



Office of the Director of  
**Telecommunications  
Regulation**

**RESPONSE TO CONSULTATION**

## 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 my decisions about An Post's proposals to increase some prices for postage stamps and to change the structure of pricing for key services of importance to postal service users. A Consultation paper was published at the end of January setting out An Post's proposals and my position thereon.

While some submissions received have criticised An Post's failure to reduce costs as the mails system has been automated, or made other references to inefficient operations, there is generally an underlying recognition that after a long period of price stability some increase is justified.

One representative organisation has suggested waiting until full cost account data is available, but the major complaint is about the timing of the announcement and the lack of advance notice. There have been significant objections to An Post's long term aspiration of a 45c basic rate.

Indeed if it were not for An Post's ability to finance its universal service obligations the option of an "interim" increase would not be considered. The target of increasing revenue from services in the reserved (monopoly) area by €6m in 2002 set out in the Consultation Paper has not been challenged. There are however a number of issues that will need to be addressed when the cost accounts for 2001 are available.

It is the proposals for Postaim that has generated the biggest reaction. In essence there are two principal complaints. First this mail is especially price sensitive and as company's budgets have already been set for this year any increase in unit prices will be matched by reduced volumes so that overall spending will remain unchanged. Second the withdrawal of "cumulative discounts" will result in unacceptably high increases, eg from 23c to 35c.

From a regulatory point of view there are two issues. First "cumulative discounts" can be anti-competitive if they encourage mailers to use the same service provider for all his/her mail. It should be borne in mind that a significant element of this mail, eg mail order catalogues, is already open to competition. Second the real complaint is about the absolute level of price increase, and it is difficult to justify the current differential between postaim (direct mail) and ordinary and bulk mail, ie 23c compared with 35c or 38c at present tariffs.

I very much appreciate the commitment of everyone who took part in the consultation. The quality of the responses was high and the arguments were put forward cogently. They have been very useful in informing our decisions on the way forward.

**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.

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). These require, *inter alia*, that the prices charged for all services within the universal service obligation are "affordable to all" and "geared to cost". The onus is on An Post to comply with these principles and the Director's functions are concerned with ensuring, on an *ex-post* basis, that there is such compliance.

The Director has a separate responsibility under section 70(2) of the Postal and Telecommunications Services Act, 1983, as amended by the Postal Regulations<sup>1</sup>, to consider proposals to increase prices for services reserved to An Post and they cannot be implemented without her concurrence.

### 1.1 PROPOSALS BY AN POST TO INCREASE PRICES

An application for a price increase in outbound international mail services was received from An Post in April 2001. In June the Director indicated that proposals did not appear to comply with the “Tariff Principles” and An Post were asked to reconsider. Revised proposals were submitted at the end of July. On basis of figures supplied by An Post outbound international mail services as a whole made a moderate but adequate profit, but the proposals did not address the need for a major rebalancing of tariffs to comply with the “Tariff Principles”. In view of An Post’s overall financial position the Director agreed to look at need for a small “interim” increase to give An Post time to develop a fully worked up proposal to bring their tariffs into line with the “Tariff Principles”. Detailed proposals were submitted for approval just before Christmas.

### 1.2 CONSULTATION PAPER

In carrying out her functions under the legislation, the Director is obliged to take into account the views of interested parties. At the end of January 2002 the Director launched a consultation on An Post’s Application to increase the price of reserved Postal Services. The process involved the publication of a consultation document (ODTR 02/15) which addressed issues that required careful consideration in advance of forming a definitive response to the application for a price increase in domestic postal services.

Issues addressed in the Consultation Paper included;

- Factors to be taken into account in deciding whether to approve price increases in the Monopoly (reserved) area;

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<sup>1</sup> S.I. 310 of 2000 Regulation 4(1)

- The need for price increases.
- Interim proposals in respect of National services
- Interim proposals in respect of International services
- Interim proposals in respect of Direct Mail services

The responses received to the consultation paper have been of assistance to the Director in helping her to form a view as to whether the interim price increase was warranted based on the information provided by An Post and to decide also whether any other appropriate regulatory measures were required in regard to approving the application.

Thirty one responses to the consultation paper were received from the organisations and individuals listed in Appendix 1.

The Director wishes to express her thanks to everyone who contributed to the consultation. With the exception of material marked as confidential, the written comments of respondents are available for inspection at the ODTR's office in Dublin.

### 1.3 **FORMAT OF THIS DOCUMENT**

This report is structured along similar lines to the earlier consultation document. There is a section for each of the major topics, which is divided into three parts:

- A summary of the questions posed in the consultation document.
- A summary of the responses to the question.
- The Director's views on the issues.

Each section is then concluded by comments bringing the analysis together, accompanied by the Director's decisions.

About half the respondents gave global answers rather than answers to the specific questions. However, all points raised have been taken into account, although readers will appreciate that it is not feasible to refer to every point made by every respondent in a document of this nature.

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

#### **1.4 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. The Director's prior approval is necessary only for the price increases in the part of the service reserved to An Post. Pricing proposals affecting services falling entirely in the competitive area (eg Registered Post) or outside the legal definition of "postal services" (eg Publicity Post) do not require the Director's prior approval.

This response to Consultation only deals with the prices of the part of services falling within the reserved area. An Post is obliged to comply with the tariff principles in respect of the prices of other services 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 (S.I. No. 310/2000)*

The EC “Postal Directive”<sup>2</sup> 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 provider<sup>3</sup>.

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 Act<sup>4</sup> 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.

