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 at 1 January 2021

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Section

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 2021, the USP made changes to those tariffs it declared under each product category under the regulation for the 2021 assessment. No "Trace & Trace" products have been declared by the USP for the 2021 assessment. The USP's reasoning for this was that the information is already captured under registered products, in particular the 1 Kg T&T Packet (1Kg registered packet).

5. In April 2021, the European Commission published the public lists of relevant tariffs for single-piece cross-border parcel delivery services applicable on 1 January 2021 and obtained in accordance with Article 5 of the Regulation. On 15

[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

April 2021 the European Commission flagged 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 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

6. ComReg considered that it was necessary for it to objectively assess these three tariffs given the pre-assessment by the European Commission found that these three tariffs are in or near the top quartile of purchasing power parity adjusted tariffs. Consequently, ComReg objectively considered that these three tariffs are 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.

7. In assessing whether any of the identified tariffs are 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. In 2021, following discussion and agreement between the USP and ComReg, a new methodology[5] is used for certain cost data to determine the profit margins of the identified tariffs. As this certain cost data replaces audited cost data from the Regulatory Accounts, the cost data by this new methodology is subject to an "agreed upon procedures" by an independent auditor. The margins submitted by the USP were as follows:

[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.

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

[5] The new methodology uses more granular destination dependent costs where internal USP data is available i.e., transport and delivery (terminal dues) pipeline costs. Further to this, the remaining main pipelines of costs still use the audited Regulatory Accounts, with the only further adjustment being the use of internal data to provide more accurate data for the Revenue Collection pipeline and scale payment charges (i.e., charges for post office processing of parcels).

Identified Tariff for objective assessment	Margin 2021
1Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]
2Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]
5Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]

8. Having objectively assessed, in accordance with the principles in Article 12 of Directive 97/67/EC, the cross-border tariffs 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 the 2Kg and 5Kg standard parcels are considered to be unreasonably high. This is because, in summary, due to the prices for both products being amongst the most expensive of EU USPs when analysed using different ranking mechanisms. Also, explanations of high external transportation costs are not evidenced in Zone 3 data provided by the USP, [✂ [redacted] ✂]. Finally, the margins of [✂ [redacted] ✂] for a 5 Kg standard parcel and [✂ [redacted] ✂] for a 2 Kg standard parcel are considered significantly high.

9. In summary, ComReg's objective assessment of the identified single-piece cross-border parcel delivery tariffs that it considers to be unreasonably high is as follows:

Figure 1

Identified Tariff Products	Tariff Zone 3[6] - 2019	2019 - Identified Tariffs	Tariff Zone 3 - 2020	2020 - Identified Tariffs	Price Change 2019/20	2021 - Identified Tariffs	Price Change 2020/21	ComReg's objective assessment
a 1 kg (domestic and intra Union) standard parcel	28.00	Yes	28.00	Yes	0.00	Yes	0.00	Not considered unreasonably high
a 2 kg (domestic and intra Union) standard parcel	35.50	Yes	35.50	Yes	0.00	Yes	0.00	Considered unreasonably high
a 5 kg (domestic and intra Union) standard parcel	67.00	Yes	67.00	Yes	0.00	Yes	0.00	Considered unreasonably high

[6] The USP's Zone 3 is a uniform tariff for sending to Europe, including European countries that are not Member States (figure 2)

2: Information Gathering

10. In April 2021 the European Commission published the public lists of relevant tariffs for cross-border parcel delivery services applicable on 1 January 2021 and obtained in accordance with Article 5 of the Regulation. On 15 April 2021 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[7].

Figure 2

Identified Tariff Products	Tariff Zone 3[8] - 01/01/2019	2019 - Identified Tariffs	Tariff Zone 3 – 01/01/2020	2020 - Identified Tariffs	Tariff Zone 3 – 01/01/2021	2021 - Identified Tariffs
a 1 kg (domestic and intra Union) standard parcel	28.00	Yes	28.00	Yes	28.00	Yes
a 2 kg (domestic and intra Union) standard parcel	35.50	Yes	35.50	Yes	35.50	Yes
a 5 kg (domestic and intra Union) standard parcel	67.00	Yes	67.00	Yes	67.00	Yes

11. ComReg considers that it is necessary for it to objectively assess these three tariffs given that the output of the pre-assessment by the European Commission is that these three tariffs are in the top quartile of purchasing power parity adjusted tariffs and were similarly flagged in previous years as well. Consequently, ComReg objectively considers that these three tariffs are necessary to objectively assess, in accordance with the Regulation and principles in Article 12 of Directive

[7] 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)
[8] The USP's Zone 3 is a uniform tariff for sending to Europe, including European countries that are not Member States

97/67/EC, in order to identify those cross-border single-piece parcel tariffs that ComReg considers to be unreasonably high.

12. 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 2021. 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.

13. ComReg wrote to the USP initially on 15 April 2021 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 dependent on the finalisation and sign-off of the 2020 Regulatory Accounts[9] by an independent Auditor. This year, following discussion and agreement between the USP and ComReg, a new methodology for certain cost data was used; as this certain cost data replaced costs from the audited Regulatory Accounts ComReg's assessment was dependent on the sign off on "agreed upon procedures" for that cost data by an independent Auditor.

14. The margins submitted by the USP were as follows:

Identified Tariff for objective assessment	Margin 2021
1Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]
2Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]
5Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]

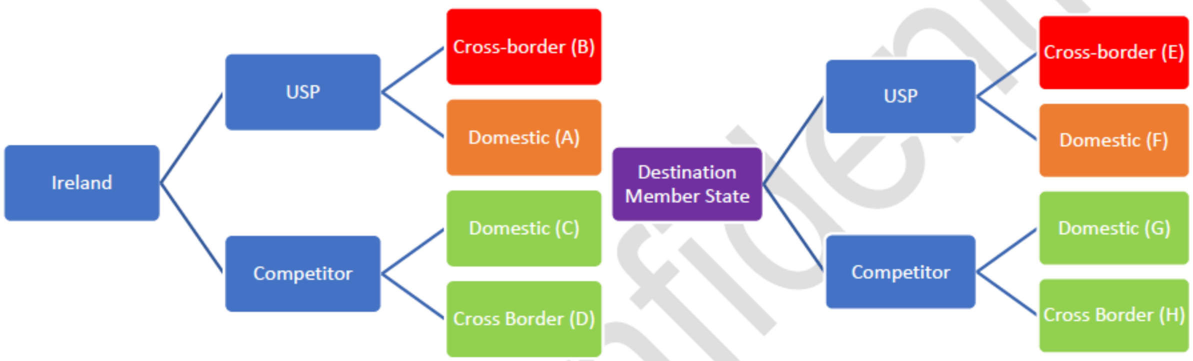
15. ComReg also gathered other information from the USP, such as cost information and volumes information from the USP's internal systems so as to analyse the requirements under Article 6. Analysis of this information and data is detailed in Chapters 3 and 4.

[9] 2019 Regulatory Accounts – Published on 25 June 2020 – see Summary version at https://www.anpost.com/AnPost/media/PDFs/Regulatory%20Reports/Regulatory-Reports-2019.pdf. P&L information for International Outbound Parcels and International Outbound Registered products.

3: Assessment Process and Analysis

16. For 2021, 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



17. 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[10]:

    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 three tariffs of the Irish USP, 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,

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

[10] 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 rates of USP compared to Origin based competitors in Ireland to Destinations i.e. Zone 3, Mainland Europe (B to D, as per Figure 3 above).

19. 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.

20. In addition to the above analysis, consideration was given to prior year figures submitted and collected under the first and second year 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 and 2020;

- 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;

- and as mentioned above, following discussion and agreement between the USP and ComReg, the introduction of a new methodology for certain cost data and consequently determining profit margins for those tariffs that have been flagged as potentially unreasonably high using the European Commission pre-filtering mechanism.

22. All these factors are separately assessed and supported by commentary and supporting data from the USP. Where information was sufficiently provided from prior years, and no changes have occurred, ComReg has relied on previous correspondence and data from the USP when certain factors need to be further considered e.g., freight costs and terminal dues.

23. In 2021, 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. However, as noted earlier in this report, there are still many alternative pricing mechanisms PDSPs use whether by weight breaks, dimension criteria of packets / parcels, alternative volumetric measurements or even a combination of both, as well as other add on services, so therefore it is not possible to align or match products for comparison purposes directly, more that they are placed in a similar cohort for reasonable comparison under this study for reasonable pricing.

24. Furthermore, there may be products under the Regulation that are seen by some Member States universal service providers as being a Non-USO service and are a value-added service, and therefore will not provide data on these products for this study as a comparison. Similarly, there may be instances where there is replication of certain tariffs under certain product categories which will lead to different rankings for this same product based on the category it was elected to be put under by the USP. For example, we saw that the USP in Ireland removed registered product tariffs under the T&T category.

25. Taking the above into consideration, ComReg remains of the view for the 2021 assessment that the PPP adjusted tariffs for each product does give a strong indicative position of whether cross-border parcel tariffs could be perceived as being unreasonably high or not.

26. For 2021, the European Commission flagged the top 25% highest tariffs for the Irish USP and three tariffs were identified. ComReg objectively considers 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 and on

that basis has proceeded with the assessment by carrying out a further comparison study which is guided by the principles of the guidelines document provided by the European Commission and by requesting information from the USP to assess costs and other factors that might justify certain tariffs.

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

27. In April 2021, the European Commission published its findings of the top 25% tariffs for 15 products categories. Of these 15 Products, three zonal tariffs [11] for three products of the Irish USP in 2021 were identified as being in the top quartile for listed tariffs amongst USPs. This compared to seven tariffs for seven products in 2020, and eleven tariffs (zone 2 & 3) for seven products identified in 2019. Of the three products identified by ComReg for assessment in 2021, prior year comparisons of tariff changes and then rankings versus other universal service providers have been provided. The ranking process will be outlined and explained in the analysis in the next section for each product identified.

