



Consultation Paper

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

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All responses to this consultation should be clearly marked:-
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Foreword

The Commission for Communications Regulation (ComReg) has been asked by An Post to approve a proposal to increase the prices of the domestic postal services which are reserved to the company under the European Communities (Postal Services) Regulations, 2002. The last price increase was in April 2002 when an interim increase of 3c was granted.

The primary objective for ComReg in respect of the postal sector is to promote the development of the postal sector and in particular the availability of an affordable high quality Universal Postal Service. In a deregulated market the price for postal services would be driven by competition. However, as the current proposal deals with those services for which An Post has a statutory monopoly, ComReg must take into account the views of interested parties before a final decision is made and in accordance with the procedures set out in 01/09¹. ComReg now invites comments from customers and other interested parties before making any decision.

An Post's financial position has been well documented. The sharp increases in costs incurred by the company in recent years has taken place against a stabilisation in volumes, which had grown substantially for many years before that, thus contributing to a difficult financial situation. The REIMS agreement also contributes negatively to An Post's profitability. The capital expenditure in the automation programme has reduced the cash position and the related planned savings have not been fully realised to date.

ComReg has to deal with the present situation in accordance with our obligations, but it is important that the customer should not have to continue to incur price increases to fund the inefficiencies of An Post. The key to the long term survival and competitiveness of An Post is to offer prices that reflect the cost of efficiently providing the service and managing any unavoidable increases in costs by growing the volume of mail or other services delivered to each home/business premises.

In this paper we see a proposal by An Post to set geared to cost prices in the reserved area for mail weighing up to 100g and also a proposal designed to grow business by introducing a range of discounts offered to large volume users. For letters, this would involve an increase from 41c to 48c, however the 48c proposed tariff is now extended to all letters up to 100g. The large envelope (up to C4 size) weighing up to 50g is proposed to increase from 47c to 60c, but there is no change for large envelopes in the 51g to 100g bracket. The letter packet up to 100g is proposed at 96c which is an increase from 47c for items up to 50g and an increase from 60c for items up to 100g. We have concerns about the viability of the large envelopes and packets segment and there will need to be a further realignment in the future.

**Etain Doyle,
Chairperson.**

¹ Information Notice 01/09 "Regulation of Postal Services-Procedures for seeking the views of interested parties"

1 Executive Summary

An Post has applied to the Commission for Communications Regulation (ComReg) to change the postage prices of the domestic mail services, changes which it says are necessary to address its financial problems. The 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. This consultation concerns itself with prices for domestic mail in the reserved area, ie items of correspondence weighing less than 100g.

The main changes proposed by An Post are identified in the table below:²

	POP Letter Format	Flat Format	Packet Format
Current Price to 50g	41c	47c	47c
to 100g	60c	60c	60c
Weighted average	42.0c	53.2c	55.1c
Proposed Price	48c	60c	96c
Weighted increase	14.4%	12.8%	74.2%

The impact on the CPI of the proposed changes, if adopted would be minute.

Definition of Terms	Size/ Dimensions
Post Office Preferred (POP)	Up to C5 Size 162mm * 235mm * 5mm
Flat (Large envelope)	Up to 400mm * 300mm * 25mm
Packets	Maximum size (width + length + thickness) 900mm, maximum length 600mm. In roll form (length + twice the diameter) 1,040mm, maximum length 900mm
Minimum Size (all formats)	90mm * 140mm

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

Profitability	Actual 2001 €m	Estimate 2002 €m	Budget 2003 €m	Forecast 2004 €m
No Price Increase				
Total An Post Group	(6.9)	(70)	(11.0)	(12.9)
Domestic Letterpost	7.5	(5.8)	(16.9)	(12.2)
With Price Increase				
Domestic Letterpost	n/a	n/a	n/a	6.0 ³
Revenue Yield	n/a	n/a	10.1 ⁴	18.4

² Section 7 below provides a detailed analysis comparing the An Post proposed tariffs with several other European countries, USA and Australia.

³ ComReg Estimate of 2004 profitability (excluding NI)

There is no doubt that An Post is in financial difficulty. Since 2001 costs have increased, in particular payroll and insurance. Volume per delivery point has fallen and delays in realising the savings from the major automation programme has led to significant losses being generated in the area reserved to An Post (ie. postal items weighing up to 100g or priced at less than or equal to three times the public tariff). In the most recently published separated accounts for 2001 An Post reported a profit on the domestic reserved area (which in that year was postal items up to 350g) of €1.7m as compared to losses of €19.3 in the inbound international business and losses of €13m on post office counters (See Appendix A for a summarised version of the separated accounts). However circumstances have changed since then. As outlined in section 4.3 below, staff costs for the letterpost domestic business have risen by 11.2%, inflation by 9.5% and insurance costs by 140% over 2001⁵. A comparison with the forecasted revenue growth has indicated a substantial deficit. The profit of €1.7m is therefore projected to turn into a loss of €16.9m as a result.

ComReg's analysis of An Post's financial position has also found that, based on the current domestic prices, cross subsidisation in the following areas must be addressed eg:

- (a) Customers who post mail in large envelopes (flats) and packets are subsidised by those who post mail in ordinary (up to C5 size) envelopes.
- (b) Heavier items in each mail stream are subsidising lighter items, or put another way it is the part of the market that is open to competition, that is subsidising the reserved area.
- (c) Business customers who do not use all aspects of the mail service (eg they bring mail directly to the sorting office so their mail does not need to be collected from a pillar box) subsidise individual and small business customers who do.
- (d) Franking Meter customers subsidise those who use postage stamps

The An Post proposal submitted 28 May 2003 aims to increase the headline letter tariff from 41c to 48c for letters. The proposal also introduces a single price for mail items less than 100g by format to better reflect cost with large envelopes (flats) at 60c and packets at 96c. At this level the prices are still not fully reflective of cost. Overall the package proposed will result in revenue yield in 2004 of €18.4m (€12.6m for the reserved service) for the domestic business segment.

This proposal will result in a reduction in the number of weight breaks, a move to prices that are more geared to cost and a simpler pricing structure that offers one 48c stamp for a letter, two 48c stamps for a packet and three 48c stamps for a 250g packet in the non reserved area..

⁴ 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.

⁵ ComReg comment : These percentages have however been understated as they have excluded cost savings and cost elasticities associated with volume/delivery point growth.

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The proposal also offers a range of discounts to large volume business users to reduce the impact of the proposed increases. The new cost-reflective discounts offered will include a choice of three times of presentation, three automated sortation thresholds and a new deferred service. Existing pre-sortation discounts will be retained whilst there is a further realignment of the Postaim tariffs towards making them closer to being cost-reflective.

ComReg has prepared a consultation paper based on the An Post proposal and now invites comments from the industry and members of the public to inform the making of the final decision. The deadline for receipt of comments is 14 July 2003.

2 Introduction

The Commission for Communications Regulation (ComReg) is responsible for the regulation of Universal Postal Services in Ireland in accordance with National and EC legislation. ComReg is the National Regulatory Authority ("NRA") for the purposes of that legislation. In carrying out the functions of the office ComReg takes into account the views of interested parties.

