An Coimisiún um
Rialáil Cumarsáide
Commission for
Communications Regulation

ComReg's assessment of universal postal service provider's cross-border single-piece parcel delivery tariffs 2022

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An Coimisiún um Rialáil Cumarsáide
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Content

Section **Page**

Appendix

Section **Page**

1: Executive Summary

1. Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services ("the Regulation")[1] lays down specific provisions to foster better cross-border parcel delivery services in Member States. These provisions include improving transparency of single-piece cross-border tariffs and required assessment by national regulatory authorities in Member States, the Commission for Communications Regulation ("ComReg") in Ireland, of certain single-piece cross-border tariffs by the Universal Service Provider ("USP") for the purpose of identifying those tariffs that are considered unreasonably high. In Ireland, An Post is the current designated USP until August 2023.

2. In accordance with the Regulation, ComReg, as the national regulatory authority for postal services in Ireland, is required to identify the single-piece cross-border tariffs of the parcel delivery service provider ("PDSP") that originates in Ireland and that are subject to a universal service obligation that it objectively considers necessary to assess. ComReg considers that in Ireland, this assessment is required of the cross-border parcel delivery tariffs of the designated USP, An Post, only.

3. ComReg is then obliged in accordance with Article 6 of the Regulation to objectively assess, in accordance with the principles in Article 12 of Directive 97/67/EC[2], the tariffs identified in order to identify those tariffs that it considers to be "unreasonably high". In that assessment ComReg is required to consider certain specified elements.

4. In April 2022, the European Commission published the public lists of relevant tariffs for single-piece cross-border parcel delivery services applicable on 1 January 2022 and obtained in accordance with Article 5 of the Regulation. This followed by the European Commission flagging to ComReg three tariffs of the USP's products as being in the top quartile (top 25%) of tariffs[3], as per its pre-assessment filter mechanism. These tariffs were corrected by the European Commission according to purchasing-power parities, as laid down by Eurostat to

[1] Article 6 of Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services ("the Regulation") published at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R0644&rid=1
[2] Article 12 of Directive 97/67/EC published at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31997L0067&from=EN
[3] The European Commission maintained the threshold as the top 25% PPP adjusted tariffs to be flagged using the pre-filtering mechanism for the 2021 assessment.

achieve a true and fair comparison of the applicable tariffs across Europe. These three tariffs are:

1. a 1 kg (domestic and intra Union) standard parcel
2. a 2 kg (domestic and intra Union) standard parcel
3. a 5 kg (domestic and intra Union) standard parcel

5. ComReg considered though that it was necessary to objectively assess only one of these three tariffs given that two of the tariffs (2 kg and 5 kg parcel) were reduced to the extent that they would no longer be identified in the pre-assessment by the European Commission if those tariffs were applicable at 1 January 2022, instead of 1 March 2022 which is only c.60 days later. Consequently, ComReg objectively considered that one tariff, the 1 kg standard parcel tariff, was necessary to objectively assess, in accordance with the Regulation and principles in Article 12 of Directive 97/67/EC, in order to identify cross-border single-piece parcel tariffs that ComReg considers to be unreasonably high.

6. In assessing whether the identified tariff was unreasonably high, ComReg has objectively considered data from the USP's audited Regulatory Accounts[4] and other cost and supporting data together with explanatory information provided by the USP. Foremost, as noted above ComReg has considered that the USP changed the prices of certain outbound international parcels from 1 March 2022, largely price reductions, including reducing the prices of two of the tariffs initially identified by the EC for possible assessment. These price reductions by the USP were informed by the 2021 assessment which found that there were significant disparities in cost and prices within Zone 3 (Europe).

7. In summary, having objectively assessed, in accordance with the principles in Article 12 of Directive 97/67/EC, the cross-border 1 kg parcel tariff of the USP (as the PDSP that originates in Ireland and that is subject to a universal service obligation) that ComReg considered objectively necessary to assess and having taken into account the elements specified in Article 6 of the Regulation, ComReg has found that the 1 kg parcel tariff to be assessed is not unreasonably high but should be kept under review as it was flagged by the European Commission. This is considered the case given the 1 kg parcel had a modest price increase from 1 March 2022, following which ComReg has assessed that the tariff ranks still favourably amongst other Irish providers, being that it is still the second cheapest

[4] Public version available at https://www.anpost.com/AnPost/media/PDFs/Regulatory%20Reports/Regulatory-Reports-2019.pdf

when comparing the average outbound tariff. Furthermore, the ratio of the domestic tariff to the outbound tariff has only increased by 0.2 to 3.3 which is still below the benchmark ratio of average ratios of 3.6 when compared to other applicable Member States who have tariffs submitted under this category. The 1kg standard parcel also had a modest margin of [✂ [redacted] ✂] noted from last year's margin analysis model.

8. In summary, ComReg's objective assessment of the identified single-piece cross-border 1 kg parcel delivery tariff that it considered necessary to assess has determined the following:

Figure 1

Identified Tariff Products	**Tariff Zone 3[5] - 2019**	**Tariff Zone 3 - 2020**	**Tariff Zone 3- 2021**	**Tariff Zone 3- 2022 (1 Jan'22)**	**Tariff Zone 3- 2022 (1 Mar'22)**	**ComReg's objective assessment**
a 1 kg (domestic and intra Union) standard parcel	28.00	28.00	28.00	28.00	30.00	Not considered unreasonably high but keep under review

[5] The USP's Zone 3 is a uniform tariff for sending to Europe, including European countries that are not Member States. However, from 1 March 2022 the USP has split the EU into two zones which involves zone 3 plus zone 2 which represents some of the neighbouring and most popular countries to Ireland for sending mail (Germany, France, Belgium, Netherlands, Luxembourg and the UK).

2: Information Gathering

9. In April 2022 the European Commission published the public lists of relevant tariffs for cross-border parcel delivery services applicable on 1 January 2022 and obtained in accordance with Article 5 of the Regulation. Following this, the European Commission flagged to ComReg three tariffs for three of the USP's products as being in the top quartile (top 25%) of tariffs as identified via its pre-assessment filter mechanism. These are set out in Figure 2. These tariffs were corrected by the European Commission according to purchasing-power parities as part of this filtering mechanism, as laid down by the European Commission to achieve a true and fair comparison of the applicable tariffs across Europe[6].

Figure 2

Identified Tariff Products	Tariff Zone 3[7] - 01/01/2019	Tariff Zone 3 – 01/01/2020	Tariff Zone 3 – 01/01/2021	Tariff Zone 3[8] - 01/01/2022	Tariff Zone 3 – 01/03/2022 (revised pricing by USP)
a 1 kg (domestic and intra Union) standard parcel	28.00	28.00	28.00	28.00	30.00
a 2 kg (domestic and intra Union) standard parcel	35.50	35.50	35.50	35.50	30.00
a 5 kg (domestic and intra Union) standard parcel	67.00	67.00	67.00	67.00	45.00

10. ComReg initially considered that it was necessary for it to objectively assess these three tariffs given that the output of the pre-assessment by the European Commission was that these three tariffs are in the top quartile of purchasing power

[6] This correction was noted in the '*Communication from the Commission on guidelines to national regulatory authorities on the transparency and assessment of cross-border parcel tariffs pursuant to Regulation (EU) 2018/644 and Commission Implementing Regulation (EU) 2018/1263'* (COM (2018) 338 final)
[7] The USP's Zone 3 is a uniform tariff for sending to Europe, including European countries that are not Member States
[8] The USP's Zone 3 is a uniform tariff for sending to Europe, including European countries that are not Member States

parity adjusted tariffs and were similarly flagged in previous years as well. Consequently, ComReg objectively considers that these three tariffs were necessary to objectively assess, in accordance with the Regulation and principles in Article 12 of Directive 97/67/EC, in order to identify those cross-border single-piece parcel tariffs that ComReg considers to be unreasonably high.

11. Therefore, ComReg proceeded to the next stage of the assessment by requesting information from the USP pursuant to Article 6(5) of the Regulation to justify and explain why these tariffs should not be considered unreasonably high as at 1 January 2022. ComReg also required the USP to provide information to demonstrate how each of these identified tariffs met the obligation to uphold the principles contained in Article 12 of Directive 97/67/EC i.e., that tariffs must be cost-orientated, affordable, transparent and non-discriminatory.

12. ComReg wrote to the USP initially in April 2022 informing the USP of the three tariffs flagged as being in the top quartile of most expensive tariffs by the European Commission's pre-filtering mechanism, with a request for information also being outlined to facilitate ComReg's assessment into potentially unreasonably high tariffs. ComReg's assessment was also dependent on the finalisation and sign-off of the 2021 Regulatory Accounts by an independent Auditor which would be due late June 2022.