28. Figure 4 outlines the rankings of these products since first assessment. The 2021 rankings have been confirmed for 2021 by the USP, with the only exception being the 1Kg parcel being considered 4th / 16th and the 2Kg parcel ranked second out of 16 other members states versus 15 according to ComReg. ComReg has reviewed these differences and sees no issue with its ranking below.

[11] Tariffs as at 1 January 2021 – Adjusted by PPP for tariffs for 15 Products applicable under the Regulation

Figure 4

Identified Tariff Products	Tariff Zone 3 - 2019	Tariff Zone 3 - 2020	Tariff Zone 3 - 2021	Rank 2019	Rank 2020	Rank 2021
a 1 kg (domestic and intra Union) standard parcel	28.00	28.00	28.00	4th / 16 USP PDSPs	2nd / 16 USP PDSPs	3rd / 15 PDSPs (shared*)
a 2 kg (domestic and intra Union) standard parcel	35.50	35.50	35.50	2nd 16 USP PDSPs	2nd / 16 USP PDSPs	2nd / 15 USP PDSPs (shared*)
a 5 kg (domestic and intra Union) standard parcel	67.00	67.00	67.00	1st / 16 USP PDSPs	1st / 16 USP PDSPs	1st / 15 USP PDSPs

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

29. 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.

30. As outlined by the European Commission guidance document[12], "*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.

31. As can be seen from Figure 4 above, of the products that were identified by ComReg:

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

a. The tariffs identified are amongst the most expensive tariffs based on ComReg's analysis for 2021, and were also considered in the top 25% most expensive tariffs for each product in 2020 and 2019 also;

b. Of the tariffs identified, ComReg can further determine that these products tariffs are in the top 3 most expensive tariffs to and from Ireland when compared to other USPs in each of the respecting categories (note: 1kg and 2kg parcels have shared rankings with another USP in their comparison categories). In particular, the 5kg Standard parcel is the most expensive product service to and from Ireland amongst European USPs. The 2kg standard parcel services follow as the second most expensive product service (shared ranking) to and from Ireland amongst European USPs and the 1Kg standard parcel service (shared ranking) then being the third most expensive. This is based on comparison with 14 other Member States who elected to submit tariffs for comparison under these categories.

32. Therefore, the above supports the identification of these tariffs as being potentially unreasonably high for further objective assessment by ComReg. Further details per product is noted below.

3.1.1 1kg (domestic and intra Union) standard parcel

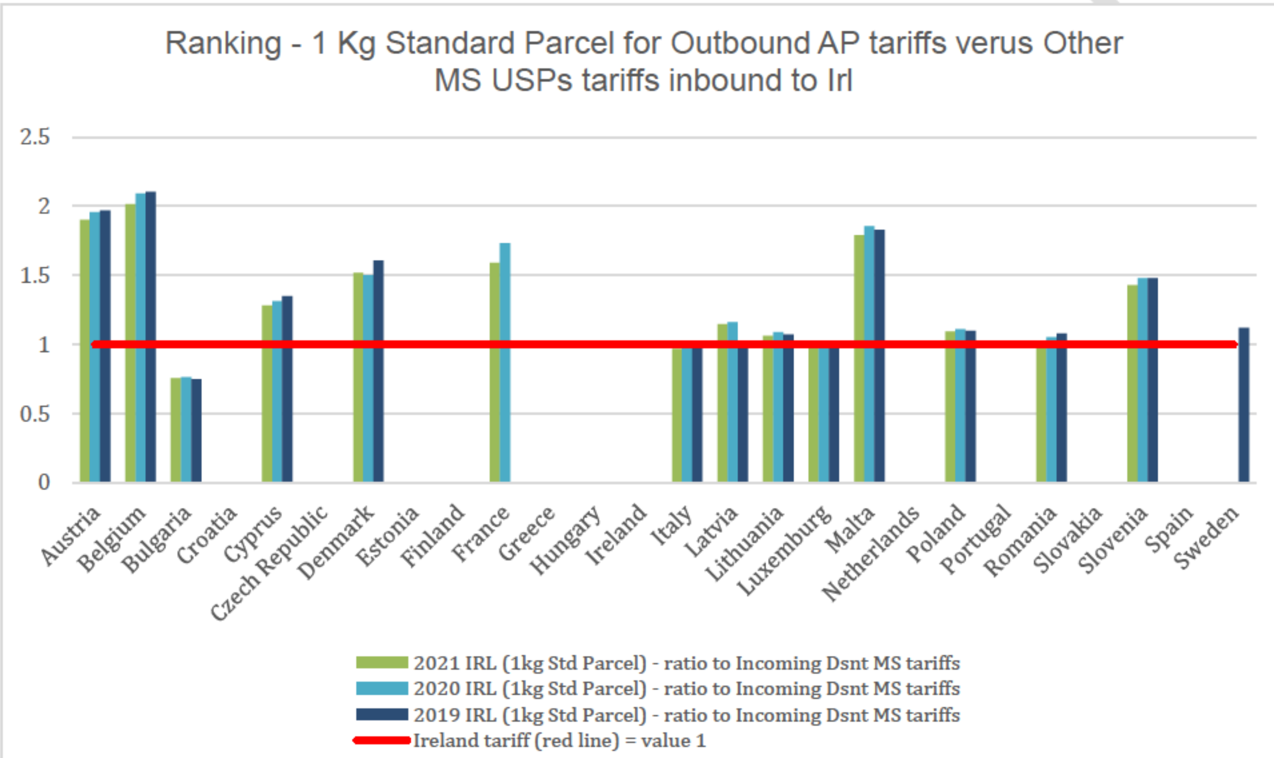
33. In Figure 5 below, the red line equals the USP rate (1:1). A ratio higher than 1 indicates that for each destination on the X axis, the outgoing rate from that destination to Ireland is less expensive than the Irish USP rate to that destination country. Furthermore, the countries which note values 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.

34. The graph below shows that only two countries, Bulgaria and Italy, has a more expensive tariff than the Irish USP tariff when comparing the universal service provider rates in each of the Member States.

35. Of the 14 Member States the average rate of these tariffs is €19.00. When compared to the Irish USP PPP adjusted rate of €23.31, this notes that the Irish USP tariff is 22.6% higher versus the average.

36. However, the USP notes[13] that the tariff being in top 25% is only based on a difference of €0.58, otherwise may not be considered for this year's assessment or as part of this ranking based on the threshold set for the EC pre-filtering mechanism.

Figure 5



3.1.2 2kg (domestic and intra Union) standard parcel

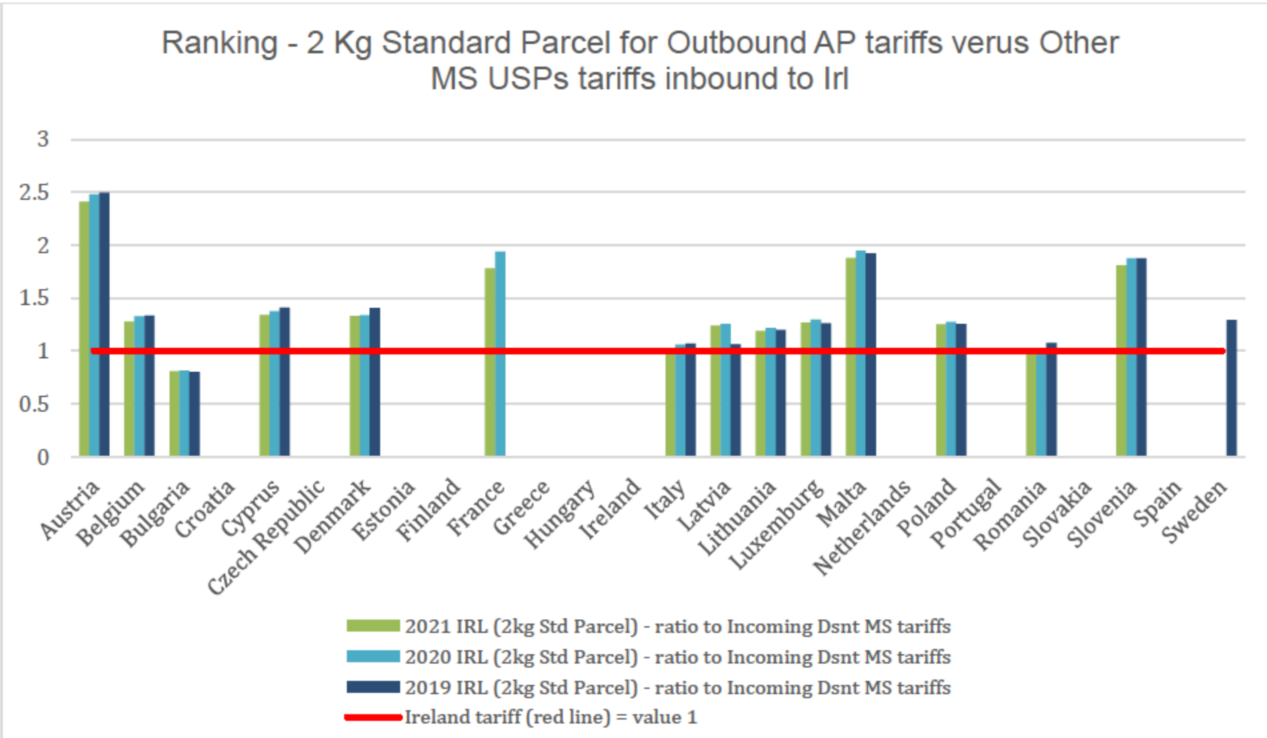
37. In Figure 6 below, the red line equals the USP rate (1:1). A ratio higher than 1 indicates that for each destination on the X axis, the outgoing rate from that destination to Ireland is less expensive than the USP rate to that destination country. Furthermore, the countries which note values below the red line, then this indicate that these rates are more expensive than the USP rate to send a product from that destination to Ireland compared from Ireland to that destination.