ComReg is now undertaking a consultation on An Post's proposals to increase the price of domestic postal services received from An Post on 28 May 2003. A summary of the principal legal provisions concerning ComReg's consideration of these proposals is set out in Appendix B.

The purpose of this paper is to give An Post's customers an opportunity to make representations about the proposals and in particular to set out for ComReg how the proposals will affect them

2.1 Proposals falling within the Monopoly (Reserved Area)

From 1 January 2003 only the traditional postal services up to 100g are reserved to An Post, the Universal Service Provider. From January 2006 this will be reduced to 50g with full opening of the market scheduled for January 2009. The market for outgoing cross-border mail will be fully opened from 1 January 2004. This market opening programme is shown in Figure 1.

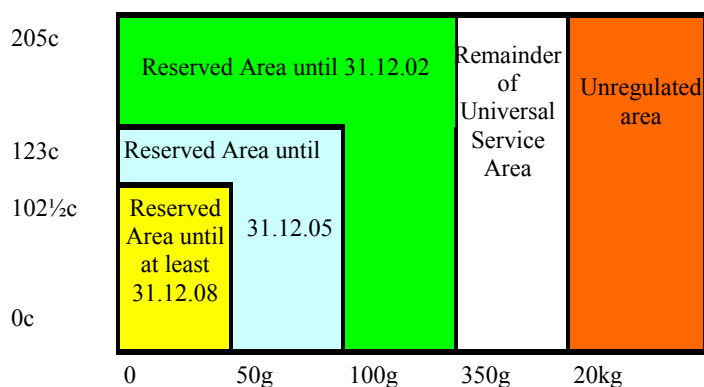


Figure 1 Interrelationship between Universal, Reserved and Unregulated Postal Services based on current domestic price 41c

Under section 70 of the Postal and Telecommunications Services Act, 1983 (as amended) ComReg's prior approval is necessary only for price increases for letterpost services for items of correspondence weighing less than 100g⁶. This consultation paper deals specifically with An Post's proposals in respect of these services.

2.2 Proposals falling outside the Monopoly (Reserved Area)

The proposals affecting services falling entirely in the competitive area (eg Registered Post) do not require ComReg's prior approval and are not dealt with in

⁶ The weight limit does not apply if the price is equal to or more than three times the public tariff (currently 41c * 3 = €1.23)

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the main part of the paper. However for customer information the schedule of revised tariffs for non reserved USO services, as submitted by An Post, are attached in Appendix C. An Post has stated that it is its intention that the tariffs for the non-reserved services within the USO will be "*increased by an annual average of 9% over current rates*".

Under the European Communities (Postal Services) Regulations, 2002, S.I.616 of 2002, An Post is obliged to comply with the tariff principles, viz

- (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) with the consent of the Minister, the Regulator may decide that a uniform tariff shall be applied throughout the State;
- (d) the application of a uniform tariff shall not exclude the right of An Post to conclude individual agreements on prices with customers; and
- (e) tariffs must be transparent and non-discriminatory.

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 basis⁷.

In practice it is more efficient to monitor compliance with the tariff principles at the same time as deciding whether to approve An Post's proposals to increase the prices for services within the reserved area. ComReg therefore welcomes any observations about An Post's compliance with these principles.

⁷ Decision Notice and Response to Consultation ComReg 03/50 "Postal Services – Universal Service Obligation, Tariff Principles and miscellaneous issues" Section 7 for ComReg's position on the application of these principles.

3 ComReg's assessment of the justification for the proposals.

In January 2002 the ODTR(ComReg's predecessor) published a Consultation paper⁸ about a proposal to approve an "interim" price increase for An Post's services within the reserved area. In submitting those proposals An Post recognised that detailed costing information would be needed before a more comprehensive pricing proposal could be submitted.

While ComReg has received regulated accounts for both 2001⁹ and 2002¹⁰, much more detailed costing information is now available. Further improvements to An Post's costing systems are necessary to ensure compliance with the directions on Accounting Separation & Costing Methodology issued on 20 September 2001¹¹.

However there is sufficient information now available to identify what changes are necessary to the structure of An Post's tariffs to ensure compliance with the "geared to cost" principle, although the "affordability" principle does necessitate a phased approach to some of the actual prices. ComReg has reviewed financial projections for the remainder of this year and for 2004 in the light of the actual out turn for 2001 and 2002.

As well as the re-structuring of tariffs there is also a need to revise prices to cover wage/salary increases, increased prices for bought in goods and services, including a 140% increase in insurance costs and the extra costs that are being incurred during the phasing-in period of An Post's new automated system of sorting mail.

These issues are considered in more detail in the following sections.

3.1 Financial Performance

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
1990	(12,468)
1991	(3,711)
1992	(376)
1993	9,267
1994	13,838
1995	11,409
1996	15,025
1997	17,686
1998	10,534
1999	13,389
2000	9,780
2001	(6,687)

⁸ Consultation Paper ODTR 02/15 "Application by An Post to increase the price of reserved Postal Services" and Report on Consultation ODTR 02/32 "Application by An Post to increase the price of reserved Postal Services"

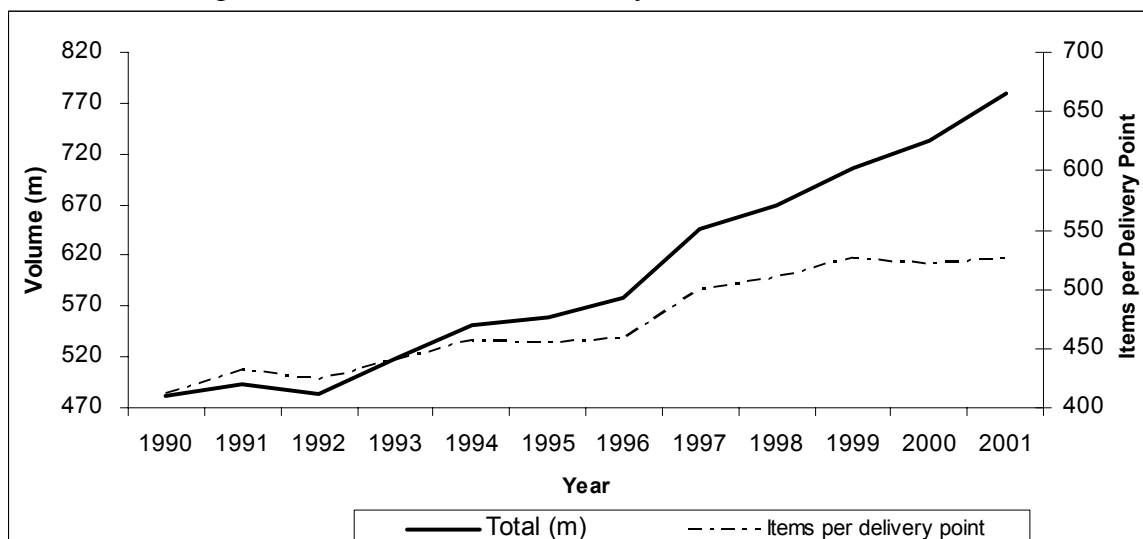
⁹ See Appendix A for Summary Regulated Accounts 2001 as published by An Post

¹⁰ A summary will be made available on An Post's website www.anpost.ie after An Post's AGM

¹¹ Decision Note and Report on Consultation ODTR 01/74 "Regulation of Universal Postal Services - Accounting Separation and Costing Methodology - proposed direction to An Post"

The graph below provides an illustration of the business volume trends, based on figures published in An Post's annual reports. The number of items delivered per delivery point is the key. As the An Post cost base in respect of each delivery point is largely fixed, the marginal cost associated with the delivery of extra items is low. Any increase in the number of items delivered to each point can lead to a significant reduction in unit costs; conversely any reduction in the number of items delivered to each point can lead to a considerable increase in unit costs.