### 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 Post<sup>5</sup> 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

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<sup>2</sup> 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

<sup>3</sup> 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.

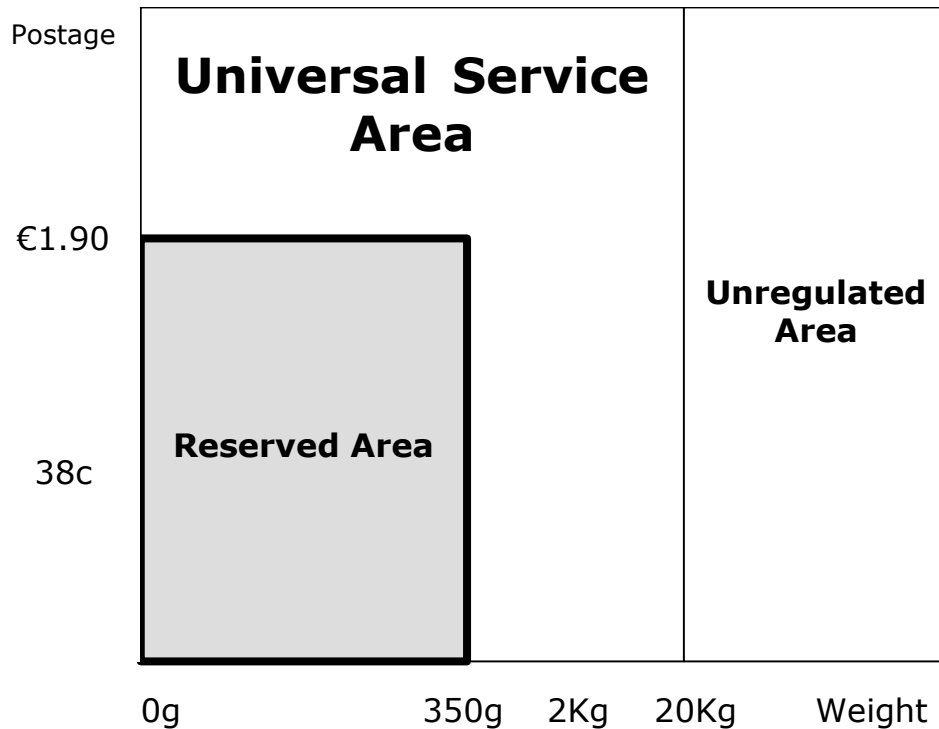
<sup>4</sup> Regulation 4(1)

<sup>5</sup> or any other designated Universal Service Provider



all elements in the universal service. It can be the case that a heavier packet is in the part of the market open to full competition, yet is also in the scope of the universal service since such packets must be delivered to all addresses in the State if presented to An Post.

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



Not to scale

#### *Section 70 of the 1983 Act*

Section 70 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)<sup>6</sup>.

#### *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 18(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.

<sup>6</sup> Proposals currently being considered by the European Parliament propose a reduction in the size of the reserved area to 100g from 2003, and 50g from 2006, with full competition from 2009.

### 3 PRICE INCREASES IN THE MONOPOLY (RESERVED) AREA

#### 3.1 SUMMARY OF THE CONSULTATION TOPIC

In the consultation paper the first section dealt with the factors which the Director considered relevant to the interim decision on tariffs:

##### 3.1.1 *Tariff Principles*

It would be inappropriate for the Director to concur with any proposals that did not take into account the tariff principles as set out in regulation 10(1) of the Irish Regulations 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 service<sup>7</sup> 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.

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<sup>7</sup> 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.

### 3.1.2 *Competition Law*

The ODTR has a duty to ensure that its decisions do not approve pricing structures in breach of EC competition law.<sup>8</sup>

The European Commission has published a Notice on how competition law applies in the postal sector.<sup>9</sup>

### 3.1.3 *Section 13 Of The 1983 Act*

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”**.

### 3.1.4 *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.

### 3.1.5 *Question*

This section concluded with the question:

***Q1. 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.***

## 3.2 VIEWS OF RESPONDENTS

14 of the 31 respondents specifically addressed this question.

12 of these 14 respondents generally agreed with the criteria the Director proposed to rely upon when deciding if a proposed price increase is necessary or if cost savings can be achieved. One respondent encouraged the Director to consider the objective of the Postal Directive to introduce competition into the postal environment, and encourage An Post to prepare for this environment by maximizing efficiencies and maintaining fair pricing for its customers. Others suggested that in addition to the criteria stated comparison should be made with postal charges in neighbouring European Union States and in other States of similar size. Others suggested that Charitable Status should be taken into account.

<sup>8</sup> 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.

<sup>9</sup> 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.

One respondent suggested that in addition to ensuring compliance with the tariff principles, schemes should be effected to attract volume mail to An Post, ie that demand side issues should be taken into account even though this is not envisaged by the Postal Directive. This respondent accepted that An Post may have to demonstrate the necessity for price increases to eliminate losses, but was concerned that this might be achieved only by increasing prices. The respondent pointed out that in the current circumstances solely relying on increasing prices will have a negative effect on volumes (and perhaps income) whereas a selective rebalancing in tariffs combined with a reduction in costs (via worksharing) could generate substantial volume (and income) growth.

An Post, on the other hand did not agree with the criteria outlined in the paper. In An Post's opinion the only relevant criteria that the Director should apply are the tariff principles set out in the Postal Directive. Issues such as An Post's efficiency are addressed in the company's Strategic Plan, which is a matter for the company and the Minister for Public Enterprise. An Post also considered that the ODTR should have no input in matters relating to determining capital expenditure or the cost savings attributable to it.

