



Office of the Director of
**Telecommunications
Regulation**

CONSULTATION PAPER

**Application by An Post to increase the price
of International Outbound reserved Postal
Services**

Document No: ODTR 02/94

Date: 29 Oct 2002

Oifig an Stiúirthóra Rialála Teileachumarsáide

Office of the Director of Telecommunications Regulation

Abbey Court, Irish Life Centre

Lower Abbey Street, Dublin 1, Ireland

Tel. +353 1 804 9600 Fax. +353 1 804 9680 E-mail info@odtr.ie

Contents

Foreword.....	2
1 INTRODUCTION.....	4
1.1 PROPOSALS FALLING OUTSIDE THE MONOPOLY (RESERVED AREA)....	4
2 BACKGROUND	5
2.1 LEGISLATIVE BACKGROUND.....	5
2.1.1 The European Communities Regulations 2000 (SI No.310/2000).....	5
2.1.2 The Postal & Telecommunications Services Act 1983(“The 1983 Act”).....	5
2.2 DISTINCTION BETWEEN THE TWO LEGAL PROVISIONS.....	5
2.3 CRITERIA AGAINST WHICH THE DIRECTOR WILL MAKE HER DECISION UNDER SECTION 70 OF THE 1983 ACT	6
2.3.1 Competition Law	6
2.3.2 Section 13 of the 1983 Act.....	7
2.4 CLASSIFICATION OF MAIL TO NORTHERN IRELAND	7
3 THE NEED FOR PRICE INCREASES	8
3.1 BACKGROUND	8
3.2 JUSTIFICATION OF PROPOSALS BY AN POST.....	8
4 AN POST PROPOSAL.....	10
4.1 PRINCIPAL FEATURES.....	10
4.2 CURRENT & PROPOSED PRICES.....	10
4.2.1 Priority Service	10
4.2.2 Economy Service	12
5 INTERNATIONAL BENCHMARKING.....	13
5.1 RATES COMPARISON.....	13
6 DIRECTOR’S POSITION.....	16
6.1 GENERAL.....	16
6.2 ISSUES WITH CURRENT PRICING MODEL.....	17
6.3 ISSUES WITH PROPOSED PRICING MODEL	17
6.3.1 Format Pricing	17
6.3.2 Uniform Pricing in the Reserved Area.....	17
6.3.3 Compliance with “Geared to Cost” Principle	18
6.4 IMPLEMENTATION DATE	18
6.5 ISSUES FOR CONSULTATION.....	18
7 SUBMITTING COMMENTS.....	20

Foreword

During 2001, An Post made an application to this office for a price increase on its outbound international mail services. At that time the office felt that An Post's proposals were insufficiently well documented to make a decision and accordingly decided to defer action until such time as better accounting and costing information became available. Since then An Post has prepared separated accounts for the year to 31 December 2001 which shows the profitability of each of its component businesses split, where appropriate, into the areas reserved to An Post and those which are open to competition, and published a summary on its website (<http://www.anpost.ie/about/RegulatoryAccounts.html>)

These separated accounts indicate that An Post made a total loss of €6.7m in the year and that a significant contributor this was its international business which made a loss of €14.2m overall.

However, the main reason for the losses on the international side was the *inbound* international business which reported a loss of €19.3m. This loss is largely a function of the multilateral agreement which An Post has entered into with other European post offices which governs the reimbursement of cross border mail flows. This agreement is known as the REIMS II agreement. As I have stated on other occasions, it is my opinion that this agreement is inappropriate for An Post and is a significant contributor to some of the financial challenges that it faces. An exploration of alternative arrangements is underway.

International *outbound* mail, on the other hand was profitable, reporting a total profit of €5.1m. This figure is made up of two elements, the reserved element where An Post retains a monopoly in respect of which it made a loss of €5.6m and the element which is open to competition where a profit of €10.8m was reported on €29.3m turnover.

Looking at the overall position, revenues for international mail (inbound and outbound) are €123.2m and losses are currently running at €14.2m - 12%. The proposals in this paper would result in the elimination of these losses.