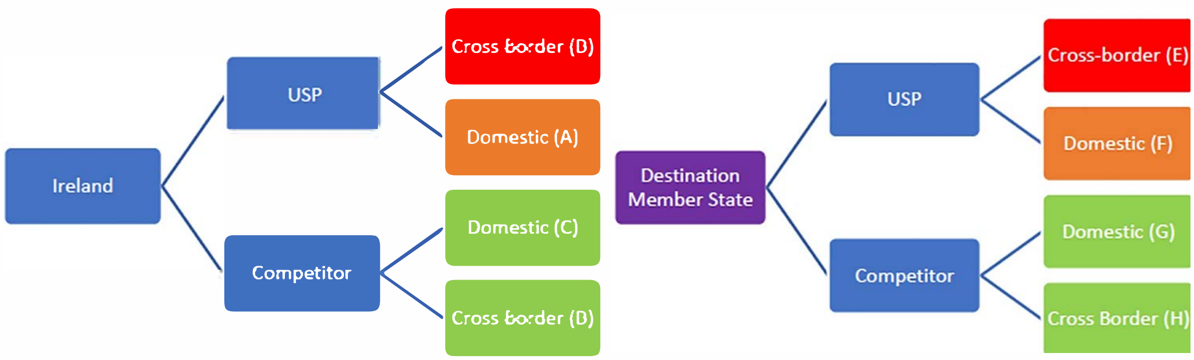
13. ComReg requested other information from the USP also, such as cost information and volumes information from the USP's internal systems so as to analyse the requirements under Article 6. Analysis of this information and data is detailed in Chapters 3 and 4.

14. In response to ComReg's request for information to carry out the assessment, the USP provided the information requested except for the margin analysis model. The reason for this was the fact that the USP was of the view that these tariffs had their prices changed soon after 1 January 2022 and also that the tariffs were no longer in the top quartile of tariffs (this was the case for the 2 kg and 5kg parcel, but it was incorrect for the 1 kg parcel based on the USP analysis which was incorrect). The USP was of the view that this resource intensive exercise would be wasteful and not proportionally reasonable for what were historic prices. ComReg considered this point and carried out analysis to confirm same. Based on this, it was considered acceptable that the margin analysis model would not be necessary for the 2022 assessment, and that the assessment would only be carried out for the 1 kg standard parcel.

3: Assessment Process and Analysis

15. For 2022, ComReg continued to apply a form of analysis, adherent to the guidelines communicated by the European Commission for National Regulatory Authorities on the transparency and assessment of cross-border parcel tariffs pursuant to Regulation (EU) 2018/644, which detailed guidance on the methodology to be used for the assessment of the cross-border single-piece tariffs (Article 6(2) and 6(3))(COM(2018) 838 final). This is detailed in Figure 3 below.

Figure 3



16. ComReg has carried out the following step by step process in assessing the reasonable pricing of products, taking into consideration the following benchmarks, as supported by the European Commission Guidelines[9]:

    a. Analysis of rates adjusted for purchasing-power parities as provided by the European Commission as an output from its web-based Parcel tool,

    b. Following the European Commission guidelines, compared then the identified Cross-Border tariff of the Irish USP for assessment, to the USP's Irish Domestic Tariff in the first instance, and then to the tariffs by European universal service providers across EU Member States for both Domestic and Cross-Border,

17. As per the European Commission guidelines, this task compared the Irish USP tariffs to:

[9] Supported analysis recommendations from Commission guidelines document *"COM (2018) 838 final"*

- Domestic cross-border rate of USP compared to Domestic cross-border rate in the destination member state to Ireland (B to E, as per Figure 3 above),
- Domestic cross-border rate of USP compared to Domestic USP rate in ratio form, then to the ratio of Domestic rate to cross-border rate ratio of USPs in other member states (B to A compared to E and F, as per Figure 3 above),
- Outbound selected rate of USP compared to Origin based competitors in Ireland to other Destinations i.e., Zone 3, Mainland Europe (B to D, as per Figure 3 above).

18. ComReg continues to note that there are different pricing mechanisms for operators that have provided tariff information via the European Commission web-based tool. Although weight break criteria are set for the 15 products under the Regulation, other providers do place additional pricing criteria on the sizes of packets & parcels, and these dimensions and or volumetric pricing criteria add a level of complexity to comparing these products and prices fairly across Member States. There are also other add value services that certain products may carry such as speed of delivery that likewise adds further complexity in comparing products. It is also noted that the designated USP is unique among other parcel delivery service providers in the Irish market as it has additional requirements in terms of its universal service obligation.

19. ComReg also notes from its review of the buckets to which tariffs are compared that further changes have taken place where countries have removed prices for 2022 applicable under certain price buckets which will impact ranking of tariffs based on reduced populations in each bucket. For example, the 1kg standard parcel, there are now only 12 comparable tariffs; Denmark, Italy and Poland USPs no longer report tariffs under this bucket. This may be due to the changes to the add-values services of this product, or a correction to how the tariffs were categorised previously.

20. In addition to the above analysis, consideration was given to prior year figures submitted and collected under previous years of the Regulation. Such trend analysis is considered in the below sections where applicable.

21. In addition to the above benchmarking test, ComReg carried out an assessment of tariffs taking into consideration the following:

- the USP's audited Regulatory Account information for 2018, 2019, 2020 and 2021,

- the USP's public price guides for universal postal services,
- bilateral volumes and cost related to transportation, handling, sorting, transit and delivery abroad,
- the existence of uniform tariffs as a positive measure for the protection of regional and social cohesion, transparency, development of e-commerce and non-discrimination of geographic location,
- terminal dues.

22. In 2022, there has been no change in the product categories determined by the European Commission under the Regulation for tariff assessment. On that basis, PDSPs were still required to provide information on their products that were within the criteria of the categories set pursuant to Regulation (EU) 2018/644.

23. For 2022, the European Commission flagged the top 25% highest tariffs for the Irish USP, and three tariffs were identified. ComReg initially objectively considered that three identified tariffs are necessary to objectively assess, in accordance with the principles in Article 12 of Directive 97/67/EC, in order to identify those cross-border single-piece parcel tariffs that ComReg considers to be unreasonably high. However, after considering correspondence from the USP and the re-ranking of certain tariffs initially flagged for assessment when factoring in new prices on 1 March 2022, ComReg proceeded with the assessment for only the 1 kg standard parcel using the recommended comparison study from the guidelines document provided by the European Commission and by using requested information from the USP to assess costs and other factors that might justify the 1 kg tariff revised on 1 March 2022.

3.1 USP cross border rates compared to incoming cross border rates from USPs in destination Member States (adjusted for PPP)

24. In April 2022, the European Commission published its findings of the top 25% tariffs for 15 products categories. Of these 15 Products, three zonal tariffs[10] for three products of the Irish USP in 2022 were identified as being in the top quartile for listed tariffs amongst USPs. For this year's assessment though, and as noted above, ComReg has re-ranked the tariffs based on the prices changes of 1 March, as a result only the 1 kg parcel is being considered for assessment. Using this tariff adjusted by PPP, prior year comparisons of changes in this tariff and then

[10] Tariffs as at 1 January 2022 – Adjusted by PPP for tariffs for 15 Products applicable under the Regulation

rankings versus other universal service providers has been illustrated below. Figure 4 outlines the ranking for 2022:

Figure 4

Identified Tariff Products	Tariff Zone 3 - 2021	Tariff Zone 3 - 2022	Tariff Zone 3 – 2022 (1 March 2022)	Rank 2021	Rank 2022	Rank 2022 (1 March 2022)
a 1 kg (domestic and intra Union) standard parcel	28.00	28.00	30.00	3rd / 15 PDSPs (shared*)	4th / 11 PDSPs	2nd / 11 PDSPs

* USP has same tariff as USP in other destination, therefore shared ranking

25. As per the European Commission guidelines, ComReg has carried out analysis that determines the ratio for each the USP outbound tariff to a destination Member State to then its counter receiving inbound tariff from each of these destination Member States USPs to determine a ranking of these tariffs for delivery of the same product under the criteria of being the same reasonably comparable product and travelling the same distance of delivery e.g., Ireland to Poland, Poland to Ireland. These rates are adjusted for PPP for the purpose of fairness and comparability also.

26. As outlined by the European Commission guidance document[11], "*if the assessment results in substantive differences between the tariff under assessment and the sum of domestic tariffs or the comparable cross-border tariffs, it will be important to assess in particular, the underlying respective costs of the service under assessment*". On that basis, ComReg has carried out analysis of the results between the cross-border tariff under assessment and the sum of the comparable cross-border tariff of the other Member State USPs.

27. As can be seen from Figure 4 above, the product tariff that was identified by ComReg for assessment:

    a. is amongst the most expensive tariffs based on ComReg's analysis for 2022 based on 1 January 2022 and 1 March pricing and was also considered in the top 25% most expensive tariffs for 2021: however, note our assessment in 2021 for this tariff, following its initial flag for

[11] Supported analysis recommendations from Commission guidelines document "COM (2018) 838 final"

assessment by the EC pre-filtering mechanism, found in fact that the tariff was not unreasonably high.

28. Given the price on 1 January 2022 and 1 March 2022 is in the top quartile of most expensive tariffs, this supports the identification of the 1kg standard parcel tariff as being potentially unreasonably high for further objective assessment by ComReg as per the regulation.

