpost	n/a	n/a	n/a	6.0 ¹¹
Revenue Yield	n/a	n/a	10.1 ¹²	18.4

The Consultation Paper suggested that An Post needed a price increase to enable it to return to profitability and overcome its current inefficiencies. It was stressed that a price increase alone was not the full solution. The key to the long term survival and competitiveness of An Post was to increase the volume of mail delivered and at the same time control costs / improve efficiency. It is only then that the full benefits of economies of scale could be realised, enabling the company to operate more efficiently and to cover cost increases without the need to pass them on to the final consumer in the form of increased tariffs.

The consultation paper also noted that An Post's price proposals did not take into account the impact of the imposition of VAT on postal services, which is currently under consideration by the European Commission.

The two specific questions posed with regard to pricing issues and the An Post financial position were as follows:

Q. 1. Do you agree that this price increase is needed to deal with the financial position of An Post? Please give reasons

Q. 2. Do you consider that the proposals put forward by An Post are sufficient to address the financial problems and stabilise the situation for the next 2 years? Please give reasons

⁹ Actual 2002 results excluding €52.5m restructuring costs

¹⁰ Estimated loss for the Domestic Business segment

¹¹ ComReg Estimate of 2004 profitability (excluding NI)

¹² This revenue yield is based on the An Post assumption that the proposed prices are implemented on the 1st August 2003. An Post figures have included Northern Ireland in the revenue yield but exclude Northern Ireland profit/ loss from the domestic letterpost amounts quoted.

4.2 Views of Respondents

4.2.1 Necessity for price increase

10 out of 17 Respondents who addressed this question disagreed with the proposition that a price increase is necessary to deal with the financial position of An Post, whilst 10 out of 14 Respondents disagreed that the proposal put forward would address the financial problems and stabilise the situation for the next 2 years. The general consensus was that overall the proposal put forward by An Post will not resolve the financial problems of An Post. In particular suggestions were made that An Post should focus on reducing unit costs by improving efficiency and stimulating volume so as to reduce marginal costs. Respondents felt that pricing action should be a last resort rather than a first choice.

An Post and three other respondents consider that the price increase is justified in view of the current financial situation.

“the price increase as outlined in the submission of An Post is absolutely imperative in order to assist in the financial wellbeing of the company”.

On the other hand, those opposing the price increase were mainly concerned that the price increase was not part of an overall process requiring An Post to increase efficiency and to grow volume.

“We do not agree that a price increase is needed in the short term to deal with the financial position of An Post. What we do believe is necessary is a strategy to increase volume in the postal system”

“X believes that any price increase needs to be part of an overall process requiring An Post to increase efficiency and to improve its quality of service to customers”

In general, the common theme running through the responses was that the final consumer should not have to pay for An Post's inefficiencies.

“We believe that An Post, like every other commercial entity in Ireland, should be looking at their costs rather than increasing their prices, in order to trade without incurring a deficit and become more competitive in the global marketplace”.

“Once again we find that projected savings due to the investment of €125m in the modernisation and automation of facilities have not been achieved. ... This failure to achieve cost savings has been the situation for many years. ... Therefore, it is difficult to accept that labour cost savings will be achieved in the near future. .. An Post created its own financial problems . . . We are not convinced that the company can achieve the cost savings element of its latest plan.”

“In a competitive market and in today's economic environments companies strive to pass costs savings on to their Customers. Whenever possible, a Monopoly should be required to do the same thing and to avoid subsidisation of other more inefficient areas of the business”

“In our view An Post needs to get its house in order, both financially and structurally, before even attempting to legitimise or seek a price increase”

“ as part of the criteria for price increases (agreed with Comreg) An Post had agreed (undertaken) to deliver on certain projected cost reductions. An Post has blatantly failed to do so and is attempting to mask inefficiencies and bad management within its operations by constantly seeking price increases”

4.2.2 Losses on International Mail

In considering the overall financial position of An Post, a number of respondents highlighted that the losses being incurred in delivering incoming cross-border letterpost must also be considered, as the terminal dues (settlement terms) are based on domestic tariffs. Customers expressed concern that discrimination and market distortion would continue until terminal dues were geared to cost:

“Losing €19.3m in its international inbound mail in 2001 as a result of the REIMS agreement..... has the result of inbound mail being subsidised by Irish customers. This type of business management reduces our trust when Irish customers are being asked to bail out such inefficiencies”

“However, if An Post does want to rebalance their tariffs in order to have them abide by the tariff principles AND increase volume then we suggest the following: 1. pull out of REIMS....”

4.2.3 Volume Growth

As the consultation paper noted, volume growth was a key reason why An Post did not need a price increase for much of the 1990's. Further growth is essential for the future prosperity of An Post. Some respondents suggested that the market is not entirely convinced of the ability of An Post to take the desired action needed so as to grow its volumes and therefore reduce its unit costs.

“Price resistance and inferior quality of service are two factors known to militate against volume growth. Undoubtedly, some of the exorbitant prices being sought will create price resistance that may well reduce volumes further, thereby, diluting the income of An Post”

“By An Post's own admission the postal service they provide has the potential to more than double in size, which will still only be at the European Average. However increasing prices does not stimulate growth”

“An Post must seek to reduce unnecessary costs and increase the volumes of its post per person in order to become economical and self sustaining”

“A price increase may be a short term view and will not support growth (increased volumes) in the postal market.”

On the other hand An Post and one other respondent questioned whether there is a market there that can generate the level of volume growth needed to increase from the 185 mail items delivered in Ireland to the European average of 350 – 400 items.

“A key factor in the decline in the numbers of items delivered per delivery point is, the significant decline in the average number of people per household which has taken place in Ireland over the past several years rather than any inaction on the part of An Post. The company continues to take action to stimulate growth in the postal market”

A Direct Mail specialist expressed positive views that there is scope to grow their volumes i.e.

“Direct Mail can provide the volume needed to bring an increase to the volume per delivery address – a factor which would alleviate the problem of increasing volumes but lower volumes per delivery point due to a % increase in addresses greater than that in letter volume”

4.2.4 Need for Certainty

For business customers whose postal costs are significant, the predictability of prices and price changes is essential for budgeting and forecasting purposes. One respondent suggested that the uncertainty experienced by customers could be overcome by the introduction of a price cap:

“We would support a form of multi-year price approval which would give both An Post and its customers a degree of predictability, balanced with flexibility”

“We suggest that a multi-year plan (in effect a price cap) is required rather than a one off approval”

On the other hand An Post and the CWU do not consider the current proposals are sufficient and indicate that further increases will be required:

“An Post would stress that its current proposals, while representing a significant step in implementing its overall pricing strategy, do not represent the final stage in the process.”

4.2.5 Possible imposition of VAT on postal services

Many respondents were concerned about the European Commission proposals to impose VAT at the reduced rate (13.5% in Ireland) on postal services for items weighing less than 2kg.

“The proposed introduction of VAT on mailings will seriously effect Insurance Companies, Banks and Charities etc who cannot claim VAT back”

“The draft directive indicates that the VAT exempt position enjoyed by postal operators will be abolished and that all postal services will be subject to VAT . . . The business sector, with the exception of non profit organizations (such as charities) and financial institutions, will not be affected by VAT charges on postal services as the VAT charged can be reclaimed by them. However, consumer mail and mail paid for by financial institutions and non profit organizations (including government agencies) will. And since bulk mail from these sources probably accounts for 70% of all bulk mail volumes this increase in postal costs can only have a detrimental effect on postal volumes and the sustainability of the universal service”

“Our responses to this consultation paper do not take account of the EU proposal to impose VAT on postage, but it is necessary to state that if that proposal is implemented, our members are likely to suffer further consequential financial hardship. As registered charities, we cannot reclaim VAT paid on materials or services. . . We have been informed by

Commissioner Frits Bolkenstein that "charities are already paying VAT, albeit disguised as part of the price charged by the Post Office". He points out that under the proposal, "postal operators will be allowed to deduct VAT on their costs. Lower costs should reflect lower prices. It is thus not accurate to estimate the increase in postal costs for charities as equivalent to the tax rate for VAT" He goes on to say he does not expect "any significant increases in the price paid by charities and other bodies that cannot reclaim VAT".

"We are also facing the proposed imposition of VAT on postage by the EU and despite current denials by the Commission, this will incur an increase in postal rates that we as a registered charity will not be able to reclaim similar to businesses registered for VAT".

"This increase takes no account of the EU proposal to impose Value Added Tax on postal services, which would add a further 21% to the cost of the typical stamp"

4.2.6 Specific issues raised

An Post in their response to the consultation raised an issue in relation to ComReg's assessment that the An Post group was highly profitable for much of the 1990's.

"...it was, in fact, at best only marginally profitable during the 1990's and that, in the ten years from 1992 to 2001 the average profit before tax was 2%. This certainly could not be described as "highly profitable".

An Post challenged what was said about the savings from the proposed introduction of roadside letter boxes.

"financial forecasts submitted by An Post have indicated a €5m saving in pay costs from the introduction of roadside letter boxes in 2004 ComReg was informed that the likely level of savings which would arise from the installation of 525,000 roadside delivery boxes were calculated at €14.5m per annum less €3.4m for write-off of boxes over a 10 year period. The information was used in compiling the 2004 forecast supplied to ComReg"

An Post also challenged the right of ComReg to take efficiency into account in making its decision.

".....matters relating to efficiency of the services it provides are outside of ComReg's mandate"

Although other respondents take a different view.

"X is concerned that the price increases applied, may at least in part be a substitute for delivering increased efficiencies"

"X believes that any price increase needs to be part of an overall process requiring An Post to increase efficiency and to improve its quality of service to customers"

4.3 Commission's Position

4.3.1 Necessity for price increase

The financial difficulties faced by An Post are well documented. Respondents were clearly concerned that An Post's proposals will not solve these difficulties.