Our review of the data underlying the separated accounts revealed several important issues. Firstly, the largest driver of the losses, the REIMS payments are outside of An Post's direct control: also An Post faces a number of pressures on its cost base and while it has taken some action and has a programme for further changes in work practices over the next two years these are insufficient to offset the full impact of rising costs. Secondly, it is now our understanding that An Post's weight based price structure does not reflect how costs actually are incurred, which is more a function of format (i.e. whether it is a conventional envelope or a bulky packet) than of weight. In essence, An Post's prices in the international outbound business are too low for standard letters and too high for heavier items such as packets. This is significant given An Post's obligation to ensure that its prices are cost based and especially so given the increased levels of competition that are likely in this sector in the near future. A third concern was the disclosure that the reserved sector of this business is unprofitable and likely to become increasingly so in the near future.

An Post have submitted proposals to us which are intended to address these concerns. As noted above the proposals would eliminate the current losses on the overall international business. They are expected to result in an average net price increase on outbound international mail of 12%. An Post have also provided the option for users to avoid price increases for letters in standard envelopes by using their economy service. Overall these proposals, if approved, would be expected to enable An Post to break even in its reserved business (both Domestic and International), while reducing its surplus in the competitive sector.

This paper sets out An Post's proposals in detail. I am most anxious to have comments on these proposals from industry and users alike before making any decision on each aspect of the proposals presented. I look forward to the responses to this consultation.

Etain Doyle,

Director of Telecommunications Regulation.

1 INTRODUCTION

The Director of Telecommunications Regulation (“the Director”) and her Office (“the ODTR”) are responsible for the regulation of Universal Postal Services in Ireland in accordance with National and EC legislation. The Director is the National Regulatory Authority (“NRA”) for the purposes of that legislation.

In carrying out her functions under the legislation, the Director is obliged to take into account the views of interested parties.

On 8 October 2002 the Director received proposals from An Post, in accordance with Section 70(2) of the Postal and Telecommunications Services Act, 1983, as amended, to increase the price of outgoing international letter mail.

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 the Director how the proposals will affect them. It also sets out the criteria against which the Director will make her decision.

1.1 PROPOSALS FALLING OUTSIDE THE MONOPOLY (RESERVED AREA)

The main international letterpost services provided by An Post are partly reserved to An Post and partly in the area where competitors are free to also provide a service. For convenience An Post’s proposals for the entire service are shown in this paper, with a note setting out where the dividing line is in each case. The Director’s prior approval is necessary only for the price increases in the part of the service reserved to An Post. However, as noted in the separated accounts, the prices in the non-reserved area raise serious issues in relation to the ‘geared to cost’ principle. An Post has made proposals to reduce prices in respect of the non-reserved area which will go some way towards dealing with these issues. In addition to submissions to the ODTR in relation to the reserved area changes, we would be glad to receive comments on the non-reserved proposals and pricing generally

Observations on the price increases in the competitive area should also be sent directly to An Post.

2 BACKGROUND

2.1 LEGISLATIVE BACKGROUND

2.1.1 *The European Communities Regulations 2000 (SI No.310/2000)*

The EC “Postal 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 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 (SI No.310/2000 "the Postal Regulations").

Under these Regulations the Director has been given certain responsibilities for regulation of the postal sector and An Post has been designated as a universal service provider¹.

Under Regulation 10(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 10(2), where the Director is of the opinion that a universal service provider is not complying with the principles the Director may, after consultation with the Minister, issue directions to ensure compliance with the principles.

2.1.2 *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 amend the Act² 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 the Director (this role had previously been given to the Minister).

2.2 DISTINCTION BETWEEN THE TWO LEGAL PROVISIONS

The Director’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 Post³ complies with the Tariff Principles, and covers different (albeit overlapping) areas of An Post’s business.

¹ The Minister for Public Enterprise may also designate one or more universal service providers having an obligation to provide all or part of the Universal Service.

² Regulation 4(1)

³ or any other designated Universal Service Provider

Section 70 of the 1983 Act

This responsibility only relates to some services, i.e. those reserved to An Post under Regulation 9 of the Postal Regulations, which currently means correspondence weighing up to 350 grams and charged less than five times the standard tariff for an item in the first weight step (€2.05)⁴. It creates a mechanism by which An Post must seek the Director's approval before implementing any price increase.