38. The graph below shows that only one country - Bulgaria has a more expensive than the USP rate when comparing the universal service provider rates in each of the member states.

[13] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs

39. Of the 14 Member States the average rate of these tariffs is €22.79. When compared to the USP PPP adjusted rate of €29.55, this notes that USP tariff is 29.6% higher versus the average.

Figure 6



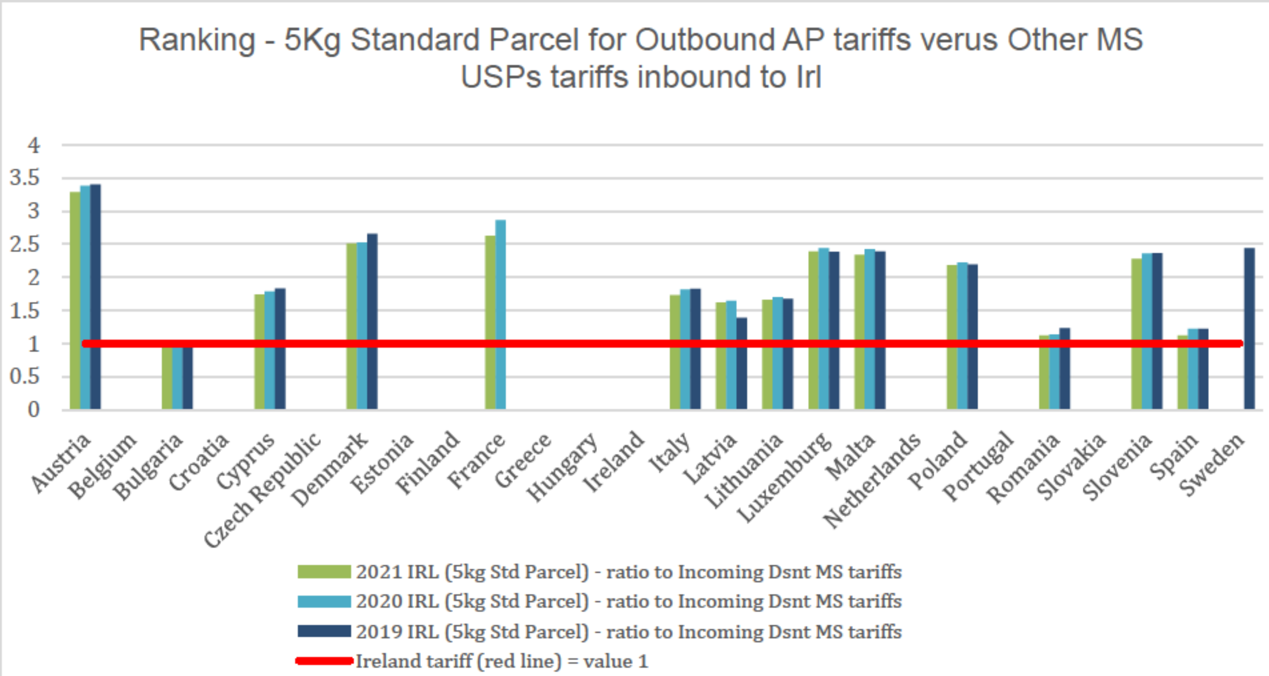
3.1.3 5kg (domestic and intra Union) standard parcel

40. In Figure 7 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 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 USP rate to send a product from that destination to Ireland compared from Ireland to that destination.

41. The graph below shows that no country has a more expensive tariff than the USP rate when comparing the universal service provider rates in each of the member states.

42. Of the remaining 14 Member States the average rate of these tariffs is €31.62. When compared to the USP PPP adjusted rate of €55.77, this notes that USP tariff is 76.3% higher versus the average.

Figure 7



3.2 Domestic PDSP Analysis – Outbound Parcels

43. 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 tariffs 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.

44. In carrying out such analysis, ComReg retrieved the following results as set out in Figure 8. Note, the only change to this year's results has been the decline in rankings for the 1 Kg & 2 Kg standard parcel. This has been due to the introduction of Fastway as a PDSP for this year's assessment. However, the USP's 5Kg standard parcel has remained the most expensive product for this year's assessment amongst other Domestic PDSPs in 2021. See summary of results below:

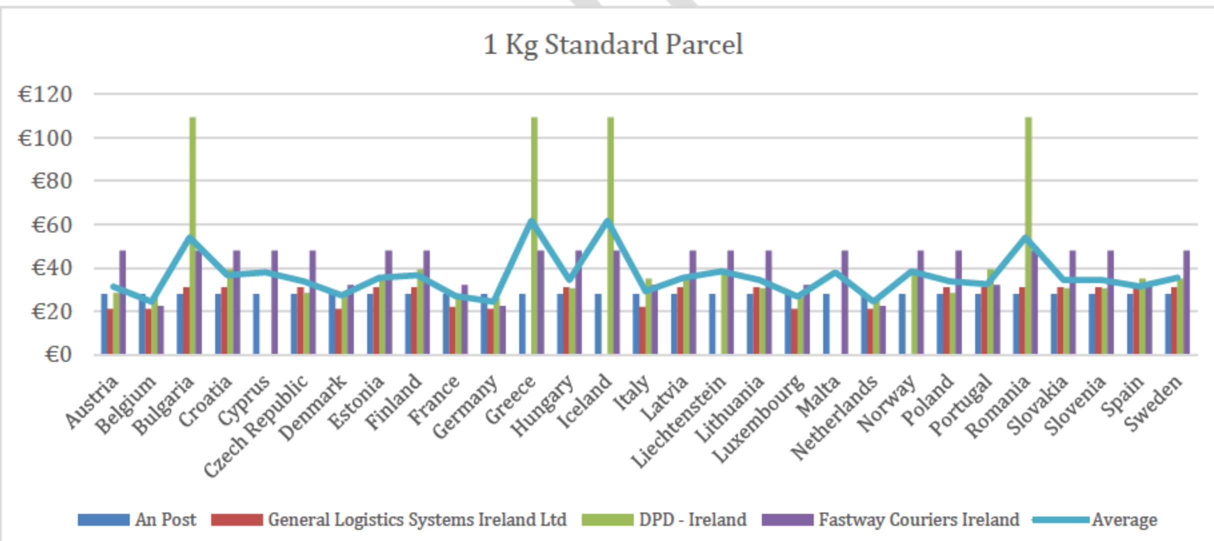
Figure 8

Identified Tariff Products	Tariff Ranking - An Post
a 1 kg (domestic and intra Union) standard parcel	3rd / 4 PDSPs
a 2 kg (domestic and intra Union) standard parcel	3rd / 4 PDSPs
a 5 kg (domestic and intra Union) standard parcel	1st / 4 PDSPs

3.2.1 1kg (domestic and intra Union) standard parcel

45. For the 1kg standard parcel, there are three other domestic PDSPs for this tariff, of which the USP is the third most expensive based on the information provided to ComReg. This ranking has improved from the previous year, but this was due to a new PDSP being added to this product category which had a higher tariff. The average of the USP tariffs is €28.00 versus GLS at €27.91, Fastway at €41.84 and DPD at €44.13. However, GLS and DPD do not deliver to all of the 30 destinations in the graph below, nor do they have the same pricing system to the USP.

Figure 9

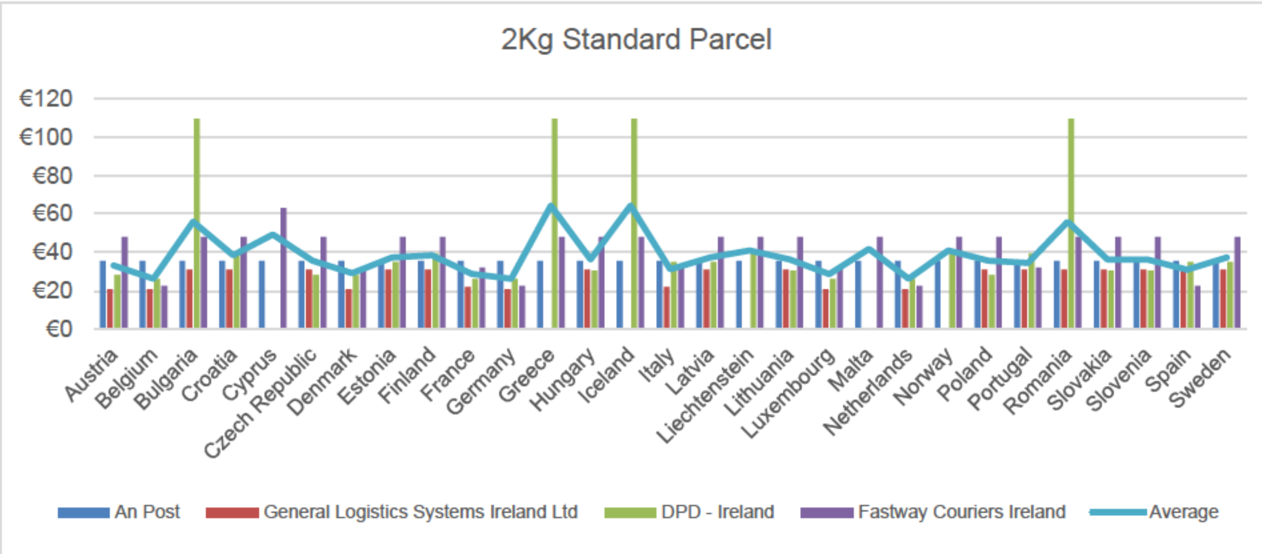


3.2.2 2kg (domestic and intra Union) standard parcel

46. For the 2kg standard parcel, there are three other domestic PDSPs for this tariff, of which the USP is the third most expensive out of four operators based on the information provided. This ranking has improved from the previous year, but this was due to a new PDSP being added to this product category which also had a higher tariff. The average of the USP tariffs is €35.50 versus GLS at €27.61,

Fastway at €42.24 and DPD at €43.55. Furthermore, GLS and DPD do not deliver to all the 30 destinations in the graph below, nor do they have the same pricing system to the USP.

