



Office of the Director of
**Telecommunications
Regulation**

CONSULTATION PAPER

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

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Oifig an Stiúirthóra Rialála Teileachumarsáide

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Foreword

This paper sets out certain proposals to increase some prices for postage stamps and to change the structure of pricing for key services of importance to postal service users. I very much want to have the comments of customers and other interested parties before making a decision on the proposals.

In normal market circumstances the price a company can charge for its services depends on what users are willing to pay. If its prices are too high its customers will seek out cheaper competitors, if its prices are too low it will not make a profit. The quality of the goods or services it sells will have to be exceptional if it is to charge a premium price.

An Post does not operate in a normal market in respect of many of its services. While the extent of its monopoly on services has reduced in recent years, it still has a substantial part of the market reserved to it by law. The purpose of this reserved monopoly is to ensure the maintenance of the universal service – the delivery of post to all parts of the country. A full description is included in the paper, but essentially the reserved area currently includes the collection/delivery of all letters weighing less than 350g and charged at less than €1.90 to deliver.

Prices for postal services within the reserved area are by law subject to approval by the ODTR. The intention is to ensure that An Post cannot use its monopoly position to increase prices unreasonably and cross-subsidise activities in the non-reserved area where it does face competition.

An Post is seeking approval to increase the prices it charges for the services it offers within the reserved area. It also intends to make changes in its prices in the non-reserved area, where it must comply with tariff principles set out in law, but does not need prior approval.

There has been substantial discussion about the proposals. The postal services are complex, as is their cost attribution. The legislation provides for the development of full separated accounts setting out the costs and revenues of the various business lines. When these are available in May of this year it should be possible to gain a fuller understanding of the position in relation to the many issues which cannot be satisfactorily clarified at present.

However a number of things are now clear. An Post is facing a significant operating deficit on the postal services, and although it has a significant cash surplus which can cushion the impact of losses for some time, it must achieve substantial operating efficiencies to face full competition in the future¹. To date, it appears that the savings from its cost-cutting programmes have been somewhat disappointing.

¹ Proposals currently being considered by the European Parliament propose a reduction in the size of the reserved area to 100g from 2003, 50g from 2006, with full competition from 2009.

It is clear from the information already supplied to me by An Post that there will have to be substantial changes in the way An Post prices its services. Some prices will have to go up, some to come down. In particular, it will be the size of the envelope rather than the weight that will be the main factor in deciding what price customers have to pay. Bulk customers need to be better facilitated in terms of access conditions for bulk mail and in terms of pricing.

Also I have to be satisfied that An Post is not seeking to recover losses incurred on other elements of its business, eg parcels, financial services, and unaddressed advertising, through increased charges on the postal services for which it has a monopoly.

An Post says that it needs an “interim” price increase in advance of all this detailed work. The details were submitted to me just before Christmas. While much more work will be needed to deal with all of the issues after the receipt of the accounts in May next, I am satisfied that an interim increase may now be warranted.

Under An Post’s proposals the prices for the most frequently used services will go up by 3c, but as the weight allowed for the special POP² rate is being increased to 50g about 10% of all national letters will be reduced in price by 3c. The overall impact is estimated at 3.2%, with price changes ranging from reductions of 19.6% to increases of 13.8% in the reserved area. An Post’s proposals for increases outside the reserved area, which do not need prior approval, are included in this paper for information.

However, before I make my decision about the proposals, in whole or in part, I am publishing this consultation paper so that I can learn directly from An Post’s customers how the proposals will affect them.

Postal regulation is new and it may be helpful to clarify a few points here. The regulatory role of the ODTR relates to the postal services, not to the whole of An Post’s business. In particular issues regarding the funding of the post offices network, many of which have a very limited role in relation to the collection, sorting and delivery of letters, are a matter for An Post and the Government.

While An Post claims that it “last increased its domestic letter tariffs in April 1991, when the rate approved by the then Minister was set at 32p (41c)” this only applies to a proportion of the mail. Section 4 of this paper shows that the price charged for some services to business customers will have increased by between 24% and 34% since January 1990.

During the same time the number of deliveries each day has been cut and An Post has moved from a labour intensive manual sorting hub at Sherriff Street, Dublin to a purpose built mails sorting centre in West Dublin equipped with state of the art mechanised sorting equipment. Despite this investment, over the period 1993 to 2000 the percentage of letters delivered the day after posting has fallen by 6 percentage points.

² Post Office Preferred, ie standard business envelopes up to C5 size, 162mm x 235mm x 5mm

These are all issues that will need to be looked at in the context of assessing An Post's proposals when the detailed costing information is available.

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.

One of the functions given to the Director is to monitor compliance with the Tariff Principles set out in the EC Postal Directive (97/67/EC). In May last year the ODTR published a paper “ODTR 01/35, Regulation of Postal Services - Approach to Monitoring Compliance with Universal Service Tariff Principles” setting out how the Director proposed to monitor compliance with the Tariff Principles. A Report on the Consultation has been postponed while the interim price increase application has been dealt with, but will issue shortly.

The Director has a separate responsibility under section 70(2) of the Postal and Telecommunications Services Act, 1983, as amended by the Postal Regulations³, to consider proposals to increase prices for services reserved to An Post and they cannot be implemented without her concurrence.

In April 2001 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. In June the Director indicated to An Post that on the basis of the information it had supplied, in her view, the proposals were not consistent with the tariff principles laid down in the European Union’s Postal Directive, and that she would not be able to approve them.

Also in June An Post advised the Director that an “interim” increase was needed to avoid the company incurring losses, and that the submission of proposals for domestic price increases could not wait until An Post had implemented the decision on Accounting Separation and Costing Methodology.⁴ An Post were advised that it “did not have to wait until every i was dotted and t crossed” in regard to the issues raised in the consultation papers before submitting a proposal for a partial review in advance of a full submission, an “interim” increase.

Revised proposals for outgoing international letter mail prices, and additional costing information, were received from An Post at the end of July. The costing information received showed that, at that time, overall the outgoing international letter mail services made a modest but adequate profit, albeit that some prices appeared too low and others too high. A significant proportion of the costs were attributed to An Post’s own internal processes, rather than to payments for delivery in European and overseas countries.

³ Regulation 4(1)

⁴ Consultation Paper ODTR 01/29, Decision and Direction ODTR 01/74

In the absence of detailed costing information, showing how the costs of An Post's postal network are allocated to each of the services using the network, it was difficult to form an opinion as to the reliability of the information supplied. The first set of detailed "cost accounts" is not expected until May 2002.

An Post says that it needs an "interim" price increase in advance of all this detailed work. Detailed discussions took place during the autumn to establish:

- the extent to which An Post's projected losses could be attributed to the regulated postal services, rather than services provided competitively, eg express/parcels, financial services, and unaddressed advertising.
- what changes should be made in the way services are priced, to reflect the information already supplied by An Post which showed that it is the size of the envelope rather than the weight that should be the main factor in deciding what price customers have to pay.
- why the take-up of various discount schemes was relatively low and how they could be made more attractive and accessible.

Detailed proposals were submitted for approval just before Christmas.

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 letterpost services provided by An Post are partly reserved to An Post and partly in the area where competitors are free to provide a service also. 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 and submissions to the ODTR should be confined to those price changes.

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

Pricing proposals affecting services falling entirely in the competitive area (eg Registered Post) do not require the Director's prior approval and are not dealt with in this paper. An Post is obliged to comply with the tariff principles in respect of these prices and the ODTR will monitor compliance with these principles in the context of the review of the separated accounts.

2 BACKGROUND

2.1 LEGISLATIVE BACKGROUND

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

The EC “Postal Directive”⁵ 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 provider⁶.