Tariff Principles

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 the Director's responsibility is to monitor compliance, but without any requirement to approve prices in advance. If she considers that An Post is not complying, she may after consulting the Minister require An Post to come into compliance. However, in order to convenience users it is the intention of the Director to let An Post know of her views at the earliest possible date.

2.3 CRITERIA AGAINST WHICH THE DIRECTOR WILL MAKE HER DECISION UNDER SECTION 70 OF THE 1983 ACT

As indicated in the Report on Consultation ODTR 02/32⁵, in addition to the Tariff Principles the Director 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 for outbound international services:

1. Observations made to the Director 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

2.3.1 Competition Law

The ODTR has a duty to ensure that its decisions do not approve pricing structures in breach of EC competition law.⁶

The European Commission has published a Notice on how competition law applies in the postal sector.⁷ Point 3.4 of this notice provides that monopoly

⁴ Currently the Reserved Area to An Post for international outbound mail is all items weighing less than 100g (350g Britain) priority service and weighing less than 250g (350g Britain) economy service. Directive 2002/39/EC reduces the size of the reserved area effective 01 January 2003. The Irish Government has to transpose this directive into Irish law before the end of the year.

⁵ ODTR 02/32 Response to Consultation "Application by An Post to increase the price of reserved Postal Services"

⁶ See the judgment of the European Court of Justice in case 66/86 *Ahmed Saeed* [1989] ECR 803 [1990] 4 CMLR 102, especially paragraph 49.

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 an assumption in Article 7(1) of the Postal Directive that subsidies from the reserved area to the non reserved area may be permissible “to the extent necessary to ensure the maintenance of the universal service”.

This notice recognises that dominant companies may compete on price, or improve their cash flow and obtain only partial contribution to their fixed (overhead) costs, unless the prices are predatory or go against relevant national or Community regulations. (It should be noted that the tariff principles set out in the Postal Directive and Irish Regulations require that the prices should be “geared to cost”).

2.3.2 *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”***.

2.4 **CLASSIFICATION OF MAIL TO NORTHERN IRELAND**

Letter mail to Northern Ireland has been treated as part of the domestic service since the foundation of the state and has been priced at the domestic level. In the separated accounts submitted to the Director (see section 3) mail to Northern Ireland is classified as part of the international mail however prices charged are in accordance with the domestic tariff. An Post will be required to account for all revenue and costs as part of the domestic service in the separated accounts from 2002 onwards.

⁷ 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.

3 THE NEED FOR PRICE INCREASES

3.1 BACKGROUND

In December 2001 An Post submitted an application for an interim price increase. The Director went to consultation about this application in January 2002 (see ODTR 02/15⁸). In response to that consultation the ODTR's position was clearly stated in ODTR 02/32⁹;

Section 3 “ Approval is conditional on An Post undertaking: (a) to provide full separated accounts as required by the Direction on Accounting Separation dated 20 September 2001”.

Section 6 “The proposals for international increases are of a holding nature pending the radical rebalancing of prices that is inevitable in this segment of the market”.

The An Post Separated Accounts for 2001 are now available and can be viewed at <http://www.anpost.ie/about/RegulatoryAccounts.html>. These show that international outbound mail in the reserved area made a €5.6m loss although overall the profit was €5.1m. The An Post results for 2001 also show a loss of €19.3m for incoming services. (These figures include revenue and costs for mail to Northern Ireland and other services such as Registration – see ODTR comment at section 2.4).

An Post submitted a proposal on 8 October 2002 to adjust international tariffs for all mail to Britain, Europe and Rest of the World.

3.2 JUSTIFICATION OF PROPOSALS BY AN POST

The proposed restructured international tariffs follow an in-depth review in light of the separated accounts in respect of 2001 following the response to consultation ODTR 02/32 Section 3 and incorporate a significant element of tariff rebalancing to better reflect costs.

Aside from the interim increase earlier this year, the last substantive price increase in outbound international mail was in 1991. As An Post have outlined previously costs have increased significantly in the meantime and margins on international outbound mail have been substantially eroded.

As reported in the separated accounts for 2001, the overall margin on outbound international letterpost was 7.5%. In An Post's view this is not adequate. Even at that, however, it is being further eroded by increasing costs, as detailed below.