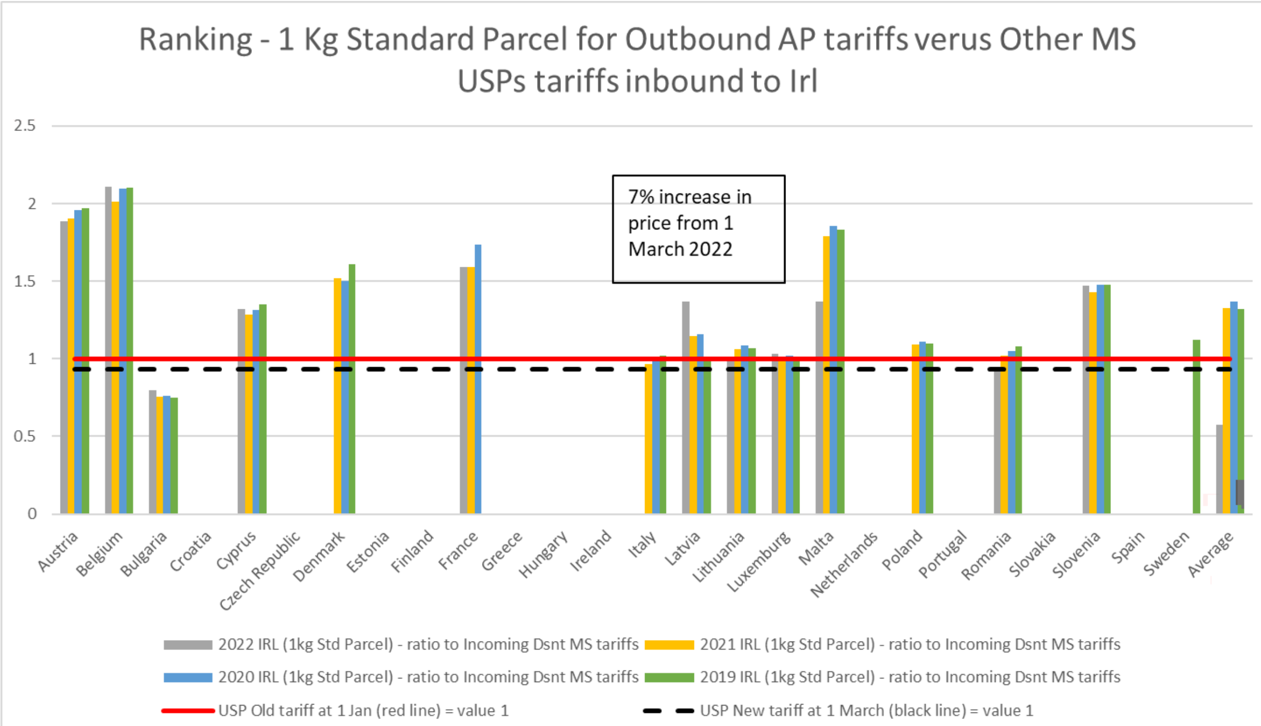
3.1.1 1kg (domestic and intra Union) standard parcel

29. In Figure 5 below, the red line equals the USP rate (1:1). A ratio higher than 1 indicates that for each destination on the X axis, the outgoing rate from that destination to Ireland is less expensive than the Irish USP rate to that destination country. Furthermore, the countries which note values below the red line, then this indicate that these rates are more expensive than the Irish USP rate to send a product from that destination to Ireland compared from Ireland to that destination.

30. The dashed line represents the new rate as of 1 March 2022. The dashed line which is shown below the red line represents an increase of 7% in the price for 2022. This changes the ranking of the IE rate from 4th most expensive to 2nd most expensive. However, this must be caveated the rankings given this is out of 11 other member state USPs who submitted data under this product category. This has reduced further given Italy, Denmark and Poland no longer report tariffs in this category compared to last year.

31. Of the 11 Member States reporting on 1 January 2022, the average rate of these tariffs is €19.59. When compared to the Irish USP PPP adjusted rate from 1 January 2022 and 1 March 2022, this notes that the Irish USP tariff to the main EU destinations is €21 (Zone 2), but for further distant EU countries (Zone 3) it was 21% higher and then 27% higher from 1 March compared to the average price of other USPs. However, consideration needs to be made to the fact that the average price has shifted given the removal of USP prices from the previous year, and also the fact that Ireland is an Island and not part of mainland Europe which therefore means additional costs need to be considered for transport of parcels.

Figure 5



3.2 Domestic PDSP Analysis – Outbound Parcels

32. As part of ComReg's review of outbound parcels from Ireland, and following the guideline document from the European Commission, ComReg compared the cross-border tariff of the USP as identified as potentially unreasonably high as part of the European Commission pre filtering mechanism to that of the rates for outbound parcels from other domestic PDSPs, not adjusted for PPP. As broken down below, ComReg reviewed the USP tariffs to those of the other domestic PDSPs where applicable, and where another PDSP provides a service for that product also, regardless of other factors such as guaranteed delivery times, differences in methods of pricing, and any additional add on features for that service of delivering an item at that weight break that is factored into the price. Although this analysis is important, it must be noted that the designated USP is unique among other parcel delivery service providers in the Irish market as it has additional requirements in terms of its universal service obligation.

33. In carrying out such analysis, ComReg retrieved the following results as set out in Figure 6. See summary of results below:

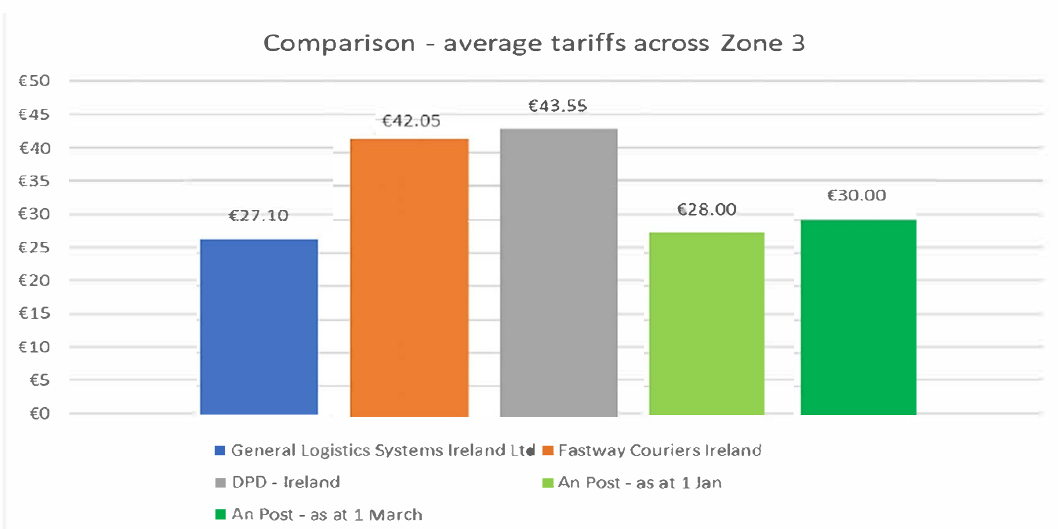
Figure 6

Identified Tariff Products	Tariff Ranking - An Post
a 1 kg (domestic and intra Union) standard parcel	3rd / 4 PDSPs

3.2.1 1kg (domestic and intra Union) standard parcel

34. For the 1kg standard parcel, there are three comparable domestic PDSPs for this tariff. When comparing the average rate to all destinations for these PDSPs, the USP is the second least expensive. This ranking, when using the USPs revised rate implemented from 1 March 2022 fails to make a difference. Note though that the average comparison analysis between providers is skewed given certain providers do not provide services to all destinations. Additionally, PDSPs may also adopt different pricing models compared to the USP so this also causes challenges for any comparing tariffs and assessing whether any are unreasonably high based on the analysis.

Figure 7



3.3 Ratio analysis of USP domestic versus Cross-Border Tariff compared to the Ratio representing MS USP domestic and Cross – Border Tariffs

35. Further to the guideline document from the European Commission, ComReg compared in 2022 the cross-border tariff of the USP as identified as potentially unreasonably high as part of the European Commission pre filtering mechanism to the domestic tariffs of the same products. The new tariff of 1 March 2022 for the 1 kg parcel was also included in the analysis. The ratio difference was determined between the domestic and cross-border tariff for both the old and new tariff, and

then compared to other USP member states to determine the significance of the tariff gap in sending a parcel abroad versus their respective domestic tariff. This, we understood, would further emphasise whether a tariff under review is potentially unreasonably high or not, as outlined by the European Commission guidance document and under the recital 27 of the Regulation where it requires that further investigation is carried out to justify cost should there be a significant difference between domestic and cross-border tariffs i.e.,

"Significant differences between domestic and cross-border tariffs for parcel delivery services should be justified on the basis of objective criteria, such as specific transportation or handling costs or other relevant costs. It might be necessary for the national regulatory authority to gather evidence for the purposes of the assessment. That evidence, together with any justification of the tariffs under assessment, should be provided to the national regulatory authority upon request."