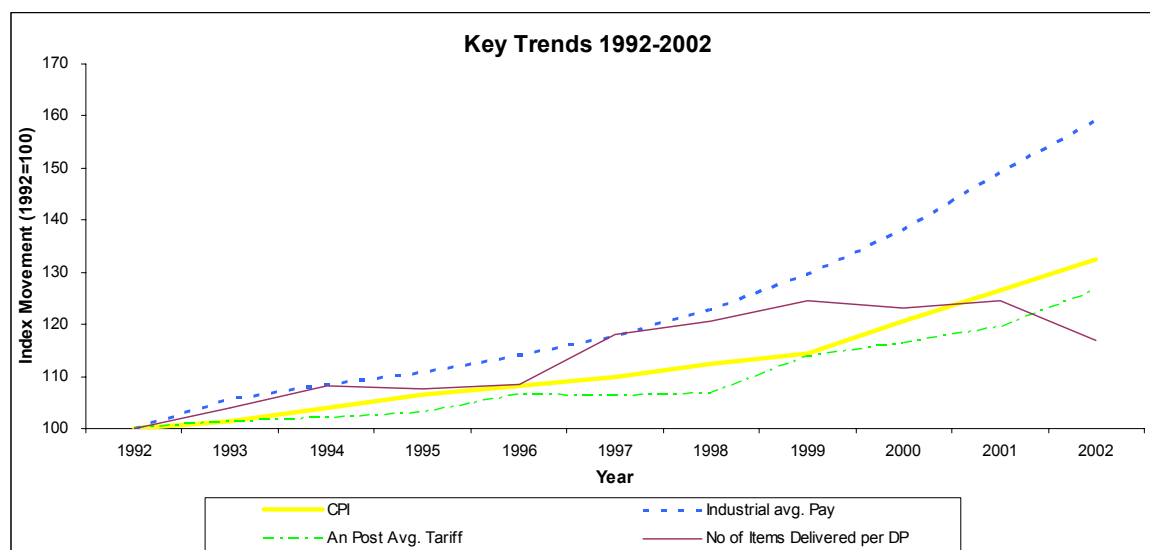
An Post claim that a price increase is needed so as to enable them to restore their financial viability. The majority of respondents consider that a price increase should be a last resort and therefore that An Post should focus on developing efficiencies and stimulating volume growth. ComReg recognises that the customer should not have to continually incur price increases so as to fund the inefficiencies of An Post. The key to the survival and competitiveness of An Post is to offer prices that accurately reflect the cost of efficiently providing the service at the same time stimulating volume growth. It must realise the savings that were budgeted for at the time of its capital investment and productivity agreements.

One of the specific concerns raised by respondents is the lack of any noticeable improvement in either quality of service or cost reductions as a result of the major investment in mail automation. The scale of the problem is evident from the differential between their original projected savings of €25m as compared with a revised budgeted saving of €7m for 2003 leaving a shortfall of €18m, almost identical to the revenue yield from the pricing proposals in 2004.

ComReg has undertaken an analysis of average tariff and items per delivery point movements over the last ten years comparing it with the associated movement in CPI so as to further assess the factors contributing to the company's financial crisis.

The graph below provides a summary of the key index movements for the ten year period of 1992-2002. A key factor in this regard is the growth in the number of items per delivery point. Because of the economies of scale arising from this An Post would have been able to improve its productivity faster than other companies and would therefore outperform the CPI.

Between 1999 and 2001 the number of items per delivery point levelled off, and there was a substantial decline in 2002 (from 526 p.a. in 2001 to 495 p.a. in 2002). This is clearly putting pressure on An Post's revenues.



In deciding on the price application, ComReg has to operate within its statutory obligations and strategy and to balance the points made by respondents to the consultation and the needs of users generally, against the need to provide for An Post to solve its financial problems.

ComReg has taken into account that the proposals address a substantial number of the hidden cross subsidies that have grown up over the years. Some prices need to be increased and others reduced simply to comply with the tariff principles. This is very important as prices which do not properly reflect the cost of providing the service could act as a barrier to market entry by competitors. These issues are dealt with in detail in Sections 5 and 6.

Nevertheless ComReg must make it clear that if prices are increased at this time priority must be given by An Post to:

- (i) Fully achieving the savings identified when the capital investment in mails automation was approved are fully achieved.
- (ii) Developing and implementing an enhanced programme to stimulate mail volume.
- (iii) Quality of Service is substantially improved.

4.3.2 Losses on International Mail

ComReg's position on the losses incurred in handling incoming cross-border mail is on the public record (see documents 03/40 and 03/74). It is unacceptable that Irish customers should be asked to subsidise postal service providers in other countries. The action being taken in this regard is outside the scope of this paper.

4.3.3 Volume Growth

The key to profitability in the Postal Sector is volume – significant economies of scale can be achieved, particularly in delivery which accounts for 60% of total costs. An Post made great strides during the 1990's increasing the number of items per head from 136.2 in 1990 to 201.8 in 2002. But despite this An Post's performance still compares unfavourably to other European Union countries.

An Post now portray the lack of any price increase between 1991 and 2002 as a hardship imposed on them, but the reality is that it was the success in increasing volumes that enabled the company to reduce the price of mail for some customers, while only imposing a 7% increase on others, mainly business customers.

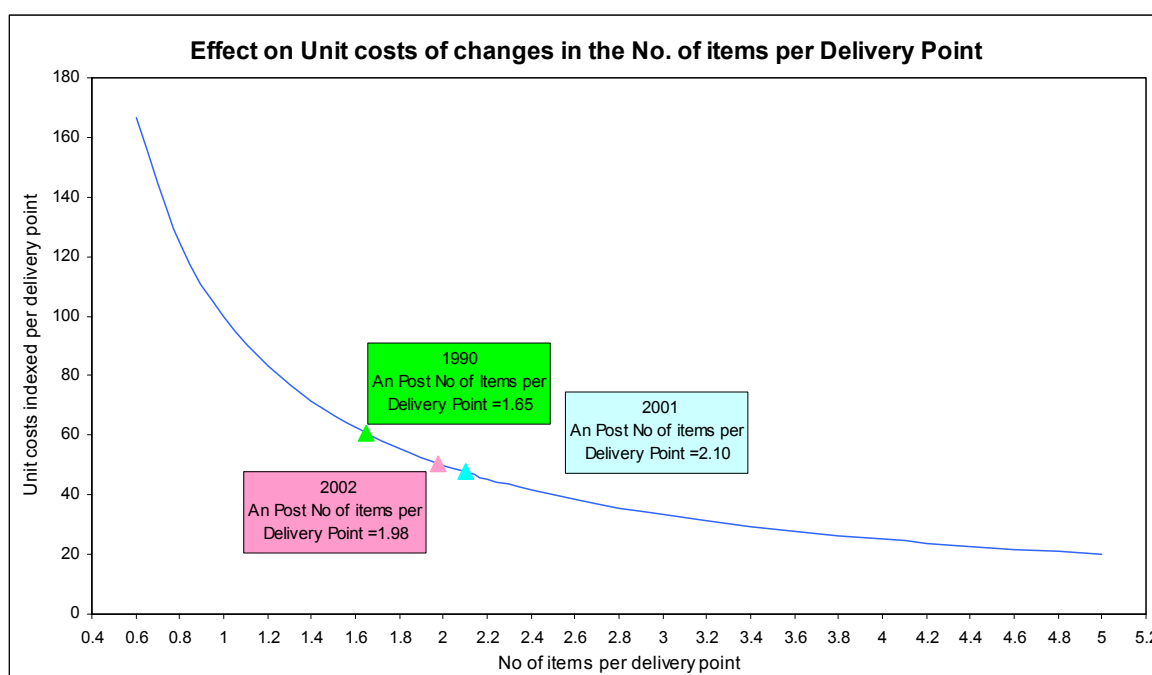
On average, An Post delivers about 2 items to each delivery point every working day. The absolute cost of delivery will broadly be the same whether the number is 1 or 3, but there will be a significant change in unit costs. (Other factors such as changes in the number of delivery points will obviously affect absolute costs as well).

In general the rate of change in unit costs for a volume increase is lower than for a volume reduction e.g. a 10% volume increase would result in a fall in unit costs of

9.1% whereas volume would only have to decrease by only 8.3% to achieve an equivalent cost increase.¹³

But another factor is where the company is on the cost curve. An Post are at the bottom end of the cost curve for delivery so as volumes increase there will be significant economies of scale to be gained, whereas as volumes fall the diseconomies will begin to kick in. Companies further up the cost curve would not benefit/suffer to the same extent.

The graph below illustrates how the cost curve for delivery to a specific delivery point changes with volume.¹⁴ As can be seen An Post has moved a considerable way along the cost curve between 1990 and 2002, which led to significant reductions in unit costs for delivery, one of the factors that enabled An Post to keep price stable for most of the last decade. The key therefore is for An Post to focus on growing its volumes which in turn will generate benefits from economies of scale.



Evidence would suggest that An Post need only increase the number of letters per delivery point from 2 to 2.2 a day to secure a 10% increase in volume and a 9% reduction in unit costs for delivery, other factors being equal. One of the larger European Countries with say 4 letters per day on average would have to secure an increase from 4 to 4.4 items per delivery point per day to have the same effect. On the other hand a reduction from 2 to 1.8 items a day would result in an increase in unit costs for delivery of 11%.

Volumes do not have to reach the level per head of population of the main European countries for An Post to put itself back in the position whereby it can absorb all reasonable cost increases without the need to adjust prices.

¹³ This is the same as the difference between margin and mark-up.

¹⁴ This is a very simplified model and does not attempt to show how the cost of delivery to a number of houses in a district may change, taking into account factors such as new houses being built, new road layouts (which might increase or reduce average travelling time) etc

An Post argue that the volume of mail is demand driven, and that overall volumes are therefore outside its control. ComReg would agree with those respondents who suggest that considerable influence on this area lies with An Post's marketing decisions and in particular pricing and product design. But real doubts are expressed in the responses as to whether the current pricing strategy alone can lead to volume growth. ComReg would therefore urge An Post management to redouble their efforts to grow their volumes, by focussing on all customer groups rather than existing major customers.