The principal increases in costs in the period 2001- 2003 are stated by An Post to be:

⁸ ODTR 02/15 Consultation Paper “Application by An Post to increase the price of reserved Postal Services”

⁹ ODTR 02/32 Response to Consultation “Application by An Post to increase the price of reserved Postal Services” Section 6 - International Services

- Payroll cost will increase by over 11% arising from pay increases under the Programme of Prosperity and Fairness, together with the impact of the Protection of Employees (Part time Work) Act 2001. [Gains from improved efficiency as a result of capital investment etc reduce this to some extent].
- Delivery and Handling costs in destination countries have increased very significantly. This is particularly the case for destinations within Europe where handling and delivery costs are calculated as a percentage of the domestic tariff in each country. By 2003 delivery and handling costs in these countries, which account for 50% of total outbound international costs, will have increased by 9% over 2001 levels. Currently, delivery and handling costs to other destinations are determined under UPU¹⁰ structures. These costs too, have increased, albeit they start from a lower base.
- Air conveyance costs have escalated since the events of 11 September 2001 and are set to increase further in 2002 -2003.
- Other costs are influenced by the general level of inflation in the economy which is estimated at 4.5% in 2002 and 3.7% in 2003¹¹.

An Post state that overall total outbound international costs in 2003 are set to increase by over 9% above 2001 levels.

The 2001 separated accounts also indicate that, in terms of rebalancing international tariffs, the focus of any price application should be to:

- (a) Reduce the significant level of losses being incurred in the Reserved Area;
- (b) Implement a mixture of increases and decreases in tariffs in the non-Reserved Area to better reflect costs; and
- (c) Introduce format-based pricing.

The proposal, An Post believe, addresses this requirement in a balanced manner and continues the process of rebalancing initiated under the interim price changes in April last. Details of the proposed outbound international tariffs and unit costs are set out in the next section.

¹⁰ Universal Postal Union

¹¹ An Post proposal quotes the inflation % source as ESRI Quarterly Economic Commentary, Summer 2002

4 AN POST PROPOSAL

4.1 PRINCIPAL FEATURES

The key features of the proposal are as follows:

- Uniform pricing for Europe (excluding Britain) and the Rest of the World for items up to 100g;
- Introduction of format-based pricing up to 100g; and
- Significant tariff reductions at the higher weight steps in the Rest of the World category.
- The option for users to avoid a price increase on letters by using the economy service.

An Post estimate that the proposed new tariffs would generate a net revenue yield of the order of the €6.1m p.a. This is inclusive of the yield from the interim price increase effective from 2 April this year; the additional yield from the current proposed increase is therefore of the order of €4.7m p.a. An Post state that the overall net yield is required in order to maintain margins at about 2001 levels.

An Post states that the proposal seeks to deal with the cost and rebalancing issues arising in respect of international tariffs in a positive way and represents, in its view, a further step towards cost-reflective and balanced pricing while taking account of commercial imperatives, including the need to fund the Universal Service Obligation.

4.2 CURRENT & PROPOSED PRICES

4.2.1 *Priority Service*

Please note: Only items weighing less than 100g (350g for Britain) are reserved to An Post, with price increases subject to the Director's approval under section 70(2) of the Postal and Telecommunications Services Act, 1983, as amended. These items are shown in bold type in the following tables.

(i) Letter Format - Post Office Preferred Envelopes¹² & Postcards

Weight not over	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
25g (incl postcards)	41c	44c	57c	50c	57c	
50g		83c	95c		83c	
100g ¹³	76c	€1.21	€1.71	85c	€1.20	

(ii) Larger Envelopes¹⁴

Weight not over	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	55c	83c	95c	75c	95c	
100g	76c	€1.21	€1.71	85c	€1.20	
250g	€1.10	€2.03	€4.00	€1.75	€2.00	€3.00
500g	€1.85	€4.10	€8.00	€2.60	€4.00	€5.00
1kg	€4.80	€8.20	€15.00	€4.80	€8.00	€10.00

(iii) Packets¹⁵

Weight not over	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	55c	83c	95c	€1.20	€1.70	
100g	76c	€1.21	€1.71			
250g	€1.10	€2.03	€4.00	€1.75	€2.00	€3.00
500g	€1.85	€4.10	€8.00	€2.60	€4.00	€5.00
1kg	€4.80	€8.20	€15.00	€4.80	€8.00	€10.00
1.5kg	€6.20	€12.20	€22.50	€6.20	€12.00	€15.00
2kg	€7.80	€16.25	€32.50	€7.80	€16.00	€20.00

¹² Standard Business Envelopes up to C5 size, i.e. 162mm w x 235mm h with a thickness of 2mm

¹³ Very few letters weight between 50g and 100g and in common with other countries these prices are the same as for larger envelopes.