Of those who did not specifically answer this question the points made indicate general support for the Director's position. For example one respondent asked:

*"If An Post has a serious financial crisis how much of this crisis is due to operational inefficiencies, restrictive work practices and low productivity?"*

Or

*"If these operational inefficiencies, restrictive practices or low productivity is the source of the company's current financial difficulties, then it is wholly unacceptable that customers are being asked to pay higher charges to meet this cost."*

Or

*"An Post made much PR of the new technology they have installed near Newlands Cross. This, however, seems to have generated increased costs all round. How can they justify such enormous increases? Their planned cost cutting programmes are most disappointing."*

### **3.3 POSITION OF THE DIRECTOR**

Regulation 17(1) of the Postal Regulations requires the Director to take the views of all interested parties into account in the exercise of her functions and she cannot ignore the fact that An Post's customers expect that we will not approve price increases without An Post supplying adequate justification.

The Director is mindful of the views of respondents summarised in section 3.2 which are perhaps encapsulated in the following comment

*"the powers that the Director has been given enable her to act in this market place with only one supplier ensuring prices will increase only where such increases are justified."*

In doing this the Director must take account of all legislative requirements, not just the Tariff Principles as suggested by An Post. The necessity for An Post to obtain prior approval under Section 70(2) of the 1983 Act, as amended, relates to a smaller group of services in which there is no possibility of competition compared with those services covered by the tariff principles, many of which are open to competition. An Post's argument (that the tariff principles are the only relevant yardstick for assessing price increase requests under section 70) does not explain what criteria applied between 1983 and when the tariff principles were adopted into Irish law in 2000. In this context it should be noted that the 1983 Act itself contained some rules which are relevant to pricing:

- Section 13 of the 1983 Act requires prices to be kept at the minimum rates consistent with meeting approved financial targets
- Section 12 provides that for the purpose of creating An Post under the Companies Acts, its objects would be *inter alia* "to meet the industrial, commercial, social and household needs of the State for comprehensive and *efficient* postal services" - section 12(1) (b).

An Post is also subject to EC competition law, and as explained in the consultation paper the ODTR has a duty not to approve pricing structures which constitute a breach of those rules.

**Decision No 1:**

**As well as 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:**

- 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**

## 4 THE NEED FOR PRICE INCREASES

### 4.1 SUMMARY OF THE CONSULTATION TOPIC

#### 4.1.1 *An Post's Interim Proposals*

The consultation paper set out a summary of An Post's case for an interim price increase.

The main features of this summary were:

- An Post last increased its domestic letter tariffs in April 1991, when the rate approved was set at 32p (41 cent). In April 1998, a new, reduced standard domestic tariff of 30p (38cent) was introduced as part of a realignment of domestic tariffs.
- Tracking letter tariffs against income indices over the period 1991-2000 illustrates that such indices have increased significantly over the period.
- Throughout the nineties there were very significant increases in costs facing An Post. The price of labour, increased by over 30% in the period.
- Ireland currently has the second lowest domestic tariff within the EU.
- The LetterPost Division faces unsustainable losses of over €21 m in 2002. This is despite cost saving measures of €15m built into this projection.
- A price increase is needed in 2002 not only to maintain commercial viability, but to ensure that the company can continue to meet its universal service obligations. 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).
- Given the seriousness of the financial position An Post claimed they could not afford to wait until detailed costing information was available to support a detailed pricing proposal. An Post however undertook to produce the information to enable such proposals to be evaluated by 30 June, 2002.

#### 4.1.2 *Director's Initial Response*

While the Director challenged many of the individual claims by An Post, eg that prices had not increased since 1991 she accepted that the financial forecasts for the An Post Group as a whole show a deteriorating financial position in the period 2000 to 2002. The issue for the Director was whether increased wage costs 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 had to be considered was whether An Post was seeking to recover its losses from other elements of its business, which are open to competition and (except for parcels) outside the scope of regulation, through increased charges on the monopoly letter services. She noted that the draft separated accounts for the year 2000 suggested that the bulk of the losses arose from handling incoming mail from Britain and other countries.

She indicated that any approval for the proposed “interim” price increase would be conditional on An Post undertaking:

- (1) to provide full separated accounts as required by the Direction on Accounting Separation dated 20 September 2001<sup>10</sup> not later than 31 May 2002, and
- (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.

#### 4.1.3 *Questions*

This section concluded with the following questions:

**Q2.** *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?*

**Q3.** *Do you agree that it is unreasonable to ask Irish customers to subsidise losses incurred in handling incoming international mail?*

**Q4.** *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.*

**Q5.** *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?*

## 4.2 VIEWS OF RESPONDENTS

15 of the 31 respondents specifically addressed questions 2 to 4 and 16 responded to question 5.

### 4.2.1 *Size And Frequency Of Price Increases*

All but two respondents felt that small increases on an annual basis are preferable to the large price increase proposed by An Post. As one respondent observed “Changes should not be too frequent, but neither should they be delayed until the size of increase is very large.”

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<sup>10</sup> See ODTR 01/74

Timing is another important issue for many respondents. As one respondent (who did not answer the specific question) observed *“we meet our clients in the final quarter of each year to discuss and agree budgets. Postage charges represent 40% - 60% of the budget, depending on the activity and size of the client. If increases in tariffs are truly necessary, then smaller increases over a longer period of time are much easier to manage than substantial increases over a few short months. Coupled with this, sufficient advance notification is of vital importance to us should such an occurrence arise.”*

Three respondents argued that the increase in any year should be limited to the CPI increase in that year, two suggested a maximum increase of 1% or 2% per annum, while one suggested that increases should be restricted to once every three years.