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 Act⁷ 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 Post⁸ 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 – defined below – while the Postal Directive requirement applies to all elements in the universal service. It can be the

⁵ 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 5 21.1.1998, p. 14

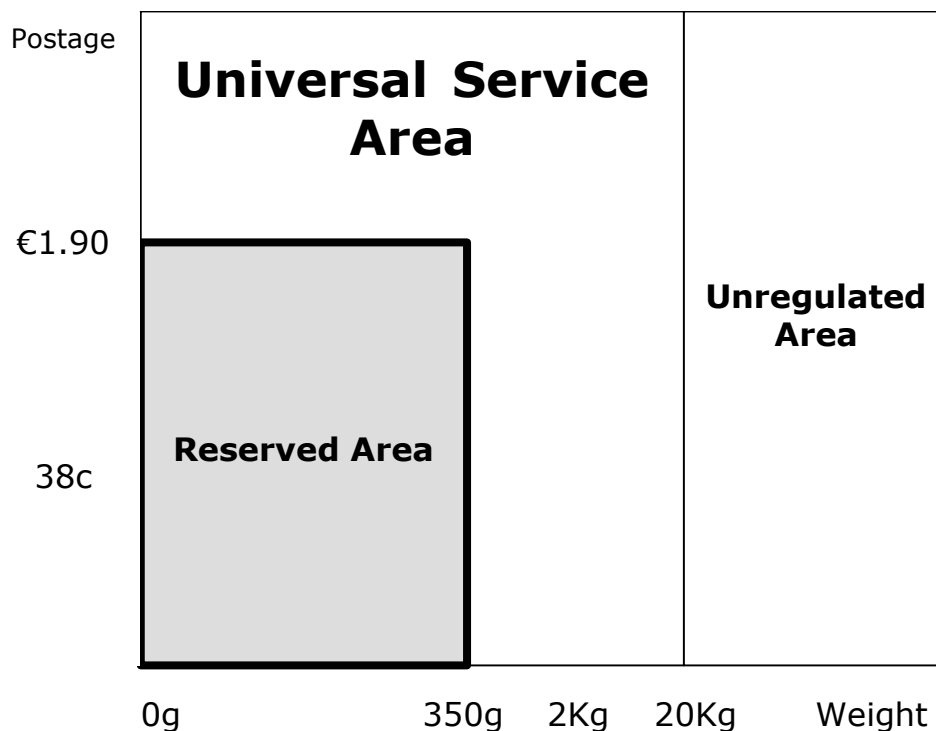
⁶ The Minister for Public Enterprise may also designate one or more universal service providers having an obligation to provide all or part of the Universal Service.

⁷ Regulation 4(1)

⁸ or any other designated Universal Service Provider

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.

Figure 1. Interrelationship between Universal, Reserved and Unregulated Letter and Parcel services



Not to scale

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 (€1.90)⁹. 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

⁹ Proposals currently being considered by the European Parliament propose a reduction in the size of the reserved area to 100g from 2003, 50g from 2006, with full competition from 2009.

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.

A consultation paper has been issued on these principles and the response has been postponed while the interim price increase application has been dealt with. A response will issue shortly. Please see paper ODTR 01/35 for a more detailed consideration.

3 PRICE INCREASES IN THE MONOPOLY (RESERVED) AREA

The Director considers the following factors relevant to the interim decision on tariffs:

3.1 TARIFF PRINCIPLES

It would be inappropriate for the Director to concur with any proposals that did not take into account the tariff principles (particularly “affordability” and “geared to costs”) because

- An Post is obliged to comply with the Tariff Principles as set out in the EC Directive and the Irish Postal Regulations for the whole of the universal service area (which includes the reserved area), and
- the Director must monitor compliance with this requirement

The tariff principles are:

- (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 Director 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.

It should be noted that the principles relate to the whole of the universal service and that the Director considers compliance with the principles on this basis. If a service¹⁰ 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.

¹⁰ The Accounting Direction to An Post defines “Service” as “any service provided by An Post which involves the use of the public postal network as defined in the Regulations and is identified as a separate service in the Schemes or price lists published by An Post, or is provided under a contract or standard agreement with individual customers, and operationally handles all items in the service in the same way.” The Direction also provides that if the service falls partly into the Reserved Sector and partly into the Non-Reserved Sector it shall *be accounted for* as if it were two separate services. See ODTR 01/74.

3.2 COMPETITION LAW

The ODTR has a duty to ensure that its decisions do not approve pricing structures in breach of EC competition law.¹¹

The European Commission has published a Notice on how competition law applies in the postal sector.¹² 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 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”.

3.3 SECTION 13 OF THE 1983 ACT

Other legislative requirements must also be taken into account. In this regard section 13 of the 1983 Act¹³ 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*”.

3.4 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;

The Director must also bear in mind representations made to her in response to earlier consultations which suggested that some of An Post’s proposed capital expenditure might not be necessary. From the Director’s point of view, any decision by An Post to incur capital expenditure on postal services should be made only on the basis of a financial appraisal identifying the cost savings or additional revenues to be achieved as a result of the investment. Any shortfall in

¹¹ 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.

¹² 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.

¹³ The Government has proposed to repeal this provision in the proposed Postal (Miscellaneous Provisions) Bill, 2001. The ODTR has raised the question of including an alternative requirement on An Post in the legislation.

achieving those savings would have to be taken into account in determining any price increase application.

Against this background the Director's position is that price increases should be linked to real increases in costs which cannot be offset by greater efficiency. In other words the Director should not concur with a proposal to increase the price of a reserved service if, having regard to the information available to her, she was of the opinion that there was scope for cost reductions, or if cost savings attributable to capital expenditure or similar decisions were not achieved.

3.5 CONCLUSION

Subject to the factors set out above, the Director's position is that An Post is not entitled to increase the price of any reserved service to a level significantly in excess of the actual cost of provision.

<p>Q. 1. Do you agree with the criteria that the Director proposes to use in making a decision under section 70 of the 1983 Act to approve price increases? If you think the Director should take into account additional criteria please specify the basis on which you think the criteria should be considered.</p>
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4 THE NEED FOR PRICE INCREASES

4.1 AN POST'S INTERIM PROPOSALS

The case made by An Post for the proposed interim price increases is summarised as follows:-

Draft separated accounts for the year 2000 produced by An Post show that the profit margin from services within the universal service obligation (USO) was only 0.7%. Under the Program for Prosperity and Fairness, pay costs have increased by 8.2% in 2001 and are set to increase by a further 7.1% by 2002. In the absence of a substantial price increase, the revenues from services within the USO will fall far short of what is required to cover the cost of providing the USO in 2002.

4.1.1 *Tariff History and Comparators*

- In regard to the headline tariff, An Post last increased its domestic letter tariffs in April 1991, when the rate approved by the then Minister was set at 32p (41 cent). This remained the rate in force until April 1998, when a new, reduced standard domestic tariff of 30p (38cent) was approved by the Minister for Public Enterprise as part of a realignment of domestic tariffs. This realignment resulted in an overall decrease of 0.7% in letter tariffs. Over the period 1991 to 2000, therefore, letter tariffs have declined by 0.7%, while CPI increased by 34.6%.
- Tracking letter tariffs against income indices over the period 1991-2000 illustrates that such indices have increased significantly over the period. Letter tariffs, on the other hand, remained static up to 1998 and actually decreased thereafter. This endorses An Post's view that an increase in domestic tariffs well in excess of 20% would be required before any issue of affordability might arise.
- As a basic commodity, it should be noted also that, while the price of the stamp remained static up to 1998 and then reduced, the prices of other basic commodities have increased very significantly over the period.
- Throughout the nineties, while the domestic tariff remained static (and was reduced from 1998) there were very significant increases in costs facing An Post. The main cost driver, the price of labour, increased by over 30% in the period.

4.1.2 *LetterPost Financial Projections*

The absence of a price increase to date in outbound international letter rates (expected yield €9m) coupled with increased pay rate costs in 2002 arising from the PPF (€20m in LetterPost), together with a rapid deceleration in letter volume growth evident from mid year, but intensified since September 11 events, mean that the LetterPost division, in the absence of a reserved area tariff increase, faces significant trading losses. When regulatory costs, including the proposed

regulatory levy are factored in, the LetterPost Division faces losses of over €21 m in 2002. This is despite cost saving measures of €15m built into this projection.

These are unsustainable losses, the continuation of which cannot be countenanced. In recent years it had been possible to absorb the increasing costs because of high growth in sales volumes, efficiencies achieved and relatively low pay increases under National Wage Agreements. This situation has now totally reversed, with growth in wages far outstripping growth in sales volumes. As a result, the price stability of the past decade is at an end. LetterPost Division needs the revenue of a price increase in 2002 not only to maintain commercial viability, but to ensure that the company can continue to meet its universal service obligations.

4.1.3 *International Comparisons - Price Quality*

In terms of international comparisons, Ireland currently has the second lowest domestic tariff within the EU. When account is taken also of quality of service performance, An Post provides a service which equals or exceeds the maximum price/performance level being achieved elsewhere within the EU.

Even at a price level of 45 cent, An Post would still have the fourth lowest base rate in Europe.

4.1.4 *Yield from proposed "interim" price increases*

The projected overall annualised yield from the proposed increases is €11.5m, of which €8.0m is in respect of services within the Reserved Area. The expected total USO yield in 2002, assuming implementation from 1 April 2002, is circa €9m (€6m in respect of services within the Reserved Area).