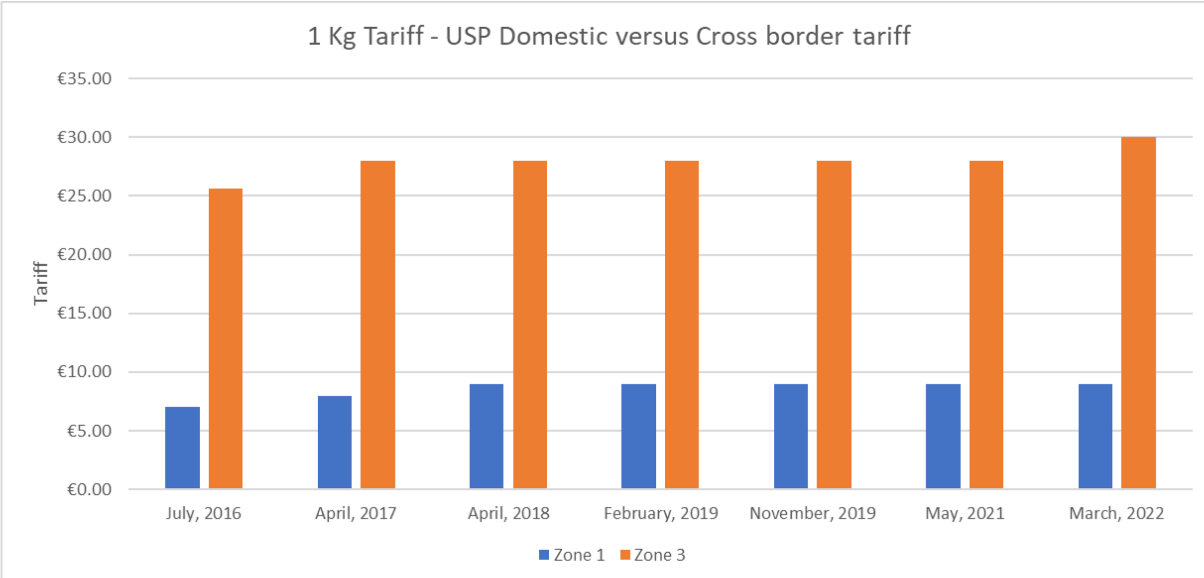
36. The summary result of this ratio assessment is below for the 1 kg standard parcel:

Identified Tariff Products	Ratio – USP ratio cross-border tariff to Domestic – Old tariff (as at 1 Jan 2021)	Ratio – USP ratio cross-border tariff to Domestic – Old tariff (as at 1 Jan 2022)	Ratio – USP ratio cross-border tariff to Domestic – New tariff (as at 1 March 2022)	Benchmark Ratio – average ratio for other MSs
a 1 kg (domestic and intra Union) standard parcel	3.1	3.1	3.3	3.6

3.3.1 1kg (domestic and intra Union) standard parcel

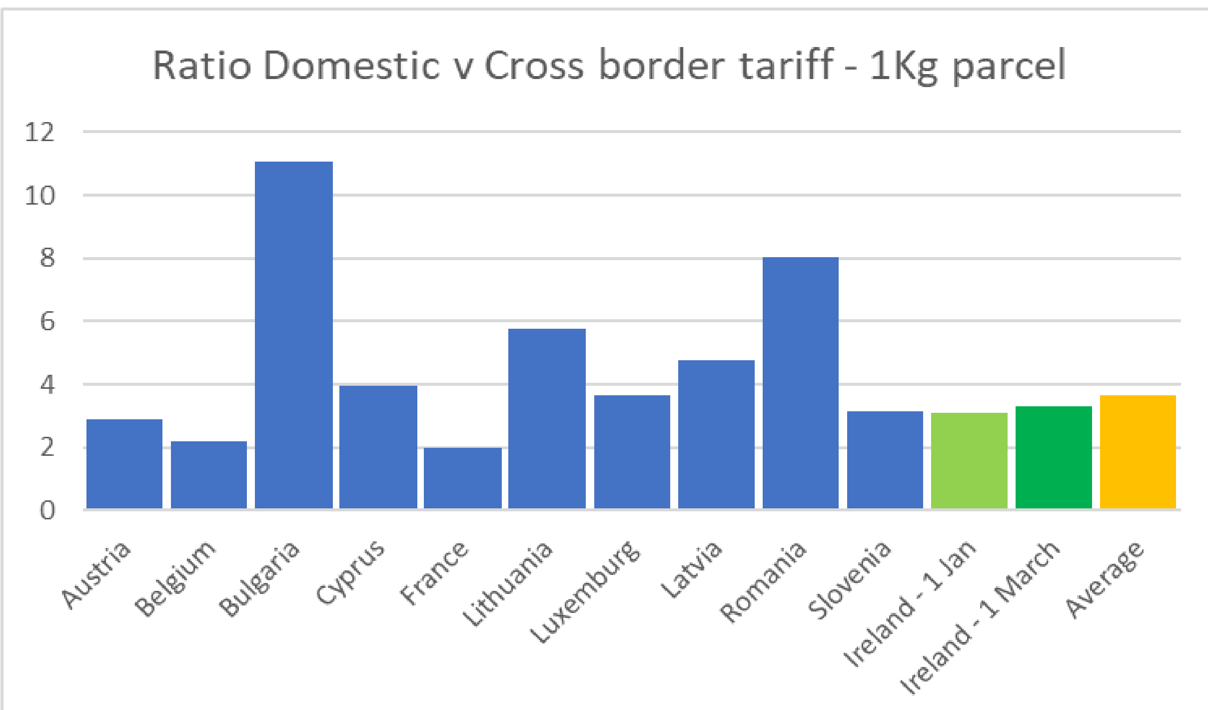
37. For the 1kg standard parcel, a comparison was made between the domestic tariff and the cross-border tariff. A trend analysis was used to identify the difference over the previous years also. As seen in Figure 12 below, a ratio of 3:1 has been the cross-border tariff versus the domestic tariff ratio for the 1kg standard parcel. This has been maintained following the price increase on 1 March 2022.

Figure 8



38. When comparing this ratio against other Member States, the Ireland USP ratio is slightly below the average of 3.6, see figure 9.

Figure 9



3.4 Analysis of USP information to justify why its tariffs are not unreasonably high

39. The USP provided information to support its view that their tariffs identified were not unreasonably high. ComReg has carried out analysis on this information, under the below headings meeting the requirements of Article 6(2) for consideration of numerous factors in pricing.

3.4.1 External (handling costs, trunking, Delivery) and Internal costs (scale payments) – outbound standard parcels

40. The USP provided operational data to verify some of the main costs under review. This has been outlined below under the following product headings given by the USP.

3.4.1.1 Terminal Dues [12]

41. PIRA rates for terminal dues on parcels less than 2kg are shown in figure 10 below. The average kg rate for standard or less is [✂ [redacted] ✂] for 2022; this is an increase from [✂ [redacted] ✂] in 2021 for countries under the PIRA agreement.

Figure 10 [✂ Redacted ✂]

[redacted]

12 Email from USP containing operational data

42. For heavier premium parcels under the PIRA agreement which are parcels over 2kg, see below graph. The average rate in 2021 was [✂ [redacted] ✂]; this has only decreased slightly to [✂ [redacted] ✂] for data available for 2022 as part of the USP submission.

Figure 11 [✂ Redacted ✂]

[redacted]

3.4.1.2 Freight Rates

43. The USP also provided air freight data on £ rate per kg. charges for products dispatched to 39 destinations in Zone 3. As seen in Figure 12 below, freight rates per destination appear to be based on rates for different mixes of accepted mails in each destination. The per kg. €[13] cost is on average [✂ [redacted] ✂].

[13] € / £ rate based on exchange rate July 2022 - €1.18 = £1.

Figure 12 [✂ Redacted ✂]

[redacted]

44. The Regulatory Accounts show that the cost attributed to transport freight has increased by [✂ [redacted] ✂] % in 2021. This reflects a higher cost per unit increase; [✂ [redacted] ✂] per unit in 2021 compared to [✂ [redacted] ✂] the previous year. According to the USP, freight cost increases have not subsided in 2022.

3.4.1.3 Zonal pricing

45. The USP notes [14] that it looks to offer transparent and non-complex prices to customers. In the past they operated a single price to Europe (excl. UK) but have now opted for a further split zone of pricing from 1 March 2022 which is to correct for a disparity between costs and prices for parcels to certain destinations in Zone 3 prior to this.

46. The USP considers the new pricing structure only slightly less transparent but still more cost reflective.

[14] An Post correspondence - 13/05/2022 – Annex C

3.4.1.4 Scale Payments

47. Scale payments are the costs associated with the processing of mail over the counter in a post office. A charge is registered based on a percentage of the tariff of the product being processed and a fixed fee.

48. No scale payment details were provided for this assessment given the margin analysis model was not carried out for this year.

3.4.2 Information to demonstrate how each tariff meets the obligations to uphold the principles contained in Article 12 of Directive 97/67/EC

3.4.2.1 Cost Orientation

49. The USP noted the following points in terms of considerations for cost orientation for this year's assessment [15]:

   a. "*Primarily due to increased freight costs due to COVID, the performance of the Outbound mail business deteriorated to an overall (-13%) loss in 2020. These increased freight costs have not subsided in 2022*".

   b. *"In setting prices, An Post must consider the sustainability of the USO overall and the sustainability of the outbound USO mails business…. An Post does not consider that it is realistic that the profit margin for every weight band for every format, feature and destination can be set at the same level. We do not accept that a maximum margin for every weight, format and feature can be imposed".*

   c. As per 2020 Regulatory Accounts, USP noted that they made an *"€8M loss on outbound USO and €8M loss on the USO overall*." This has worsened in 2021 Regulatory Accounts, losses for outbound is c.€9M and total USO losses is €20.4M.

   d. *"An Post notes that the 2014 Frontier Economics report 'An Post Price Control' recognises that An Post is permitted to have a buffer for future shocks when setting its pricing. An Post thus has the discretion to consider what level of buffer, without being required to set this buffer at a level that guarantees margin equivalency across all services". Furthermore; "…outbound parcels are driven largely by a complex interaction of costs beyond An Post's direct control, a relatively high buffer*

[15] An Post correspondence - 13/05/2022 – Annex C

is appropriate here". On that basis, "this requirement for a substantial buffer was clearly shown in 2020/21 which was a time of high volatility and a general sharp upward trend in freight costs. This included very significant increases to many Zone 3 destinations. This has not subsided in 2022. Transport costs account for a high proportion of the overall cost of an outbound parcel. Freight costs remain unpredictable and out of An Post's direct control".

e. *"Ireland is an island nation on the periphery of the EU with no land border with any other EU state, and as such has higher costs for intra-EU parcels than most other EU countries. Most of our to-EU member states services are airfreighted and are directly affected by flight capacity constraints. Therefore, An Post faces an unusually demanding set of circumstances compared to most other European postal operators."*

f. *"Ireland is the second highest cost country in the EU1- and inflation is rising, reaching 7% annualised to April 2022, a 22 year high- with increasing Transport costs recognised as one of the main contributing factors. An Post must of course be future orientated with respect to price setting."*

50. Notwithstanding the above, the USP reduced prices for many intra EU parcel services based on the results from the margin analysis undertaken for the 2021 Cross Border Parcel assessment which saw the 2 kg and 5 kg standard parcel not being considered for assessment this year.