One respondent urged the Director to consider the impact that these decisions have on suppliers of rating equipment and their customers. Suppliers of rating equipment, such as postal scales and franking machines, must invest significant time and money for each rate change. This respondent is concerned about the interim price increase because it comes on the heels of the Euro conversion, and just prior to the expected increase following the completion of the accounting separation and cost analysis study. Three rate increases inside six months would be an unreasonable burden for both customers and suppliers. The respondent hopes that An Post would take all reasonable steps to minimise the impact of rate changes.

An Post on the other hand argues that the size and frequency of the price increases are not relevant. What is required is that tariffs are such that sufficient revenues are generated to fully finance the Universal Service Obligation on an ongoing basis.

#### 4.2.2 *Losses Incurred In Handling Incoming International Mail.*

14 of the 15 respondents who specifically answered this question agreed that it would be unreasonable to ask Irish customers to subsidise losses incurred in handling incoming international mail. As one respondent pointed out *“by subsidising international mail Irish companies are inadvertently making it more attractive/cost effective for foreign competitors to market in Ireland. This penalises those already established in Ireland. In addition, it encourages companies to drive mail via international offices which may reduce activity levels and resources utilised in Ireland.”*

While An Post admits that losses on inward international mail are a matter of serious concern it suggests that the evolving REIMS Agreement provides the mechanism for addressing those losses and *“could get the company to a position where, over time, it is at least covering its costs on that stream”*. In the meantime, losses will be incurred and they will have to be financed as part of the universal service.



#### 4.2.3 *Taking Cost Savings From Capital Expenditure, And Otherwise, Into Account.*

12 of the 15 respondents who specifically answered this question agreed that it would be unreasonable to grant a price increase when there is scope to realise cost efficiencies or savings (particularly in light of recent enhancements to An Post's technology and sorting capability).

One of these respondents observed that *"in a competitive market and in today's economic environments companies strive to pass these [cost savings] on to their customers. Whenever possible, a Monopoly should be required to do the same thing ..."* Another observed that *"the prices should allow an efficient operator in Ireland, working in accordance with the relevant Irish legislation, to make an adequate return on capital."* The concept of forward looking efficient costs was also mentioned by a second respondent.

The three other respondents to this question, including An Post, reject the proposition. One respondent answered *"If this means closing rural post offices, then No to Q4."* The third of these respondents argued that *"no across the board increases are justified at this time."*

#### 4.2.4 *Conditions For Approval Of Any "Interim" Price Increase*

13 of the 16 respondents who specifically answered this question agreed that it would be reasonable that any price increase should be conditional on submission of costing information and necessary adjustments (DOWN as well as UP) on an agreed timetable thereafter.

One respondent argued that interim price increases should be granted only to the extent that the currently available information shows beyond reasonable doubt that the increase will not need to be unwound when full cost data is available. This respondent also suggested that it would be unreasonable to expect An Post to give an undertaking to make future price adjustments when the nature and size of those adjustments are unknown.

Another respondent suggests that the Director wait until she has sufficient information to make a completely informed decision regarding any An Post application for a price increase.

An Post's answer was *"No. An Post has already supplied the ODTR with all information requested by the Director in response to the interim application and has indicated that it will supply relevant costing information in an agreed format to enable a complete review of tariffs by 30 June 2002."*

### 4.3 **POSITION OF DIRECTOR**

The Director shares the concern of those respondents who would like to see full and accurate costing information before any decision is made about the size and nature of any price increase. Similarly she could enter into a long and lengthy debate with An Post about issues such as whether there has or has not been a price increase since 1991, and indeed whether 1991 is an appropriate base year in the first place.

The reality is that the Letterpost Division of An Post is no longer operating profitably. On the basis of the financial information supplied the Director is satisfied that changes in tariffs should be approved which An Post estimate will increase revenue from the reserved letterpost services by €6m in 2002 and €8m in a full year. The Director has concerns about the particular prices that should be increased and these are dealt with in the next three sections of this report.

It should be pointed out that the Director only has responsibility for the “postal services” as defined by law. The Direction issued to An Post about Accounting Separation is designed to ensure there is transparency between the accounting for postal services, and other services such as the network of post offices dealing with financial and social welfare services.

There are three specific issues that An Post will need to address in the context of submitting future proposals to increase prices.

The first is that they must listen to their customers, particularly with regard to the size and frequency of increase. It is quite clear from the number and quality of submissions the Director has received that many of its customers are unable to cope with large increases at relatively little notice. Where significant changes are needed in order to comply with competition law or the tariff principles these will need to be phased in.

The second concerns the losses being incurred in handling incoming international mail. It is not acceptable to ask Irish customers to subsidise these losses. An Post will have to address the issues as a matter of urgency.

One respondent pointed out that the market for outbound cross-border mail is likely to be opened up to competition in most European Countries from January 2003. Furthermore the UK postal regulator Postcomm, has recently published proposals for the introduction of competition within Britain and Northern Ireland.<sup>11</sup> The exceptional volume of mail (by EU standards) that is exchanged between Ireland, Northern Ireland and Britain means these proposals will have a significant impact on An Post and its customers. It is clearly important that An Post has an appropriate, effective and cost based Universal Service relationship with these new licensed operators. In particular they should have access to charges for mail to and from Ireland that will satisfy the Director that An Post’s costs are being covered and that no cross-subsidisation is taking place, and that whatever arrangements are put in place for these operators will have to be applied equally to Consignia.