4.3.4 Need for certainty

Customers rightly need to be able to plan ahead with certainty. They need to know when prices are likely to rise and have some idea of the likely size of the increase.

Two respondents suggested that this might best be achieved by the introduction of a price cap (RPI-x) regime. With regard to a "price cap" detailed investigation into An Post's costs suggests that it will be sometime before the basic requirement, that existing prices are appropriately calculated, can be met. In view of these uncertainties more work needs to be done before a price cap can be put in place.

4.3.5 Proposed imposition of VAT on postal services

As the Consultation Paper noted the proposals take no account of the EU Commission's proposal to amend the Sixth Directive as regards services provided in the postal sector and impose VAT on most postal services at the reduced rate (13½%). If this goes ahead there will be some savings for An Post as VAT on inputs will be able to be reclaimed.

ComReg appreciates the comments by the Respondents concerned with the impact of the imposition of VAT on their businesses / organisations, and on postal volumes and therefore unit costs.

It is difficult to anticipate what might or might not happen to the European Commission's proposal. ComReg would however point out that there should be no presumption that prices will automatically increase as a result of such a measure.

4.3.6 Specific Issues raised

Profitability of An Post

ComReg notes that An Post disputes our assessment in the Consultation Paper that the An Post group was highly profitable for much of the 1990's.

The level of profit of a public body is driven by the need to remunerate capital while maintaining the financial equilibrium of its obligatory services. The levels of profit appropriate for a state owned company operating with the benefit of statutory monopoly are very different from those operating in business sectors where higher rates of return are justified by the nature of the risks that shareholders have to accept.

In this context therefore we believe the figures speak for themselves. In the eight years from 1993 to 2000 An Post reported total profits of €101m. In two years

(2001/2) An Post has reported losses of €24m¹⁵ and if the price increase is not approved this will have risen to €48m by the end of 2004.

Roadside Letterboxes

An Post have challenged ComReg's statement that "financial forecasts submitted by An Post have indicated a €5m saving in pay costs from the introduction of roadside letter boxes in 2004". This €5m figure was provided by An Post to ComReg as part of a presentation on their proposals.

Efficiency

An Post claim that

".....matters relating to efficiency of the services it provides are outside of ComReg's mandate"

Other respondents specifically ask that ComReg take efficiency into account.

ComReg is acting under powers set out in Section 70 of the Postal and Telecommunications Service Act, 1983, as amended, and is therefore entitled to take into account that under Section 12 of the same Act one of the objects for which An Post was formed is *"to meet the industrial, commercial, social and household needs of the State for comprehensive and **efficient** postal services"*

According to the Statement of Strategy 2003 – 2005 for the Department of Communications, Marine and Natural Resources the Core Policy Goal for the postal sector is

"To ensure Irish industry and domestic customers enjoy competitively priced, high-quality postal services on a par with the highest quality standards in key comparator economies elsewhere in the EU: to maintain the nation-wide postal services and network, with uniform tariffs applying throughout the State, where required by regulation, and to develop the Irish postal sector in such a way that it will underpin the key economic objective of Ireland becoming a knowledge economy."

And one of the key Strategies in implementing this policy is:

*"Putting in place a light handed and competitive regulatory environment to facilitate **the development of an efficient and competitive postal industry**"*

¹⁵ Excluding a €52.5m exceptional item for restructuring costs.

5 Retail Prices for Single Piece Mail

5.1 Summary of Consultation Issues

The price proposal received covers all mail formats for the universal service area up to 2kg. It is only those prices in the reserved area up to 100g that require prior approval from ComReg. The main feature of the changes proposed by An Post is that there should be a single price for each size of envelope (format), whatever the weight up to 100g, viz:

First Class Letter Service and Business Reply

(i) Post Office Preferred (POP)¹⁶ Envelopes & Postcards

Weight not over	Current price	Proposed price	% Increase
50g (including Postcards)	41c	48c	17%
100g	60c		(20%)

(ii) Larger (C4) Envelopes

Weight not over	Current price	Proposed price	% Increase
50g	47c	60c	28%
100g	60c		0%

(iii) Letter Packets

Weight not over	Current price	Proposed price	% Increase
50g	47c	96c	104%
100g	60c		60%

The table below shows the weighted average price increase by format type excluding the effect of discounts. The price proposal also offers a new range of discounts to business customers as part of the An Post strategy to retain and grow business from large users of the post (e.g. banks and utility companies). To consider the impact of the discounts being offered, the proposed price is adjusted to reflect an *average* tariff for the reserved area for all domestic services. Therefore whilst the proposed price for the reserved letter format is 48c the average tariff is only 43.4c.

¹⁶ Post Office Preferred: envelopes up to C5 size and weighting up to 100g.

	POP Letter Format	Flat Format	Packet Format
Headline Tariffs			
Current Price to 50g To 100g	41c	47c	47c
	60c	60c	60c
Weighted average	42.0c	53.2c	55.1c
Proposed Price	48c	60c	96c
Weighted increase	14.4%	12.8%	74.2%
Average Tariff			
Current	40.8c	52.5c	55.1c
Proposed	43.4c	56.4c	95.6c
Increase	+6.3%	+7.4%	+73.7%

ComReg's Position as outlined in Section 6 of the consultation paper identified the financial impact of the proposal following a detailed review of the figures as follows:

- POP letters will continue to generate a loss even if the price proposal is approved. This may be attributed to the discounts proposed for businesses, bulk mailers or consolidators of mail from different customers.
- Flat letters, i.e. larger (C4) envelopes, in the reserved area are forecast to generate substantial losses in 2003 and 2004 in spite of the proposed price increase. There are a number of factors that need to be borne in mind as outlined in the consultation paper, in particular, the ability of customers to use the smaller POP envelope to avoid the increases; the need to give customers time to run down stocks of stationery; the risk of creating barriers to competition because many items in the 50g to 100g bracket are already outside the scope of the reserved area, e.g. books, catalogues, newspapers and periodicals.
- The packet stream, within the scope of the reserved area, will continue to generate a loss whilst overall the packet stream is very profitable. The key considerations from ComReg's viewpoint were identified as price elasticity and competition. With regard to elasticity, the proposed prices are in An Post's judgement, the most that the market will bear at this stage. With regard to competition, if prices charged were fully 'geared to cost' now the market would be fully open to competition. Items containing books, catalogues, newspapers and periodicals are already open to competition and items weighing more than 50g will be in the competitive area by 1 January 2006. Below cost selling can represent a barrier to market entry.

The specific questions asked were:

Q5. Are there any points about the specific prices proposed that you would like the Commission to consider when deciding whether or not to approve the increases sought?

Q.8. What are your views on the following price increase:

POP <50g :From 41c to 48c

Flat <50g :From 47c to 60c

Packet <50g : From 47c to 96c

Do you have any comments on the viability of the services in particular for Flats and Packets? Please give your reasons

5.2 Views of Respondents

15 of the Respondents addressed question 5 and 13 addressed question 8. Others dealt with points generally while not specifically answering the question.

5.2.1 Affordability

Some of the respondents call into question whether the prices are affordable:

“A price increase of this significance will force us to consider other marketing and communication avenues over direct mail”

“The increase being sought could be adequately described as a strategy to force business customers to seek out alternative suppliers...”

“If approved this would represent an overall increase of 27% in the last 18 months on the price of a basic stamp alone. . Small businesses still heavily rely on the postal service, despite advancements in technology, particularly in relation to incoming and outgoing payments and as a marketing tool. A price increase of the magnitude proposed will have serious ramifications for the cost structure of SMEs.”

“The price increase requested by An Post are substantially higher than the 3.5% rate of inflation – Letters +17%, Large Envelopes + 27.7% and Letter Packets + 104%”

An Post states in its response that:

“An Post would stress that its current proposals, while representing a significant step in implementing its overall pricing strategy, do not represent the final stage in the process. Rather, the current proposals reflect a phased approach to what is ultimately required if the long term financial viability of the domestic universal service is to be achieved. In this regard it is likely that further significant increases in the headline rate will be required while, at the same time, deeper discounts to bulk mailers will be implemented” .

5.2.2 Format

Prices for postal services have been traditionally based on a series of weight steps i.e. 0-25g, 25-50g, 50-100g etc. Only a very small percentage of costs are actually weight related, the vast bulk of costs are driven by format i.e. letter, large envelope and packet. The introduction by An Post of format based pricing in the reserved area received a number of individual contrasting views.

Some respondents welcomed the changes, while others recognised that they might encourage An Post's customers to use smaller envelopes that can be processed more efficiently:

"welcome the thrust of the following: that the first weight band will be changed from 50g to 100g and so that there will be a 20% reduction in tariffs in respect of items weighing more than 50g and no more than 100g,"

"In the case of Flats, alternative packing options exist."

An Operator commented that

"The relative discounts between letters, flats and packets seem reasonable, given that costs are essentially driven by format".

Another Operator claims that the increase in flats and packets up to 50g is totally unacceptable and extending the base weight band to 100g will not compensate, while a Supplier states

"We believe the increases of the order of 28% on C4 Sizes "Flats" is grossly excessive and will severely impact the traffic in this market."

Whereas a Customer claimed:

"Business users are now being confronted with both format and weight pricing conditions for letter mail. Having to weigh and then check the thickness of mail is making it more costly to prepare mail for posting, and this has implications for affordability. Obviously, format based pricing means that format and weight are the criteria"

The price proposal for the packet stream presents the greatest problems. Users of the service are concerned about the size of the increase. On the other hand other operators point out that:

"An Post does not propose to increase the price of flat format items weighing between 50g and 100g. ... Similar competitive pricing issues are valid for the packet format, ... In this context, X would like to point out that at present there is no contestable market for these services! The area is generally unreserved but not contested. Could this be because An Post is currently selling below cost in this area? Or because the true costs to An Post of providing standard delivery services for 'flats' and 'packets' are neither reflected in their tariff nor in the public domain? For example:

The cost of having a separate sortation process for packets and flats to POP envelopes.