¹⁴ Items with dimensions up to 400mm length x 300mm width x 25mm depth

¹⁵ Items with dimensions greater than 400mm length x 300mm width x 25mm depth and up to 610mm length x 460mm width x 460mm depth

4.2.2 *Economy Service*

Please note: Only items weighing less than 250g (350g for Britain) are reserved to An Post, with price increases subject to the Director's approval under section 70(2) of the Postal and Telecommunications Services Act, 1983, as amended. These items are shown in bold type in the following tables.

(i) Letter Format - Post Office Preferred Envelopes & Postcards ¹²

Weight not over	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
25g	48c	55c	51c	41c	44c	
50g					71c	
100g	63c	70c	95c	72c	€1.02	

(ii) Larger Envelopes ¹⁴

Weight not over	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	48c	55c	51c	64c	81c	
100g	63c	70c	95c	72c	€1.02	
250g	91c	€1.40	€1.71	€1.50	€1.70	€2.00
500g	€1.54	€2.80	€4.10	€2.20	€2.80	€4.00
1kg	€3.80	€4.50	€6.90	€4.00	€4.50	€6.90

(iii) Packets ¹⁵

Weight not over	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	48c	55c	51c	€1.02	€1.45	
100g	63c	70c	95c			
250g	91c	€1.40	€1.71	€1.50	€1.70	€2.00
500g	€1.54	€2.80	€4.10	€2.20	€2.80	€4.00
1kg	€3.80	€4.50	€6.90	€4.00	€4.50	€6.90
1.5kg	€5.50	€6.20	€9.60	€5.25	€6.20	€9.60
2kg	€7.20	€7.80	€11.40	€6.50	€7.80	€11.40

5 INTERNATIONAL BENCHMARKING

To put these price proposals into an international context the ODTR has compared them with the tariffs proposed in two European countries, Belgium and Denmark, that have recently announced tariff changes for international outbound mail, and with the current tariffs applicable in Britain.

The An Post proposals compare favourably with the other three countries and better reflect the cost differentials between mail in conventional envelopes and bulkier packets, and between mail for European destinations and those in the rest of the World.

Belgium - the approved prices in Belgium, effective 18 November 2002 are starting the move to format pricing by introducing a single price for POP letters up to 50g. No attempt has been made to introduce separate prices for larger envelopes and packets, and the traditional premium for letters to countries outside Europe has been retained.

Denmark - the approved prices in Denmark, effective from 1 January 2003 represent a complete switch to format pricing with separate price scales for letters, larger envelopes and packets with weight bands in the larger envelopes and packet scales. The traditional premium for letters to countries outside Europe has been retained.

Britain - although Royal Mail has published a consultation paper proposing the introduction of format pricing in the domestic service from some time next year the current international tariffs reflect the traditional premium for letters to countries outside Europe, but uniquely charge on the basis of 20g weight steps with very small increments in price (15p for Europe and 36p/37p for Rest of the World).

5.1 RATES COMPARISON

Priority Services for Post Office Preferred Envelopes & Postcards

	Ireland	Britain	Denmark (from 1.1.03)	Belgium (from 18.11.02)
To Europe 25g (incl postcards)	57c	59c to 20g	74c	59c
>25g up to 50g	83c	82c to 40g		
To Rest of World 25g (incl postcards)	57c	108c to 20g	87c	84c
>25g up to 50g	83c	166c to 40g		

It is interesting to note that whilst An Post is eliminating the significant and not cost related premium for the Rest of the World zone in the first phase of its rebalancing exercise the European countries are focussing their initial moves on increasing the size of the weight steps. Given this country's ties with countries outside of Europe the An Post approach is to be preferred. It is also worth noting

that Telecoms tariffs between Ireland and the USA are generally cheaper than to many European countries for similar reasons to the postal market, ie lower costs as a consequence of higher volumes and greater efficiency.