Graph 1: Trends in An Post Delivery Volumes 1990-2001



The reason for the strong financial position during much of the 1990's appears to be that An Post was holding tariffs constant, relying instead on driving increased volumes and in particular volume per delivery point.

These long term trends changed around the turn of the century. While overall business volumes continued to grow, there has been 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.

Most European postal operators are experiencing similar declines in volumes, although in most cases the trends are more obvious because overall business volumes are falling as well as the key items per delivery point indicator.

The number of mail items delivered by most European postal operators average at 350 – 400 mail items per person. By comparison the Irish average is only 185 letter post items per person. An Post therefore has a unique opportunity to grow volumes, taking advantage particularly of the opportunities in the business segment. This will help to reduce unit costs and bring volumes much nearer the European average.

3.2 Automation Programme Savings

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

The price increases proposed by An Post should enable it to absorb all cost increases over the coming 2 to 3 years assuming the projected savings from the automation and other programmes are realised.

3.3 Quality of Service

The principle of automation which involves the centralisation of sorting operations onto a number of "hubs" is common throughout Europe. An Post has assured us that the problems experienced last Christmas in the areas newly concentrated onto the expanded Dublin Mails Centre (DMC), i.e. in Louth, Meath and Wicklow, were in the nature of teething problems, and that once the system is bedded down it will work well. This should be reviewed in the context of the comments on actual delivery of mail discussed below. However, as noted in the consideration of the consultation on the density of access points (ComReg 03/50⁷) the plans involve bringing forward latest posting times in many provincial towns.

The table below compares the number of hubs with the area and population served by each hub on average in Ireland and four European countries, two at the leading edge of postal automation, and two with similar demographic characteristics to Ireland.

Country	No of sorting centres	Average Area km ²	Average population k
Ireland	4	17,500	950
Germany	83	4,301	990
Netherlands	8	5,125	1,990
Denmark	9	4,778	590
Switzerland	18	2,278	400

It should be noted that the average area covered by the An Post hubs (17.5k km²) ranges from 6,000 km² to 29,000 km²¹², whereas the average area covered by the sample of European postal operator's hubs is between 2,000 km² and 5,000 km². This means that the distance travelled from collection point to sorting hub and back to delivery point is likely, on average, to be longer than in other European countries. This would appear to explain why An Post have found it necessary to bring forward latest posting times for next day delivery in many areas. An Post believe that when the system is bedded down, quality in terms of the percentage of items delivered next day, will not be adversely affected. The results recently published in ComReg

¹² The area covered by the sorting centres are as follows DMC 6k km², Portlaoise 17k km², Cork 19k km² and Athlone 29k km²

document 03/58¹³ 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.¹⁴

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 achieved¹⁵.

3.4 Roadside letter boxes

The financial forecasts submitted by An Post have indicated a €5m saving in pay costs from the introduction of roadside letter boxes in 2004. The total saving is difficult to differentiate from other operational measures but appears to be very much less than the €35m that has been reported. In the response to consultation ComReg 03/50⁷ section 5.4.2 ComReg estimated that in very round terms about 40% of the proposed boxes would generate 95% of the savings.

The willingness of addressees to use roadside letter boxes is confirmed by the number of major retail outlets that are currently selling and promoting the availability of a range of such letterboxes.

3.5 Cross Subsidisation Issues

The principle of having a reserved area is that the cost (if any) of providing the universal services which are contestable can be subsidised by small increases in the price of services within the reserved area. The detailed financial information now available suggests that the structure of postal tariffs up to now has led to a number of significant cross-subsidises, eg:

- (a) Customers who post mail in large envelopes (flats) and packets are subsidised by those who post mail in ordinary (up to C5 size) envelopes.
- (b) Heavier items in each mail stream are subsidising lighter items, or put another way it is the contestable area that is subsidising the reserved area.
- (c) Business customers who do not use all aspects of the mail service (eg they bring mail directly to the sorting office so their mail does not need to be collected from a pillar box) subsidise individual and small business customers who do.
- (d) Franking Meter customers subsidise those who use postage stamps

¹³ Information Notice ComReg 03/58 "An Post's Quality of Service Domestic single piece mail. Quarter 1, January to March 2003"

¹⁴ This system does not conform to any adopted European Standard for the measurement of Quality of Service of postal services.

¹⁵ See Section 8 Q4

These cross-subsidises are not sustainable particularly when the market is opened to competition. The An Post price proposals will help address this issue and enable An Post to compete more effectively. They have arisen from a lack of detailed knowledge of the cost of handling mail rather than any conscious decision to subsidise certain types of customer. Nevertheless those customers who have benefited from such subsidies in the past will now face price increases in excess of the average. In some instances it will be necessary to phase in the increases to give An Post's customers time to change their habits. For example many customers who now use a large envelope (eg C4 size) could avoid a large increase by folding the item once and posting it in a standard (eg C5 size) envelope.

3.6 Summary

An Post requires a price increase to return to profitability and overcome inefficiencies but it is important to note that a price increase alone is not the full solution. The key to the long term survival and competitiveness of An Post is to increase the volume of mail delivered to each house/business premises as discussed in section 4 of this paper and at the same time controlling its costs. It is only then that the full benefits of economies of scale can be realised which will enable 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.

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) which implies an average increase in percentage terms of 6.3% (reserved area 5.5%) having adjusted for changes in volume.

4 An Post's Proposals

The following is the full text of the formal submission received from An Post (Com Reg comments are contained in the footnotes).

4.1 Introduction

You will recall that in December 2001 we applied for a domestic price increase based on a headline tariff of 45cent. An interim tariff of 41cent was approved with effect from April 2002. This had the effect of bringing the domestic stamp price back to the level it was at in 1991. (Since 1991, inflation has increased by over 40%). The interim price increase, moreover, provided little room to introduce significant cost-reflective tariff rebalancing and comprehensive discount structures.

We subsequently submitted a further price proposal in November 2002 which was intended to be effective from 1 April 2003, but this did not materialise. We are now submitting herewith a revised application for a domestic price increase incorporating a headline tariff of 48cent, a re-alignment of other tariffs to make them more cost-reflective, and a comprehensive series of discounts. This reflects all that has happened between us in the matter.

As you are aware, the financial position of our Letter Post business is parlous and will be further adversely affected by the delay in achieving the price increase budgeted from April 2003. It is essential that we secure at the earliest date the full domestic price increase now sought which achieves the targeted revenue yield on a full year basis, as set out in the Strategic Plan for the business already submitted to you.