3.4.2.2 Affordability

51. The USP notes, from its analysis of domestic tariffs of competitors, that its tariff is the second lowest average price against three of the other declared PDSPs for 1 kg standard parcel. The USP has also introduced revised tariffs in March 2022 which has led to greater affordability across the rest of its range of products.

52. The USP asserts that its standard parcel service to the EU is "*highly competitive and affordable*"[16]. According to the USP, this is noted in the context of the USP operating in a very competitive market that is much fiercer than what is represented in the CBPR data. Furthermore, the USP is also subject to greater regulatory oversight. In 2020, it sold [✂[redacted] ✂] standard parcels over the counter which the USP

[16] An Post correspondence - 13/05/2022 – Annex C

concludes should be considered indicative of the competitive strength and affordability of its customer offering.

3.4.2.3 Transparency

53. The USP noted the following points in terms of considerations for transparency for this year's assessment[17]:

    a. In the interest of transparency, the USP has operated a single price to Europe (excluding the UK) which was applicable to the price under review at 1 January 2022,

    b. The USP considers its pricing more transparent compared to competitors who tended to offer multiple rates, some of which the USP considered very expensive. The USP also considered it more challenging for the public to access services with its competitors when it comes to many European destinations.

    c. The USP of the view that to prevent arbitrage, it is necessary that each destination in a Zone has its costs covered by the most expensive rate.

54. The USP has introduced zonal changes to drive greater affordability, which is acknowledged by the USP as being slightly less transparent. However, the USP still considers the pricing very transparent and based on a more cost-effective pricing structure.

3.4.2.4 Non-Discriminatory

55. The USP noted the following points in terms of considerations for non-discriminatory pricing for this year's assessment[18]:

    a. "*USO Standard Parcel rates and services are available to the general public on a single piece tariff basis through the largest retail network in Ireland or our online Click and Post service. The service is non-discriminatory*"

[17] An Post correspondence - 13/05/2022 – Annex C
[18] An Post correspondence - 13/05/2022 – Annex C

b. *"An Post notes that meeting the tariff requirements is often a balancing act between its different aspects. These prices are kept under constant review."*

3.4.3 Regulatory Accounts 2021 – Outbound USO Mail All Segments

56. For all USO outbound mail, there has been a 16% decrease in mails volume from 2020 to 2021. This equates to an decrease of around 2.6m mail items.

57. In terms of profits, there was a loss posted of c.€9m for 2021 on total outbound USO mail to UK, Europe and RoW for letters, flats, packets, parcels and registered. This loss has increased from €8.1m in 2021.

58. Service Expenditure has declined by 7% in 2021, c.€5m. However, Revenue has also declined by c.€6m.

3.4.4 Regulatory Accounts 2021 – Outbound Standard Parcels All Segments

59. ComReg also analysed outbound standard parcels (aggregated for all weight steps) recorded in the audited Regulatory Accounts 2021 as part of its assessment, also taking into consideration prior year figures. It was noted for 2021, there was an increase in outbound parcels of c.26% (55k parcels). Revenue also increased by 63% (€4.4M), with Revenue per unit increasing from €35 to €46. There was also an increase in service expenditure of 41%, c. €3M which like last year appears to be attributed to external cost factors i.e., transport costs.

60. For 2021, Outbound parcels have made a profit of €1.6M versus breakeven last year, see figure 13 below of Outbound Parcel P&L.

Figure 13 [✂ Redacted ☐]

Outbound Standard Parcel P&L Details	2021	2020	2019	2018
Volume	266	211	175	148
Directly Attributable Revenue	12,138	7391	7,688	7,003
Revenue Allocated by Sampling	0	0	0	0
Intra-segment Revenue		0	0	0
Total Revenue	12,138	7,391	7,688	7,003
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total - Common Costs	1,976	1,225	1,331	2,032
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total - Direct & Indirect Expenditure	8,501	6,173	5,372	6,283
Service Expenditure	10,477	7,428	6,704	8,315
Net Segment Profit / Loss	**1,661**	**(37)**	**984**	**-1,312**
Margin %	**13%**	**-0.5%**	**12.8%**	**-18.7%**

3.4.5 Regulatory Accounts 2021 – Margin analysis using new methodology

61. In last year's assessment, an agreement between the USP and ComReg was made whereby a new methodology was agreed for certain cost data to be used to assist in determining margins for those tariffs that were to be assessed following their identification using the European Commission pre-filtering mechanism. However, as noted earlier in this report, a margin analysis has not been carried out for this year' assessment taking into consideration a number of factors.

62. In commencing the assessment process for 2022, the USP responded to ComReg's request for information noting that the tariffs initially flagged for assessment were changed soon after 1 January 2022 and also that the tariffs were no longer in the top quartile of tariffs (this was the case for the 2 kg and 5kg parcel, but it was incorrect for the 1 kg parcel based on ComReg checks on the USP analysis). Also, the USP was of the view that the margin analysis process, which is a resource intensive exercise, would be wasteful and not proportionally reasonable to carry out for historic prices.

63. ComReg considered this point that only c.60 days after 1 January these prices were changed, and that analysis showed that two of these reduced tariffs would no longer be flagged for assessment under the pre-filtering mechanism; based on this, it was therefore considered not necessary for an assessment to be carried out on these tariffs. In relation to the 1 kg standard parcel though, the tariff increased and also the ranking for same following the price increase in March 2022. However, ComReg was of the view that a margin analysis would not be necessary given an overall margin of 13% was realised for outbound parcels according to the regulatory accounts 2021; this was in the context of a further increase of [✂ [redacted] ✂] in freight cost for 2021 with transport cost increases not subsiding according to the USP for 2022. Finally, it was noted that the margin for this tariff was [✂ [redacted] ✂] last year which was considered modest.

64. Therefore, a margin analysis was decided not necessary for the assessment in 2022.

3.5 Outbound USP Volume analysis

65. ComReg analysed volumes outbound, considering information from two sources. The first is counter-automation system data which makes up c.[✂ [redacted] ✂][19] of volumes of parcels and provides details on volumes to specific destinations in Zone 3. The second, is revenue / cost model data that has been obtained from

[19] According to the USP as per email and supporting data from 2021 assessment

models used to create the revenue and volumes which are inputs to the Regulatory Accounts.

3.5.1 Counter-Automation Data

66. Reviewing the counter-automation data submitted by the USP for the 2021 assessment, it is noted that there have been significant declines in volumes for Zone 3 compared to the previous year, but this is mainly attributed to some destinations being re-zoned based on a change in the USP pricing structure from March 2022 hence the data is captured differently. Volumes per weight category from the counter-automation system are below in figure 14:

Figure 14

Volumes by product weight cohorts	Transaction Count 2020	Transaction Count 2021
2020	[redacted]	[redacted]
Between 1.5kg and 2kg	[redacted]	[redacted]
Between 4.5kg and 5kg	[redacted]	[redacted]
Between 500g and 1kg	[redacted]	[redacted]

3.5.2 Regulatory Accounts / Cost Model Volume data

67. ComReg has also analysed the volume data from the revenue / cost models that are an input into the Regulatory Accounts. In the case of cost, these volumes drive where costs are allocated to different products. However, to caveat this information, volumes are combined into buckets in this modelling e.g., “standard <2kg”, “standard 2 to 5kg” and “standard 5 – 10kg”. Therefore, the data below represents what are products from all weights up to 10kg, however this will still give an indication of what products drove cost in 2021.

68. As per the Regulatory Accounts 2021, it is noted there has been a reported 26% increase in outbound volumes from 2020 to 2021. In Figure 15 below, the breakdown of this volume shows that during 2021, [✂ [redacted] ✂]

Figure 15 [✂ Redacted ✂]

[redacted]

69. Just focusing on the Zone 3 volumes then which are applicable to the standard parcels under review in 2021, in Figure 16 below, the breakdown of the volume for the cohorts of products at different weights [✂ [redacted] ✂].

Figure 16 [✂ Redacted ✂]

[redacted]

3.6 Price changes (2016 – 2022[20])

70. The following table below shows the trend in prices for the standard 1kg, 2kg and 5kg standard parcels under assessment from the period 2016 – 2022 for all zones / segments. As noted earlier, the USP made a number of significant changes to prices from 1 March 2022 on foot of the cross border parcel assessment 2021.