The same observation can be applied to the comparative tariffs for larger envelopes and packets. Although An Post's tariffs for packets weighing up to 50g to Europe appears high it should be noted that this is because Belgium and Britain have still not changed from uniform pricing for larger envelopes and packets.

Priority service for Larger Envelopes

	Ireland	Britain *	Denmark (from 1.1.03)	Belgium (from 18.11.02)
To Europe Up to 50g	€0.95	€0.82 to 40g	€1.14	€1.08
>50g up to 100g	€1.20	€1.08 to €1.57 60g to 100g	€1.62	€1.49
>100g to 250g	€ 2.00	€1.81 to €3.23 120g to 240g	€2.56	€3.79
>250g to 350g	€ 4.00	€3.47 to €4.42 260g to 340g	€4.44	
>350g to 500g	€ 4.00	€4.65 to €6.32 360g to 500g	€7.67	€7.49
>500g to 1kg	€8.00	€6.56 to €12.27 520g to 1kg		
To Rest of World Up to 50g	€0.95	€1.66 to 40g	€1.55	€1.59
>50g up to 100g	€1.20	€2.25 to €3.42 60g to 100g	€2.42	€1.98
>100g to 250g	€3.00	€3.99 to €7.42 120g to 240g	€4.44	€5.49
>250g to 350g	€5.00	€7.98 to €10.32 260g to 340g	€7.54	
>350g to 500g		€10.90 to €15.01 360g to 500g		€11.84
>500g to 1kg	€10.00	€15.59 to €29.67 520g to 1kg	€12.79	

Priority service for Packets

	Ireland	Britain	Denmark (from 1.1.03)	Belgium (from 18.11.02)
To Europe 50g	€1.70	€0.82 up to 40g	€1.88	€1.08
>50g to 100g	€1.70	€1.08 to €1.57 60g to 100g	€2.56	€1.49
>100g to 250g	€ 2.00	€1.81 to €3.23 120g to 240g	€3.50	€3.79
>250g to 350g	€ 4.00	€3.47 to €4.42 260g to 340g	€5.52	
>350g to 500g	€ 4.00	€4.65 to €6.32 360g to 500g	€8.75	€7.49
>500g to 1kg	€8.00	€6.56 to €12.27 520g to 1kg		
>1kg to 1.5kg	€12.00	€12.50 to €18.21 1.2kg to 1.5kg	€13.46	€16.49
>1.5kg to 2kg	€16.00	€18.44 to €24.15 1.52kg to 2kg		

Priority service for Packets (contd)

	Ireland	Britain	Denmark (from 1.1.03)	Belgium (from 18.11.02)
To Rest of World 50g	€1.70	€1.66 up to 40g	€2.56	€1.59
>50g to 100g	€1.70	€2.25 to €3.42 60g to 100g	€3.63	€1.98
>100g to 250g	€3.00	€3.99 to €7.42 120g to 240g	€5.52	€5.49
>250g to 350g	€5.00	€7.98 to €10.32 260g to 340g	€8.21	
>350g to 500g	€5.00	€10.90 to €15.01 360g to 500g		€11.84
>500g to 1kg	€10.00	€15.59 to €29.67 520g to 1kg	€14.13	
>1kg to 1.5kg	€15.00	€30.25 to €44.33 1.02kg to 1.5kg	€23.56	€27.49
>1.5kg to 2kg	€20.00	€44.91 to €58.99 1.52kg to 2kg		

Britain rates to Europe from 100g are based on 99p + 15p for every 20g

Britain rates to Rest of the World for the 100g to 280g start at £ 2.16 plus an increase of 36p for each additional 20g.

Rates of exchange 1 EUR = 0.6310 GBP 1 EUR = 7.4292 DKK

6 DIRECTOR'S POSITION

6.1 GENERAL

As indicated in section 3.1, the application of the tariff principles set out for the regulation of An Post have required major analysis and review of the cost drivers affecting An Post.. The Direction issued to An Post in September 2001, required separated accounts disaggregated to the level of service, to be provided to the ODTR in confidence, within 19 weeks of the end of the financial year¹⁶. An analysis of these revealed that some services are being provided at below cost. It is crucial that An Post address this issue as it could distort the market for international letter services when those markets are fully opened to competition. As noted above An Post is losing some €14.2m on the €123.2m turnover from international services (inbound and outbound) and the proposals made here would limit this loss. The proposals recently submitted by An Post therefore envisage some large increases as well as price reductions.