4.2 Regulatory Accounts 2001-2002

As you will be aware from the Regulatory Accounts in respect of the financial year 2001 furnished to your office last year, the cost of Letter Post services within the Universal Service Obligation (USO) actually exceeded revenues by 1.7% in 2001¹⁶. This position deteriorated sharply in 2002 due in part to the failure to secure the tariff increase sought in December 2001. The Regulatory Accounts for 2002 submitted to your office recently show that the cost of Letter Post services within the USO exceeded revenues by 4.3% in 2002¹⁷. Without an urgent increase in tariffs this negative trend will worsen in 2003.

4.3 Domestic Reserved Area Financial Projections

An Post Regulatory Accounts for 2002 show that there was a significant trading loss (€9m on a turnover of €243m, or 4%) in the domestic Reserved Area in 2002. The main factors giving rise to this were increased pay costs over 2001 under the Programme for Prosperity and Fairness and growth in delivery points and a deceleration in domestic letter volume growth during the year. The impact of these cost increases was only partially offset by the small, interim price increase approved in April 2002.

¹⁶ ComReg comment: This includes the substantial losses incurred in handling incoming international mail – see ComReg Information Notice 03/40 "Terminal Dues Agreements". The published regulatory accounts show that the domestic service made a 3% profit margin.

¹⁷ ComReg comment: Again this includes losses on international services.

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In 2003, the cost of providing domestic Letter Post Services within the USO, including pay costs, is set to increase over 2001 levels as follows:

Significant Cost Movements

Pay Costs (representing circa 70% of total Letter Post costs):

- Programme for Prosperity & Fairness 10.5%
- Protection of Employees (Part-time Work) Act 2001 0.7%

Other costs:

- Insurance Costs 140%
- General Inflation 9.5%

Even with the domestic Reserved Area price increase being sought, that segment will still not cover its costs in 2003. As we have stated many times, current levels of losses are unsustainable and cannot continue. An Post needs the revenue of a price increase for Reserved Services in 2003 not only to maintain commercial viability, but also to ensure that the company can continue to meet its USO.

The recent ComReg Decision D11/03 in Document 03/50⁷ and its impact on costs and pricing strategy is currently being reviewed by the Company and we reserve our position on this.

4.4 Tariff Review

As part of a review of our domestic tariffs, we engaged the services of Indecon International – London Economics to assist in the development of a regulatory-compliant pricing strategy for our domestic letter services. The key conclusions of this review were as follows:

- Format is the primary driver of cost of domestic letter services, with weight being an important, but lesser, driver of cost;
- While there is still only limited data available on price elasticity of demand for postal services in Ireland, the available data, together with available international experience, suggests a price elasticity of demand factor of circa 0.18 for standard domestic mail; and
- Crucially a move to fully cost-reflective pricing, taking account of price elasticity of demand factors and providing for tariff rebalancing, needs to take place on a phased basis for a number of reasons, including:
 - The need to phase-in significant increases required in public tariffs;
 - The absence (for the present) of precise data on demand responsiveness to price changes and consequent customer posting patterns;
 - The commercial necessity to strike a balance between the complexity of an exhaustively cost-reflective set of tariffs and our customers' requirement for simplicity and ease of understanding; and
 - The need to introduce a new suite of discounts for business customers which are cost-reflective.

Accordingly, the cornerstone of An Post's pricing strategy is to achieve, on a phased basis, cost reflective and commercially responsive domestic tariffs which are regulatory compliant.

It is critical that we monitor demand responsiveness to price changes and customer posting behaviour in light of the proposed changes in domestic tariffs and take these into account in shaping and further refining future pricing strategy. In our view, the proposal outlined below provides a reasonable balance in moving to meet the objective of fully cost reflective pricing/tariff rebalancing while taking into account customer and market requirements. However, further upward adjustments will be required to the headline tariff, flats and packets and to the Postaim service in order to make them fully cost reflective.

4.5 Domestic Tariff Proposal

Details of our proposed revised tariffs are set out below and in the attached schedules.

The key elements of the proposal are:

- Introduction of format-based pricing across all weight bands;
- A doubling to 100g of the weight of the basic letter which can be sent at the headline tariff;
- Reduction in the number of weight breaks, thus simplifying the pricing structure;
- A headline rate for letter mail of 48cent;
- A new range of cost-reflective discounts off the headline tariff rate which will be available to major Ceadunas and meter mailers, viz:
 - Discounts of up to 27% off the headline tariff;
 - A choice of three "time of presentation" options (12noon, 15.00 and 17.30) at automated mail centres for next day delivery;
 - Three automated sortation thresholds (0%, 65% and 90%), i.e. two lower and one higher than the current 85%;
 - New Deferred Services available at automated mail centres for delivery two days after presentation or at other bulk mail acceptance centres three days after presentation; and
 - Retention of pre-sortation discounts for non-machinable mail.

These discounts will offer major mailers an opportunity to maintain their postal charges at present levels and in some cases achieve a marginal decrease;

- Further realignment of Postaim tariffs to move them closer to being cost-reflective.

It is not possible to provide a comprehensive approach to cost-reflective discounting to medium volume meter and Ceadunas customers in the short term. This is an area that An Post will be examining as part of its ongoing phased realignment of tariffs to costs. In the meantime, 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.

4.6 Revenue Yield

The projected Reserved Service revenue yield from this proposal in a full year is €12.6m, which represents an increase of 5.6%¹⁸ over current domestic reserved revenue. The impact on CPI is negligible (0.002%).

4.7 International Comparisons

In terms of international comparisons¹⁹, at the new 100g letter rate of 48cent Ireland will have the lowest headline tariff of any country in the EU (48% below the EU average of 91.7cent). At the 50g level, Ireland currently has the third lowest headline tariff within the EU and will continue to have the third lowest tariff even after the proposed increase, some 30% below the EU average of 68.1cent²⁰.

4.8 Non-Reserved Services

For your information, it is intended that tariffs for non-reserved services within the USO will be increased by an annual average of 9% over current rates.

4.9 Summary

An Post incurred significant losses in 2002 in the domestic Reserved Service area. The proposed price increase for domestic Reserved Services is necessary to ensure that the business will not incur even greater losses in 2003, and thus enable us to continue to fund the provision of the USO.

The proposed restructuring of tariffs for domestic letter services in 2003 is part of a phased pricing strategy aimed at achieving fully cost-reflective tariffs which are regulatory compliant. This proposal, when the new discount structure is taken into account, will result in minimal increases (decreases in a number of cases) to business customers for whom postal costs represent a significant element of their cost structures.

As stated previously, it was originally intended that prices would be increased from 1 April based on our application in November 2002²¹. This did not happen. Consequently the anticipated revenue yield for 2003 will not be attained. For revenue yield purposes, therefore, it is essential that this application be dealt with urgently to ensure that the approval process can be completed in time for implementation before the end of July 2003.

Please note that this application does not take into account the impact of the imposition of VAT on postal services, which is currently under consideration by the European Commission.

¹⁸ ComReg comment: It is unclear how the 5.6% has been generated. We estimate a figure of 6.3%

¹⁹ See tables attached in Appendix D

²⁰ ComReg Comment: This analysis has been based on specific weight breaks. A ComReg analysis is outlined in section 7 below

²¹ ComReg comment: ComReg experienced considerable difficulty on several occasions in obtaining prompt responses to requests for clarification from An Post

5 An Post's Proposals - detailed prices

The An Post proposed tariff adjustments for services within the Reserved Area are as follows:

Standard Domestic / Business Reply First Class Letter Service

(i) Post Office Preferred Envelopes & Postcards

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

(ii) Larger 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%

(iv) 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.