There is another aspect to this argument that was drawn to the Director’s attention during the consultation, namely that if An Post continues to sell inbound international mail services below cost Irish customers who are able to do so may well start to post mail in Britain or Northern Ireland to avail of cheaper rates that might be available to them.

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<sup>11</sup> ‘Postcomm’s Proposals for the Promoting Effective Competition in UK Postal Services. January 2002

The third issue that An Post will need to address is the perception that the costs of wage increases are being passed on to its customers, rather than being mitigated by efficiency savings. To quote from one respondent:

*“According to the annual reports of An Post, almost 70% of its costs are labour related. This appears to have remained almost static in recent years despite greater reliance on technology for the specific purpose of reducing operating costs. This raises two questions, i.e.*

- *Are increases in labour costs being offset by greater efficiency to the maximum extent possible?*
- *Why is there such a delay in achieving projected savings under productivity agreements?”*

Another respondent commented:

*“Recent revelations in the media have brought into the public domain that An Post have failed to eliminate operational inefficiencies in its operation... If these operational inefficiencies, restrictive work practices or low productivity is the source of the company’s current financial difficulties, then it is wholly unacceptable that customers are being asked to pay higher charges to meet this cost.”*

An Post needs to satisfy its customers, as well as the Regulator, that it is operating efficiently not because of any legal requirement, but because long term business relationships are built upon trust and the mutual recognition of each partners problems and not on one part adopting a monopolistic take it or leave it attitude.

While there is some concern about the extent to which the necessary savings as a result of past capital expenditure have been achieved, the next round of proposed capital expenditure will involve reducing the number of postmen in every part of the country as delivery preparation work is automated and centralised. The issue on which An Post needs to satisfy its stakeholders is whether the savings which are being identified to justify the capital expenditure can be realised in practice.

**Decision No 2:**

**In addressing future price proposals An Post should take into account**

- (a) the views of their customers in respect of the size and timing of price increases,**
- (b) the expectation of their customers in respect of savings from efficiency, and**
- (c) the necessity to address the losses incurred on handling incoming international mail.**

**Decision No 3**

**An “interim” price increase is approved on the basis that this is necessary to ensure the continued provision of the universal service obligation. 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<sup>12</sup> not later than 31 May 2002, and**
- (b) 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.**

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<sup>12</sup> See ODTR 01/74

## 5 NATIONAL SERVICES

### 5.1 SUMMARY OF THE CONSULTATION TOPIC

#### 5.1.1 *An Post's Interim Proposals*

An Post had formally submitted an application for an interim Reserved Area price adjustment, effective from 1 April 2002, pending the processing of the Company's applications for more substantial price increases when full costing information became available. The principal features of the interim proposals were:

- 3 cent increase in the standard price of the domestic stamp, with 3 cent increases applied also to the other weight steps in the Reserved Area.
- Proposal to widen the first weight step up to 50g as a significant step towards format-based pricing.
- The abolition of the handling fee of 1 cent for Business Reply items.
- Early Presentation discounts increased by 18% to 3 cent following the conversion to Euro in January. Access conditions for this discount have been widened and 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 increase from 38 cent to 41 cent.

#### 5.1.2 *Director's Initial Response*

- 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 was of the view that this should be reflected in the pricing structure for LetterPost services.
- An Post has 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. Prior to approving any interim price increase the Director intends to make it a condition that the take up rate be continuously monitored, and that the conditions be reviewed as necessary.
- 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.
- 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 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.

### 5.1.3 Questions

This section concluded with the following questions:

- Issues relating to the proposed tariffs

***Q12. (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.***

***Q12. (b) Are they likely to pose any specific problems of hardship for users in terms of the affordability of postal services?***

- Issues relating to the proposed changeover to Format pricing.

***Q6. 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?***

***Q7. Should the weight limit ultimately be extended to 100g or does the proposed interim limit of 50g adequately cater for your needs? (Does your response depend on the price implications)?***

***Q8. 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

***Q9. 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?***

***Q10. 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?***

***Q11. Are you in a position to avail of the revised conditions for the “early presentation” discount?***

## 5.2 VIEWS OF RESPONDENTS

Eight respondents support the interim price increase as a reasonable reaction to current financial circumstances. One respondent argues that the proposed tariff is not sufficiently cost based, and not transparent enough. Another respondent does not understand some parts of the proposed tariff. For example, the price for delivery of a larger envelope or Other Letter Packet is identical up to 250g,

differs marginally (by 11c or 7.4%) at 500g, differs substantially (by €1.75 or 70%) at 1kg, and is presumably the same again thereafter. The argument is that this does not appear to be in line with cost.