It is important to stress that this projected revenue yield will not, in itself, cover the cost of providing the USO in 2002, and is less than half of the revenue yield planned for 2002 which was included in An Post's five year business plan.

4.1.5 *Need for Further Study*

There are specific pricing proposals submitted by An Post in July 2001 (Outgoing International) and December 2001 (Domestic) which have been framed to ensure that they conform to the tariff principles.¹⁴ An Post has undertaken to provide the detailed costing information to enable these proposals to be evaluated by 30 June, 2002.

Given the seriousness of the financial position in LetterPost, and its unsustainable consequences for the financing of the USO, An Post cannot afford to wait until the full price applications can be processed.

"We need a price increase now - even if only an interim increase.

¹⁴ Details are shown at Appendix 1. The Director expects these proposals may be modified when the detailed costing information is available.

In making this application, we are mindful of your letter of 22 June, when you indicated that we "did not have to wait until every i was dotted and t crossed" in regard to the issues raised in the consultation papers before submitting an interim price proposal."

An Post sees the proposed interim tariff adjustment as only meeting in part An Post's requirement for a revenue increase in 2002. The Board of An Post has approved the application on the basis that further tariff increases will have to be approved when its main applications for tariff increases are fully considered. For the present, the ODTR's formal consent is sought for the interim tariff changes for which prior consent is required.

4.2 DIRECTOR'S POSITION

4.2.1 Overall Financial Position

The financial forecasts for the An Post Group as a whole show a deteriorating financial position in the period 2000 to 2002. Although the strong cash position at the end of 2000/1 will not precipitate any immediate financial crisis there are serious underlying problems that need to be tackled sooner rather than later.

When wage increases were averaging 3% per annum An Post was able to finance these by productivity improvements and service adjustments. But with wage increases of 8.2% in 2001 and 7.1% in 2002 An Post are seeking to recover some of these extra costs from their customers. The issue for the Director is whether such costs, and if yes how much of them, should be passed on to customers, or if An Post may be using the monopoly it has over certain services for a purpose for which it is not intended.

Another issue that has to be considered is whether An Post is seeking to recover its losses from other elements of its business, eg parcels, financial services, and unaddressed advertising, which are open to competition and (except for parcels) outside the scope of regulation, through increased charges on the monopoly letter services.

An Post specifically says¹⁵ that the cost of providing the services within the Universal Service Obligation will exceed the revenue from such services in 2002. It should be pointed out that the draft separated accounts for the year 2000 referred to by An Post suggest that the bulk of the losses arise from handling incoming mail from Britain and other countries.

In discussions, An Post expressed the view that these should be covered by an imposition on the price of domestic and outbound international reserved mail. The Director takes the opposite view. To do as An Post suggests is to ask Irish users of An Post's service to subsidise customers of foreign service providers. Furthermore it distorts trade in the printing and related sectors in that Irish

¹⁵ See para 4.1 above.

companies lose business to competitors abroad, who have access to subsidised postal services into Ireland.¹⁶

Regulation 11(1) of the Postal Regulations requires that a universal service provider shall arrange in its agreements on terminal dues for intra-Community cross-border mail that the following principles are respected:

- (f) terminal dues shall be fixed in relation to the costs of processing and delivering incoming cross-border mail,
- (g) levels of remuneration shall be related to the quality of service achieved, and
- (h) terminal dues shall be transparent and non-discriminatory

There is a compelling case therefore for An Post to consider revisiting its agreements on terminal dues, at least with those countries that send significant volumes of mail to this country.

Finally some Irish customers who post large volumes of mail have made the case that under the EU Tariff Principles they should pay no more than the rates payable by universal service providers in other countries, as the pre-sorted and prepaid mail posted by these Irish customers involves less work and is therefore cheaper to handle.

4.2.2 *Tariff History*

An Post make the point that over the period 1991 to 2000 letter tariffs have declined by 0.7% , while CPI increased by 34.6%. This is the average effect of changes to the basic rates for letters *and* printed papers in POP¹⁷ envelopes weighing up to 20g using 1991 as the starting point. Certain types of customers and services have faced considerable changes, so while it is to An Post's credit that it has operated successfully without an overall price increase, it is important to understand the drivers behind this record.

By looking at the issue from the point of view of a small or medium sized business using the post for the distribution of invoices and statements, and using 1 January 1990 as a starting point a completely different picture is obtained.

Effective from 1 January 1990 the price for such items was fixed at 26p (33c). There were further increases on 2 April 1991 to 28p (35.6c) and 6 April 1998 to 30p (38.1c). If the "interim" price increases are approved the price will rise to 41c (32.3p), ie an increase of more than 24% over the 12 year period.

At the start of the period there were two deliveries each day in most towns, and three in part of Dublin. During the period An Post have moved from a labour intensive manual sorting hub at Sherriff Street, Dublin to a purpose built mails

¹⁶ To the extent that the British Post Office charges an average price for mail to all European Union countries it could be argued that Irish customers of An Post are indirectly subsidising the price paid by customers of the British Post Office on mail to Germany, Sweden, Italy and other "high cost countries."

¹⁷ Post Office Preferred, ie standard business envelopes up to C5 size, 162 mm x 235mm x 5mm.

sorting centre in West Dublin equipped with state of the art mechanised sorting equipment. Mail is now transported by road rather than rail.¹⁸

Furthermore the number of items of mail per capita has increased from 136.2 in 1990 to 193.7 in 2000¹⁹, allowing An Post to achieve significant economies of scale. Over the period 1993 to 2000 the percentage of letters delivered the day after posting has fallen by 6 percentage points.²⁰ In a commercial world the savings from such changes would be shared with their customers.

The increases in postage on a printed report weighing between 100g and 250g is even greater, up 29.6% since 1 January 1990 and up 34.3% if the proposed interim increase is approved.

The postal service cost and revenue drivers in 2002 are very different to those of 1990/1 in many ways. The road ahead is more difficult and bringing costs and revenues into line presents considerable challenges.

Affordability, comparison with wage rates and other commodity prices.

In its submission An Post makes comparisons with the movement in the average industrial wage, other commodity prices etc. and goes on to suggest that an increase in domestic tariffs well in excess of 20% would be required before any issue of affordability might arise. The Director would point to the comments made in 4.2.2 above to illustrate how such comparisons can be misleading.

With regard to Affordability the Director would question whether a series of small increases at annual intervals is more manageable for smaller business users of the post rather than large increases at irregular intervals. Furthermore An Post places a very restrictive interpretation of the “Affordable to all” principle which the Director does not share.²¹

The Director considers it more appropriate to look at the proper price to be charged for the service in current circumstances, and whether such a price is currently affordable, rather than looking at the movement of prices over a long period when the conclusions drawn depend on the time chosen to start the comparison and the value placed on the changes in the service provided.

4.2.3 *LetterPost Financial Projections*

That An Post’s LetterPost division faces significant trading losses in 2002 is not disputed. An Post refers to four significant factors in their submission (see 4.1.2 above).

¹⁸ Mail transported by rail could be sorted during the journey thereby improving the quality of service.

¹⁹ In developed countries the average number of letters per person per year is more than 400.

²⁰ From 94% to 88% for all letters posted in the state and from 96% to 90% for letters posted in Dublin for delivery in Dublin.

²¹ In essence An Post argues that the Director should take into account only demand side factors, while the Director considers that both demand and supply side factors should be considered.

Absence of Price Increase for outbound international letter rates (expected yield €9m). An Post has not made the case for this increase. Some prices need to be increased but others need to be reduced. Overall, on the basis of information supplied by An Post, the service is profitable.

Increased Pay Costs. As stated above a question to be considered is whether a business operating in a competitive environment could pass on such cost increases to the same extent. In other words are increases in pay costs being offset by greater efficiency to the maximum extent possible?

Deceleration in business volume growth. There has been a check in volume growth but An Post can itself influence to some degree the speed and nature of its recovery. The question for An Post is whether any increase in prices will impact on volume growth.

Regulatory Costs. The largest elements in the costs of regulation are those of the independent monitoring of Quality of Service, which the ODTR is required to organise under Regulation 13(2) of the Postal Regulations, and for which the ODTR has a tender process underway and the review of the separated accounts which will be smaller to the extent that the accounts are clear and compliant. Should there be any surplus on the levy, the amount reverts to An Post.

There is scope for An Post to cut back its own expenditure on Quality of Service monitoring

Other Issues. There are a number of issues not raised by An Post which have a bearing on the projections. As stated above (para 4.2.1) the losses on handling incoming international mail are significant. Also there has been a delay in achieving projected savings under productivity agreements.