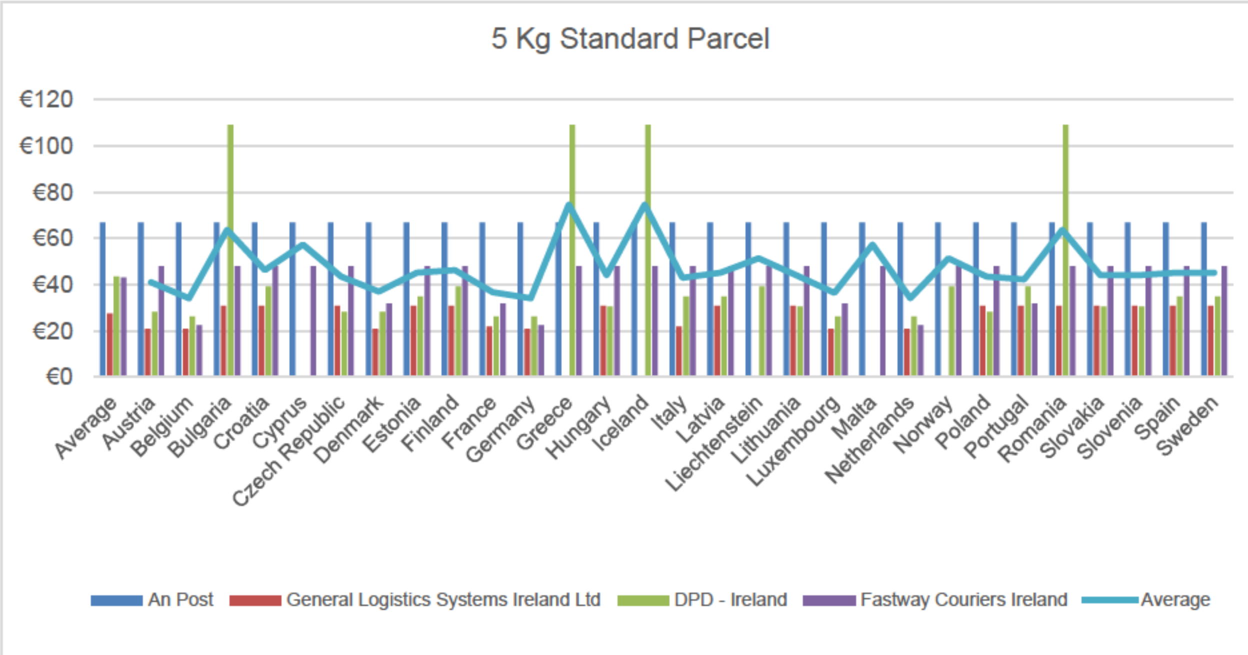
Figure 10



3.2.3 5kg (domestic and intra Union) standard parcel

47. For the 5kg standard parcel, there are three other domestic PDSPs for this tariff, but the USP is the most expensive on average based on the information provided. This ranking is unchanged compared to the previous year. The average of the USP tariffs is €67.00 versus GLS which is €27.61, Fastway at €43.16 and DPD at €43.55. Furthermore, GLS and DPD do not deliver to all the 30 destinations in the graph below, nor do they have the same pricing system to the USP.

Figure 11



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

48. Further to the guideline document from the European Commission, ComReg also compared in 2021 the cross-border tariffs 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. Once the ratio difference was determined between the domestic and cross-border tariff, the ratio was 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."

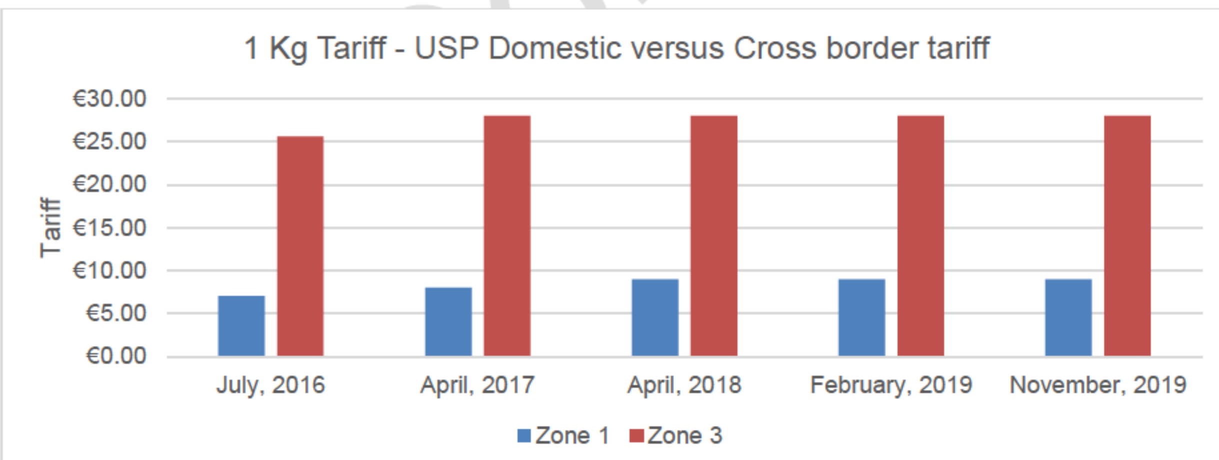
49. The summary results of this ratio assessment are below:

Identified Tariff Products	Ratio – USP ratio cross-border tariff to Domestic	Benchmark Ratio – median ratio for other MSs
a 1 kg (domestic and intra Union) standard parcel	3.1	3.53
a 2 kg (domestic and intra Union) standard parcel	3.94	4.01
a 5 kg (domestic and intra Union) standard parcel	6.09	4.88

3.3.1 1kg (domestic and intra Union) standard parcel

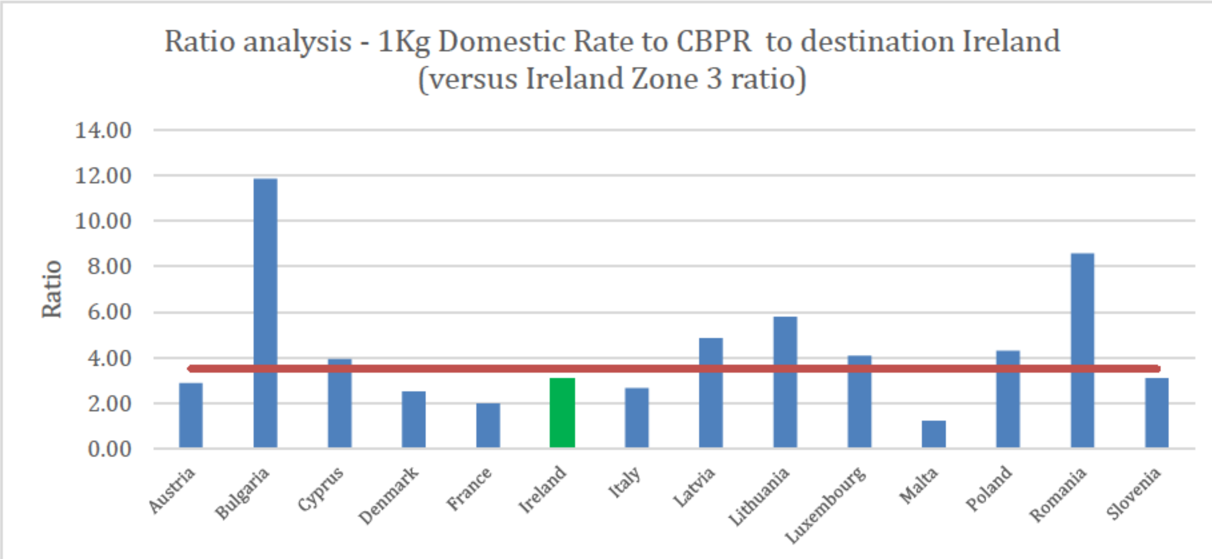
50. For the 1kg standard parcel, a comparison was made between the domestic tariff and the cross-border tariff. A trend analysis was used to identify the difference over the previous years also. As seen in Figure 12 below, a ratio of 3:1 has been the cross-border tariff versus the domestic tariff ratio for the 1Kg standard parcel. This has been maintained since 2018.

Figure 12



51. When comparing this ratio to the domestic versus cross-border ratio of other Member States, it was seen that there were two main outliers, Bulgaria and Romania, that impacted the average ratio across all Member States. On that basis, the median was used which showed that proportionally, Ireland was just below the median in terms of the ratio between the domestic price and cross-border price.