(v) Discounts & Additional Fees

100% Machinable	POP Letter	Flats
Presentation pre-17.30 90% auto sort	4c	5c
Presentation pre-15.00 0% auto sort	5c	6c
Presentation pre-15.00 65% auto sort	8c	10c
Presentation pre-15.00 90% auto sort	10c	12c
Presentation pre noon 65% auto sort	10c	12c
Presentation pre noon 90% auto sort	12c	14c
Deferred Processing pre noon 65% auto sort	11c	14c
Deferred Processing pre noon 90% auto sort	13c	16c

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

Non Machinable	POP Letter	Flat	Pkt
Pre Sorted (150)	5c	7c	9c
Pre 15.00 at Hub	4c	5c	7c
Deferred Processing	5c	7c	9c

Postaim Service

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

6 ComReg's Position

6.1 Introduction

The table below shows the weighted average price increase by format type excluding the effect of discounts:

	POP Letter Format	Flat Format	Packet Format
Current Price to 50g	41c	47c	47c
to 100g	60c	60c	60c
Weighted average	42.0c	53.2c	55.1c
Proposed Price	48c	60c	96c
Weighted increase	14.4%	12.8%	74.2%

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

Average Tariff	POP Letter Format	Flat Format	Packet Format
Current	40.8c	52.5c	55.1c
Proposed	43.4c	56.4c	95.6c
Increase	+6.3%	+7.4%	+73.7%

The difference in percentage increase outlined in the above two tables indicates that prices for customers who produce substantial volumes for An Post, thereby enabling the company to keep unit costs down, will rise less than those who post single piece mail.

Another cross-subsidy that is being phased out is that between the different sizes of envelope and packages. The table below compares the ratio between the price and the cost for each type of mail:

Reserved Area	POP Letter Format	Flat Format	Packet Format
Normal Tariff	1.0	1.25	2.00
Average Tariff²²	1.0	1.30	2.20
Unit Costs 2002	1.0	1.57	3.88

²² Including discounted mail

The analysis of unit costs suggests that the average price of a packet should be around 4 times the price of a POP envelope and the average price of a "flat" at least 1½ times the cost of a POP envelope. The prices proposed by An Post suggest that it believes the size of increase necessary to ensure compliance with the "geared to cost" principle cannot be imposed at the present time because of the price elasticity effects.

6.2 POP Letter Format

Despite an average increase of 14.4% in the headline POP letter tariff to 48c this stream is continuing to generate a loss. There are two key considerations from ComReg's viewpoint:

- The loss being generated by the reserved letters can be attributed to the discount services whilst the fully paid mail breaks even. As An Post's profitability is very sensitive to volumes the fact that the discount services are generating a loss at this stage must be considered as a temporary measure to promote growth that will ultimately reduce unit costs.
- An Post has traditionally charged a premium over cost for letters outside the reserved area and proposes to continue doing so. It is the profit from this competitive area that is used to finance the loss being generated in the reserved area. This is unsustainable in the medium term. Action must be taken to increase volumes so as to reduce unit costs.

6.3 Flat Format

Substantial losses are forecast for the reserved flat stream in 2003 and 2004 whilst overall flats are forecast to generate a small loss in 2003 and a small profit in 2004. There is a 12.8% increase proposed in the average single-piece price. However this is made up of a price increase of 28% for items weighing up to 50g bracket, but **no** price adjustment for items weighing between 50g and 100g. Unlike the POP letter format where items weighing more than 50g are very much the exception at least half of the items in the "Flat" stream weigh more than 50g. An Post is moving to format pricing and offering a single tariff for each mail stream in the reserved area because there is a significant difference in the cost of handling the different formats of reserved mail, but there is no quantifiable difference in handling reserved mail of different weights within the same format.

There are a number of considerations from ComReg's viewpoint:

- While the mail weighing up to 50g would face an even larger increase if An Post were to increase the price to reduce the losses being incurred many users would be able to avail of the cheaper POP letter tariffs by folding A4 paper in two. As well as limiting the increase in price to 1c (47c currently to 48c) there would be savings in the cost of the envelope and An Post would free up capacity in its Flat Sorting processes.
- Some customers might need time to adjust. For example many of the larger Greetings cards are just slightly in excess of the POP size. Wholesale and retail customers will need time to run down their stocks and bring out new designs within the scope of the C5 size limit for POP letters. On the other hand such cards can cost in excess of €5, so the cost

of postage, even at the proposed rates is only a small fraction of the total cost of sending (or not sending!) the card.

- With regard to items weighing between 50g and 100g ComReg is conscious that many items in this stream are already outside the scope of the reserved area; the reserved area does not include books, catalogues, newspapers and periodicals which could reasonably be expected to be a significant proportion of this stream. Furthermore this part of An Post's business will be fully open to competition from 1 January 2006. Below cost selling can represent a barrier to market entry. Imposing a substantial increase closer to the full market opening in 2006 could result in a loss of volume then which would push up unit costs in other market segments.

6.4 Packet Format

The reserved packet stream continues to generate a loss whilst overall the packet stream is very profitable.

There are three key considerations from ComReg's viewpoint:

- There are price elasticity issues that need to be borne in mind. An Post's proposals represent a 104% increase for items weighing up to 50g, and 60% for items weighing between 50 and 100g. This is An Post's judgment as to the most that the market will bear at this stage.
- If the price charged for packets were fully "geared to cost" at this stage the market for such items would be fully open to competition now because the price would be greater than three times the public tariff.
- In any event, items weighing more than 50g will be in the competitive area by 1 January 2006 and so the competitive pricing issues identified in relation to the Flat format are just as valid for the packet format.

6.5 Discount Services for medium scale users of the post.

Information derived from an analysis of the business market for postal services undertaken in July 2002 for the ODTR, ComReg's predecessor, by IMS shows that 2.3% of businesses generate 38.9% of mail.

No of items posted each week	% of businesses	% of Mail
<50	55.5%	6.2%
50 < 100	9.2%	3.1%
100 < 150	19.1%	10.7%
150 < 200	6.9%	5.5%
200 < 250	0.0%	0.0%
250 < 2000	6.9%	35.6%
>2000	2.3%	38.9%
TOTAL	100.0%	100%

An Post's financial accounts would suggest that such customers represent an even larger percentage of their business. On the basis of this analysis it can be observed that more than half the businesses in this country post less than 10 items a day and

account for 6% of business mail volumes. Nevertheless mail can be extremely important to such businesses.

The range of discounts proposed by An Post are focused almost exclusively on the large user, ie the 2.3% of businesses that generate the most mail. ComReg has a number of concerns about this approach

- Some 35% of businesses post between 10 and 40 items per day and account for 19% of business mail volumes. An Post makes no proposition tailored to this group of customers.
- 7% of businesses post between 50 and 400 items a day and in total account for more than 35% of business mail volumes. The only proposition for this group is a discount of €500 pa offered from the charge for collecting mail from their premises, if they avail of the service.