The impact (and hence cost) of the additional weight and volume of these heavier items on the individual delivery person's capacity to carry and deliver other items.

The possible additional cost and the disruption to the quality of delivery of the ordinary mail, of combining these two distinct and different product types.”

5.2.3 Franking Machines

In response to ComReg's comment on "Franking meter customers subsidise those who use postage stamps" An Post responded as follows:

"While it is true as a generalisation that meter mail is cheaper to process than stamped mail, this is not true for all meter mail. Smaller meter mailers in many instances actually generate additional costs due to the infrastructure the company has had to put in place, e.g. meter inspections, to manage the process. This is particularly the case for counter-set meter machines and, based on the costs involved, An Post would not propose to offer discounts to users of such machines"

Although no representation was received from franking machine producers making a case for a discount for the franking machine user, one customer representing a segment of the business community expressed the following view:

"Postage Costs should be geared to reflect the actual cost involved in the service i.e. franking costs should be cheaper than buying bulk stamps from the Post Office which in turn should be cheaper than low volume purchase of stamps"

5.3 Commission's Position

5.3.1 Affordability

The issues raised by some customers need to be considered carefully by An Post. It will be of no benefit if the value of any price increase is eroded by significant reductions in business volume. In ComReg's view this issue arises because An Post's discount proposals are focused almost exclusively on the largest users.

The Commission is very conscious that the size of the increases proposed, particularly in the case of the packet stream, presents some customers with particular problems. Unfortunately the need for increases of this magnitude arises from historical practices in pricing as well as inefficiencies in operating procedures. The larger the subsidy that particular users have received in the past, the larger the increase that has to be imposed now. However, no service provider can afford to subsidise particular groups of customers, and the ability to require other customers to do so is being phased out with the liberalisation of postal markets.

5.3.2 Format

Some respondents appreciated that they could avoid the increase in price for larger (C4) envelopes by switching to the use of smaller POP envelopes, and other benefits that the changes bring. ComReg sees the move towards format pricing as a forward looking step which will make life simpler for all concerned. Ultimately there should be a single rate of postage for each of the standard size of envelopes, whatever is included.

One respondent argued that business users are now being confronted with both format and weight pricing conditions for letter mail, and that this makes it more

costly to prepare mail for posting. Change cannot happen overnight. The current proposal means that anything in a POP / C5 envelope does not need to be weighed unless it is overfilled and breaches the thickness limits. Larger (C4) envelopes and packets still have to be weighed because of the issues of price elasticity that would arise if the process of moving from a weight based system to a format based system was undertaken too quickly. The initial move to 100g is a forward step. All the evidence from the costing reports is that there is no difference in cost and therefore there should be no difference in price.

5.3.3 Franking Machines

The submission by An Post rejecting the international experience that franking machines offer cheaper costs than postage stamps needs to be tested further. However none of the major franking machine manufacturers have made the case for cheaper postage rates. ComReg will look at this issue again.

6 Non Reserved Area

6.1 Summary of Consultation Issues

An Post is obliged to comply with the tariff principles in respect of the prices for services in the non reserved area, and ComReg has the responsibility to monitor compliance with these principles on an *ex-post* basis. The prices outside of the reserved area are attached in Appendix B. An Post stated that it was intended that tariffs for non-reserved services within the USO will be increased by an annual average of 9% over current rates.

The specific question posed in relation to the non reserved area was:

**Q.6. What are your views on price changes outside of the reserved area?
Please give your reasons**

6.2 Views of Respondents

11 of the Respondents addressed this question. The majority believe that the proposed prices are generally reasonable.

An Operator states:

“Prices must be affordable and geared to cost ie. prices outside of the reserved area but within the USO must follow the tariff principles (as stated in SI 616 of 2002)”

The lack of competition for this mail category was raised by another Operator:

“We feel that there is no real competition yet for C4 Envelopes and basically An Post have a monopoly in the C4 envelope market. In our opinion, the price increase that they are looking for in this regard is very excessive as this area is a growing market.”

6.3 Commission's Positions

The Commission notes the views of respondents and will be keeping issues relating to the 'geared to cost' principle under review.

7 Discounted Prices

7.1 Summary of Consultation Issues

A comparison of current and An Post's proposed discounts for POP (C5) envelopes is set out below:

Comparison of Discounts	Current Tariffs			Proposed Tariffs			Change
	BASIC PRICE	Discount	Net Price	BASIC PRICE	Discount	Net Price	
90% auto-sort Deferred (two day) delivery Noon Posting				48	13	35	
90% auto-sort Noon posting (currently 85%)	41	3	38	48	12	36	-2
65% auto-sort Deferred (two day) delivery Noon Posting				48	11	37	
65% auto-sort Noon posting				48	10	38	
90% auto-sort 15:00 posting				48	10	38	
65% auto-sort 15:00 posting				48	8	40	
Pre-sorted by customer/consolidator	41	5	36	48	5	43	+7
Non Machineable, Deferred (two day)				48	5	43	
<65% auto-sort 15:00 posting				48	5	43	
Non Machineable, 15:00 posting				48	4	44	
90% auto-sort 17:30 posting				48	4	44	

Notes

Pre-sorted mail is where mail is presented to An Post already sorted by delivery office. It gives a significant boost to quality of service because mail does not have to be sorted at the outward sorting hub, and it means that operators do not have to invest so heavily in sorting equipment and other resources.

Auto-sorting is where post can be sorted without manual intervention. For example '90% auto-sort 15:00 posting' means that 90% of mail in a sorting run did not require any human intervention and the mail was presented to An Post by 15:00. The remaining 10% in this case would consist of mail with addresses unreadable or unrecognised by the sorting machine. This is coded by operators using remote video coding and then sorted by machine based on these manually input codes.

Non-machineable mail is sorted entirely by hand. For example most packets will not fit into sorting machines.

As can be seen by reviewing the net prices above, this proposal, when the new discount structure is incorporated, will result in minimal increases (decreases in a number of cases) to business customers who process large volumes of mail.

7.1.1 Discount Services for Medium Scale Users of the Post

In An Post's proposal there is no proposition tailored to 35% of businesses that post between 10 and 40 items per day and account for 19% of business mail volumes. The

6.9% of businesses who post between 50 and 400 items per day and generate 35.6% of An Post business mail volume are offered a discount of €500 p.a. on the charge for collecting mail from their premises. There is also lack of discounts for those customers who use franking machines.

7.1.2 Discount Services for Large Scale Users of the Post

The main discount services are targeted at the large users who represent 2.3%¹⁷ of the total business market that generate in excess of 2000 items posted each week and account for 39% of the business mail volume. The discount proposal attempts to take into consideration the price sensitivity of the bulk mail market who could switch to alternative means of communication with their customers if the price is not set at a level that is attractive enough to retain and stimulate volume growth.

The Consultation Paper disclosed that ComReg had a number of concerns about the detail of the discount strategy:

- The largest discounts are given to mail that is presented early in the day and can be auto-sorted. This is influenced by the quality of the addressing and the quality of the address.
- The discounts are only available for mail reaching the “hub” by the specified time. Mail posted in most provincial towns, including Galway, Limerick, Waterford, Sligo and Drogheda must be posted locally one day in advance in order to reach the hub on time the next day. This will mean an extra day’s delay to avail of the discounts.
- The 1c differential for the deferred (two day) delivery is unlikely to be attractive, although this service offers much greater flexibility to An Post.
- The discount for pre-sorting is not proportionate to the other discounts and therefore there is insufficient incentive to divert to downstream access.

The specific questions asked were:

¹⁷ IMS Business Survey 2002 – information derived from an analysis of the business market for postal services

Q.7 Discount prices – (a) do you believe that the deferred delivery and early presentation discount mirror the cost differential between those services considering the benefit to An Post in terms of flexibility and early presentation? (b) Is the relationship between the level of discounts for pre sortation and clean mail acceptable?

7.2 Views of Respondents

Some of the respondents to this section provided general comments on discounts rather than addressing the specific discount question. One view expressed was that the discounts are a commercial matter for An Post and if the charges do not reflect the cost savings, the following was suggested:

“. . . the better remedy is to enforce cost reflective wholesale or interconnect type access to the final delivery facilities, rather than to micro manage retail discounts”

An Post in their response states with regard to margin on discount services:

“An Post would comment that as tariffs for discounted services are standard tariffs reduced to reflect cost savings, the margin earned on these services is the same as the margin arising on fully paid letters”

10 of the respondents answered some or all of the specific questions and their comments were as follows:

7.2.1 Deferred Delivery and Early Presentation Discounts

The general consensus was that the differential between the two discounts was not attractive enough. The logic of the range of discounts and the difference between the prices was questioned.

“It is difficult to understand the logic behind the Deferred Delivery discount system - €0.01 discount?”

“The difference of 6c for 90% auto sort between 17:30 presentation (price of 44c) and 15:00 presentation (price of 38c) appears quite large. . .”

“As a major user of An Post’s services, the additional one cent discount on deferred processing would not provide us with a sufficient incentive to present our post in this manner”

7.2.2 Pre sortation and machine readable mail

An Post claim in their response that

“An Post’s introduction of automated sorting equipment means that mail is now automatically sorted through to its final destination at the automated centre, so that there is a significantly reduced benefit or cost saving arising from the pre-sortation of mail”

The relativity of the discounts offered was an issue identified by the majority of respondents. The claim was made that the pre sorted discount should be higher and not lower than the deferred delivery discount and therefore the 5c should be more than 12c.

“The discount for pre-sorted mail should be greater than €0.05 and certainly the variance between pre-sorted and unsorted mail should be greater than €0.01”

An Operator commented

“The basic clean-mail discount is 4c (for letters) and the corresponding pre-sortation discount is 5c. It is doubtful whether the latter is enough to encourage machineable mail to switch from non-presort. . In percentage terms the pre-sort discount is a little over 10% -the comparable discount in the UK would be 13% (or 6.2c)”

The fact that the price for pre-sortation is at such an unattractive level one respondent claimed that An Post do not want to continue providing this service.