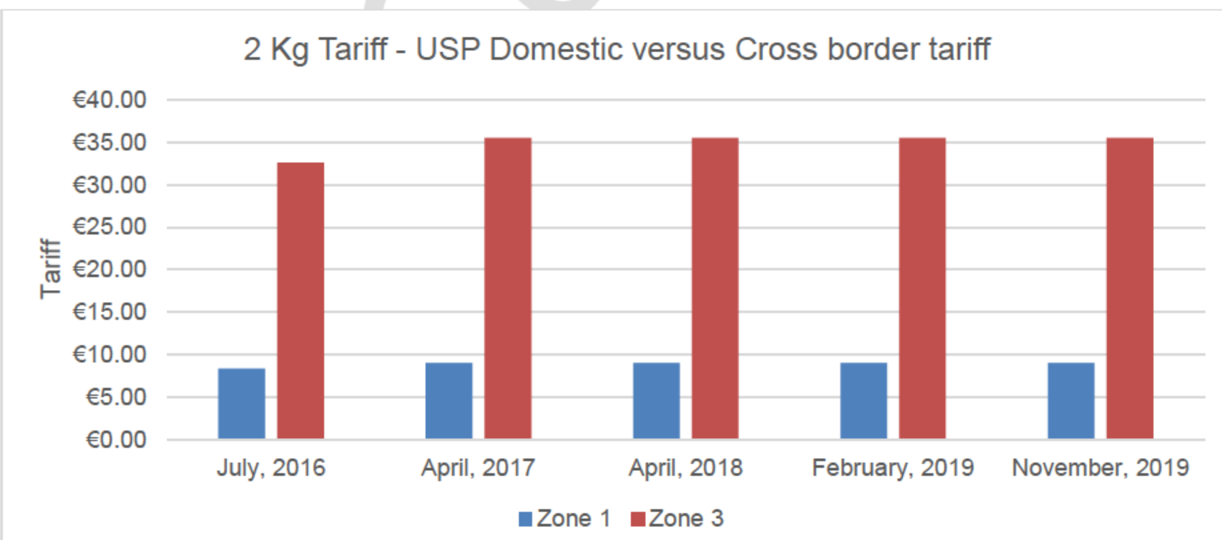
Figure 13



3.3.2 2kg (domestic and intra Union) standard parcel

52. For the 2kg 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 14 below, a ratio of 4:1 has been the cross-border tariff versus domestic tariff ratio for the 2Kg standard parcel. This has been maintained since 2018.

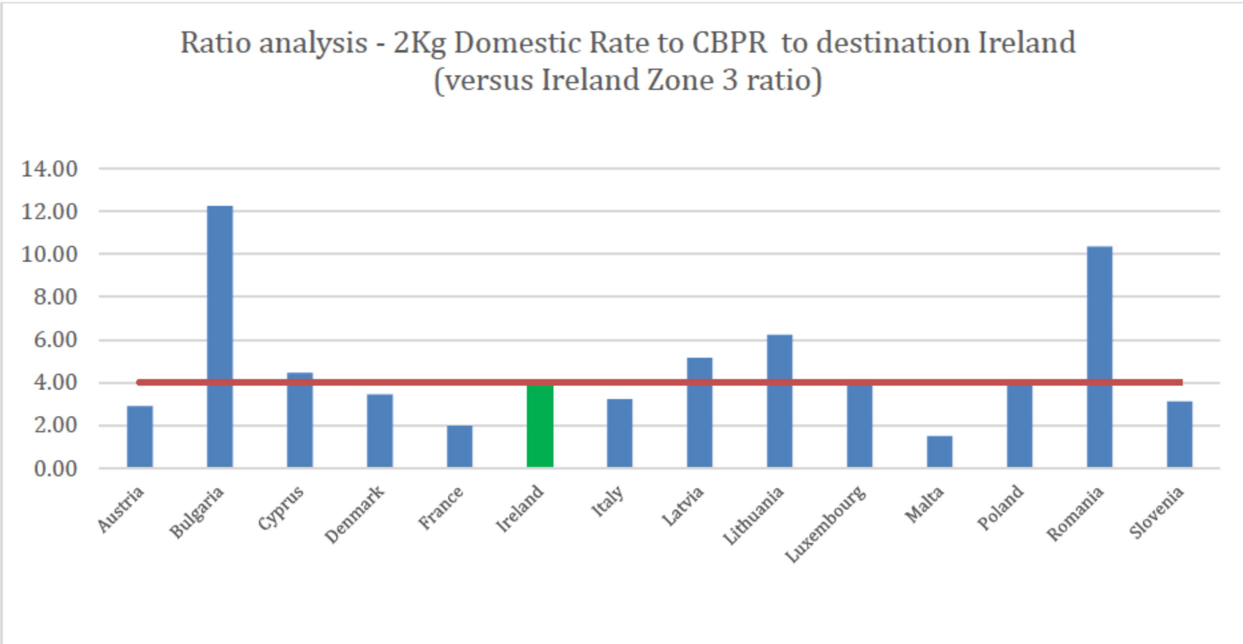
Figure 14



53. When comparing this ratio again to other Member States, it was seen that there two main outliers, Bulgaria and Romania, that impacted the average ratio across all countries. On that basis, the median was used which showed that

proportionally, Ireland USP tariff ratio was the same as the median in terms of ratio tariff between domestic price and cross-border prices with other Member States.

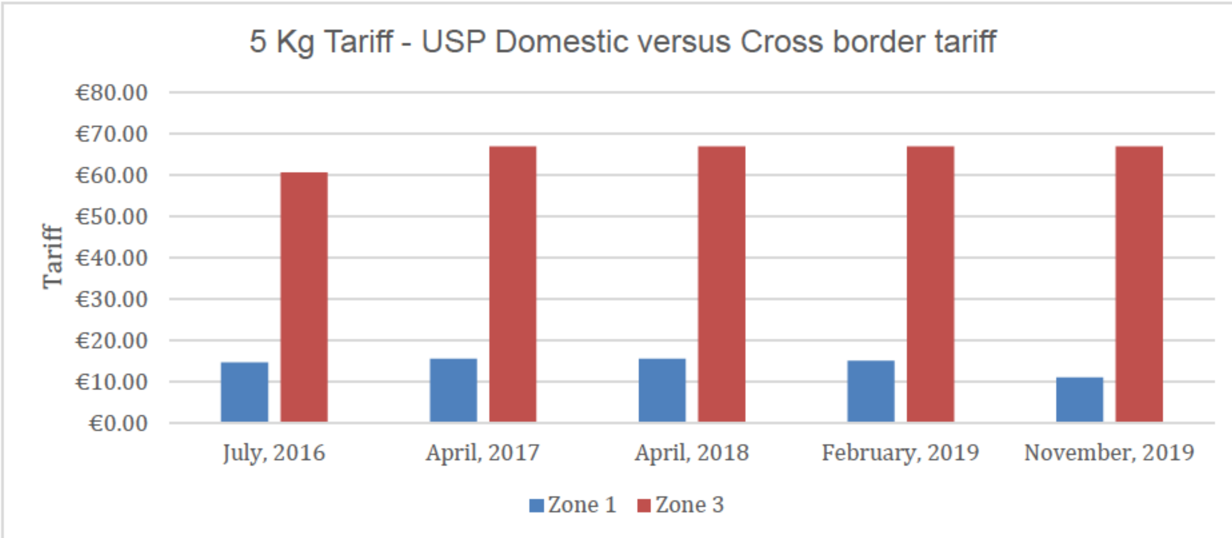
Figure 15



3.3.3 5kg (domestic and intra Union) standard parcel

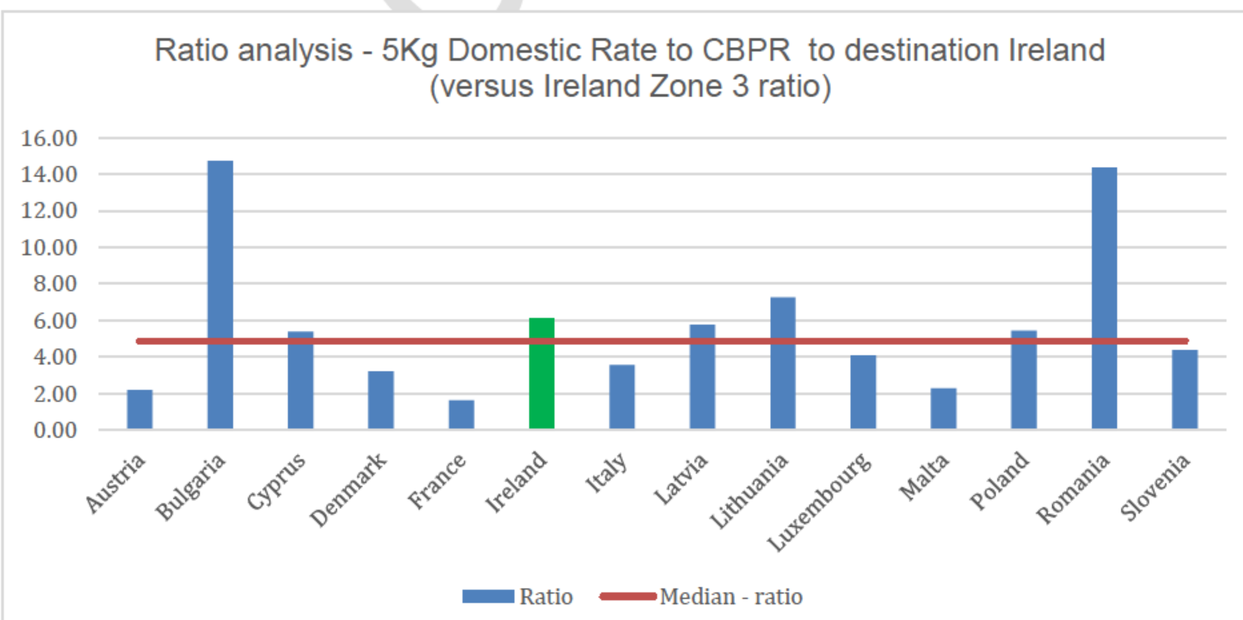
54. For the 5kg standard parcel, a comparison was made between the domestic tariff and the cross-border tariff. A trend analysis was used to identify the difference over the previous years also. As seen in Figure 16 below, a ratio of 6:1 has been the cross-border tariff versus domestic ratio for the 5Kg standard parcel. This ratio has changed from 4.3 in 2018 up to the price change in November 2019, where the domestic price was reduced from €15 to €11 (27% decrease) with no change to the Zone 3 tariff which caused the ratio to increase to 6.09.