Figure 17

	1Kg Standard Parcel				2Kg Standard Parcel				5Kg Standard Parcel			
Year - Price Guide	Zone 1	Zone 2	Zone 3	Zone 4	Zone 1	Zone 2	Zone 3	Zone 4	Zone 1	Zone 2	Zone 3	Zone 4
Jul-16	€7.05	€20.60	€25.60	€25.60	€8.30	€28.10	€32.60	€32.60	€14.60	€42.60	€60.60	€60.60
Apr-17	€8.00	€22.50	€28.00	€28.00	€9.00	€31.00	€35.50	€35.50	€15.50	€46.50	€67.00	€67.00
Apr-18	€9.00	€22.50	€28.00	€28.00	€9.00	€31.00	€35.50	€35.50	€15.50	€46.50	€67.00	€67.00
Feb-19	€9.00	€22.00	€28.00	€29.00	€9.00	€28.00	€35 50	€36.50	€15.00	€45.50	€67.00	€68.00
Nov-19	€9.00	€21.00	€28.00	€29.00	€9.00	€21.00	€35 50	€36.50	€11.00	€23.00	€67.00	€68.00
May-21	€9.00	€21.00	€28.00	€39.50	€9.00	€21.00	€35 50	€46.50	€11.00	€23.00	€67.00	€67.50
Mar-22	€9.00	€21.00	€30.00	€40.00	€9.00	€21.00	€30.00	€48.00	€11.00	€23.00	€45.00	€72.00

71. As shown in figure 18, the 1kg, 2kg and 5kg standard parcels saw price changes, with a €2 increase for a 1kg parcel, but then a €5.50 and €22.00 price decrease for the 2kg and 5kg parcel, hence these tariffs were not assessed for 2022 as they fell outside the top quartile of most expensive tariffs.

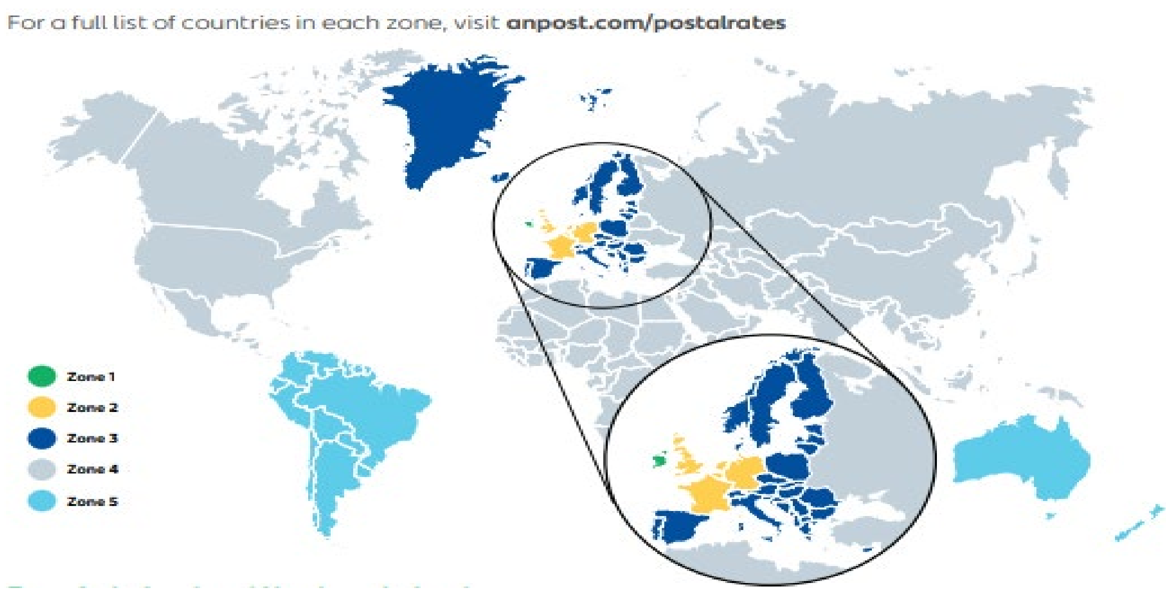
Figure 18

	1Kg Standard Parcel				2Kg Standard Parcel				5Kg Standard Parcel			
Year - Price Guide	Zone 1	Zone 2	Zone 3	Zone 4	Zone 1	Zone 2	Zone 3	Zone 4	Zone 1	Zone 2	Zone 3	Zone 4
Jul-16												
Apr-17	€0.95	€1.90	€2.40	€2.40	€0.70	€2.90	€2.90	€2.90	€0.90	€3.90	€6.40	€6.40
Apr-18	€1.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00
Feb-19	€0.00	-€0.50	€0.00	€1.00	€0.00	-€3.00	€0.00	€1.00	-€0.50	-€1.00	€0.00	€1.00
Nov-19	€0.00	-€1.00	€0.00	€0.00	€0.00	-€7.00	€0.00	€0.00	-€4.00	-€22.50	€0.00	€0.00
May-21	€0.00	€0.00	€0.00	€10.50	€0.00	€0.00	€0.00	€10.00	€0.00	€0.00	€0.00	-€0.50
Mar-22	€0.00	€0.00	€2.00	€0.50	€0.00	€0.00	-€5.50	€1.50	€0.00	€0.00	-€22.00	€4.50

72. As shown in figure 19, the price change also accompanies a change in zones, with a number of destinations originally being place in Zone 3 now being repositioned elsewhere e.g., Germany and other destinations moved to Zone 2. This has led to significant price changes for certain destinations.

[20] New rate brought in by USP on 1 March 2022

Figure 19


For a full list of countries in each zone, visit anpost.com/postalrates
Zone 1
Zone 2
Zone 3
Zone 4
Zone 5

4: Assessment

73. ComReg objectively considers that the 1 kg standard parcel tariff of the USP as necessary to objectively assess, in accordance with the principles in Article 12 of Directive 97/67/EC, in order to identify whether that single-piece parcel tariff should be considered unreasonably high in ComReg's assessment for 2022.

74. In objectively assessing this identified tariff, ComReg took into account the following:

    a. The relevant provisions of the Regulation (in particular, the elements specified in Article 6(2));

    b. The 'Communication from the Commission on guidelines to national regulatory authorities on the transparency and assessment of cross-border parcel tariffs pursuant to Regulation (EU) 2018/644 and Commission Implementing Regulation (EU) 2018/1263' (COM (2018) 338 final); and

    c. The relevant provisions of Directive 97/67/EC (in particular, the principles in Article 12 thereof).

75. ComReg relied upon the following key information as part of its assessment:

    a. The USP's audited Regulatory Accounts[21] for 2021;
    b. Information and data provided by the USP in correspondence in 2022; and
    c. The price changes made by the USP effective from 1 March 2022, largely price reductions.

76. In addition to the above, further information was taken into consideration which is outlined in section "3.1 Assessment Process and Analysis".

[21] Which An Post, as universal postal service provider, is required to provide to ComReg pursuant to a direction issued by ComReg pursuant to section 31 of the Communications Regulation (Postal Services) Act 2011.

4.1 a 1 kg (domestic and intra Union) Standard Parcel

77. ComReg objectively considers that the identified tariff is necessary to objectively assess, in accordance with the principles in Article 12 of Directive 97/67/EC, in order to identify if the tariff is considered to be unreasonably high.

78. The following objective assessment is made of the "1kg (domestic and intra Union) standard parcel":

1) The tariff in question has been flagged given it had a price of €28.00 as at 1 January 2022, however this tariff has subsequently been increased on 1 March 2022 to €30.00 which has been part of a significant change in Zone 3 pricing. The main 'Zone 2' EU destinations which account for more than 50% of parcels sold at PO Counter however had a significant reduction to €21.

2) A margin assessment has not been carried out for 2022 as explained above. However, ComReg notes that the margin determined last year on this product was modest at [✂[redacted] ✂].

a. Assessment under Article 6(2)(a) "the domestic and any other relevant tariffs of the comparable parcel delivery services in the originating Member State and in the destination Member State" –

i. **USP cross-border tariff versus MS USPs cross-border tariffs to Ireland** - When comparing the USP 1kg standard parcel tariff outbound to each destination Member State to the corresponding USP tariffs in each destination Member State to Ireland, the 1kg standard parcel would be noted as the 4th most expensive amongst other USPs in Europe but this increases to the second most expensive after the price increase of 1 March 2022. However, consideration needs to be made that the average price is skewed compared to previous years given three USPs from other MSs no longer report tariffs under this category. Also, Ireland is an Island and not connected to mainland Europe, hence additional transport costs may apply.

ii. **USP tariff versus Domestic competitor outbound tariffs** - When comparing the USP 1kg standard outbound parcel tariff to the similar 1kg products of PDSPs based in Ireland, this showed that the USP has the second least expensive tariff out of four operators of which non USO PDSPs are DPD, Fastway, GLS, UPS. However, it is challenging to compare the USP to other PDSPs as the parcel service may be different, for example other PDSPs may provide different services like guaranteed delivery times. The other PDSPs services would also include VAT at sale while the USP is VAT exempt for universal postal service parcels. It should be noted also that the pricing structures are different for these domestic PDSPs, and some do not deliver to the most expensive locations in EU.In addition, these other providers are not subject to the same universal service obligation as An Post: to provide service for all users and on a nationwide basis .