“We do not believe that the discount mirror price offered to us reflects the cost savings that An Post are making in bulk mail”

“It is obvious that An Post do not want this service to continue, as it would not be cost effective under this category to get all mail to pre-sortation standard”

7.3 Commission's Position

7.3.1 Overview

ComReg has serious concerns about the proposed discount policy, and there are specific issues, such as access, non discrimination, the avoided cost principle, availability of discounts and transparency of conditions all of which appear to be related.

The current price proposal includes a substantial increase in headline tariffs as well as introducing an expanded range of discounts mail aimed predominantly at major business users and meeting its own internal needs rather than possibly seeking to stimulate further growth through developing the demands of the wider business community.

Discounts are of course a key component of the price increase proposal. ComReg is not convinced that the discount structure submitted to it or that contained in the response to consultation, comply with Regulation 9(3). This sets out the principle that such discounts shall take account of the avoided costs and shall apply the principle of non-discrimination with regard both to the tariffs and to the associated conditions.

ComReg also not convinced that the proposals made will achieve the objective of stimulating business volumes.

The current proposal appears to focus primarily on:

- retaining volumes from existing large customers, rather than encouraging the wider business community to post more.
- ensuring mail is in a form “readable” by An Post’s sorting machines rather than co-operating with other stakeholders to maximise the volume of mail that the delivery postman has to deliver – the major cost item in An Post’s network, and the element with the highest element of fixed cost.

- offering everyone a next day delivery, when a cheaper deferred delivery option might be more welcome,

The discounts proposed are made up of three elements:

- A discount for the amount of work that has to be done at the sorting stage
- A discount for the time available to do the work, and
- A discount for accepting deferred delivery

In most cases at least two of the discounts are bundled together, and it appears that the avoided cost attributable to each item is not measured consistently

The following table summarises the discounts proposed for POP letters to highlight the main anomalies:

	NEXT DAY DELIVERY	DEFERRED DELIVERY
Pre-sorted by customer/consolidator	5c	Not offered
90% auto-sort 17:30 posting	4c	Not offered
90% auto-sort 15:00 posting	10c	Not offered
90% auto-sort Noon posting	12c	13c
65% auto-sort 17:30 posting	Not offered	Not offered
65% auto-sort 15:00 posting	8c	Not offered
65% auto-sort Noon posting	10c	11c
Machineable, not auto-sorted 17:30 posting	Not offered	Not offered
Machineable, not auto-sorted 15:00 posting	5c	Not offered
Machineable, not auto-sorted Noon posting	Not offered	Not offered
Non Machineable, 17:30 posting	Not offered	Not offered
Non Machineable, 15:00 posting	4c	Not offered
Non Machineable, Noon posting	Not offered	5c

7.3.2 Discounts related to the amount of work saved/pre-sorting/auto-sorting

A major issue to which users have drawn attention is the discrepancies in the value of the discounts offered for work done. It would be expected that the discount for pre-sorting (whereby users themselves pre-sort to individual delivery offices) would be greater than that for auto-sorting. The next largest discount would be expected to be for the 90% auto sort rate, i.e. where 90% or more of the addresses on the envelopes can be machine read. In fact the discount for pre-sorting is 5c, and that for 90% auto-sort is substantially larger. An Post argue that this is because the new automated sorting hubs will be able to sort the mail to delivery postmen and the discount reflects the saving here also.

After this the next level of discount would be expected to be for the 65% auto sort rate, i.e. where 65% or more of the addresses on the envelopes can be machine read. ComReg has two concerns about this proposed discount. The first is the lack of any offer for 17:30 posting, even though the cost savings implicit in An Post's proposals would suggest a 2c discount should be offered. However, based on information submitted by An Post ComReg believes that the cost savings between a 90% read

rate and a 65% would warrant only a small differential which raises the question as to whether it is appropriate to offer two different discount rates for machine-readable mail at all.

After this the lowest level of discount is for mail which can be machine processed but the address cannot be read by the machine.

Another concern is with the criteria used to determine whether the item is auto-sorted or not. This is also dealt with later, in the section on terms and conditions.

There are an identifiable set of factors that affect whether an automated sorting machine can read the address on an envelope, e.g. position of the address, typeface used, size of print, spacing between characters, background, intensity of ink and so on. The factors are well documented and most professional mail producers know what they have to do to ensure a good "read-rate".

One factor that might result in a different rate would be if the machine could read the address but could not sort it automatically because the address was non-unique, or incorrect. In the absence of a publicly available database of correct postal addresses, such as the Postal Address File in Britain and Australia, it would be inappropriate to take this into account in pricing. In effect because of the structure of addresses outside the major towns (40% or more of all addresses) the level of discount would be a measure of the proportion of letters for rural areas. ComReg does not believe it is appropriate to penalise users (by applying a lower discount to machine-readable, but not auto-sortable, mail) for the fact that An Post has not made such an address file publicly and freely available.

7.3.3 Discounts related to time of presentation

An Post is proposing to introduce three different rates depending on the time the mail is received at one of its sorting hubs i.e. Noon, 15:00 and 17:30. This presents an additional difficulty in quantifying the value of the avoided costs. The main saving lies in being able to make more intensive use of assets. There is also some saving possible by using a smaller number of staff for a longer period. It may also be possible to achieve quality of service targets while employing a smaller number of staff in the peak period.

The figures implicit in An Post's proposals are that posting by 15:00 rather than 17:30 saves An Post 6c, and by Noon rather than 17:30 saves them 8c. ComReg agrees with the comment of an Operator, that these savings appear to be quite large compared with the savings attributed to differences in the work done.

ComReg is also concerned that there are minor inconsistencies between the discounts offered for mail posted at 15:00 compared with 17:30.

7.3.4 Discounts related to deferred delivery

As many respondents have pointed out the discount offered for deferred delivery at 1c is insufficient to induce customers to avail of the discount. ComReg is concerned that it may not adequately reflect the full value of the benefits to An Post.

The provision of a discount to customers who are willing to accept deferred delivery ensure that it is the customer rather than An Post which is choosing which mail should be delayed when there are unforeseen surges in mail volume.

As deferred delivery gives An Post flexibility to process the posting on either Day A or Day B it can achieve significant flexibility. The deferred delivery option allows for a smaller margin to be spread over a longer period.

ComReg in line with many of the respondents find it difficult to reconcile the 1c discount with the 6c saved by being able to start sorting the mail at 15:00 rather than 17:30.

A further concern is that the deferred discount is not offered consistently for all types of mail, e.g. no discount is offered for "machineable mail" or "pre-sorted" mail or mail presented after "noon".

Concerns about the availability of this discount are addressed in the section on terms and conditions.

7.3.5 Principles moving forward

On the basis of ComReg's own analysis and the observations received, ComReg cannot accept that the entire package of discounts proposed by An Post are based on avoided cost.

In revising its discount proposals An Post needs to bear the following points in mind:

- Estimates of the cost of the different types of sorting, ie manual sorting, machine sorting with video coding and automatic machine sorting, have already been made available to ComReg. These can be used to calculate the avoided costs for mail machine sorted with video coding, mail automatically sorted and for mail pre-sorted by the customer.
- Reasonable and consistently applied estimates need to be made of the cost avoided if the mail is presented at 15:00 or Noon rather than 17:30. Pre-sorted mail will offer An Post similar savings to mail presented by noon that needs to be sorted.
- Equally if customers are prepared to accept a deferred delivery service then this too should be reflected in the discount level available. These avoided costs are, of course, greater than the avoided costs for the early presentation on the day of posting. There ought to be a reasonable relativity between these two types of avoided costs.

7.3.6 Pre-sorting

This is a traditional postal service offered by most major postal operators and therefore this discount should be highly promoted by An Post. It gives a significant boost to quality of service because mail does not have to be sorted at the outward sorting hub, and it means that operators do not have to invest so heavily in sorting equipment and other resources,

As stated in section 7.2.2 An Post claim that with the introduction of the new automated sorting hubs the benefits of pre-sorting will be limited.

In contrast however, international postal service providers have encouraged consolidators and large companies to print barcodes on their mail and to presort so that it can go straight to where mail is sorted to delivery postman. Australia Post withdrew the traditional pre-sorting service and replaced it with a barcoded service. The accounts for 2001/2 report that:

“At year end, 73 per cent of bulk letter mail was barcoded (against 59 per cent previously). This uptake brings higher levels of accuracy to mailing lists and greater efficiencies in mail processing, leading to savings for Post and major mail users”

Alternatively mail could be pre-sorted direct to delivery postman. This is especially important for bulk computer generated mailings where the printing sequence can be pre-determined.

A major barrier to the introduction of such services in Ireland is the lack of a freely available address database which would enable producers of such mail to print the barcode or sort mail to delivery postmen.

8 Postaim

8.1 Postaim Service for Direct Mail customers

The provision of a service where the price is determined by the content of the envelope rather than work that An Post has to do to deliver it to the addressee is not consistent with the tariff principles. This segment of the business is very important to the future prosperity of the postal sector and therefore it is essential that services which meet the needs of the important group of customers who use this service are in place before this specialised service is withdrawn.

Weight	2k-75k		75k-250k		250k-500k		>500k	
	Current	Propd.	Current	Propd.	Current	Propd.	Current	Propd.
POP Letter Format								
0-10g (Lite)	25c	32c	24c	30c	23c	29c	23c	28c
0-50g	30c	34c	27c	32c	26c	30c	25c	29c
51-100g	38c	38c	34c	36c	32c	34c	31c	33c
Flat Format								
0-50g	30c	40c	27c	38c	26c	36c	25c	35c
51-100g	38c	45c	34c	42c	32c	39c	31c	38c
Packet Format								
0-50g	30c	70c	27c	64c	26c	62c	25c	60c
51-100g	38c	70c	34c	64c	32c	62c	31c	60c

The specific question asked was:

Q.7 (c) Do you believe the Postaim prices are at an acceptable level taking into account the An Post Strategy?