But most respondents object to the proposals:

*“We do not agree with the proposed tariffs. The increase on POP mail up to 25g, ie 3c comes with short notice and it must be borne in mind that this represents an “Interim Increase” only. The increase strikes directly at the affordability of the service offered. The timing of future increases should be aligned to the calendar year.”*

*“We welcome the fee restructuring on the discounts and additional fee, however, we feel a 7.9% increase in first class letter service is excessive.”*

*“However, an increase of 18.4% on the base rate of 38c, for example, as well as the removal some years ago of the domestic economy service, are putting additional strains on our limited financial resources.”*

*“This huge increase will cause particular hardship for us in terms of affordability because we are so dependent on the standard postal service and do not have, and are unlikely to have, a direct competing option available.”*

With regard to the detailed points there was a consensus, but not complete agreement on moving towards Format Pricing. One respondent observed

*“As a consumer, I reiterate that weight limits are not transparent. Even if I could accurately weigh each item at home, I can’t do it in a card shop when I’m buying a last minute anniversary card.”*

Another comments:

*“Yes, it is less restrictive on the design, productions and fulfilment elements of producing a mail pack. ... we recommend that pricing in relation to weights should only vary if the weight contributes to additional costs of fulfilling the delivery service.”*

The question of the size of the letterbox was raised – “If it won’t fit in a letterbox, is the letter too big or the box too small?” The answer is that there is an Irish Standard<sup>13</sup> to which all Letterboxes must be constructed, ie 250mm long, 38mm high and between 760 mm and 1450 mm above the level for standing outside the door.<sup>14</sup>

An Post has 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. An Post has projected that, as a result of these measures, customers, accounting for 70% of

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<sup>13</sup> I.S. 195: 1976

<sup>14</sup> Ideally, the centre line through the aperture should be 1070 mm above that level.

bulk mail volume and 15% of metered volume, will switch to early presentation. This has a significant impact on the yield from the price increase, making the service more affordable to business customers and also towards improving quality of service.

A number of respondents have argued that the proposals do not go far enough:

*“The proposed changes to the access conditions are essential but are not sufficient. The content of a mail item cannot influence An Post’s cost in any way, and thus must not be reflected in any way in the price. ... The condition to provide a test quantity of 2,000 per event, and 2,000 items per posting is not acceptable: regular users should not have to submit to testing for every event. Retesting should be limited to changes in mail format ... The price rebate offered does not clearly reflect the several cost savings to An Post. ... we suggest the minimum first steps must include the ability to combine early presentation and pre-sorting discounts. Ultimately, lower prices dependent on the presentation location should be offered.”*

*“Yes, subject to testing criteria. Testing criteria must be transparent and supported by relevant reports generated from the machine and that if required by the customer, ie. The mailing company, a representative may attend the tests. It is also preferable that testing for compliance should be on a generic mailing rather than on each mailing as speed will be of the essence for the mailing company to perform its contractual obligation to its customers.”*

*“Early presentation is a waste of time. Most business customers acknowledge and accept that it will take 2 days for mail to be delivered. If there is not hurry on mail, customer will just wait to the next morning to get the discount. However as there is so many rules to get the discount (of a massive 3c), it is hardly worth doing.”*

*“No, the changes are not sufficient – or perhaps what is intended by An Post is not clear from the consultation paper. ... In order for the ‘early presentation’ system to work ... Testing for Mailmover compliance by An Post should be a short and simple procedure ... the discount must be more attractive ...”*

### **5.3 POSITION OF DIRECTOR**

Many of those opposed to the proposed increases for National services refer to an 18.4% increase. This is not under consideration at the present time, but is An Post’s declared target. The Director has not seen any financial information that would support such a price and looks forward to receiving the detailed accounts from An Post at the end of May. The “interim” figure of 41c is the most that could be supported on the basis of the information that is currently available.

The Director is concerned that An Post’s customers do not see the ‘early presentation’ discounts as being sufficiently attractive as to generate a significant switch of business to this service stream. However, An Post has assured the Director that it intends to promote the new service aggressively in order to



achieve the target of 25% of all mail being handled in this stream. The appeals and monitoring arrangements are crucial in this regard. The Director will expect An Post to make appropriate changes in the access conditions on an ongoing basis if necessary.

The size of the discount available for this service can only be addressed when full cost accounting information is submitted.

**Decision No 4:**

**In view of the overall financial projections for An Post, and the length of time since the last revision of postal tariffs the maximum prices set out below are hereby approved. The implementation date may be decided by An Post bearing in mind the need to adequately inform customers.**

**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.

(i) Post Office Preferred Envelopes<sup>15</sup> & Postcards

Weight not over	Current price	Approved price	% increase
25g (including Postcards)	<b>38c</b>	<b>41c</b>	7.9%
50g	<b>44c</b>		6.8% reduction

(ii) Larger Envelopes<sup>16</sup>

Weight not over	Current price	Approved price	% increase
50g	<b>44c</b>	<b>47c</b>	6.8%
100g	<b>57c</b>	<b>60c</b>	5.3%
250g	<b>89c</b>	<b>92c</b>	3.4%
350g	<b>€1.46</b>	<b>€1.49</b>	2.1%

<sup>15</sup> Standard Business Envelopes up to C5 size, ie 162 mm x 235mm, and no more than 5mm thick.

<sup>16</sup> Up to 400mm x 300mm x 25mm.

## (iii) Other Letter Packets

Weight not over	Current price	Approved price	% increase
50g	<b>44c</b>	<b>47c</b>	6.8%
100g	<b>57c</b>	<b>60c</b>	5.3%
250g	<b>89c</b>	<b>92c</b>	3.4%
350g	<b>€1.46</b>	<b>€1.60</b>	9.6%

## (iv) Discounts &amp; Additional Fees

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

## 6 INTERNATIONAL SERVICES

### 6.1 SUMMARY OF THE CONSULTATION TOPIC

#### 6.1.1 *An Post's Interim Proposals*

The principal features of the interim proposals were:

#### **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 *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.

There were a number of specific issues.

- Special Position of Britain

The interim proposals maintain the status quo in regard to linking these tariffs to domestic tariffs, 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 full review these issues will be reconsidered. Much will depend on the relative costs of processing the different streams of mail

- Other European Countries

On the basis of information received from An Post the cost of handling mail for each country in the European Union differs widely. 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.<sup>17</sup> At the full review these issues will be reconsidered.