There is also concern about the lack of discounts available to customers who use franking machines rather than postage stamps. The cost of processing meter mail internationally is less than stamped mail²³ however a single tariff has historically been offered in Ireland regardless of payment type.

An Post claims that it incurs significant costs in processing meter mail that is handed in at sub post offices (22% of items in Dublin are dealt with in this way) and therefore the savings achieved internationally may not be relevant in Ireland. On the other hand the regulatory accounts submitted by An Post suggest that cost savings may be in excess of worldwide averages.

In its proposal, An Post offers a €500 discount 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.

6.6 Discount Services for large scale users of the post.

Although the basic tariffs are increasing, the proposal offers an extensive range of discounts to the small number of businesses who post more than 2,000 items of mail at the same time. In total however this represents around half of all mail volumes. 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 customers if the price is not set at a level that is attractive enough to retain and stimulate volume growth – see table overleaf:

²³ A study conducted by Pitney Bowes, internationally, revealed that the cost differential between Stamped and Metered mail was in the region of 8-12.5%.

Effective prices proposed for discounted items (reserved Letter format)

Proposed discounts in brackets

Latest Posting Time at hub			Noon	15:00	17:30
Min.2,000	Next Day Delivery	90% auto sort	36 (12)	38 (10)	44 (4)
Min.2,000	Next Day Delivery	65% auto sort	38 (10)	40 (8)	
Min.2,000	Next Day Delivery	< 65% auto sort		43 (5)	
Min.2,000	Next Day Delivery	Pre-sorted (150 towns)			43 (5)
Min.2,000	Next Day Delivery	Non-machineable		44 (4)	
Min.2,000	Deferred (two day) Delivery	90% auto sort	35 (13)		
Min.2,000	Deferred (two day) Delivery	65% auto sort	37 (11)		
Min.2,000	Deferred (two day) Delivery	< 65% auto sort			
Min.2,000	Deferred (two day) Delivery	Non-machineable	43 (5)		

This discount strategy is the key to the development of the mail market, by bringing the Irish volume that is currently under 185 letter post items per person towards the average European level of 350-400 items.

There are a number of concerns about the detail of the discount strategy, as opposed to the general principle.

- 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. For mail posted in most provincial towns, including Galway, Limerick, Waterford, Sligo and Dundalk 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.

6.7 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 its business is nevertheless very important to An Post, and indeed to the future prosperity of the postal sector

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

generally. It is therefore essential to ensure that services which meet the needs of this important group of customers are in place before the specialised service is withdrawn. Nevertheless it is important that prices are brought into line with the cost of providing the service.

Postaim discounts are outlined in Appendix C. In line with the main services the prices proposed are format based. There is still a larger discount offered to these customers than to other bulk mailers (ie utility companies, financial institutions etc) but the differential is being narrowed. It is the An Post view that the discounts are sufficiently attractive to continue to retain and grow commercial volumes whilst moving towards being geared to cost. In the long term, however, An Post intends to merge this service into the other discounts options.

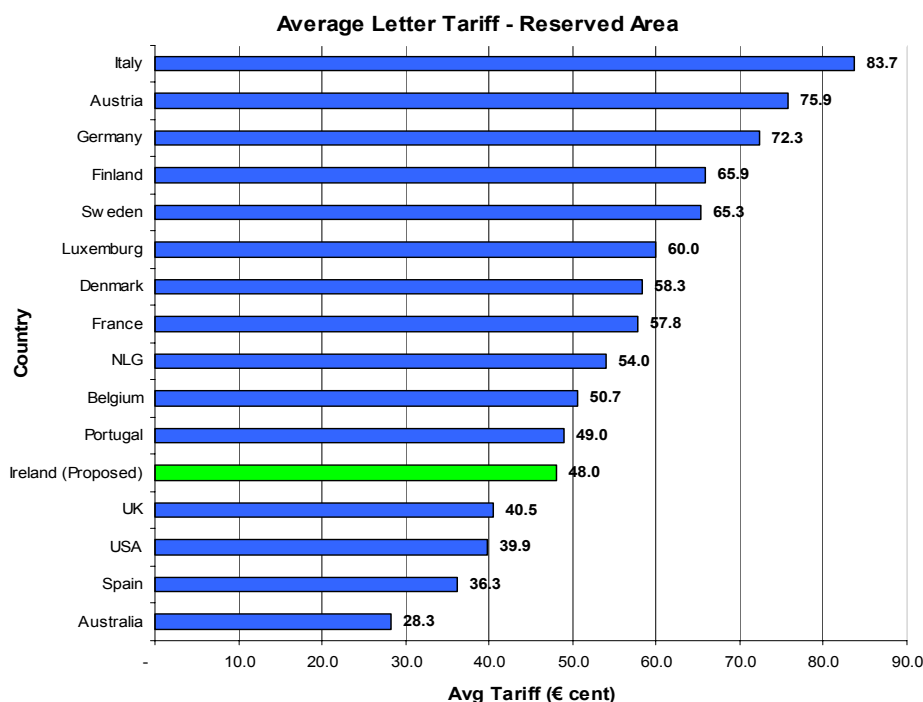
An Post has made a commercial decision to discontinue loyalty mail as in its view that loyalty mail customers should qualify for the range of other discounts available.

7 International Benchmarking

As outlined in section 4.7 above and Appendix D below, An Post has submitted an International Comparison of Domestic Letter post prices for Europe for the 50g and 100g Letter. ComReg has some reservations in relation to the methodology adopted and therefore has conducted a more detailed analysis, comparing the An Post proposed average tariffs with those in other European countries, USA and Australia for all format types for specific weight categories.²⁴

POP Letter Format

The average reserved proposed price of 48c for Ireland is at the lower end of the scale. The only countries which are cheaper than Ireland are the UK, USA, Spain and Australia. In the case of the USA, UK and Australia there are significant economies of scale to be gained and therefore such low tariffs can be justified. In the Spanish case, prices are also generally lower which may explain the low tariff. Even with a relatively high price it is still very competitive compared with other countries.



²⁴ Care must be taken as this analysis takes no account of the many factors that influence both the supply and demand of postal services. It does not therefore provide robust information on the relative affordability of postal services in different countries.