8.2 Views of Respondents

An Post claim that the prices proposed for Postaim are part of the process being undertaken to gear prices to cost. The majority of respondents made suggestions regarding the current service. The detail of the An Post strategy for increasing volume was questioned for this mail category

“Reduction for direct mail is insufficient in view of the fact that we must sort, pack and label all mail for the local sorting office. . The cost of postage is currently a major deterrant to the use of direct mail. .”

“The 15 day delivery period for DM (Direct Mail) is unacceptable in this day and age and is used by An Post as an excuse for poor service. We do not expect next day delivery but 4/5 days is acceptable.”

“X believes that Postaim discounts should be as for standard mail and based on genuine workshare savings. ”

One respondent suggested that all postage items including invoices statements and direct mail should qualify for the Postaim rates. Another suggestion offered was:

“. Volume and/or content related discounting should be limited in nature. . All bulk products should be accessible to any customer or Third Party Operator who can meet the right sortation and/or workshare criteria . . There is therefore no obvious financial or economic reason for pricing this service differently, or for restricting access to other large mailers”

8.3 Commission's Position

Postaim is a service designed originally for the Direct Mail industry. It offers a special low postage rate, but only certain types of content can be enclosed. Like all other services, the Postaim service needs to be geared to cost. The An Post proposals represent a significant step towards achieving this however there is still a larger discount offered to these customers than to bulk mailers . In line with the main services, the prices proposed are format based. As outlined in the consultation paper ‘In the long term, however, An Post intends to merge this service into the other discount options’.

9 Terms & Conditions

9.1 Views of Respondents

Although the Consultation Paper made no specific reference to the Terms and Conditions attaching to the services, a number of respondents raised specific issues in this regard. The conditions attaching to the proposed discount services was a particular area of concern:

“Based on our experience shown above we do not trust schemes put forward where the full terms and conditions of use are not spelled out clearly. We submit that ComReg should not put such proposals to consultation without the detailed terms and conditions attaching to them.”

Attention was drawn to a recent case in France was also quoted where:

“On 23rd October 2001 the European Commission adopted a decision on the monitoring of relations between La Poste and mail preparation firms in France. The decision means that La Poste must publish the terms and conditions it gives to its own subsidiaries and allow mail preparation firms in France access to these terms and conditions”

There were a number of specific issues raised:

9.1.1 Non discrimination

The view was expressed that tariffs must be non discriminatory in that all customers must be offered the same discounts.

“If An Post are offering discounts to other postal operators (or customers such as those in the UK including An Post subsidiaries there) of 30+% for unsorted mixed mail, and calculating the postal tariff based on sampling, number of bags and weight of bags then this discounted tariff system, or an equivalent, must be offered also to all customers”

Other concerns expressed include:

“Difficulty will arise if a particular customer is permitted to avail at an inappropriate level of discount”

9.1.2 Minimum Size of posting to qualify for discount

The minimum number of items that qualifies for discounts was also raised

“We submit that an entry level of 2,000 pieces at the same posting time is too high, and is put in place to reduce the number of customers who could access the scheme. . . we suggest that 500 -750 pieces per mailing would be a reasonable minimum number bearing in mind the size of the business enterprise in Ireland ”

“In our view the minimum number of pieces per mailing for the entire discount scheme is too high, but in the case of the deferred delivery service it makes no sense at all and should not apply. Outside of the deferred delivery service, a minimum mailing per posting of 600 pieces would be acceptable”

9.1.3 Definition of "auto-sort"

In relation to the discounts, clarification was sought by a respondent as to the definition of "AutoSort". The following section summarises the respondent's discussions with An Post that confirmed:

- "(a) The address data does not have to be matched to the Geo Directory*
- (b) If the read rates fall below the appropriate limit (65% or 90%) then the mail will be charged at full rate*
- (c) A large number of the large mailers currently use Geo Directory and as such should reach the 90% without any additional development*
- (d) The main driver of AutoSort is to sort not just to the last 2 lines of the address but to the last 3. This will ensure that data is captured correctly by the customer and ultimately will be more machineable.*
- (e) Ideally An post would like everybody to use the GeoDirectory to ensure compliance. If the Geo Directory is to be used it will only require the purchase of the Address elements (EUR 12,600 yr1) if the company is to carry out the processing themselves. Alternatively An Post may appoint value added resellers to carryout the processing on behalf of customers.*
- (f) AutoSort also includes the MailMover criteria of font, size, location of address and movement in the envelope, etc. . "*

9.1.4 Restrictions on place of posting

Respondents drew attention to the need to encourage price sensitive mail flows that are not time critical to have a real choice to defer delivery regardless of geographic location. The provision of first and second class mail services may not be efficient for a market the size of Ireland, it was argued, but the deferred delivery service is an acceptable substitute. However the service is not uniform to all customers and those customers who can deliver mail to the 4 main sorting hubs can get their deferred mail delivered one day sooner than those businesses that operate from Galway, Limerick, Waterford and all those towns designated under the Government Spatial Plan. An Post claim that 90% of customers use the 4 main hubs.

9.1.5 Loyalty and cumulative discounts

Both an Operator and Customer raise the issue of An Post introducing "Loyalty Discounts".

"There is an argument that states that if a customer is a regular customer of An Post, that customer is an easier customer to service, will produce the mail in a consistent manner and has schedules which can be negotiated between An Post and the customer to ensure maximum efficiency in the production, sortation and delivery of the mail"

9.1.6 Postcodes

The lack of postcodes was also identified as a major stumbling block to allow any company to produce bulk mail.

"The fact that we still have no postcodes in Ireland 2003 is incredible. Postcodes are an easy and blindingly obvious way to allow any company

producing bulk mail to: clean and dedupe their database. . sort the mail for downstream access”

9.2 Commission's Position

ComReg is sympathetic to the many concerns raised in regard to terms and conditions. Changes to any terms and conditions which have an impact on the price of a service should be disclosed and the approval of ComReg sought before they can be implemented. In future An Post should supply a copy of its terms and conditions which it may wish to change at the start of the consultation process.

ComReg notes what one of the respondents has been told by An Post with regard to the definition of “auto-sort”. ComReg view is that customers should not have to pay €12,600 to An Post to be certain to qualify for the discount.

ComReg from the outset has expressed its concern that setting a minimum posting quantity of 2,000 may militate against participation by a wider group of business users which could in turn act to stimulate growth in the market. The majority of respondents agree with ComReg's position and have suggested that lower minimum levels should be introduced ranging from 600 to 350 with the lower of the two these applying in the case of a deferred delivery discount. ComReg believes that a more satisfactory minimum posting amount in relation to deferred delivery should be much less and invite An Post to propose a revised threshold in the region of 350 mail items.

The failure to provide access to discounted services except in Dublin, Cork, Athlone and Port Laoise again does not appear to fully address the potential for further commercial development and ComReg urges An Post to reconsider its position. In particular the needs of businesses in some of the major centres such as Limerick, Galway, Waterford, Sligo and Drogheda needs to be addressed.

There are concerns that Loyalty and similar discounts could be used in an anti-competitive way and ComReg would take the view that it is preferable the tariffs are kept to the lowest level possible rather than be inflated to allow for paying of a further discount at a later date.

ComReg agrees with the comments on postcodes and will be publishing a paper later this year.

10 Quality of service & Complaints procedures

10.1 Summary of Consultation Issues

10.1.1 Quality of service

The quality of service results recently published in ComReg document 03/58¹⁸ show that 1 in 4 single piece mail items are not delivered next day. The interim target of 94% set for 2003 is not currently being met.

An Post have announced that its own systems which measure the quality afforded to all types of mail, ie bulk postings (whether discounted or not) and single piece mail (ie fully paid mail), show that 87% of all such mail is delivered the next day.¹⁹

The two results are not necessarily inconsistent. What they do suggest is that the fully paid single piece mail does not get the priority it should get. The consultation must therefore address whether the structure of the discounts proposed for bulk mail will be sufficient to ensure that An Post can free up sufficient capacity to ensure that single-piece mail can receive the targeted standard of service. The question that must also be raised is what measures should be taken if the targets are not achieved²⁰.

10.1.2 Complaints and Redress Procedures

The Direction issued to An Post as outlined in Appendix D of ComReg 03/50²¹ requires that An Post submit a formal Code of Practice for approval, a draft of which is due to be submitted on 13 August 2003. The Code of Practice shall be drawn up bearing in mind the provisions of the European Standard EN 14012 as well as taking on board the guidelines provided below:

- Points of Contact
- Records of Complaints
- Process of lodging complaints for resolution
- Response times
- Category of complaints including the process for compensation and/or reimbursement it plans to implement in its formal Code of Practice
- Right to seek independent advice
- Submission of Code of Practice for Approval
- Publication of the Code of Practice

18 Information Notice ComReg 03/58 "An Post's Quality of Service Domestic single piece mail. Quarter 1, January to March 2003"

¹⁹ This system does not conform to any adopted European Standard for the measurement of Quality of Service of postal services.

²⁰ See Section 8 Q4

²¹ Postal Services – Universal Service Obligation, Tariff Principles and miscellaneous issues: Direction to An Post under the European Communities (Postal Services) Regulations 2002, S.I. No. 616 of 2002

The specific questions posed with regard to quality of service and complaints procedures were:

Q3. What measures should ComReg put in place in the context of the price application so as to ensure An Post achieve their quality of service target for single piece mail? Please give reasons

Q4. If this target is not achieved by the end of 2004 what measures should be taken? Please give your reasons

Q.9. Should the price increase be conditional on the timely implementation of the Code of Practice for handling user complaints as outlined in ComReg document 03/50?