- 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. 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.

### 6.1.3 Questions

This section concluded with the following questions:

***Q13. (a) Do you agree with the proposed tariffs as set out in Section 6? If not please state your reasons.***

***Q13. (b) Are they likely to pose any specific problems of hardship for users in terms of the affordability of postal services?***

***Q14. 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?*

***Q15. 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?*

## 6.2 VIEWS OF RESPONDENTS

Only four respondents commented specifically on the proposals for international price increases. Three agreed with the proposals One raised a very specific issue:

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<sup>17</sup> 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.

*“I do not consider weight based charges to be transparent. I do not understand why a 50g package to zone 3 is dearer than a 50g package to zone 4, and a 100g package to zone 3 is cheaper than a 100g package to zone 4”.*

A significant number of respondents (a majority of those answering the question) favoured retention of uniform pricing for Britain and the whole island of Ireland, while there was also a strong measure of support for averaging prices for all countries in the European Union.

### 6.3 POSITION OF DIRECTOR

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 apparent anomaly referred to by one respondent is simply a reflection of the REIMS agreement between postal administrations which means that the cost of sending mail to European countries is more than to the Rest of the World.

#### **Decision No 5:**

**In view of the overall financial projections for An Post, and the length of time since the last revision of postal tariffs the maximum prices set out below are hereby approved. The implementation date may be decided by An Post bearing in mind the need to adequately inform customers.**

#### **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.

##### (i) Post Office Preferred Envelopes & Postcards

Weight not over	Current price			Approved 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)	<b>38c</b>	<b>41c</b>	<b>57c</b>	<b>41c</b>	<b>44c</b>	<b>57c</b>
50g	<b>51c</b>	<b>83c</b>	<b>95c</b>		<b>83c</b>	<b>95c</b>

## (ii) Larger Envelopes &amp; Other Letter Packets

Weight not over	Current price			Approved price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	<b>51c</b>	<b>83c</b>	<b>95c</b>	<b>55c</b>	<b>83c</b>	<b>95c</b>
100g	<b>70c</b>	<b>€1.21</b>	<b>€1.71</b>	<b>76c</b>	<b>€1.21</b>	<b>€1.71</b>
250g	<b>€1.02</b> Outside reserved area			<b>€1.10</b> Outside reserved area		
350g	<b>€1.71</b>			<b>€1.85</b>		

**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.

Weight not over	Current price			Approved price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	<b>44c</b>	<b>51c</b>	<b>51c</b>	<b>48c</b>	<b>55c</b>	<b>51c</b>
100g	<b>57c</b>	<b>70c</b>	<b>95c</b>	<b>63c</b>	<b>70c</b>	<b>95c</b>
250g	<b>83c</b>	<b>€1.40</b>	<b>€1.71</b>	<b>91c</b>	<b>€1.40</b>	<b>€1.71</b>
350g	<b>€1.40</b>	Outside reserved area		<b>€1.54</b>	Outside reserved area	

## 7 DIRECT MAIL SERVICES

### 7.1 SUMMARY OF THE CONSULTATION TOPIC

#### 7.1.1 *An Post's Interim Proposals*

The principal features of the interim proposals were:

- ***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 *Director's Position*

The Director is cognisant of the importance of Direct Mail to the future growth and development of the postal sector. Postaim offers substantial discounts to businesses that pre-sort approved advertising and promotional material and accept deferred delivery. The discount is especially attractive in the case of heavier items, but these discounts appear inconsistent with the discounts offered for other services. These tariffs will require detailed review.

#### 7.1.3 *Questions*

This section concluded with the following question:

***Q16. 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?***

### 7.2 VIEWS OF RESPONDENTS

The Director has received very many strongly worded objections to An Post's proposals in respect of the Postaim service. The following is a selection of some of the comments:

*"The proposed changes to Postaim will represent a huge increase in the current prices paid by.... For a number of mailings, the rate we would pay would increase from 23c to 35c, an increase of over 52%. This is unprecedented and there can be no possible justification for this. In total, we estimate the net effects of the proposed changes will be to increase our*

*postage bill by over €150,000 each year. As this change is unexpected and thus unbudgeted for, we will have to curtail elements of our charitable work as a result.”*

*“The wholesale removal of the Postaim discount structure is also a huge issue. Our mailing volumes are such and the level of presortation we do, demand some discount. It seems that no thought has been given to this and that it is just a quick win. We would formally request that serious consideration is given to the timing and pacing of any increase and that we are given more time to cope. Furthermore, we would strongly protest about this. It seems unfair and ill-informed to consider that a business mailer of [our] size should be treated the same as either an individual or a small volume business mailer. The economies are just not the same. We strongly suggest that An Post should actively consider differentiating their products to encourage business mailers, who after all, represent the income / main profit drivers within the postal market.”*

*“In 2001 we mailed over 300,000 items using PostAim. This does not include the significant number of mailings we made using regular An Post services eg we acknowledge by post every donation received, we dispatch 90% of our greeting card orders by mail. One must also take into account the large volume of donations which we received in pre-paid business reply envelopes, enclosed in each mailing. Postage costs accounted for 10% of our total overall expenditure in 2001, and this year, due to the increasing success of our direct mail campaigns, we planned to increase our activity in this area. [we are] very alarmed at An Post’s application to increase prices for letter delivery. In particular, the proposed changes to Postaim will have a very significant and detrimental impact on the success of [our] fundraising activities.”*