The main price increases in the An Post proposal apply to Britain (up 29.7% on average) and to Europe (up 15.9% on average) while mail to the Rest of the World is reduced by 14.3% on average. The increases are offset by a number of factors:

- For particularly price sensitive customers of the ordinary letter service there is the option of avoiding any price increase by switching to the Economy service.
- The new moves towards Format Pricing ensures that the significant cross-subsidies between Packets and mail in conventional envelopes will be eliminated, thereby avoiding any distortion of the competitive market.
- Additional reductions in the number of weight steps, particularly at the lower end of the scale. With regard to POP letters to Europe and the Rest of the World the differential between the cost of a 1-25g letter and a 26g-50g letter has been reduced. (To eliminate it altogether at this stage, as was done earlier this year for the Domestic Service and to Britain, would necessitate a lot of people paying an extra 2c or 3c so that a few would gain a price reduction of about 23c.)
- Also a significant move has been made towards eliminating the unwarranted price differential between the price of mail to Europe and the Rest of the World, with many prices being reduced by up to 38%. The Rest of the World service accounts for 35.9% of total mail (by value) of which a very significant portion is posted by residential consumers who would benefit from these changes.

¹⁶ see ODTR 01/74 Regulation of Universal Postal Services - Accounting separation and costing methodology - Proposed Direction to An Post - Decision Notice D15/01.

6.2 ISSUES WITH CURRENT PRICING MODEL

The main problem with An Post's international outbound tariffs is that the prices are based on three variables that do not have a direct relationship to the costs:

- Weight steps – Tariffs have traditionally been based on a series of weight steps - 0g - 25g, 25g - 50g, 50g - 100g, etc. The costing model shows that on average within the reserved area only a very small percentage of the average costs are weight related. The vast bulk of the costs are influenced by the format i.e. letter, larger envelope and packet.
- Geographic basis – The average cost of a POP letter for the current three zones is 90%, 100% and 108% of the overall average cost. Within the highest cost zone the cost for each individual destination ranges between 86% and 130% of the overall average.

The reform of the Terminal Dues System¹⁷ which the Director considers is overdue must reduce these differences in particular mail to specific “high cost” countries must be tackled.

- Speed of service – In the international service, unlike the domestic service, An Post offers two services, priority and economy. Based on the current prices the price difference varies significantly e.g. Europe for a 26g to 50g POP letter the economy rate is 66% of priority rate. The Rest of the World for a 101g to 250g larger envelope the economy rate is 43% of the priority amount. However there is very little difference in the cost of providing each service. Conveyance costs in particular only reduce if there is sufficient volume and available services to allow the transport of mail by sea rather than air¹⁸.

6.3 ISSUES WITH PROPOSED PRICING MODEL

6.3.1 *Format Pricing*

Prices for postal services have traditionally been based on weight. There are four different formats for operational purposes being POP envelopes, larger envelopes, packets and parcels¹⁹. There are different costs associated with each of the formats and different tariffs are therefore appropriate to them. As items of the same weight could fall to be handled in more than one format it is incumbent on An Post to ensure the lowest applicable tariff is applied.

6.3.2 *Uniform Pricing in the Reserved Area*

The separated accounts suggest that it is desirable to introduce uniform tariffs for each mail stream for all outbound international mail within the reserved area. At

¹⁷ “Terminal Dues” arrangements govern how much An Post pay postal services in other countries and how much they receive from them.

¹⁸ It will be noted that in its parcel business where there is no commitment under international treaties to provide an economic service, An Post only provides an economy service to Britain, USA & Canada only.

¹⁹ Parcel tariffs fall outside of the scope of this paper and will be reviewed on a separate basis.

current cost levels the variation in the cost of handling outbound international mail between the different destinations is relatively small and does not warrant different prices except for a few “high cost” countries mainly within the European Union. However due to the steep increases required to the current tariffs to Britain and Europe An Post are proposing to introduce uniform tariffs on a phased basis so as not to distort the market. The current proposal merges the European and the Rest of the World zones within the reserved area.