iii. **Comparison of ratio for domestic to cross-border tariff versus other USPs in Europe** –the highest USP cross-border tariff for the 1kg parcel is 3.1 times greater than domestic rate, which is increased to 3.3 following the price change in March 2022. However, this is still under the average benchmark calculated for other USPs.

b. Assessment under Article 6(2)(b) *"any application of a uniform tariff to two or more Member States"* –

i. USP has zonal pricing which for Zone 3 (Mainland Europe and other destinations) had zonal pricing for 46 destinations, but this has been revised in 2022 with less destinations now being included in the Zone and subsequently a different pricing structure for Zone 3. This still means though that the cost to the most expensive country is absorbed in the price band for all Zone 3 countries and that prices for that zone are set so that each destination covers its own cost.

c. Assessment under Article 6(2)(c) *"bilateral volumes, specific transportation or handling costs, other relevant costs and service quality standards"* –

i. Bilateral Volumes – USP noted again that for the products under assessment this year, the volumes only represent a very small % of outbound USO parcel volumes. ComReg reviewed the counter information data on outbound standard parcels which we understood represented c. [✂ [redacted] ✂] of outbound parcel traffic and also reviewed the cost model data for the Regulatory. It was noted that outbound parcel volumes rose, but this also led to an increase in cost per unit for parcels based on increases in external transport costs.

ii. **Specific transportation or handling costs, other relevant costs and service quality standards** – Service expenditure went up by 41% in 2021, €3M due to external cost factors, mainly freight.

iii. likely impact of the applicable cross-border tariffs on individual and small and medium-sized enterprise users including those situated in remote or sparsely populated areas, and on individual users with disabilities or with reduced mobility, where possible without imposing a disproportionate burden – Analysis shows that the 1kg parcel was the 4th most expensive parcel when compared to other USPs tariffs as at 1 January, yet this increased to 2nd most expensive after the price change in March 2022. Observing other analysis, it can be seen that the price is still the second least expensive option for customers amongst PDSPs, and also the ratio analysis confirms that the cross border price to domestic price is below the European benchmark calculated. Also, it was noted that the product had a modest margin of [✂ [redacted] ✂] from last year's margin analysis. ComReg though will continue to monitor this price so as to ensure it is not disproportionally burdensome to those most vulnerable in society.

d. **Price Regulation** - The tariff is subject to a specific price regulation under national legislation i.e., section 28 of the Communications Regulation (Postal Services) Act 2011 (which transposes Article 12 of Postal Services Directive) which amongst other things stipulates that tariffs for a postal service provided by An Post as universal postal service provider must be affordable, cost-orientated, transparent and non-discriminatory. ComReg conducts monitoring of An Post's compliance with section 28, in particular using the audited Regulatory Accounts to inform assessment of cost orientation. In objectively assessing whether the tariff is unreasonably high, ComReg has considered the revenue and cost information from the audited Regulatory Accounts as well as operational data, and also the price change that took place on 1 March 2022.

3) It is ComReg's objective assessment, in accordance with the principles in Article 12 of Directive 97/67/EC, that the outbound tariff for the identified "1kg (domestic and intra Union) standard parcel" which cost €28.00 on 1 January

2022, and has now been increased to €30.00 from 1 March 2022, is not unreasonably high as it ranks favourably on price with other Irish operators, it's ratio of domestic to cross border rate is below the benchmark of ratios amongst other USPs, and it has a modest margin of [✂ [redacted] ✂] from last year. This tariff will be kept under review though for next year's assessment.

5: Legal Basis

79. ComReg is required to identify the cross-border single-piece parcel tariffs of the parcel delivery service provider that originates in Ireland and that are subject to a universal service obligation that it objectively considers necessary to assess. ComReg is then required to objectively assess, in accordance with the principles in Article 12 of Directive 97/67/EC, those tariffs identified in order to identify those tariffs that it considers to be “unreasonably high”. These obligations are imposed by Article 6 of Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services.

Appendix 1: Correspondence

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Commission for Communications Regulation
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13 May 2022

Re: Regulation (EU) 2018/644 of the European Parliament and of the Council on cross-border parcel delivery services ("the Regulation")

Dear Lorcan,

Further to the request at section 2b. A) of your letter dated 14 April 2022, please see outbound volume split enclosed at Annex A.

Terminal dues and freight fees information for the "operational data" requested at section 2b. B) of the correspondence is included in Annex B. Relevant information will be provided from the An Post Regulatory Accounts for 2021 once they are finalised.

Information that demonstrates how the below tariffs *"meet the obligation to uphold the principles contained in Article 12 of Directive 97/67/EC i.e., tariffs must be cost-orientated, affordable, transparent and non-discriminatory"* as requested at section 2b. C) is provided in Annex C.

1. a 1 kg (domestic and intra Union) standard parcel,
2. a 2 kg (domestic and intra Union) standard parcel,
3. a 5 kg (domestic and intra Union) standard parcel.

As ComReg is aware, in response to the 2021 Assessment, An Post substantially reduced most of these tariffs as part of the price changes introduced on 1 March 2022. This also involved the movement of five key lower cost EU destinations, which constitutes approximately half of relevant intra-EU traffic, to the lower rate Zone 2 tariff. These changes are outlined in Fig 1. below:

an post

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Fig 1: Revised 2022 Tariffs for Products Under Review

1kg Standard Parcel	*Germany, France, Belgium, Luxembourg, Netherlands*	*Other EU Countries*	*EU Average (Weighted)*
Former Tariff	€28	€28	€28
Revised Tariff	€21	€30	€25.50

2kg Standard Parcel	*Germany, France, Belgium, Luxembourg, Netherlands*	*Other EU Countries*	*EU Average (Weighted)*
Former Tariff	€35.50	€35.50	€35.50
Revised Tariff	€21	€30	€25.87

5kg Standard Parcel	*Germany, France, Belgium, Luxembourg, Netherlands*	*Other EU Countries*	*EU Average (Weighted)*
Former Tariff	€67	€67	€67
Revised Tariff	€23.00	€45.00	€35.35

An Post put forward explanations for the revised tariffs in the pricing changes correspondence provided in December 2021.

In order to minimise costs, it was decided to introduce these changes as part of the main price change on 1 March 2022. Therefore, while the assessment is of tariffs as at 1 January 2022, the relevant tariffs have changed as of March 2022.

Although a worthwhile exercise, the margin analysis process with [redacted] in 2021 involved substantial expense and was very time consuming. An Post believes that repeating this process in 2022 for out of date tariffs as requested in Section 2b. B) of the received correspondence would be disproportionate and unreasonably burdensome for the Company.

As detailed further below, An Post has carried out analysis which indicates that if the exercise were carried out now, as a result of the recent changes to its tariffs, An Post would no longer be ranked in the top quartile. An Post further therefore submits that further steps taken by ComReg in this matter must be proportionate and the least burdensome possible.

The services under review represent a very small proportion of USO traffic. Intra EU parcels at the weight breaks under review constituted only [redacted] of parcels sold over PO Counter in 2021. As a result, An Post would argue that the impact on the relevant market and stakeholders concerned does not justify extensive regulatory intervention at this time.

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[redacted]

As referred to above, An Post has performed analysis of the revised tariffs (provided as Annex D to this letter) that illustrates that none of the revised tariffs would have been in the top quartile among EU posts in 2022. The results of this analysis is outlined below:

Fig 3: PPP Adjusted Rankings for Revised An Post 2022 Tariffs

	Zone 2 Tariff	*Zone 3 Tariff*	*Weighted Average*
1kg Standard Parcel	10/13	5/13	6/13
2kg Standard Parcel	11/13	7/13	9/13
5kg Standard Parcel	11/11	4/11	7/11

This analysis ranks the reported tariffs by USPs from the European Commission website for 2022 for each product under review, adjusted by PPP.

Accordingly, An Post does not intend to carry out the margin analysis procedure with [redacted] in 2022. An Post believes that the detailed information provided in this letter and from the finalised Regulatory Accounts, should be sufficient for performance of the assessment.

The information required in Section 3 of your letter 'Information required pursuant to Article 4 of Regulation 2018/644' will be provided in advance of the deadline of 30 June 2022.

Meeting the tariff requirements is a balancing act between its different aspects. These prices are assessed and reviewed regularly.

Yours sincerely,

Dr. Tanya Harrington
Chief Regulatory Affairs Officer

Cost Orientation

An Post's overall USO Outbound mail business operated at below what we consider to be an acceptable margin in 2019 (+5%). Primarily due to increased freight costs due to COVID, the performance of the Outbound mail business deteriorated to an overall (-13%) loss in 2020. These increased freight costs have not subsided in 2022.

The USO Outbound parcel business suffered a similar reversal in fortune from an overall (13%) profit margin in 2019 to a (-1%) loss in 2020.

Overall, the USO went from overall profitability of (2.15%) in 2019 to a loss of (-2.2%) in 2020.

In setting prices, An Post must consider the sustainability of the USO overall and the sustainability of the outbound USO mails business. An Post does not consider that it is realistic that the profit margin for every weight band for every format, feature and destination can be set at the same level. We do not accept that a maximum margin for every weight, format and feature can be imposed. We currently make over -€8m loss on Outbound USO and -€8m on the USO overall. Some elements of the business make higher margins than average, but if these were capped the USO losses and overall losses would increase substantially. This would be highly detrimental to the sustainability of the USO.