*“I especially request that Postaim should not be diluted in any way unless and until a comparable product or deal is put in its place. Any dilution of the benefits of Postaim would hit us hard. We ... have two promotion houses in the U.K. It would be possible with modern communications technology to do all our mailing from one of them - without contravening the Evasion of Postage Act or remail regulations of the Universal Postal Union. I hope we’ll not be forced to go down that road.”*

*“[we] utilise a number of marketing channels. A price increase of this significance will force us to consider other marketing and communication avenues over direct mail. [we are] currently focused on reducing expenses, we will therefore reduce our direct mail activity to meet budget requirement“*

*“Our Postaim mail falls within the up to 50g weight band, and we avail of the cumulative pricing structure. The increase proposed for this weight band is 3c. The elimination of the cumulative price will incur a further 3c increase for us in a significant amount of our Postaim, ie an overall increase of 6c. This will involve very significant hardship and is likely to curtail our level of mailing. ... The reality is that the largest portion of our*



*Postaim mail will be subject to two increases as a result of the proposed rate changes in the interim proposal ...”*

*“scrapping the cumulative discount scheme will mean actual postal charges of up to 49% ... the proposed date (1<sup>st</sup> April) is highly questionable from the perspective that existing bulk mailers have been building towards the higher discount levels since July of 2001 – in effect An Post will be breaking established agreements.”*

*“I have no choice but to consider alternative channels of distribution, such as (1) mailing out of the UK and (2) moving away from directmail and instead distributing inserts into National and Local Press as well as Popular Magazines – thus entirely avoiding postage costs.”*

*“The stringent conditions that An Post put on Postaim, negate all the discounts. For mailings of less than 10,000 items, it is more expensive to use Postaim, than to just put the mail into the normal post. Some of the conditions are very sensible, but some are pointless. Eg You cannot purchase discounted envelopes, and overprint them yourself with a stamp. You must go to a printer and have the envelopes printed. The cost of this is usually about 5c per envelope. Eg You must send a sample of the item to An Post for approval. This in reality takes about 1 week to get approval. Mailing campaigns must be planned weeks in advance.”*

Other issues raised in the context of Postaim pricing were suggestions that a new “Charity Mail” service should be developed for the Religious and Charity sector, analogous to “Loyalty Mail” for Loyalty schemes run by supermarkets and others; complaints that there was discrimination in favour of those using the Business Reply service in the discount allowed for including an envelope for a response in a Postaim mailing; and complaints about proposed pricing increases for Publicity Post.

One respondent referred to specific complaint about access conditions which An Post will be asked to respond to in the context of the proposed review.

### **7.3 POSITION OF DIRECTOR**

There is clearly a need to reconcile the comments made by many of An Post’s customers and the information submitted in support of the price increase proposed. Two points need to be made.

First, on the basis of information currently available it seems difficult to justify the difference between the cost of delivering Postaim items (say 23c) and other bulk mail items (such as utility bills – currently 35c or 41c depending on weight.) This of course is why it is so important to have accurate costing information.

Second, from a regulatory point of view "cumulative discounts" can be anti-competitive if they encourage mailers to use the same service provider for all his/her mail. It should be borne in mind that a significant element of this mail, eg mail order catalogues, are already open to competition.

But while many customers complain about the withdrawal of the cumulative discount arrangement it seems to the Director that the real complaint is about the absolute level of price increase. There is no reason why the withdrawal of the cumulative discount scheme should lead to significant real increases in the cost of Postaim, if the basic prices are geared to cost.

In the light of the submissions received the Director has decided that any decision on postaim tariffs should be deferred until An Post submits revised proposals, but in order to ensure that all customers contribute equally towards resolving An Post's financial difficulties a temporary "surcharge" of 3c per item may be applied for the next three months.

The Director regrets that as the Publicity Post service is outside the scope of "postal services" as defined by legislation that she has no function in the price of same other than to ensure that the transfer charge in the Letterpost Division's account for the use of the public postal network is "geared to costs".

**Decision No 6:**

**The proposed changes in tariffs for Direct Mail services are not approved but An Post is authorised to raise a surcharge of 3c per item for the period until 30 June 2002. An Post is invited to submit revised proposals as quickly as possible for implementation on 1 July which limit the "interim" increase for any customer to 3c for POP letters and 7c for other items in the reserved area, while eliminating the cumulative discount.**

## **APPENDIX I: LIST OF RESPONDENTS**

- (1) An Post
- (2) Communications Workers' Union (CWU)
- (3) Irish Association of International Express Couriers
- (4) Hays DX
- (5) Irish Direct Marketing Associates Ltd
- (6) DAFIL
- (7) Pitney Bowes (Ireland) Ltd
- (8) Direct Line Marketing
- (9) IDS Media Group
- (10) Direct Marketing
- (11) Eircom
- (12) MNBA
- (13) Bank of Scotland (Ireland) Ltd
- (14) Viking Direct
- (15) Pigsback.com
- (16) Disabled Artists Association
- (17) Kolette Enright
- (18) Mike Belford
- (19) John Doyle
- (20) Doody Crowley & Co. (on behalf of St. Martin De Porres)
- (21) Missionaries of the Sacred Heart
- (22) Society of African Missions
- (23) Holy Rosary Convent
- (24) Irish Missionary Union
- (25) Missionary Sisters of the Holy Rosary

- (26) Congregation of the Holy Spirit
- (27) Columban Missionaries
- (28) St. Patrick Missionary Society
- (29) Franciscan Missionary Sisters for Africa
- (30) Unicef
- (31) Concern