4.2.4 *Business Sustainability*

It is important that any business can make an adequate profit on an efficient basis to sustain its services and this is also true for An Post. The identification of an appropriate return on capital is not feasible in the absence of the full separated accounts and so consideration of this factor is postponed, but will be considered when the full applications from An Post are considered after the accounting information is received.

4.2.5 *International Comparisons*

An Post correctly asserts that the Irish national postage rate is among the cheapest in the EU. An updated version of the data published by the ODTR in its Consultation Paper ODTR 01/35 is published at Appendix 2.

However such comparisons can be overly simplistic. A simple comparison of prices does not provide robust information on the relative affordability or cost effectiveness of postal services in different countries.

Differences in the product offered in terms of the quality of service, the weight and size limits, the extent to which uniform pricing applies and the presence of de facto competition would appear to be significant factors which should be taken

into account. Also the size of the country appears to have a significant impact on the proportion of total costs attributable to delivery and to the overall unit cost.

4.2.6 *Yield from proposed “interim” price increases*

An Post correctly point out that the proposed “interim” price increase will not, in itself, cover its projected cost of providing the USO in 2002. An Post has indicated that further tariff increases ***will have to be approved***²² when its main applications for tariff increases are fully considered.

The Director must state at this time that consideration of any further price increase proposals will need to show that the costs are proper to the provision of the universal postal service required by law, and that there is no further scope to reduce costs. In particular the Director would be unwilling to ask customers to subsidise the delivery of incoming mail from overseas.

The appropriate level of discount to be allowed for work sharing, such as pre-sorting, early presentation and compliance with the standards to facilitate OCR²³ sorting will also need to be considered, together with an evaluation of how these should increase as the volume of mail posted increases.

4.2.7 *Need for further study*

The detailed work done by An Post and the ODTR in relation to the proposed increase in international mail prices revealed that there is a need for considerable adjustments in prices (up and down) to ensure that costs and prices are proportionate.

In particular the information suggested that it is the format of the item rather than the weight that determines the cost. Ordinary letter mail is processed in three separate streams:

- POP Envelopes (ie up to C5 size 162mm x 235mm),
- Larger Envelopes (up to 400mm x 300mm x 25mm), and
- Packets (eg rolls, cubes and other difficult to handle sizes) which in most cases require the postman to knock on the door to deliver the item, rather than leaving them in a letter box.

Any approval for the proposed “interim” price increase will be conditional on An Post undertaking:

- (1) to provide full separated accounts as required by the Direction on Accounting Separation dated 20 September 2001²⁴ not later than 31 May 2002, and

²² ODTR’s emphasis

²³ Optical Character Recognition.

²⁴ See ODTR 01/74

- (2) to implement whatever price adjustments (down as well as up) are shown to be warranted, subject to any necessary phasing to avoid significant price jumps.

4.3 ISSUES FOR CONSULTATION

Nobody likes having to pay more for any service, and An Post have done well to have held the basic price of a letter for national delivery for the last four years. The Director would be particularly interested in hearing the views of An Post's customers or other interested parties on a number of issues:

- In the context of affordability the maximum size of price increase that might be absorbed at any one time.

Q. 2. Do you agree that it is preferable to increase prices by a small amount on an annual basis, rather than by a large amount at irregular intervals? Is there a limit to the size of increase that can reasonably be "afforded" in any one year?

- The need to ensure that customers are not asked to subsidise services which An Post provides in the competitive market (eg Registered Letters, Swiftpost, some Parcels services, or non postal services such as insurance, bill payments, social welfare payments and the delivery of unaddressed advertising material) or to postal service providers in other countries.

Q. 3. Do you agree that it is unreasonable to ask Irish customers to subsidise losses incurred in handling incoming international mail?

- The Director's position that she should not concur with a proposal to increase the price of any reserved service if, based on information supplied by An Post in response to a specific request, she was of the opinion that there was scope for cost reductions, or if cost savings attributable to capital expenditure or similar decisions were not achieved.

Q. 4. Should the Director refuse to approve price increases if she is satisfied that there is scope for cost reductions, or if cost savings attributable to capital expenditure or similar decisions have not been achieved.

- The conditions proposed to ensure that tariffs are adjusted (DOWN as well as UP) when full costing information becomes available at the end of May 2002.

Q. 5. Should approval for any "interim" price increase be conditional on undertakings to submit, by 31 May 2002, costing information in the agreed format and to make the necessary adjustments (DOWN as well as UP) on an agreed timetable thereafter?

5 NATIONAL SERVICES

5.1 AN POST'S INTERIM PROPOSALS

5.1.1 *Introduction*

The broad thrust of An Post's domestic pricing strategy is to seek a significant increase in the headline rates for one-off/low volume users while, at the same time, moving towards provision of a revised discount price structure to a wider customer base than is the case at present. This new structure will be reflective of efficiencies that can be achieved through the better presentation of mail by customers. Revised criteria for discounts will, in large measure, be facilitated by the completion of the current automation programme in 2003.

Taking all the factors outlined in section 3 An Post has formally submitted an application for an interim Reserved Area price adjustment, effective from 1 April 2002. This is pending the processing of the Company's applications for the more substantial price increases discussed above.

5.1.2 *Principal Features*

The following is a summary of the principal features of the proposed interim tariff adjustments for services within the Reserved Area:

- An increase of 3 cent in the standard price of the domestic stamp (i.e. a move from 38c to 41 c), with 3 cent increases applied also to the other weight steps in the Reserved Area.
- The widening of the first weight step to include Post Office Preferred (POP) size letters up to 50g (previously 25g) and a corresponding 3 cent reduction in tariff in respect of POP letters in the weight category 25-50g. Non-POP items in the up to 50g category will be charged at the revised up to 50g Non-POP rate. This change reflects a first significant step towards format-based pricing.
- The abolition of the handling fee of 1 cent for Business Reply items.
- The discount rate for Early Presentation based on costs saved will increase by 18% to 3 cent following the conversion to Euro in January. This adjustment, together with proposed changes to certain access conditions, will widen the scope for customers to avail of this discounted service. It is projected that, as a result of these measures, customers, accounting for 70% of bulk mail volume and 15% of metered volume, will switch to early presentation.
- Postcard rates will, under the proposals, also increase from 38 cent to 41 cent.

5.1.3 *Changes to access conditions for Early Presentation Discounts*

An Post intends to revise access conditions for Early Presentation discounts as follows:

- The similar contents condition will be abolished;
- Early Presentation will be extended to include meter mailings; and
- Access conditions will be set out in a simpler, more easily understood manner for customers and will be widely published.

A copy of the revised access conditions for Early Presentation is attached at Appendix 3.

An Post will introduce an internal appeals procedure to deal with any customer complaint about access to Early Presentation discounts. This will involve the Sales Manager, LetterPost Division in the first instance and the General Manager, Sales and Marketing, LetterPost with a final appeal to the General Manager, Finance, LetterPost Division.

5.1.4 *Current & Proposed Prices*

FIRST CLASS LETTER SERVICE

Please note: Only items weighing less than 350g 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 are shown in bold type in the following tables:

(i) Post Office Preferred Envelopes²⁵ & Postcards

Weight not over	Current price	Proposed price	% increase
25g (including Postcards)	38c	41c	7.9%
50g	44c		6.8% reduction

²⁵ Standard Business Envelopes up to C5 size, ie 162 mm x 235mm, and no more than 5mm thick.

(ii) Larger Envelopes²⁶

Weight not over	Current price	Proposed price	% increase
50g	44c	47c	6.8%
100g	57c	60c	5.3%
250g	89c	92c	3.4%
500g	€1.46	€1.49	2.1%
1kg	€2.29	€2.50	9.2%

(iii) Other Letter Packets

Weight not over	Current price	Proposed price	% increase
50g	44c	47c	6.8%
100g	57c	60c	5.3%
250g	89c	92c	3.4%
500g	€1.46	€1.60	9.6%
1kg	€4.06	€4.25	4.7%
1.5kg	€5.33	€5.50	3.2%
2kg	€6.60	€7.00	6.1%
Each additional 500g	€1.27	€1.35	6.3%

²⁶ Up to 400mm x 300mm x 25mm.

(iv) Discounts & Additional Fees

	Current price	Proposed price	% increase
Business Reply – handling fee	1c	Nil	Abolished
Early Presentation Discount	3c	3c	Unchanged
Pre-sortation Discount	4c	5c	25%
Early Presentation Discount	3c	3c	Unchanged
Unpaid / underpaid mail	63c + unpaid / underpaid postage	63c + unpaid / underpaid postage	Unchanged

5.2 DIRECTOR'S POSITION

5.2.1 *Format Pricing*

As mentioned in section 4, information received from An Post shows that the cost of handling an item depends more on the format of the item rather than its weight. The Director is of the view that this should be reflected in the pricing structure for LetterPost services.