10.2 Views of Respondents

10.2.1 Link between price and quality

Of the 14 respondents who addressed the issue of a link between price and quality An Post and CWU claim that this is a separate issue to price and should be treated separately. An Post's response states

"The only criteria that ComReg can apply are those set out in the Postal Directive and in Regulation 9 of the European Communities (Postal Services) Regulations 2002. There is no legislative provision under which ComReg's approval of a price increase application may be made conditional on issues such as quality of service performance"

On the other hand 9 were in favour of ComReg taking quality into account in one way or another and clearly want the price increase to be linked to performance.

"Any price increases granted to An Post must be linked to increased performance levels . . ."

"all price increases should be phased with yearly tariff increases linked to QoS performance and improvement targets. ComReg should consider compensation schemes such as those that can be found in the REIMS II agreement, in the UK and from 2005 will be in place between industrialised Countries operating in the UPU system"

10.2.2 Failure to achieve target by end of 2004

10 Respondents addressed question 4 that dealt with the action to be taken in the event of a failure to achieve quality targets by the end of 2004. Of these six suggested some form of penalty and three sought a compensation scheme

"X recommends ComReg require An Post to amend their compensation structure so that it rewards performance and penalises inefficiencies"

“ComReg should accelerate the introduction of a comprehensive, easily accessible, realistic and enforceable compensation structure and procedure for non or late delivery of mail. . -e.g. twice the cost of the tariff paid for one mail item lost, delivered to the customer with a letter of apology”

“Rather than compensate its customers for mail already paid (which is possibly unworkable) the . . suggest the regulator then instruct An Post to reduce their tariff by the fraction of target not reached”.

“If the target is not achieved An Post should be clearly able to identify the route [sic] cause, rectify it and compensate Customers who paid for that level of service”

Other operators suggested a link between quality and access conditions:

“. . that one of the core regulatory building blocks ComReg should put in place to ensure that An Post achieve their quality of service target for single piece mail, is a transparent, objective and relevant tariff for downstream access and work sharing”

10.2.3 Complaints and Redress Procedures

Of the 13 Respondents to this question, 9 agree that the price increase should be conditional on the timely implementation of the Code of Practice. One respondent states:

“. We strongly suggest that no increases in tariffs are approved by the Director until a compensation procedure is in place. This compensation procedure must take into account both delayed and non delivery of mail.”

“We feel there is evidence that An Post are becoming more customer focused in the recent months. But they still have a long way to go meet customer standards and to handle user complaints as a matter of urgency and it should be conditional on the implementation of code of practice for handling customer complaints.”

An opposite view was stated i.e.

“Whilst we want implementation of this level of price increases delayed for as long as possible, we do not see any logical reason why it should be tied to the implementation of a Code of Practice for handling user complaints”

10.2.4 Measurement of Quality

An Post in their response to consultation raised the question of measuring quality:

“An Post notes that its quality monitoring system is fully compliant with the CEN Standard, while ComReg’s is not compliant with that standard. ComReg only began monitoring quality performance in the autumn of 2002 and, bearing in mind the monitoring period set out by CEN (up to 9 months), An Post considers the publication by ComReg of results for the first quarter of 2003 as premature.”

On that subject one customer refers to the results as published for Q1 2003 by ComReg and states:

"I have always felt uncomfortable with An Post's statistics suggesting a delivery performance in the 90s% and ComReg 0358 confirmed my suspicions – ie the real number is somewhere in the 70s%"

10.2.5 Postcodes

Another Customer suggested that postcodes could play an important role in improving quality

"An Post have mechanised the system without going through the discipline of implementing postcodes. While postcodes might do nothing to speed up the delivery of ESB bills they are essential in my view to get all the post delivered quickly. . . A handwritten numeric postcode has a high probability of being machine read – far higher than cursive handwriting of town names etc. . ."

10.2.6 Service Standards

The fact that ComReg focuses on single piece priority mail in accordance with its statutory requirements was criticised by one respondent who claims that economy mail to the UK can take between 2 – 3 weeks to be delivered depending on the volume of mail.

"Too much emphasis is being placed on one aspect of quality of service. . . happy with the efficiency and courtesy of delivery personnel . . . For cost reasons it is unfair to An Post to set the standard too high"

10.3 Commission's Position

10.3.1 Compensation and Penalties

In a competitive market there is always a link between price and quality. As prices are moving towards being more geared to cost ComReg must be mindful to ensure that the customer receives the level of quality that should be afforded to the product paid for. This is particularly relevant for those customers who pay the full tariff and have a right to expect next day delivery.

In the proposal submitted by An Post there is a clear distinction between those discounted products that secure next day delivery and those that do not. In this new environment it is important that every customer gets the standard of service they pay for.

An Post are required to submit to ComReg their code of practice for dealing with complaints and redress procedures by 13 August 2003. This is required, in accordance with Regulation 15(1) of S.I.No. 616 of 2002, to make provision for payment of reimbursement or compensation or both.

ComReg is considering what measures may be necessary to enforce full compliance by An Post with its Quality of Service requirements.

10.3.2 Measurement of Quality

It is necessary to respond to the point raised by An Post in relation to the quality monitoring system. The CEN standard IS EN 13850:2002 specifies methods for measuring the end-to-end transit time of the domestic and cross-border priority **single piece** letter mail. The contract that ComReg has entered into with TNS mrbi

requires the company to undertake its work in full compliance with the standard. An extract from IS EN 13850:2002 (page 4 – Scope) states:

‘This European Standard is not applicable for measuring the end-to-end transit time distribution of large bulk mailers’ services and hybrid mail, which require different measurement systems and methodologies.’

An Post measures both single piece and bulk mail together and this is not compatible with the CEN standard as quoted above. We should also confirm that section 4.6 of the Implementation Guide that deals with the “Reporting of Results” states:

“The minimum requirement in the standard is to provide figures for the calendar year. Results may also (but do not have to) be reported for other periods of the year and information should be given on the accuracy of those results.”

Following a public consultation²², the response to consultation document ODTR1/73²³ outlined that the ‘results will be published quarterly by the ODTR²⁴’

Section 2.5 of the standard outlines the use of survey results for quality improvement.

‘The standard sets out minimum requirements in order to produce one overall figure. It is recognized that operators or other bodies may wish to go beyond these minimum requirements in order to produce information to identify and correct specific areas of poor performance. The survey design can be expanded to collect this information.’

The quarterly publication allows both An Post and others to judge performance on a regular basis and enable An Post to take the necessary action so as to remedy any deficiencies.

22 Consultation Paper ODTR 01/28 ‘Regulation of Postal Services-Quality of Service Standards to be achieved by An Post’

23 Decision Note D14/01 & Response to Consultation ODTR 01/73 ‘Regulation of Postal Services-Quality of Service Standards to be achieved by An Post’

24 ComReg’s predecessor

11 Overall Conclusion

There are three key reasons why most postal tariffs within the reserved area have to be increased.

- The first is that there are many anomalies in the current weight based pricing structure. These proposals are an important step in addressing this situation.
- The second is that An Post's costs are increasing at an unsustainable rate. Some of these, such as the increase in pay rates over the last few years are long term issues. Others such as the failure to achieve the full savings on which key investment decisions costing €96.5m in capital and €52m in redundancy costs were based must be tackled as a matter of urgency.
- The third is that there has been a significant reverse in the volume growth per delivery point that facilitated price stability for more than a decade.

Having reviewed the proposed "headline" tariffs against current costs ComReg believes that the proposed 48c rate for a POP (C5) envelope is a reasonable price, and that the proposed 60c rate for larger (C4) envelopes and 96c rate for other packets are the most that the market can bear at the current time. In addition, the Postaim prices although not fully geared to cost are acceptable at this stage.

ComReg has serious concerns about the proposed discount policy. The proposals need to be revised to take account of the points discussed in sections 7 and 8 of this report and in particular to take account of the following factors:

- Estimates of the cost of the different types of sorting, i.e. manual sorting, machine sorting with video coding and automatic machine sorting, have already been made available to ComReg. These can be used to calculate the avoided costs for mail machine sorted with video coding, mail automatically sorted and for mail pre-sorted by the customer.
- Reasonable and consistently applied estimates need to be made of the cost avoided if the mail is presented at 15:00 or Noon rather than 17:30. Pre-sorted mail will offer An Post the same savings as mail presented by noon that needs to be sorted.
- Equally if customers are prepared to accept a deferred delivery service then this too should be reflected in the discount level available. These avoided costs are, of course, greater than the avoided costs for the early presentation on the day of posting. There ought to be a reasonable relativity between these two types of avoided costs..

The terms and conditions for deferred delivery should be much less and An Post is invited to propose a revised threshold in the region of 350 mail items.

In these circumstances, ComReg is minded to approve the new 48c rate for a POP (C5) envelope, 60c rate for larger (C4) envelopes and 96c rate for other packets provided that the discount proposals are revised satisfactorily. Implementation of the new rates and revised discount proposals on 30 August 2003 is envisaged, provided

that a satisfactory proposal on discounts is received from An Post within the specified timeline.

It is ComReg's view that An Post now needs to prioritise its efforts by focussing on tangible improvements in its efficiency and by growing its volumes in order to reduce unit costs rather than having an over reliance on price increases. It also needs to demonstrate improvement in its record on quality. (Currently one in four items of mail posted as single items are not delivered the next day). These concerns were also expressed by most of the respondents to the consultation.

ComReg will ask An Post to consider this report and to submit revised proposals no later than 15 August 2003

Appendix A – Legislation

1. The European Communities (Postal Services) Regulations 2002 (S.I. No. 616/2002)

The EC “Postal Directive”²⁵ establishes a harmonised regulatory framework for postal services throughout the European Union and for securing improvements in the Quality of Service provided, and defines a decision-making process regarding further opening of the postal market to competition. It was transposed into national law by the European Communities (Postal Services) Regulations, 2000, S.I. No.310 of 2000, which have now been revoked and replaced by the European Communities (Postal Services) Regulations, 2002, S.I. No.616 of 2002 (“the Postal Regulations”),

These Regulations set out a very broad framework of the universal service requirement. A function of ComReg is to put flesh on the bones of these Regulations; taking cognisance of the modern needs of business and domestic consumers in tandem with ensuring that the Universal Postal Service remains a protected and viable service nationwide.