Figure 16



55. When comparing this ratio again to other Member States as applicable for tariffs as at 1 January 2021, it was seen that there two main outliers again, Bulgaria and Romania, that impacted the average ratio across all countries. On that basis, the median was used which showed that proportionally, Ireland USP tariff ratio of 6:1 was above the median of 4.88:1 in terms of ratio tariff between domestic price and cross-border prices with other Member States. This, as noted above, was due to the cross-border tariff not being adjusted in line with the change in the domestic price in November 2019.

Figure 17



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

56. 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. ComReg has also referred to correspondence and data from previous year assessments to cover important points rather than to require repetition on points and data from the USP.

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

57. The USP provided operational data to verify costs for products under review. This has been outlined below under the following product headings given by the USP.

3.4.1.1 Terminal Dues [14]

58. [✂ [redacted] ✂]. See Figure 18 below.

Figure 18 [✂Redacted✂]

[redacted]

[14] Email from USP containing operational data

59. The USP noted that these rates are from [✂ [redacted] ✂] the current agreement of rates used by the USP to send parcels to most major EU destinations in EU in 2021.

3.4.1.2 Freight Rates

60. The USP also provided air freight data on rate per kg. charges for products dispatched to 98 destinations. [✂ [redacted] ✂].

Figure 19 [✂Redacted✂]

[redacted]

61. [✂ [redacted] ✂].

[15] New Zealand, Brazil, Mexico, Antigua, Barbados, Bermuda, Jamacia, Cayman Islands, St Luca, Chile
[16] Uganda and Australia

Figure 20 [✂Redacted✂]

[redacted]

62. [✂ [redacted] ✂].

Figure 21 [✂Redacted✂]

[redacted]

63. [✂ [redacted] ✂].

Figure 22 [✂Redacted✂]

[redacted]

3.4.1.3 Zonal pricing

64. The USP notes[17] that it has attempted to maximise transparency and minimise complexity in pricing structure for customers. This has been done by avoiding having multiple pricing zones within Europe or by applying specific pricing per country.

65. [✂ [redacted]

[17] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs

[18] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs

[redacted] ✂].

66. [✂ [redacted] ✂].

3.4.1.4 Scale Payments

67. 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.

68. Based on the data from provided from the USP, it is understood that the current scale payment rate list reflecting the charge applicable to this 2021 assessment is [✂ [redacted] ✂].

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

69. The USP noted the following points in terms of considerations for cost orientation for this year's assessment[20]:

    a. None of the identified tariffs were assessed as unreasonably high in the 2020 review, but rather flagged by ComReg as potentially unreasonably high and were to be considered for next year's assessment.

[19] USP email – 05/11/2021 – response to ComReg queries.
[20] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs

b. The tariffs being assessed have not changed since the last review.

c. Overall outbound mail had performed below what was considered acceptable margin in 2019 and primarily due to Covid-19 and deteriorated further with an overall 13% loss in 2020. USO parcels overall were similarly affected with a profit of 13% in 2019 reducing to a -1% margin in 2020.

d. USO went from overall profitability of 2% to -2% in 2020.

e. In setting prices, the USP "*must consider the sustainability of the USO overall including the sustainability of the outbound USO mails business. An Post does not consider it reasonable that the profit margin of every weight band for every format, feature and destination can be set at the same level. We currently make over -€8m loss on Outbound USO and €-16M on the USO overall.*" (NB - ComReg identified this -€16m loss referenced as an incorrect calculation of USO losses for Domestic, Inbound and Outbound mail combined. USO losses overall were -€8.49M in 2020 and Non USO losses were -€8.35M. The USP confirmed this was a typo).

f. "*Some elements of the business make higher margins than the 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."

g. "*…the 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 the 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."*

70. There have been adverse effects on freight costs due to the pandemic noted by the USP. This analysis has been included in section "3.4.1.2 Freight rate" above. [✂ [redacted] ✂], and that this cost remains unpredictable as international freight capacity continues to be highly affected by the pandemic, which, according to the USP, is further stressed that Ireland is an Island nation which means higher costs than normal for intra-EU

parcels as most of their services are via air freight and this is directly affected by flight capacity constraints.

71. [✂[redacted]✂].

Figure 23[21] [✂Redacted✂]

[redacted]

[21] USP graph, Blue = EU Costs, Pale Blue = EU candidate costs, Green = An Post price, Red = Non-EU Zone 3 costs

Figure 24[22] [✂Redacted✂]

[redacted]

Figure 25[23] [✂Redacted✂]

[redacted]

22 USP graph, Blue = EU Costs, Pale Blue = EU candidate costs, Green = An Post price, Red = Non-EU Zone 3 costs

23 USP graph, Blue = EU Costs, Pale Blue = EU candidate costs, Green = An Post price, Red = Non-EU Zone 3 costs

72. The USP notes that the items under review above only represent a small portion of the total USO parcel volumes, with the tariffs under review representing [✂ [redacted] ✂] of volume.

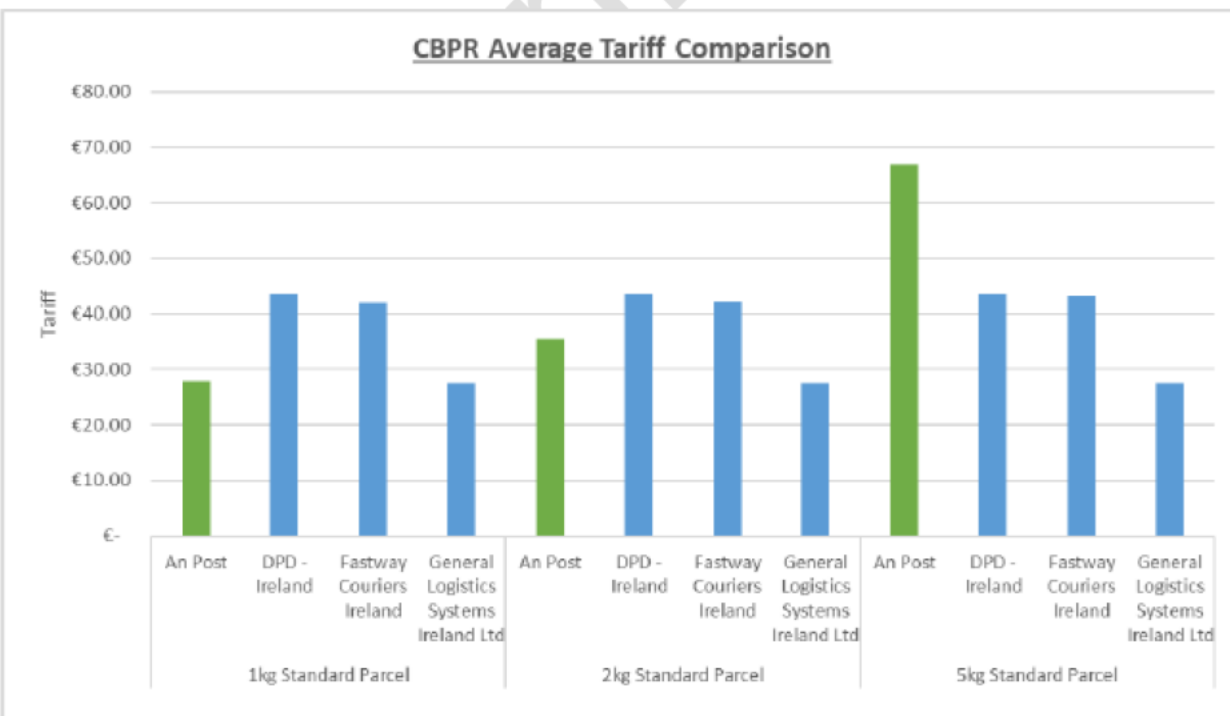
73. The USP also noted points on setting pricing and inflation. This has been included in section "Price changes (2016 – 2021)" below.

74. Overall, the USP is of the view that these tariffs under review are "acceptably cost-orientated" because of the current challenges and flux in the international mails sector.[24]

3.4.2.2 Affordability

75. The USP notes, from its analysis of domestic tariffs of competitors, that its tariffs have the second lowest average prices against three of the other declared PDSPs for 1Kg and 2Kg parcels. This is illustrated in Figure 26 below. Furthermore, to certain locations, there can be significant price disparity, for example DPD charges over €100 for 5Kg parcels while the USP charges €67.

Figure 26



[24] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs

76. The USP asserts that its standard parcel service to the EU is "*highly competitive and affordable*"[25]. 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 concludes should be considered indicative of the competitive strength and affordability of its customer offering.