POP ENVELOPES

These are defined as envelopes up to C5 size, ie 162mm x 235mm and up to 5mm thick. These comprise the vast majority of ordinary letters posted and delivered within the state. They are relatively cheap for An Post to process because they can be sorted by the high capacity sorting machines, and they are physically easy for the delivery postman to handle. More than 98% weigh less than 50g.²⁷

The Director is of the view that there should be a single price for all such items, as the information supplied by An Post to date suggests that there is very little increase, if any, in cost as weight increases. As a first step An Post have proposed to increase the weight allowed for the special POP rate from 25g to 50g.

This has a number of substantial benefits for An Post and its customers. In particular it will no longer be necessary to weigh the majority of items in order to determine the postage payable. If it fits into the envelope in a normal way it will qualify for the proposed 41c rate. This will result in a reduction in postage for such letters weighing more than 25g. It will also mean that the risk of the addressee being asked to pay an extra 69c on delivery for a letter containing 4 sheets of paper because it was only paid at the existing 38c rate can be avoided.

²⁷ This is based on information supplied by An Post based on an analysis of international mail. The proportion for national (domestic) mail may be different.

LARGER ENVELOPES & PACKETS

Larger envelopes are defined as envelopes up to 400mm x 300mm x 25mm. Packets include all packages larger than this, including rolls, cubes, etc.

Operationally they are handled in different streams and packets generally are more expensive to deliver because the postman usually has to wait for someone to answer the door and take in the item.²⁸ This cost differential has been recognised in An Post's tariffs since April 1998 when differential tariffs were introduced for items weighing between 500g and 1Kg. As part of the "interim" pricing proposals An Post is extending this differential to letters weighing between 250g and 1Kg.

In the longer term the Director would expect to see a further extension of this differential. The precise nature of this will, obviously, is dependent on the detailed information coming out of An Post's costing system.

5.2.2 *Discounting for large volume users*

Currently An Post offer two discounting facilities to large volume users of the First Class Letter Service – a 3c discount for "early presentation" and a 5c discount for "presorting". The discounts are non-combinable. Unlike the Direct Mail Services (see section 7) there is no change in the size of the discount as the number of items posted increases. The proportion of items posted under these discounted arrangements is disappointingly low and from initial investigations and discussions it appears that the stringent conditions, and the way they are enforced, is one of the reasons why this is the case.

It is not possible to address all the issues relating to these facilities within the context of an "interim" price review. In particular without the benefit of detailed costing information it is impossible to say what the value of the discounts should be, and whether they should increase as the number of items posted increases.

An Post has, however, reviewed the conditions relating to the early presentation discount and made a number of changes which the Director considers to be an important first step in the process of making these discounts more accessible.

The most important change is that the condition that the content of each letter in the posting has to be identical will be abolished. Combined with the increase in the weight allowed for the special POP envelope rate to 50g this will make it much easier for An Post's customers to meet the minimum quantity needed to qualify for the discount. It will also facilitate postal intermediaries, ie specialist companies who prepare mail on behalf of other companies, to consolidate the mail from two or more sources in order to qualify for this discount.

The second important change is that it will now be possible for companies who use a franking machine to pay the postage in that way. Currently it is necessary to prepay the postage in cash (or by approved cheque).

²⁸ A letterbox should accept mail up to 235 width and 35 mm thick. See IS 195 of 1976. Not all letterboxes conform to this standard.

Next the conditions applicable to the discount have been set out in a simpler, more easily understood, format – see Appendix 3.

Finally an appeal procedure has been put in place, and the Director will be provided with details of the number of complaints and how they have been resolved. The arrangements will be subject to review. The Director considers this to be very important in ensuring that these discounts are available to all users without discrimination.

There are a number of issues which have not been addressed at this stage which the Director will wish to consider in the context of the full review of An Post's tariffs when full costing information is available.

The first is that the minimum number of items to be posted at the one time is unchanged at 2,000. This is a relatively high threshold in an Irish context and in the Director's view may need to be reduced ultimately to 500 or 200.

The second is that while the discount is called "early presentation" the conditions are more to do with ensuring that the mail is prepared to high standards to facilitate sorting by OCR²⁹ machines. There are two aspects to this:

In terms of improvement to quality of service there is an argument that it would be preferable to get the poorly addressed, difficult to sort, letters in early in the day in order to extend the time available to process them.

- But even if it is accepted that it is better to get the easier to sort letters in first there is a concern that the conditions are so stringent as to mean that only mail prepared by postal intermediaries, including An Post's Printpost Ltd subsidiary, will meet them. In the Director's opinion An Post's modern OCR machines should be capable of sorting mail prepared using good quality laser printers and ordinary word processing programs.

An Post has assured the Director that the new arrangements will prove popular and that it can be expected that around one quarter of all mail posted in Ireland will avail of this discount once the conditions are changed. Not only will it mean that a substantial proportion of business mail will not be subject to an increase in price, but it will lead to an improvement of 2 to 3 percentage points in the proportion of mail delivered the first working day after they are posted.

These assurances are very important for the Director. If the proportion of customers availing of this discount is significantly less than that projected the yield from the interim price increase will be higher than intended and the impact on quality of service will be less.

The Director therefore intends to make it a condition of approving any interim price increase that the take up rate be continuously monitored, and that the conditions be reviewed as necessary to ensure that the target of one quarter of all letter mail posted is discounted is achieved.

²⁹ Optical Character Recognition

For the detailed review of tariffs the Director will invite An Post to make detailed submissions to determine the correct value of the discounts to be allowed, the detailed conditions appertaining thereto, and the “work sharing” arrangements that should qualify for discounts.

5.2.3 *Business Reply*

The Director welcomes the decision to abolish the 1c surcharge currently applied to Business Reply items. As these items tend to be delivered in bulk common sense suggests that they cost less to deliver, not more, and that the surcharge is inconsistent with the “geared to cost” principle.

5.2.4 *Affordability*

In so far as the proposals concern the reserved (monopoly) area there is a 3c increase on each item, except for POP envelopes weighing between 25g and 50g, which are reduced by 3c, a maximum increase of some 7.9%. So far as personal customers are concerned the proposal brings prices back to the nominal level that they were up to 1998, and in real terms there is still a substantial reduction, reflecting the economies of scale arising from increased volumes, changes in the level of service and productivity improvements.

So far as business customers are concerned there is an opportunity for some customers to mitigate the effect of the increase by availing of the early presentation discount, but the Director would welcome submissions from business customers, and particularly their representative bodies, setting out any adverse impacts the proposals would have.

5.3 ISSUES FOR CONSULTATION

The Director would be particularly interested in hearing the views of interested parties on:

- Issues relating to the proposed changeover to Format pricing.

- | | |
|--------------|---|
| Q. 6. | Will the introduction of a single tariff for any POP envelopes, i.e. envelopes up to C5 size (162mm x 235mm), make it simpler for customers to prepare and post their mail? |
| Q. 7. | Should the weight limit ultimately be extended to 100g or does the proposed interim limit of 50g adequately cater for you needs? (Does your response depend on the price implications)? |
| Q. 8. | Should the principle be extended to charge a different price for larger envelopes that can be delivered through the letter box and a higher price for bulkier items which the postman has to knock in order to deliver them? |

- Issues relating to the availability of discounts

- | |
|---|
| <p>Q. 9. Are the proposed changes to the conditions of the early presentation discount an adequate first step in giving business and other large users of the post a choice between the price they pay and the level of service they receive?</p> <p>Q. 10. For the longer term what is the minimum number of items that should be posted at the same time in order to qualify for such discounts?</p> <p>Q. 11. Are you in a position to avail of the revised conditions for the “early presentation” discount?</p> |
|---|

- Issues relating to the proposed tariffs

- | |
|---|
| <p>Q. 12. (a) Do you agree with the proposed tariffs, including the revised conditions for securing discounts for worksharing, as set out in Section 5? If not please state your reasons.</p> <p>(b) Are they likely to pose any specific problems of hardship for users in terms of the affordability of postal services?</p> |
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6 INTERNATIONAL SERVICES

6.1 AN POST'S INTERIM PROPOSALS

6.1.1 Principal Features

A summary of the main proposed interim adjustments is as follows:

PRIORITY SERVICE

- An increase of 3 cent in the first weight step from 38 cent to 41 cent (Zone 2- Britain) and from 41 cent to 44 cent (Zone 3 - Europe).
- The widening of the first weight step for mail to Zone 2 (Britain) to include Post Office preferred (POP) letters up to 50g (previously 25gr) and a corresponding 10 cent reduction in tariff in respect of POP letters in the weight category 25-50gr.
- Non-POP items in the up to 50g category will be charged at the revised up to 50g Non-POP rate.
- Bringing the tariff structure for heavier items (ie those outside the reserved area) for Zone 4 (Rest of World) into line with those used in the other zones (ie National, to Britain and to Europe)

ECONOMY SERVICE

- Within the reserved area the only change proposed is an increase of between 4c and 8c on the services to Britain, and an increase of 4c on the up to 50g rate to Europe..