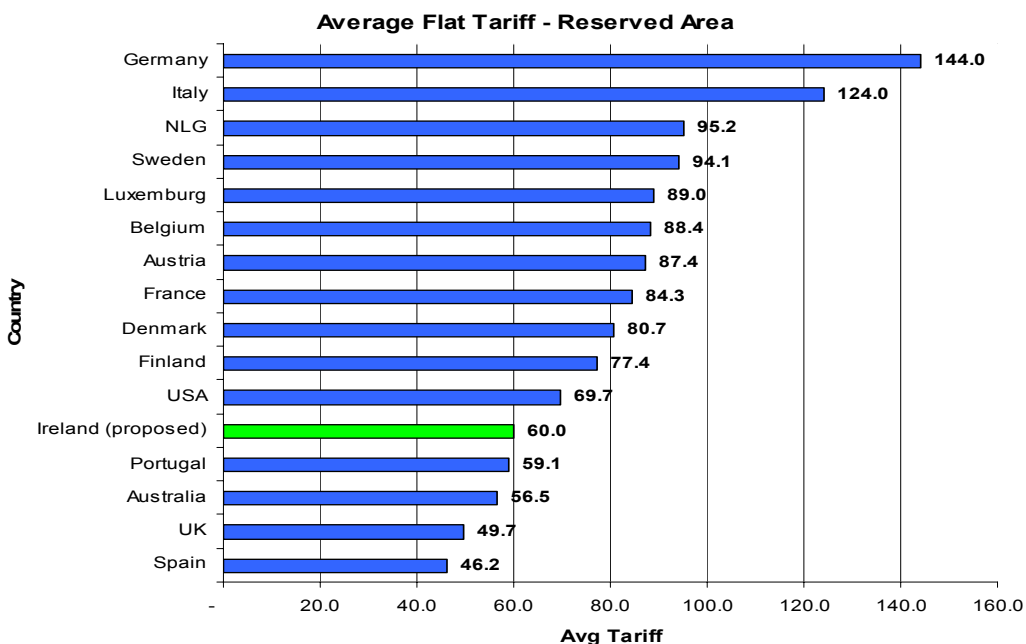
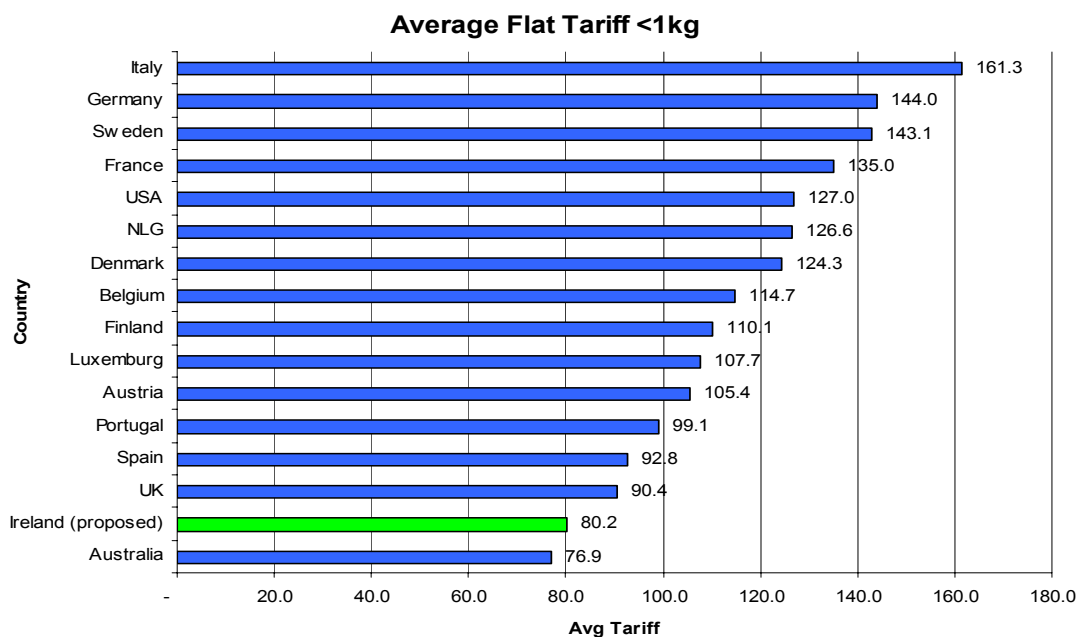
Approximately 50% of the countries examined used format based pricing whereas the balance uses weight based pricing. In the case of the latter, we note that the Packet stream is subsidizing the Letter stream and the higher weight items subsidizing the lower weight items.

Other factors such as quality of service, exchange rate movements and the presence of competition must also be considered.

In deriving the average tariffs, we have assumed that the volume splits by weight break for each format type is consistent with the Irish case.

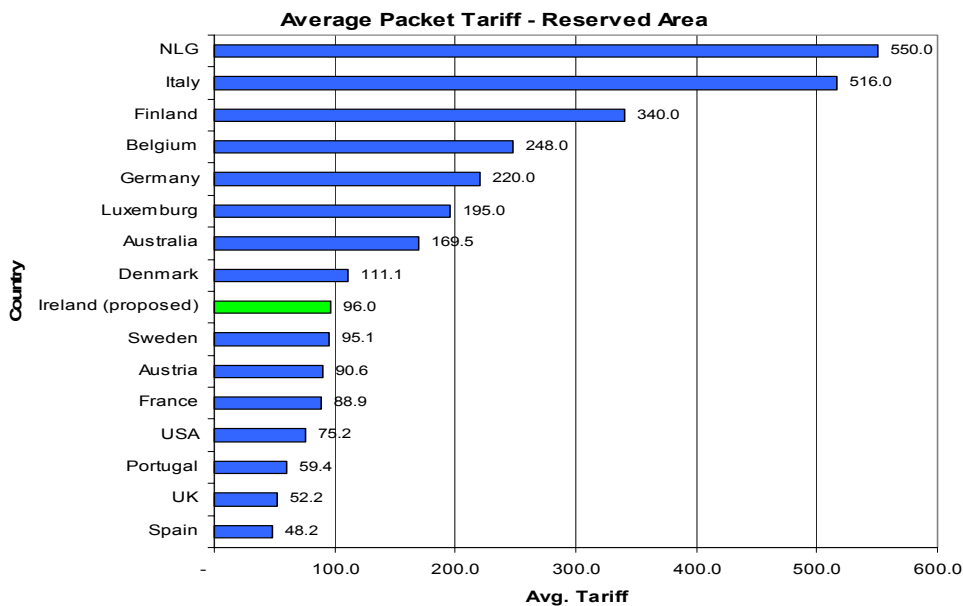
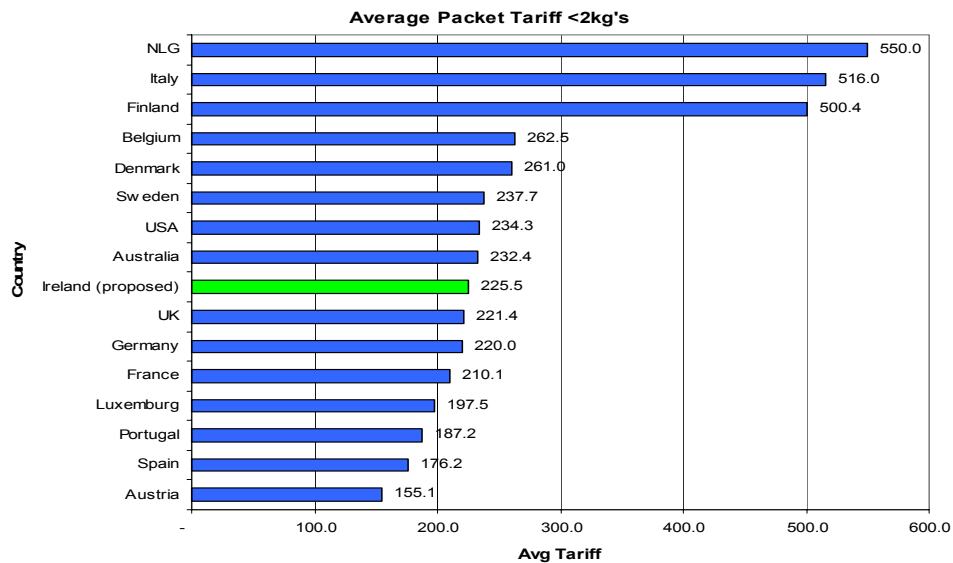
Flat (A4) Format

The average proposed tariff for Flats weighing less than 1kg is the lowest of all the countries surveyed (with the exception of Australia). Focusing on the reserved area only, the proposed average tariff of 60c is 30% higher than Spain which has the lowest average tariff of 46.2c and it is 140% lower than the highest average tariff of Germany at €1.44



Packet Format

Comparing the average tariffs in the reserved area with the average tariffs in the up to 2kg weight bracket has revealed that there is clearly an issue of cross-subsidisation whereby the heavier weight items are subsidising the lower weight items. This is evident in that the proposed average packet rate is only 20% below the international average whereas the reserved average packet rate is 92% below the average.