3.4.2.3 Transparency

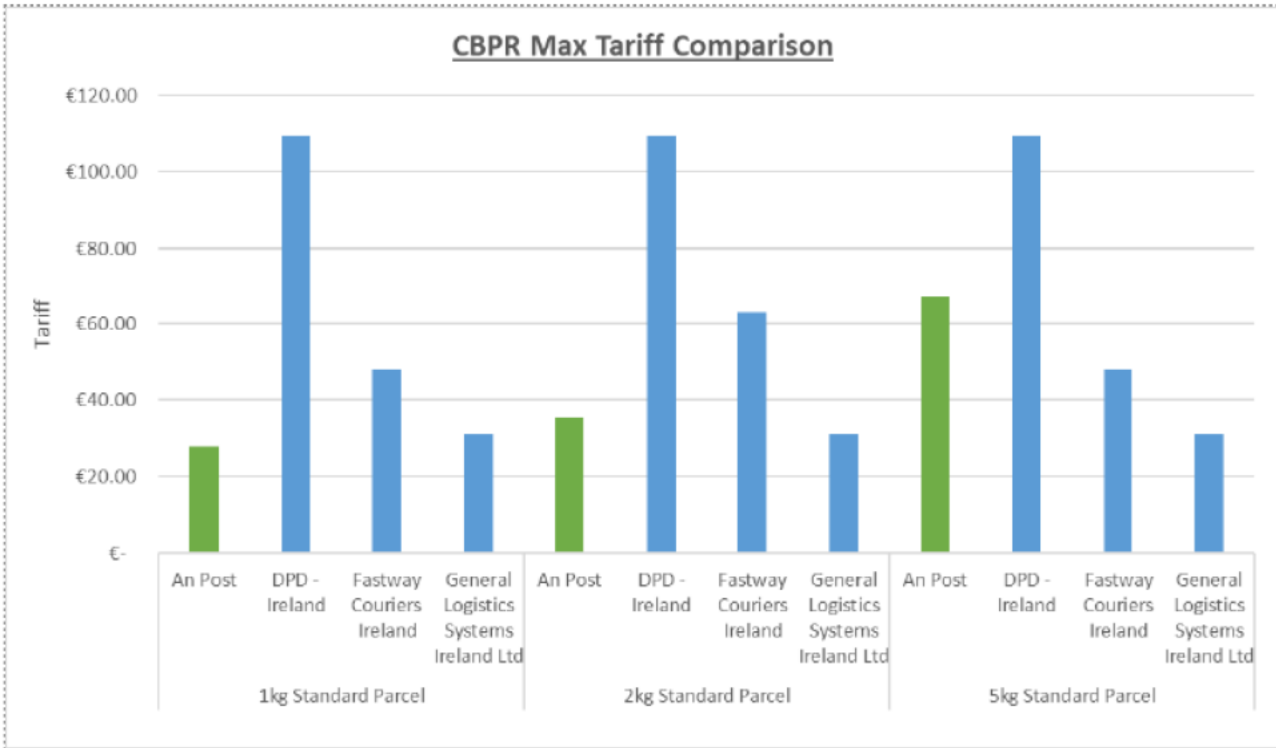
77. The USP noted the following points in terms of considerations for transparency for this year's assessment[26]:

    a. The USP[27] notes that it maintains transparency in pricing by applying the same single prices across Europe (excluding the UK). Such transparency in pricings terms means that the USP must consider a broad variety of costs associated with sending parcels to different destinations. The risk associated with this single rate policy per service across the EU though is that the USP must consider shifts in weight and destination profiles of mail.

    b. Furthermore, the USP notes that its single pricing policy for all destinations in Zone 3 stands in positive contrast to its competitors where it can be seen that other PDSPs tend to charge differently per product to certain destinations in Europe, or simply provide no option to despatch parcels to certain locations within Zone 3 i.e., some EU peripheral countries or outside of EU. The USP note in Figure 27 below the max pricing for their product services to all destinations in Zone 3 versus its competitors in Ireland.

[25] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs
[26] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs
[27] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs

Figure 27



c. The USP also notes the current single European zone (EU and non-EU) makes price decreases risky due to the threat of arbitrage. To prevent, the USP claims it is essential for its published rates to cover the full cost of delivery to each country serviced within that Zone. With the risk of resellers and comparison sites, the USP claims that arbitrage is now a very real risk and needs to be effectively managed.

d. The USP also recognised the disparity in costs between core EU countries, periphery countries and non-EU countries. However, it has adopted to maximise transparency and minimise complexity for the customer by avoiding multiple zones within Europe or by country pricing.

e. It is also noted that the USP accepts that a move to a larger number of zones or per country pricing may appear attractive but may not be easy to implement as tariffs may need to be changed more frequently and such a pricing strategy may not be socially cohesive.

78. In summary, the USP views its pricing structure to be “extremely transparent” to customers. It claims this in the context of comparing its pricing structure to competitors, where it is suggested that other PDSPs can apply hidden fees and fuel levy surcharges on its services, unlike the USP.

3.4.2.4 Non-Discriminatory

79. The USP noted the following points in terms of considerations for non-discriminatory pricing for this year's assessment[28]:

    a. "*USO standard parcel rates are available to the general public on a single piece tariff basis through the largest retail network in Ireland or* [USPs] *online Click and Post Service. The service is non-discriminatory*".

    b. Its single pricing policy for all destinations in Zone 3 stands in a positive contrast to its competitors. The USP notes that other PDSPs tend to charge differently per product to certain destinations in Europe, or simply provide no option to despatch parcels to certain locations according to USP research which they advise are to some of the most expensive destinations to send parcels.

    c. The USP service delivers parcels to all destinations in Zone 3 at a flat rate. This service is available to all over-the-counter single piece users for a broad range of overseas destinations and therefore should be considered non-discriminatory.

80. Finally, the USP notes[29] that the tariffs under review as potentially unreasonably high make up a very small proportion of total USO volumes, with the tariffs under review representing just [✂ [redacted] ✂] of total USO volume.

3.5 Analysis of Regulatory Accounts

81. ComReg is dependent on the audited Regulatory Accounts 2020 to determine what is the most recent financial position on outbound mails, and in particular outbound parcels for its assessment in 2021. However, this information in the Regulatory Accounts is set out at an aggregated level for USO products, including outbound parcels, and aggregated for all geographical location segments i.e., UK, Mainland Europe, Rest of World. On that basis, as part of this assessment, a further level of analysis was required to determine the profit margins of those tariffs identified for assessment, specifically in Zone 3 (mainland Europe and other destinations, 40+ destinations). This is explained further in section 3.5, taking into

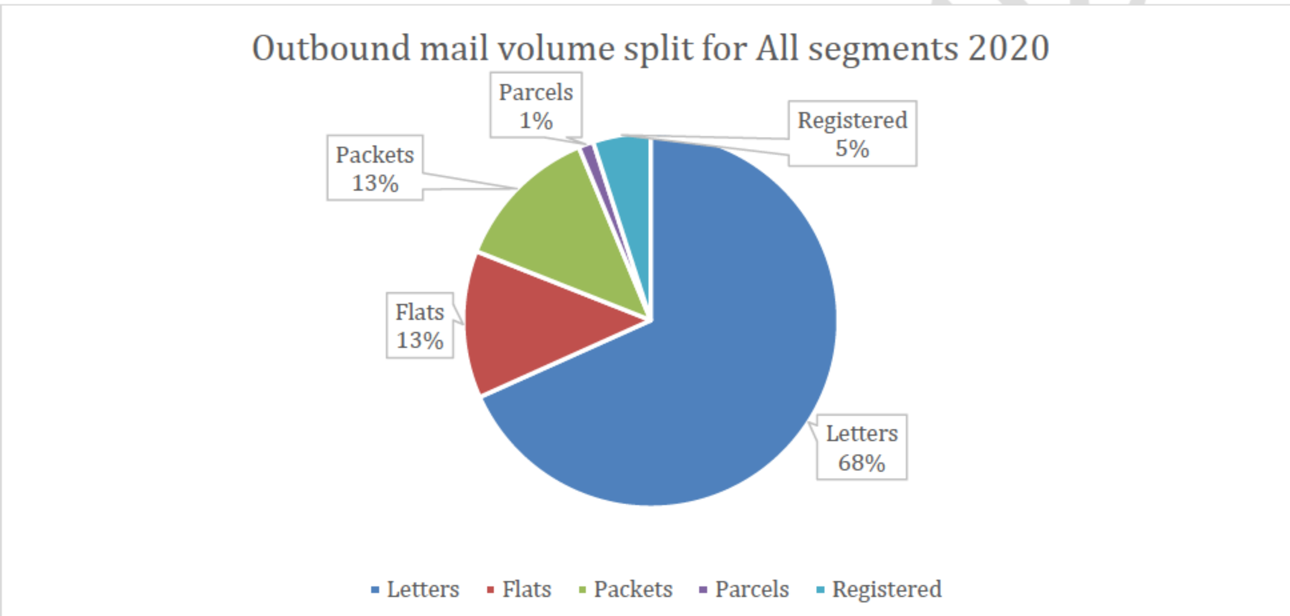
[28] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs
[29] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs

account a new methodology to determine profit margins for products and tariffs under review which was agreed with the USP.

3.5.1 Regulatory Accounts 2020 – Outbound USO Mail All Segments

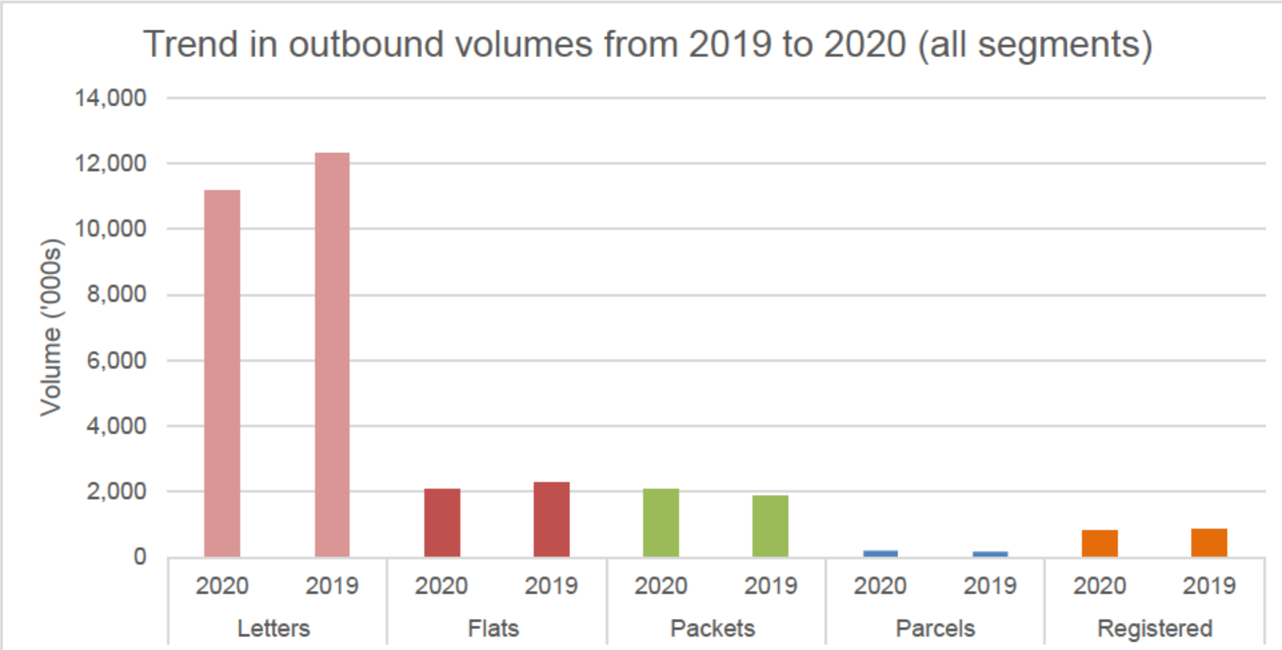
82. For all USO outbound mail, there has been a 6% decline in mails volume from 2019 to 2020, compared with 13% and 17% declines seen in 2019/2018 and 2018/2017 respectively.