6.1.2 *Current & Proposed Prices*

PRIORITY SERVICE

Please note: Only items weighing less than 100g (350g 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 are shown in bold type in the following tables:

(i) Post Office Preferred Envelopes & 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 (including postcards)	38c	41c	57c	41c	44c	57c
50g	51c	83c	95c		83c	95c

(ii) Larger Envelopes & Other Letter Packets

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	51c	83c	95c	55c	83c	95c
100g	70c	€1.21	€1.71	76c	€1.21	€1.71
250g	€1.02	€2.03	€3.05 - €5.08	€1.10	€2.03	€4.00
500g	€1.71	€4.06	€6.09 - €10.16	€1.85	€4.10	€8.00
1kg	€4.44	€8.13	€12.19 - €20.32	€4.80	€8.20	€15.00
1.5kg	€5.71	€12.19	€22.35 - €30.47	€6.20	€12.20	€22.50
2kg (max)	€7.24	€16.25	€32.51 - €40.63	€7.80	€16.25	€32.50

ECONOMY SERVICE

Please note: Only items weighing less than 250g (350g 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 are shown in bold type in the following tables:

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	44c	51c	51c	48c	55c	51c
100g	57c	70c	95c	63c	70c	95c
250g	83c	€1.40	€1.71	91c	€1.40	€1.71
500g	€1.40	€2.54	€3.81	€1.54	€2.80	€4.10
1kg	€3.49	€4.06	€6.35	€3.80	€4.50	€6.90
1.5kg	€5.08	€5.59	€8.89	€5.50	€6.20	€9.60
2kg (max)	€6.67	€7.11	€11.43	€7.20	€7.80	€11.40

6.2 DIRECTOR'S POSITION

Ensuring that the price charged for outgoing international letter services is proportionate to the costs involved will necessitate a major restructuring of the tariff structures. Information received from An Post last year showed that overall the services were profitable, but that some prices were much too low and others much too high. As indicated previously An Post were advised therefore that the Director would not be able to approve them. The scale of the problem is such that issues such as elasticity of demand and the ability of some customers to meet relatively large increases needs to be considered carefully.

As an interim measure An Post are seeking a 3c increase in the rate for POP letters to Britain and Europe. In the case of Britain the weight allowed will be increased from 25g to 50g. Other rates to Britain will increase by between 4c and 14c. The up to 50g Economy Rate to Europe will increase by 4c.

There are a number of specific issues.

6.2.1 *Special Position of Britain*

From the foundation of the State until 1991 mail for Britain & Northern Ireland was charged at the same rate as mail for national delivery. Since 1991 this arrangement has only applied to mail to Northern Ireland and mail in POP envelopes (weighing up to 25g). Other mail to Britain has been charged at a rate between the national rate and the European Rate.

The interim proposals maintain the status quo in this regard, including the extension of the special POP envelope rate to letters weighing up to 50g. As with the national prices there is a 3c increase on the POP rate with proportionate increases for other rates.

At the time of the full review it will be necessary to consider whether mail to Britain & Northern Ireland should be charged at the same rate as mail to other European Union countries, or whether the status quo should be retained or where the position that applied up to 1991 should be re-instated. Much will depend on the relative costs of processing the different streams of mail

6.2.2 *Other European Countries*

Similarly from 1986 to 1998 mail in POP envelopes (up to 25g) for other European Union countries was charged at the national rate in accordance with a European Union recommendation.

On the basis of information received from An Post the cost of handling mail for each country in the European Union differs widely. In the case of Germany the high prices paid to Deutsche Post (DPAG) must be considered against the background that the European Commission has found that “from 1990 to 1995, DPAG infringed Article 82 of the EC Treaty by supplying mail-order parcel services at prices below the additional costs of providing those services”³⁰ and that from 1974 to 2000 it applied fidelity rebates in the mail order business³¹.

Currently there is a uniform price for mail to all European countries. The interim proposals maintain the status quo in this regard. The only increase is a 3c rise on the current POP rate of 41c.³²

At the time of the full review it will be necessary to consider whether there should be a single rate for all European countries, whether this should be the same as the National rate or, at the other extreme, whether there should be a different rate for each country.

6.2.3 *Rest of the World zone*

No changes are proposed for the Rest of the World zone at the “interim” stage, although An Post have indicated that the tariff structure for items outside the reserved (monopoly) area will be brought into line with the remainder of An Post’s tariff structures, eg 100g>250g, 250g>500g, 500g>1kg, 1kg>1.5kg and 1.5kg>2kg. rather than prices increasing at 50g or 100g intervals. This will

³⁰ The Commission did not seek to impose a fine, because the relevant measure of cost that a "multi-product" or "multi-service" postal operator benefiting from a reserved area has to meet in competitive activities had not been clarified previously. In addition, a fine was not appropriate in view of the fact that, as soon as it was confronted in the Statement of Objections of 7 August 2000 and in the ensuing proceedings with the economic principles on the relevant measure of cost to be covered, DPAG undertook to provide full transparency on the financial relationship between the reserved area and the parcel services subject to competition.

³¹ A fine of €24 million was imposed for this offence.

³² Unlike the proposals for national and British prices there is no proposal to change the weight allowed to qualify for the special POP rate. Against the background that the existing rates for POP envelopes are 41c and 83c more information is needed about costs to determine the appropriate common rate for such envelopes.

involve some price increases and some price reductions; overall there should be a small price reduction on average.

The issue for the full review of prices is whether there should be uniform pricing with European countries or whether there should be separate prices for each country.

6.3 ISSUES FOR CONSULTATION

The fundamental issue for consultation concerns whether the limited interim increases sought should be approved.

- Q. 13. (a) Do you agree with the proposed tariffs as set out in Section 6? If not please state your reasons.**
- (b) Are they likely to pose any specific problems of hardship for users in terms of the affordability of postal services?**

A second issue is whether mail to Britain and/or Northern Ireland should be regarded as part of the national (domestic) service or part of the International Service. Connected with this is the question for whether there should be distinct prices for each country, or whether there should be some form of averaging, eg a single price for the European Union, the whole of Europe or the whole world.³³

- Q. 14. In principle, should mail for Britain and / or Northern Ireland be charged at the national rate or the international rate:**
- for all items, or
 - for POP envelopes only?
- Q. 15. In principle should there be a separate rate for each country, or should there be an average price for**
- for all countries of the European Union,
 - for all countries in Europe, or
 - for all countries in the world?

³³ On the basis of information currently available the cost of sending mail to some countries, eg USA or Australia is cheaper than sending mail to some European countries, eg Germany, Sweden or Italy.

7 DIRECT MAIL SERVICES

7.1 AN POST'S INTERIM PROPOSALS

7.1.1 Principal Features

A summary of the main proposed interim adjustments is as follows:

POSTAIM

- Increases ranging from 3 cent to 7 cent are proposed in respect of Postaim. It is proposed also to cease the cumulative discount element currently available under Postaim.

LOYALTY MAIL

- Prices will be increased by 2c at each weight step.

POSTAIM POSTAGE PREPAID ENVELOPES

- Prices will be increased by 3c at each weight step.

POSTAIM RESPONSE DISCOUNTS

- No Change

POSTAIM LIGHT

- Prices will be increased by 3c at each weight step.

POSTAIM PLUS

- No Change

7.1.2 Current & Proposed Prices

POSTAIM

There are eight different tariff scales depending on the quantity posted in each mailing – full details are given at Appendix 4.