At the same time the size of the variance between those tariffs and the British tariffs will be reduced. The Director expects the next phases to address the need to complete the convergence of tariffs for mail to Britain with other international rates.

6.3.3 *Compliance with “Geared to Cost” Principle*

To comply fully with the “Geared to Cost” principle and to ensure undistorted competition when these markets are fully open to competition some specific tariffs in the Reserved area for Britain and Europe need to be increased further but the ability of the market to absorb the price increase dictates that this needs to be tackled on a phased basis.

An Post is proposing to reduce other prices as part of this phased approach to rebalance the tariffs. The Director is of the view that there is scope for further reductions in the price of heavier weight items outside of the Reserved Area. and expects further progress on reducing the number of weight steps – in particular the introduction of a single price for all POP envelopes weighting less than 50g to all counties, not just Britain and Ireland She looks forward to comments on these matters..

6.4 **IMPLEMENTATION DATE**

Depending on the response to consultation the Director hopes if possible to make a decision on this application in time for implementation in early December 2002. To facilitate this analysis it would be helpful if comments could be submitted as soon as possible.

6.5 **ISSUES FOR CONSULTATION**

The Director would be particularly interested in hearing the views of An Post’s customers or other interested parties on a number of issues:

Q. 1. Do you agree that the adjustment to Prices for International Mail to comply with the “geared to cost” principle should be made on a phased basis to limit the extent of the price increase at any one time to be borne by those who face the largest increases? If not please state your reasons.

Q. 2. Do you agree that it is desirable to ultimately have a single price for all mail in POP envelopes, as currently applies in the Domestic service and to Britain subject to a weight limit of 50g? If not please state your reasons.

- Q. 3. Should An Post be required to move to a single price for mail in POP letters weighing up to 50g addressed to Europe or the Rest of the World at this time? If Yes please state your reasons.**
- Q. 4. Do the agree that there should be a higher price for handling bulkier packets weighing more than 50g compared with the price for items of similar weight in conventional envelopes to reflect the extra costs involved? If not please state your reasons.**
- Q. 5. Do you agree that the introduction of a single tariff for mail to all international destinations is desirable, providing that present differentials in cost between different countries can be maintained, or reduced? If not please state your reasons.**
- Q. 6. Should a higher price for specific “high cost” European countries be imposed at this stage even if the cost of delivery in those countries is subsequently reduced? If yes please state your reasons.**
- Q. 7. Are the reductions in price for Priority Mail weighing more than 25g to countries outside Europe sufficient? If not please state your reasons.**
- Q. 8. Are there any specific points relating to the affordability of An Post’s international letter services that you wish to bring to the Directors attention?**

7 SUBMITTING COMMENTS

All comments are welcome, but 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 30 October 2002 to 26 November 2002 during which the Director welcomes written comments on any of the issues raised in this paper. Having analysed and considered the comments received, the ODTR will decide whether to approve An Post's pricing proposals, in whole or in part, and publish a report in early December²⁰ on the consultation which will, *inter alia* summarise the responses to the consultation. In order to promote further openness and transparency the ODTR will publish the names of all respondents and make available for inspection responses to the consultation at her Offices.

The Director appreciates that many of the issues raised in this paper may require respondents to provide confidential information if their comments are to be meaningful. Respondents are requested to clearly identify confidential material and if possible to include it in a separate annex to the response. Such information will be treated as strictly confidential.

All responses to this consultation should be clearly marked "Reference: Submission re ODTR 02/94" and sent by post, facsimile or e-mail to:

FREEPOST

Ms Elaine Kavanagh
Office of the Director of Telecommunications Regulation
Irish Life Centre
Abbey Street
Dublin 1
Ireland

Ph: +353-1-8049600 Fax: +353-1-804 9680 Email: postprices@odtr.ie

to arrive on or before 5pm on Tuesday 26 November, 2002

Office of the Director of Telecommunications Regulation

29 October 2002

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

²⁰ The timing of the report will depend on the number of submissions and the complexity of the points raised – see also section 6.4.