An Post notes that the 2014 Frontier Economics report 'An Post Price Control' recognises that An Post is permitted to have a buffer for future shocks when setting its pricing. An Post thus has the discretion to consider what level of buffer, without being required to set this buffer at a level that guarantees margin equivalency across all services. As outbound parcels are driven largely by a complex interaction of costs beyond An Post's direct control, a relatively high buffer is appropriate here. This requirement for a substantial buffer was clearly shown in 2020/21 which was a time of high volatility and a general sharp upward trend in freight costs. This included very significant increases to many Zone 3 destinations. This has not subsided in 2022. Transport costs account for a high proportion of the overall cost of an outbound parcel. Freight costs remain unpredictable and out of An Post's direct control.

Ireland is an island nation on the periphery of the EU with no land border with any other EU state, and as such has higher costs for intra-EU parcels than most other EU countries. Most of our to-EU member states services are airfreighted and are directly affected by flight capacity constraints. Therefore, An Post faces an unusually demanding set of circumstances compared to most other European postal operators.

Ireland is the second highest cost country in the EU[1]- and inflation is rising, reaching 7% annualised to April 2022[2], a 22 year high- with increasing Transport costs recognised as one of the main contributing factors. An Post must of course be future orientated with respect to price setting.

The above notwithstanding, An Post reduced rates on many intra-EU parcel services in 2022, reflecting the results of the margin analysis undertaken as part of the 2021 Cross Border Parcel review. In addition, the EU was split into two zones to better align tariffs with costs.

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[1] https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20210622-1

[2] https://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexapril2022/

An Post notes that the achievement of an acceptable (Approx. 10%) profit margin on Outbound USO parcels in 2020 would imply the need for an approximately 11% overall price increase on these services.

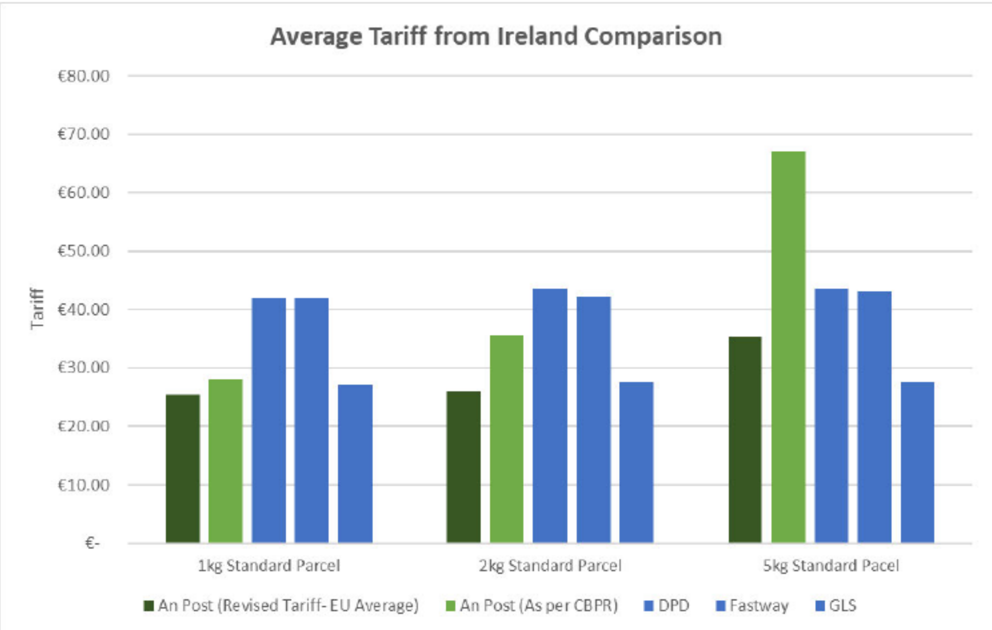
Affordability

The CBPR collected data for the domestic operators in each country under review. Four operators were profiled in Ireland, including An Post. Annex E shows this information and calculates an average price to all destinations profiled. In two out of three products under review, An Post is the second lowest average price profiled (Fig 3a, concerns tariffs in place on 1st Jan 22). Also, An Post's flat rate throughout the EU means that our tariffs remain affordable for all EU destinations (Fig 3b). Overall, the Standard Parcel service to the EU offered by An Post is highly competitive and affordable.

An Post's revised tariffs, introduced in March 2022, means that our service is even more affordable at all weights and compares extremely favourably to our competitors. We are now the lowest price operator for 2 out of the 3 products under review, and second lowest for the remaining product. Although our service now has two zonal rates to the EU, this still remains a much simpler tariff structure than our competitors.

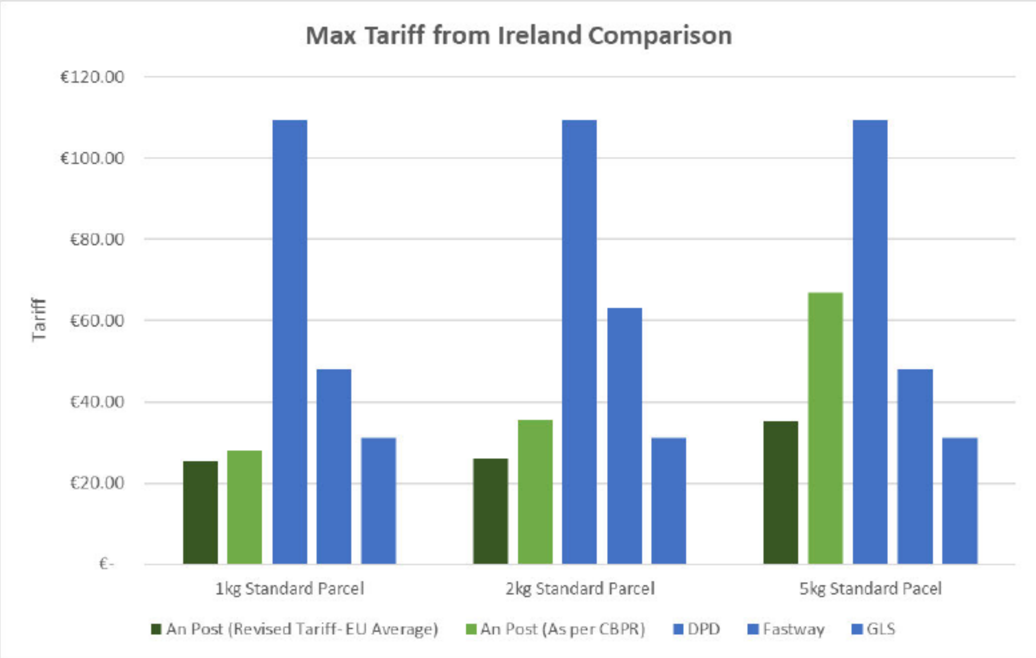
An Post notes that in reality, competition within the Irish Outbound parcel market to the EU is much fiercer than indicated by the CBPR data with many more competitors and resellers of which An Post is the only one subject to this level of regulatory oversight. An Post sold [redacted] standard parcels at PO Counter to Zone 3 in 2021 which is indicative of the competitive strength and affordability of our consumer offering.

Fig 3a- Average CBPR Tariff in Irish Market, to-EU



It should be further noted that 'postal services' account for barely one tenth of one percent of household expenditure in Ireland[3].

Fig 3b- Max CBPR Tariff in Irish Market, to-EU



Transparency

In the interest of transparency, An Post had for a long period offered a single price to Europe (exc. UK). This meant that a broad variety of costs had to be considered to different destinations. In setting prices, An Post must consider the risk of a shift in the weight or destination profile of the traffic received.

As illustrated in Fig 3B above, An Post's more transparent rate structure stands in contrast to our competitors who do not tend to offer multiple and sometimes very expensive rates to EU destinations, and may not offer easily accessible services to many European destinations[4].

Although the price changes in 2022 introduced two zones to the EU, in order to better reflect our costs and offer better value to our customers, the tariff structure remains very transparent when compared to our competitors.

In order to prevent arbitrage, it remains essential that An Post's published rates for a zone cover the cost to each country serviced within that zone. With the rise of parcel resellers and comparison sites, arbitrage is now a very real risk for An Post and must be effectively managed.

An Post recognises a clear disparity between costs to different destinations, particularly between core EU countries and periphery & non-EU states. Previously, An Post has attempted to maximise transparency and minimise complexity for the customer by avoiding either multiple zones within Europe or by-country pricing. The zonal changes in 2022 are an acknowledgment that a move to

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[3] https://www.cso.ie/en/media/csoie/methods/consumerpriceindex/CPIUpdatedSeries_Dec2011.pdf

[4] GLS, the lowest price operator profiled in CBPR, does not offer services to Cyprus, Greece, Iceland, Liechenstein, Malta or Norway- all among the most expensive countries to service.

a slightly less transparent but more cost reflective pricing system was necessary, to lessen the threat of arbitrage and provide better value for customers.

An Post offers an extremely transparent pricing structure to customers, as unlike many of our competitors we do not levy fuel surcharges on USO items or other hidden fees.

Non-Discriminatory

USO Standard Parcel rates and services are available to the general public on a single piece tariff basis through the largest retail network in Ireland or our online Click and Post service. The service is non-discriminatory.

The above has demonstrated how our parcel service to the EU meets the tariff requirements.

An Post notes that meeting the tariff requirements is often a balancing act between its different aspects. These prices are kept under constant review.