The rates for the smallest and largest bands are set out here, with the current rate for “normal” First Class Letter Post shown for comparative purposes

Please note: Only items weighing less than 350g 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 are shown in bold type in the following tables:

(i) Mailing of between 2,000 and 10,000 items

Weight not over	Current (Proposed) Normal Letter Rate	Current price	Proposed price	% increase
50g	38c or 44c (41c or 47c)	32c	35c	9.4%
100g	57c (60c)	44c	48c	9.1%
250g	89c (92c)	57c	62c	8.8%
500g	€1.46 (€1.49or €1.60)	89c	96c	7.9%
600g	€2.29or€4.06 (€2.50or €4.25)	€1.07	€1.24	15.9%
700g	€2.29or€4.06 (€2.50or €4.25)	€1.24	€1.44	16.1%
800g	€2.29or€4.06 (€2.50or €4.25)	€1.42	€1.65	16.2%
900g	€2.29or€4.06 (€2.50or €4.25)	€1.60	€1.86	16.3%
1kg	€2.29or€4.06 (€2.50or €4.25)	€1.78	€2.06	15.7%

(ii) Mailing of over 500,000 items

Weight not over	Current (Proposed) Normal Letter Rate	Current price	Proposed price	% increase
50g	38c or 44c (41c or 47c)	23c	26c	13.0%
100g	57c (60c)	29c	33c	13.8%
250g	89c (92c)	43c	48c	11.6%
500g	€1.46 (€1.49or €1.60)	75c	82c	9.3%
600g	€2.29or€4.06 (€2.50or €4.25)	93c	€1.10	18.3%
700g	€2.29or€4.06 (€2.50or €4.25)	€1.10	€1.30	18.2%
800g	€2.29or€4.06 (€2.50or €4.25)	€1.28	€1.51	18.0%
900g	€2.29or€4.06 (€2.50or €4.25)	€1.46	€1.72	17.8%
1kg	€2.29or€4.06 (€2.50or €4.25)	€1.64	€1.92	17.1%

LOYALTY MAIL

Weight not over	Current price	Proposed price	% increase
25g	30c	32c	6.7%
50g	33c	35c	6.1%
100g	46c	48c	4.3%
250g	65c	67c	3.1%

7.2 DIRECTOR'S POSITION

The Director is cognisant of the importance of Direct Mail to the future growth and development of the postal sector. On the other hand the prices currently charged for some of the Direct Mail services appear to be significantly lower than comparable services for other users of the postal network.

Postaim offers substantial discounts to businesses that pre-sort approved advertising and promotional material and accept deferred delivery. The discount depends on the size of the mailing, the weight of each item, and the total number of items posted in a year (July to June). The discount is especially attractive in the case of heavier items.

There is an anomaly in that the same price is charged for 10 mailings of 25,000 items as for one mailing of 250,000. Costs however are significantly higher for the former.

Also the discounts, particularly for heavier items appear inconsistent with the discounts offered for pre-sorting or early presentation to business users of the post for non-promotional purposes, eg invoices and statements.

This will require detailed review and An Post's current proposals represent an interim step designed to enable the market to grow, while removing the worst of the anomalies.

7.3 ISSUES FOR CONSULTATION

Although there is still a monopoly as regards the provision of *postal* services for direct mail items weighing up to 350g, in practice this is a very competitive market with An Post competing with other services such as newspaper, television and radio advertising, delivery of unaddressed advertising leaflets etc. The main concern for the Director is whether the low prices for this service are geared to cost, or whether there may be a cross-subsidy for them from the price charged for the national First Class Letter Service.

Q. 16. How do the proposed price increases for Postaim compare with the cost of competing services such as newspaper advertising and delivery of unaddressed advertising material?

8 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 January 2002 to 27 February 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 March³⁴ 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 02/15" 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 Wednesday 27th February, 2002

Office of the Director of Telecommunications Regulation

30 January 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.

³⁴ The timing of the report will depend on the number of submissions and the complexity of the points raised.

APPENDIX 1 – Summary of full price increases sought by An Post

NATIONAL SERVICES

FIRST CLASS LETTER SERVICE

Please note: Only items weighing less than 350g 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. These are shown in bold type in the following tables:

(i) Post Office Preferred Envelopes & Postcards

Weight not over	Current price	Proposed price	% increase
25g (including Postcards)	38c	45c	18.4%
50g	44c		2.3%

(ii) Larger Envelopes and other Letter Packets

Weight not over	Current price	Proposed price	% increase
50g	44c	50c	13.6%
100g	57c	65c	14.0%
250g	89c	€1.00	12.4%
500g	€1.46	€2.00	37.0%

INTERNATIONAL SERVICES

PRIORITY SERVICE

Please note: Only items weighing less than 100g (350g 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 are shown in bold type in the following tables:

(i) Post Office Preferred Envelopes & 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 (including postcards)	38c	41c	57c	51c	57c	57c
50g	51c	83c	95c	57c	95c	95c

(ii) Larger Envelopes & Other Letter Packets

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	51c	83c	95c	57c	95c	95c
100g	70c	€1.21	€1.71	83c	€1.40	€1.71
250g	€1.02	€2.03	€3.05 - €5.08	€1.52	€2.03	€4.00
500g	€1.71	€4.06	€6.09 - €10.16	€2.54	€4.06	€8.00
1kg	€4.44	€8.13	€12.19 - €20.32	€5.08	€8.13	€15.00
1.5kg	€5.71	€12.19	€22.35 - €30.47	€7.62	€12.19	€22.50
2kg (max)	€7.24	€16.25	€32.51 - €40.63	€10.16	€16.25	€32.50

ECONOMY SERVICE

Please note: Only items weighing less than 250g (350g 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 are shown in bold type in the following tables:

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	44c	51c	51c	51c	70c	51c
100g	57c	70c	95c	66c	€1.08	95c
250g	83c	€1.40	€1.71	€1.27	€1.84	€1.71
500g	€1.40	€2.54	€3.81	€2.29	€3.11	€4.10
1kg	€3.49	€4.06	€6.35	€4.57	€4.06	€6.90
1.5kg	€5.08	€5.59	€8.89	€6.86	€5.59	€9.60
2kg (max)	€6.67	€7.11	€11.43	€8.89	€7.11	€11.40

APPENDIX 2 - International price comparisons

Figure 1.1 illustrates how the price of the basic stamp (the “public tariff for an item of correspondence in the first weight step of the fastest standard category” used as reference in the Regulations) varies between the different countries of the European Union and selected other countries.

Whilst the choice of exchange rate methodology³⁵ may have an impact on the conclusions, figure 1.1 shows that, of the countries surveyed, only three European Union countries (Spain, the Netherlands, and Greece) offer services at comparable or better prices than An Post, but that on a world-wide basis An Post is near the average.

This analysis, however, takes no account of the many other factors that may 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.

Differences in the product offered in terms of the quality of service, the weight and size limits, the extent to which uniform pricing applies and the presence of de facto competition would appear to be significant factors which should be taken into account. Comparative data is provided in Table 1.2 on page 44³⁶.