8 Consultation Questions

- 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**
- Q. 3. 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**
- Q. 4. If this target is not achieved by the end of 2004 what measures should be taken? Please give your reasons**
- Q. 5. 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. 6. What are your views on price changes outside of the reserved area? Please give your reasons**

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

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.

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 03/50⁷?

9 Submitting Comments

All comments are welcome, however, it would make the task of analysing responses easier if comments were referenced to the relevant question numbers from this document.

The consultation period will run from 13 June 2003 to 14 July 2003 during which the Commission welcomes written comments on any of the issues raised in this paper.

Having analysed and considered the comments received, ComReg will review the domestic price application and publish a report in August 2003 on the consultation which will, inter alia summarise the responses to the consultation.

In order to promote further openness and transparency ComReg will publish the names of all respondents and make available for inspection responses to the consultation at its Offices.

ComReg appreciates that many of the issues raised in this paper may require respondents to provide confidential information if their comments are to be meaningful. **To ensure that such information is treated as strictly confidential all Respondents are requested to clearly identify confidential material and to include it in a separate annex to the response.** Confidential information should not be included in the body of the response.

Appendix A – Summary Separated Accounts 2001²⁵

An Post Regulatory Accounts Summary - Year ended 31 December 2001.

	Domestic			International Outbound			International Inbound			Total		
	Turnover	Profit	%	Turnover	Profit	%	Turnover	Profit	%	Turnover	Profit	%
Letter Post:												
Reserved	217.3	1.7	0.8%	38.9	(5.6)	(14.5%)	32.1	(11.1)	(34.4%)	288.3	(15.0)	(5.2%)
Non Reserved	37.1	5.8	15.5%	29.3	10.8	36.7%	22.9	(8.2)	(35.9%)	89.2	8.3	9.3%
Letter Post USO	254.3	7.5	3.0%	68.2	5.1	7.5%	55.0	(19.3)	(35.1%)	377.6	(6.7)	(1.8%)
SDS USO										14.3	0.1	0.6%
Total USO										391.8	(6.6)	(1.7%)
Non USO										98.0	2.4	2.4%
Regulatory Accounts (Letterpost and SDS):										489.8	(4.2)	(0.9%)
Post Offices Division										107.6	(13.0)	(12.1%)
Other Consolidated Activities										27.5	10.5	38.2%
Total An Post Group before Taxation										624.9	(6.7)	(1.1%)

²⁵ Source : An Post website : <http://www.anpost.ie/about/regulatoryaccounts.html>

Appendix B– Legislation

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

The EC “Postal Directive”²⁶ 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.

Under Regulation 9 (1) the tariffs for each of the services provided by a universal service provider which forms part of its universal service must comply with the tariff principles set out therein. 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.

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).

The regulatory objectives for the postal sector are very different from those for the telecommunications and broadcasting sectors. While the European Treaties require that there should be freedom to provide postal services, there is a fear amongst legislators that market liberalisation might impact on the availability of traditional postal services at “affordable” prices.

²⁶ 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.

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.

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.

Section 70 of the 1983 Act

The responsibility only relates to those services defined under Regulation 8 as reserved services ie 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.

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 (eg 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

Tariff Principles

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.

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.²⁷ 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”.

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”.

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.

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;

²⁷ 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.

Appendix C – An Post Price Proposals outside the reserved area

STANDARD DOMESTIC / BUSINESS REPLY FIRST CLASS LETTER SERVICE

3 Larger Envelopes

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

4 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

5 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

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

6 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

(vi) 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 (150)	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

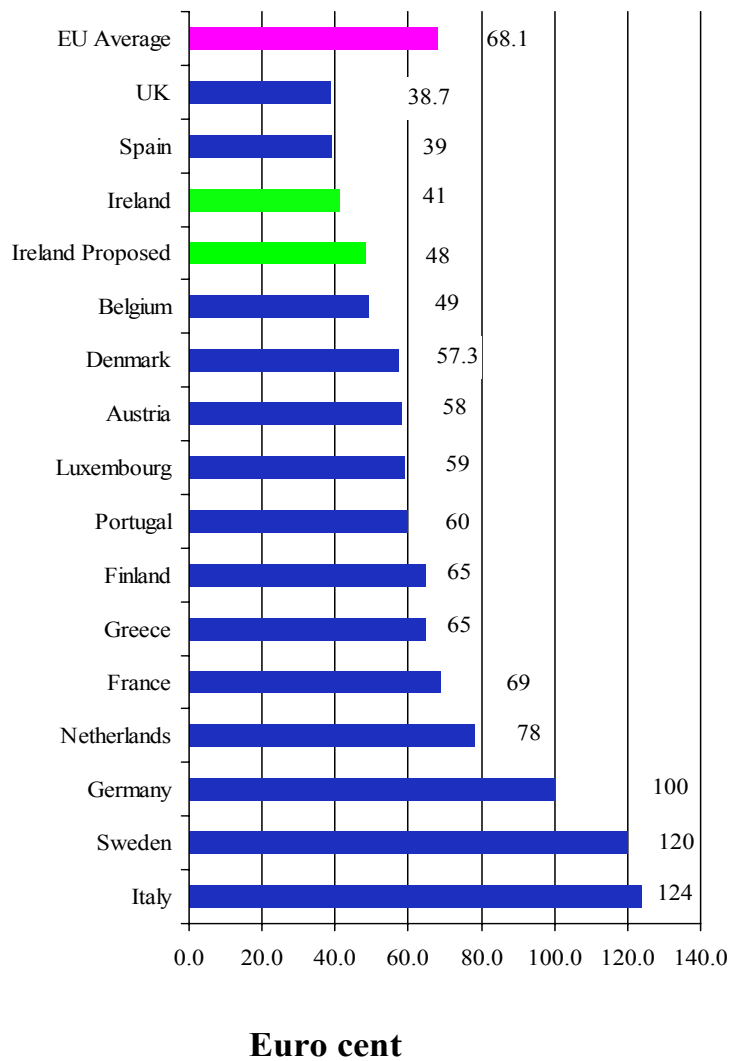
Medium Volume* Ceadunas & Meter (Remote Setting) Postings

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

Appendix D – An Post's International Domestic Letter Post Price Comparisons (EU)

EU Domestic Tariffs 50g letter – 27 May 2003



EU Domestic Tariffs 100g letter – 27 May 2003