In accordance with Regulation 9 of S.I. No 616 of 2002²⁶ ‘*Tariff Principles and Transparency of Accounts*’, the tariffs for each of the services provided by a universal service provider which form part of its universal service shall comply with a number of principles including the following:

- (a) Prices must be affordable and must be such that all users have access to the services provided
- (b) Prices must be geared to costs
- (c) Tariffs must be transparent and non-discriminatory

Under Regulation 9(3) special tariffs for businesses, bulk mailers or consolidators of mail from different customers shall take account of the avoided costs, as compared to the standard service covering the complete range of features offered, and together with the associated conditions, shall apply equally both as between different third parties and as between third parties and universal service providers supplying equivalent services.

Under Regulation 9(6), where ComReg is of the opinion that a universal service provider is not complying with the principles ComReg may, after consultation with the Minister, issue directions to ensure compliance with the principles.

²⁵ Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service. OJ L 15 21.1.1998, p. 14, as amended by Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to the further opening to competition of Community postal services OJ L 176 5.7.2002, p. 21.

²⁶ S.I. No.616 of 2002, European Communities (Postal Services) Regulations, 2002
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2. The Postal & Telecommunications Services Act 1983("The 1983 Act")

Under section 70 of the Postal & Telecommunications Services Act 1983 An Post may make, as respects any of the postal services provided by it, a Scheme providing all charges which are to be made by it and the other terms and conditions which are to be applicable to those services. The Postal Regulations 8 (4) amends the Act to provide that An Post shall not increase any charge under such a Scheme relating to postal services reserved to An Post without the concurrence of ComReg (this role had previously been given to the Minister).

ComReg's responsibility only relates to those services defined under Regulation 8 as reserved services i.e. items of correspondence weighing up to 100 grams and charged less than three times the standard tariff for an item in the first weight step (€1.23). It creates a mechanism by which An Post must seek ComReg's approval before implementing any price increase.

3. DISTINCTION BETWEEN THE TWO LEGAL PROVISIONS

ComReg's powers under section 70 of the 1983 Act is of a different nature to that arising from the Postal Directive requirement to ensure that An Post complies with the Tariff Principles, and covers different (albeit overlapping) areas of An Post's business. Section 70 of the 1983 Act applies to pricing in the reserved area, while the Postal Directive requirement applies to all elements in the universal service. It can be the case that a heavier packet is in the part of the market open to full competition, yet is also in the scope of the universal service since such packets must be delivered to all addresses in the State if presented to An Post. It should be noted that ComReg may take into account factors other than compliance with the tariff principles in making any decision under this section of the 1983 Act.

4. Communications Regulation Act 2002

Under Section 12 (1) of the Communications Regulation Act one of the statutory objectives of the Commission in exercising its functions shall be to promote the development of the postal sector and in particular the availability of a universal postal service within to and from the State at an affordable price for the benefit of all users.

5. CRITERIA AGAINST WHICH COMREG WILL MAKE ITS DECISION UNDER SECTION 70 OF THE 1983 ACT

As indicated in the Report on Consultation ODTR 02/32, in addition to the Tariff Principles ComReg will take into account the following factors when considering, under Section 70(2) of the 1983 Act, as amended, whether to approve proposals to increase prices for services within the Reserved Area:

- 1 Observations made to ComReg under Regulation 17(1) of the Postal Regulations about the adequacy of An Post's justification for the proposals.
- 2 The obligations which are placed on An Post by EC competition law, by statute (e.g. Section 13 of the 1983 Act which requires prices to be kept at the

minimum rates consistent with meeting approved financial targets) and by its own memorandum and articles of association

6. Tariff Principles²⁷

It would be inappropriate for ComReg to concur with any proposals that did not take into account the tariff principles (particularly “affordability” and “geared to costs”) as these Principles apply to all of the universal services. The onus is on An Post to comply with these principles and under Regulation 19(1) of the Postal Regulations ComReg’s responsibility is to monitor compliance, but without any requirement to approve prices in advance.

If a service falls within the universal service area, the same tariff principles apply to all aspects of the service whether or not a particular item falls within the reserved area. In other words it is not possible for the prices of a service to be compliant in the reserved area and non-compliant in the competitive area or vice versa.

7. Competition Law

ComReg has a duty to ensure that its decisions do not approve pricing structures in breach of EC competition law.

The European Commission has published a Notice on how competition law applies in the postal sector.²⁸ Point 3.4 of this notice provides that monopoly operators such as An Post “should not use the income from the reserved area to cross subsidise activities in areas open to competition. Such a practice could prevent, restrict or distort competition in the non-reserved area.” There is a provision in Regulation 9 (5) of SI No 616 of 2002 that subsidies from the reserved area to the non reserved area may be permissible “only to the extent to which it is shown to be strictly necessary to fulfil specific universal service obligations imposed in the competitive area”.

8. Section 13 of the 1983 Act

Other legislative requirements must also be taken into account. In this regard section 13 of the 1983 Act sets out in detail the financial objectives for An Post (in summary to “break even”) and specifically provides that “charges for services are kept at the minimum rates consistent with meeting approved financial targets”.

9. Efficient Operations

The possibility must also be considered that the prices for services in the reserved area are in excess of the price that would be charged in a fully competitive market, not because of the need to ensure the maintenance of the universal service, but because the protection of a monopoly mitigates the consequences of failing to fully eliminate operational inefficiencies.

²⁷ In the response to consultation An Post stated ‘An Post will have to charge and the regulator will have to approve, further significant increases in the headline rate with, at the same time, deeper discounts for bulk mailers to ensure the long term financial viability of the domestic Universal Service’. As indicated above, the responsibility of ComReg in relation to any price increase is outlined under Regulation 9, SI 616, 2002 European Communities (Postal Services) Regulations, 2002.

²⁸ Notice from the Commission on the application of the competition rules to the postal sector and on the assessment of certain State measures relating to postal services Official Journal C 39, 6.2.1998, page 2.

This is referred to in Recital 26 to the EC Postal Directive in the following justification for establishing the tariff principles:

(26) Whereas, in order to ensure sound management of the universal service and to avoid distortions of competition, the tariffs applied to the universal service should be objective, transparent, non-discriminatory and geared to costs;

Appendix B - An Post Price Proposals outside the reserved area

STANDARD DOMESTIC / BUSINESS REPLY FIRST CLASS LETTER SERVICE

1 Larger Envelopes

Weight not over	Current price	Proposed price
250g	92c	96c
500g	€1.49	€1.44
1kg	€2.50	€2.40

2 Letter Packets

Weight not over	Current price	Proposed price
250g	92c	€1.44
500g	€1.60	€2.40
1kg	€4.25	€4.50
1.5kg	€5.50	€6.50
2kg	€7.00	€6.50
Each additional 500g	€1.35	€1.50

3 Registered Mail

Weight not over	Current price	Proposed price
50g (Fee €2.94 + 0.96)	€3.51 - €3.57	€ 3.90
100g (Fee €2.94 + 0.96)	€ 3.70	
250g (Fee €2.96 + €1.44)	€4.02	€4.40
500g (Fee €2.95 + €2.40)	€4.59 - €4.70	€5.35
1kg (Fee €3.00 + €4.50)	€5.60 - €7.35	€7.50
1.5kg (Fee €3.00 + €6.50)	€8.60	€9.50
2kg (Fee €3.00 + €6.50)	€10.10	
Each additional 500g	€1.35	€1.50

4 Postaim

Weight	2k-75k		75k-250k		250k-500k		>500k	
	Current	Propd.	Current	Propd.	Current	Propd.	Current	Propd.
FLAT FORMAT 101-250g	52c	60c	48c	56c	46c	54c	45c	52c
251-500g	83c	€1.00	79c	95c	78c	93c	77c	91c
501-1kg	€1.01- €1.72	€1.50	97c- €1.68	€1.42	96c- €1.67	€1.38	95c- €1.66	€1.34
PACKET FORMAT 101-250g	52c	€1.10	48c	€1.02	46c	98c	45c	94c
251-500g	83c	€1.50	79c	€1.42	78c	€1.38	77c	€1.34
501-1kg	€1.01- €1.72	€3.00	97c- €1.68	€2.84	96c- €1.67	€2.76	95c- €1.66	€2.68

5 Schedule of Proposed Discounts –
Ceadunas & Meter (Remote Setting) Postings greater than 2,000 Items

100% Machineable	Discount (cent)		
	Flats	Flats	Flats
	101g-250g	251g-500g	501g-1kg
Presentation 17.30 90% auto sort	7c	7c	7c
Presentation 15.00 0% auto sort	9c	13c	17c
Presentation 15.00 65% auto sort	17c	22c	27c
Presentation 15.00 90% auto sort	19c	24c	29c
Presentation pre noon 65% auto sort	19c	24c	29c
Presentation pre noon 90% auto sort	21c	26c	31c
Deferred Processing pre noon 65% auto sort	21c	26c	31c
Deferred Processing pre noon 90% auto sort	23c	27c	33c

Non Machineable	Discount (cent)					
	Flat 250g	Flat 500g	Flat 1000g	Pkt 250g	Pkt 500g	Pkt 1000g
Pre Sorted (individual delivery offices)	7c	13c	13c	9c	17c	17c
Pre 15.00 at Hub	5c	5c	5c	7c	7c	7c
Deferred Processing	7c	7c	7c	9c	9c	9c

6 Medium Volume* Ceadunas & Meter (Remote Setting) Postings

A €500 discount will be offered on the annual collection fee to medium-volume meter (remotely set machines only) and Ceadunas customers who do not qualify for any other discounts on their mailings.

* Medium volume for these purposes means a minimum annual postage of €25,000