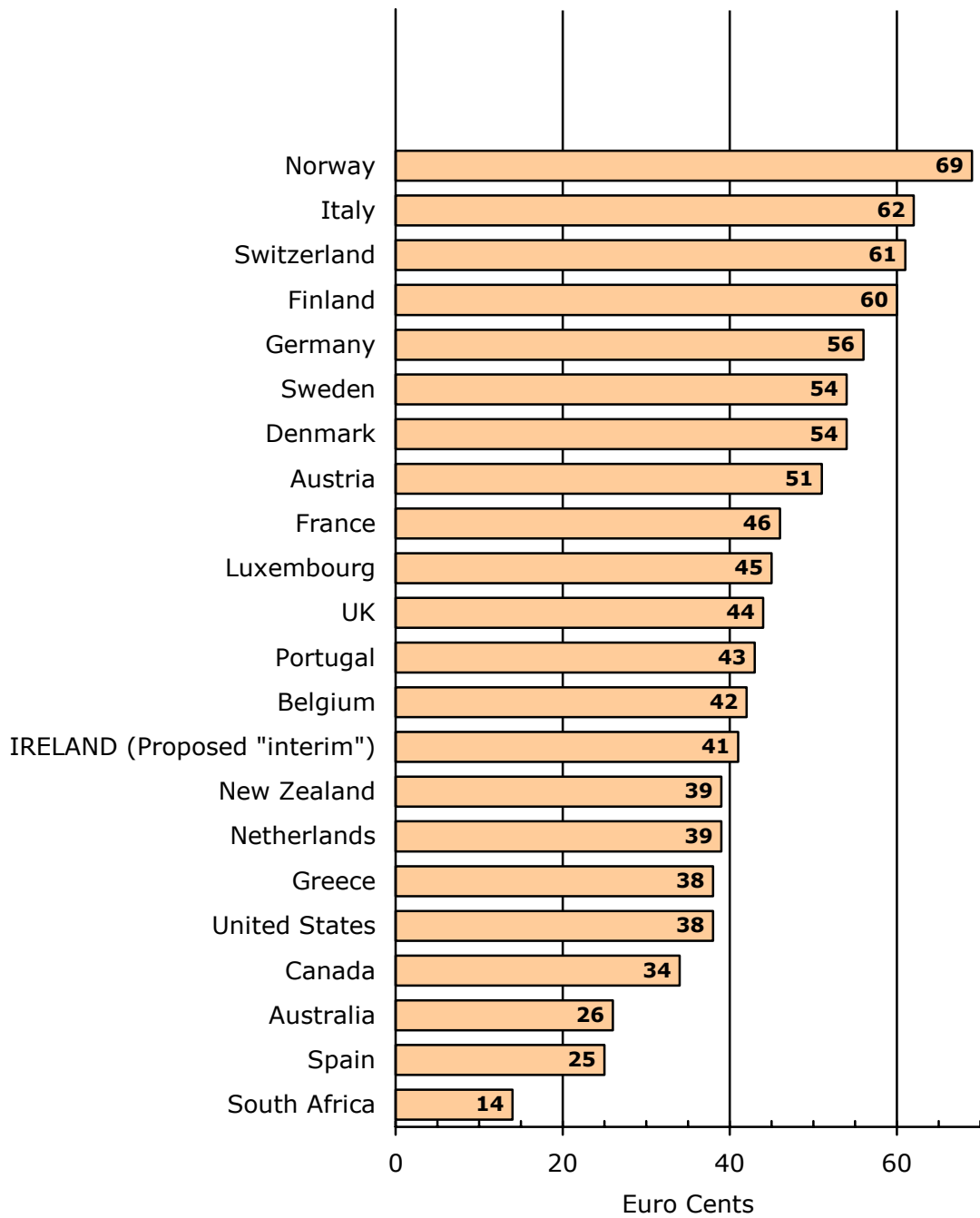
It should be noted that the Netherlands, Portugal, Sweden and Finland offer reduced rates for customers paying the postage by Franking Machine. In the case of Finland there is a substantial reduction to €0.40 for POP letters weighing up to 20g.

³⁵ In order to undertake international price comparisons, foreign costs and prices need to be converted into Euro. A number of options are available for the exchange rate to be used in making an international comparison including the nominal market exchange rate; purchasing power parity (PPP) rate, the exchange rate for which a basket of consumer goods costs the same in both countries (price parity); and GDP parity rate, which equalises GDP per head (as a proxy for income). Other options would include input price parity rate, the exchange rate that produces price parity for a basket of input prices (such as land, labour, equipment, etc). For the purpose of this comparison the nominal market exchange rates on 3 May 2001 have been used.

NOTES TO TABLE 2.1

- # In the first weight step of the fastest standard category in Euros.
- A Priced in Euro
- B Exchange rate as at 23.01.02 (mid point spot market)
- C Aspect ratio means that length divided by height must be between 1.3 and 2.5

Source of data is primarily websites of the relevant Postal Administrations.

Figure 1.1. International Price Comparisons

Source of data is primarily websites of the relevant Postal Administrations.

Table 1.2.1 Difference in product offered for Basic Stamp

Country	Domestic public tariff #	Weight Limit	POP Size Limits (if applied)	Uniform prices	De facto competition in local areas	Economy service available
Spain	25 ^A	20g	Yes	Yes incl. Andorra Gibraltar	Yes	
Australia	26 ^B	250g	240 x 138 x 5	Yes		
South Africa	14 ^B	50kg	235 x 140 x 5	Yes		Yes
Canada	34 ^B	30g	245 x 150 x 5	Yes		
Netherlands	39 ^A	20g	380 x 265 x 32	Yes		
New Zealand	39 ^B	20g	235 x 120 x 20	Yes	Yes	Yes
United States	38 ^B	1 oz = 28.4g	11½" x 6 ¹ / ₈ " x ¼" plus aspect ratio ^C	Yes (up to 5 lbs.)		Yes
Ireland (Proposed "interim")	41 ^A	50g	235 x 162 x 25	Yes incl. Northern Ireland (& Britain to 50g)		
Belgium	42 ^A	20g	235 x 125 x 5	Yes		Yes
Portugal	43 ^A	20g	235 x 140 x 5	Yes		
Britain	44 ^B	60g		Yes	Yes	Yes
Luxembourg	45 ^A	20g	235 x 162 x 5	Yes		
France	46 ^A	20g		Yes incl. 17 Euro. countries (to 20g)		Yes
Austria	51 ^A	20g	235 x 162 x 5	Yes incl. 49 Euro. countries (to 20g)		
Denmark	54 ^B	20g		Yes		Yes
Sweden Rates include VAT	54 ^B	20g		Yes	Yes	Yes
Norway	69 ^B	20g		Yes		
Germany	56 ^A	20g	235 x 125 x 5	Yes incl. 60 Euro. countries (to 50g)		Yes
Switzerland	61 ^B	100g	250 x 176 x 20	Yes		Yes
Finland Rates include VAT	60 ^A	50g		Yes incl. whole world (to 50g)	Permissible	Yes
Italy	62 ^A	20g	235 x 120 x 5	Yes incl. Europe + Mediterranean	Yes	Yes

APPENDIX 3 - Early Presentation Scheme

The Early Presentation Service is a service offered by An Post - Letter Post whereby customers may assist in the preparation of mail to avail of a set rebate per item posted.

The underlying principle of the Early Presentation rebate is that in preparing mail to the agreed specifications outlined below, customers assist An Post in reducing processing costs.

The customer may benefit from the Early Presentation rebate by fulfilling the qualifying criteria for each individual posting event, and agreeing this by prior arrangement with Letter Post.

Mail availing of the Early Presentation rebate must fulfil all of the following criteria:

- Be "mail mover compliant" (machinable)
- Achieve an OCR read rate of greater than 85%
- Not require a cancellation mark or application of a postage paid indicator
- The mail piece must be within the following dimensions: 350mm x 250mm x 18mm
- Be of the same shape and size and fall within the same weight band
- Have a return address on the top left hand corner or indication of origin acceptable to An Post
- Be faced and segmented between local and forward

The following Mailing Conditions apply:

- Mail availing of this discount must be tested in advance for its ability to meet the characteristics set out above
- A minimum test quantity of 2,000 is required
- Minimum quantity of 2,000 items per posting event
- The mailing must be presented at the designated acceptance point before 12 noon
- Each mailing must be accompanied by a detailed mailing docket
- Normal terms and conditions applicable

Discount: A discount of €0.03 per item off the standard Letter service within the State shall apply.

APPENDIX 4 – Proposed Postaim Prices (“Interim” increase)

CURRENT PRICES

Weight not over	Volume posted							
	2k-10k	10k-25k	25k-50k	50k-75k	75k-100k	100k-250k	250k-500k	>500k
50g	0.32	0.30	0.29	0.28	0.27	0.25	0.24	0.23
100g	0.44	0.41	0.38	0.36	0.33	0.32	0.30	0.29
250g	0.57	0.55	0.52	0.50	0.47	0.46	0.44	0.43
500g	0.89	0.86	0.84	0.81	0.79	0.77	0.76	0.75
600g	1.07	1.04	1.02	0.99	0.97	0.95	0.94	0.93
700g	1.24	1.22	1.19	1.17	1.14	1.13	1.12	1.10
800g	1.42	1.40	1.37	1.35	1.32	1.31	1.30	1.28
900g	1.60	1.57	1.55	1.52	1.50	1.49	1.47	1.46
1000g	1.78	1.75	1.73	1.70	1.68	1.66	1.65	1.64

PROPOSED (INTERIM) PRICES

Weight not over	Volume posted							
	2k-10k	10k-25k	25k-50k	50k-75k	75k-100k	100k-250k	250k-500k	>500k
50g	0.35	0.33	0.32	0.31	0.30	0.28	0.27	0.26
100g	0.48	0.45	0.42	0.40	0.37	0.36	0.34	0.33
250g	0.62	0.60	0.57	0.55	0.52	0.51	0.49	0.48
500g	0.96	0.93	0.91	0.88	0.86	0.84	0.83	0.82
600g	1.24	1.21	1.19	1.16	1.14	1.12	1.11	1.10
700g	1.44	1.42	1.39	1.37	1.34	1.33	1.32	1.30
800g	1.65	1.63	1.60	1.58	1.55	1.54	1.53	1.51
900g	1.86	1.83	1.81	1.78	1.76	1.75	1.73	1.72
1000g	2.06	2.03	2.01	1.98	1.96	1.94	1.93	1.92