Figure 28



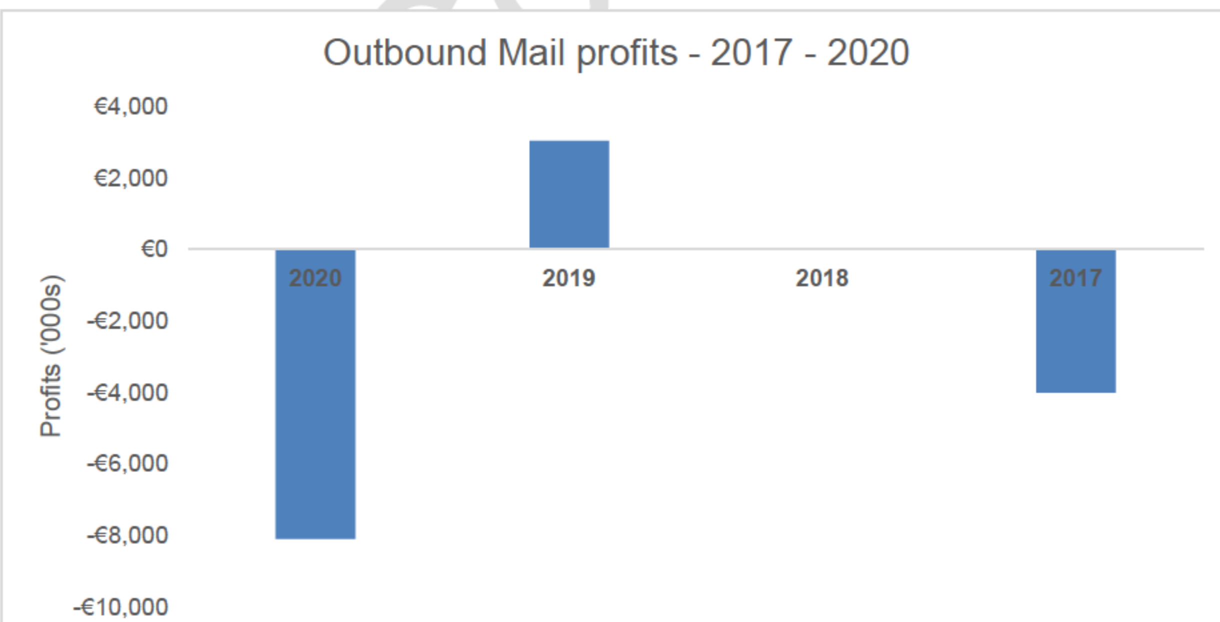
83. This volume decline was mainly driven by letters which declined by c.9% as seen in Figure 29 below. Letter mail in 2020 made up 68% of all outbound mails as seen in Figure 28 above. However, there was an 11% and 20% increase in volumes for packets and parcels versus the previous year, but this made up just 14% of all outbound mails (packets 13%, parcels 1%).

Figure 29



84. In terms of profits, there was a loss posted of c.€8M for 2020 on total outbound USO mail to UK, Europe and RoW for letters, flats, packets, parcels and registered. See Figure 30 below.

Figure 30



85. This loss from 2019 to 2020 for outbound mail has been driven by an increase in cost of c.€12M in 2020, [✂ [redacted]

[redacted] ✂], with then an increase in common costs of c.€2.7M in 2020.

Figure 31 [✂Redacted✂]

[redacted]

3.5.2 Regulatory Accounts 2020 – Outbound Standard Parcels All Segments

86. ComReg also analysed outbound standard parcels (aggregated for all weight steps) recorded in the audited Regulatory Accounts 2020 as part of its assessment, also taking into consideration prior year figures. It was noted for 2020, there was an increase in outbound parcels of c.20% (35k parcels). Revenue though declined by 4% (€297K), with revenue per unit declining from €43.93 to €35.02 from 2019 to 2020. There was also an increase in service expenditure of 11%, c. €725k attributed to external cost factors discussed later on. Cost per unit in 2020 though decreased to €35.20 versus €38.20 but this is due to a 20% increase in volumes versus the prior year.

87. In summary, outbound parcels just about broke even in 2020 (small loss of c.€37k) in contrast to a reported profit of €984k in 2019. This has been driven by a net increase in cost of €725K.

Figure 32 [✂Redacted✂]

Outbound Standard Parcel P&L Details	2020	2019	2018	Diff – 2020/2019	% Diff – 2020/2019
Volume	211	175	148	35	20%
Directly Attributable Revenue	7391	7,688	7,003	-297	-4%
Revenue Allocated by Sampling	0	0	0	0	-
Intra-segment Revenue	0	0	0	0	-
Total Revenue	7,391	7,688	7,003	-297	-4%
[redacted]					
Total - Common Costs	1,225	1,331	2,032	-76	-6%
[redacted]					
Total - Direct & Indirect Expenditure	6,173	5,372	6,283	801	15%
Service Expenditure	7,428	6,704	8,315	725	11%
Net Segment Profit / Loss	**(37)**	**984**	**-1,312**	**2,296**	
Margin %	**-0.5%**	**12.8%**	**-18.7%**		

88. Exploring the pipelines costs above, “Transport” cost was identified as the main driver of cost in 2020 [✂ [redacted] ✂].

Figure 33 [✂Redacted✂]

[redacted]

3.5.3 Regulatory Accounts 2020 – Margin analysis using new methodology

89. Following discussion and agreement between the USP and ComReg,a new methodology has been agreed for certain cost data. The results from the new methodology agreed with the USP for determining profit margins on the tariffs under assessment are as follows:

Identified Tariffs for assessment	Margin
1Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]
2Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]
5Kg (Domestic and Intra-Union) Standard Parcel	[✂ [redacted] ✂]

90. The USP notes that the items under review above only “*represent a small portion of the total USO parcel volumes, with the tariffs under review representing just [✂ [redacted] ✂]. As a result, these margins are not indicative of USO products margins more generally*”[30]. See Figure 34 below.

[30] AN Post correspondence – 22/10/2021 – re. cross border parcel regulation (“CBPR”) and ‘potentially unreasonably high’ tariffs

Figure 34 [✂Redacted✂]

[redacted]

3.6 Outbound USP Volume analysis

91. ComReg analysed volumes outbound, considering information from two sources. The first is counter-automation system data which makes up [✂[redacted] ✂]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 models used to create the revenue and volumes which are inputs to the Regulatory Accounts.

3.6.1 Counter-Automation Data

92. Reviewing the counter-automation data submitted by the USP for the 2021 assessment, it is considered important to note the following caveats:

    a. Great Britain was included in 2020 data. However, this was just for “1” transaction. This was excluded as error, also it is not applicable to Zone 3.

    b. 37 Countries in Zone 3 in 2020 versus 42 from the year before. This is because Bosnia and Herzegovina, Georgia, Greenland, Republic of Moldova and Monaco not included in 2020 data, however this only made up [✂[redacted]✂] parcels in 2019. It can be assumed that their exclusion may

[31] According to the USP as per email and supporting data on xx/xx/xx

be due to no parcels at these weight steps being sent to these destinations in 2020.

c. In terms of the weight break data provided, the USP provided narrower groupings of products to represent the products under review for 2020 e.g., "between 1kg and 2kg" in 2019 versus "between 1.5kg and 2kg" in 2020. The USP advised that the 2020 band is more accurate in reflecting the product tariff under review[32]. ComReg on that basis proceeded to analysis 2020 data only. The weight break volumes as per the counter data (which is noted to only represent [✂ [redacted] ✂] of mail), is outlined below:

Figure 35

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

93. Analysing these parcel volumes in the noted cohorts above to destination level, it can be seen in Figure 36, 37 and 38 below, [✂ [redacted] ✂]. This trend is similar to the data analysed from the previous year. It is also noted that these destinations which have more frequent mail sent, that they are all EU countries as part of Zone 3.

[32] USP email – 05/11/2021 in response to ComReg queries

Figure 36 [✂Redacted✂]

[redacted]

Figure 37 [✂Redacted✂]

[redacted]

Figure 38 [✂Redacted✂]

[redacted]

3.6.2 Regulatory Accounts / Cost Model Volume data

94. 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 2020.

95. As per the Regulatory Accounts 2020, it is noted there has been a reported 20% increase in volumes from 2019 to 2020. [✂ [redacted] ✂].

Figure 39 [✂Redacted✂]

[redacted]

96. [✂ [redacted] ✂].

Figure 40 [✂Redacted✂]

[redacted]

3.7 Price changes (2016 – 2021[33])

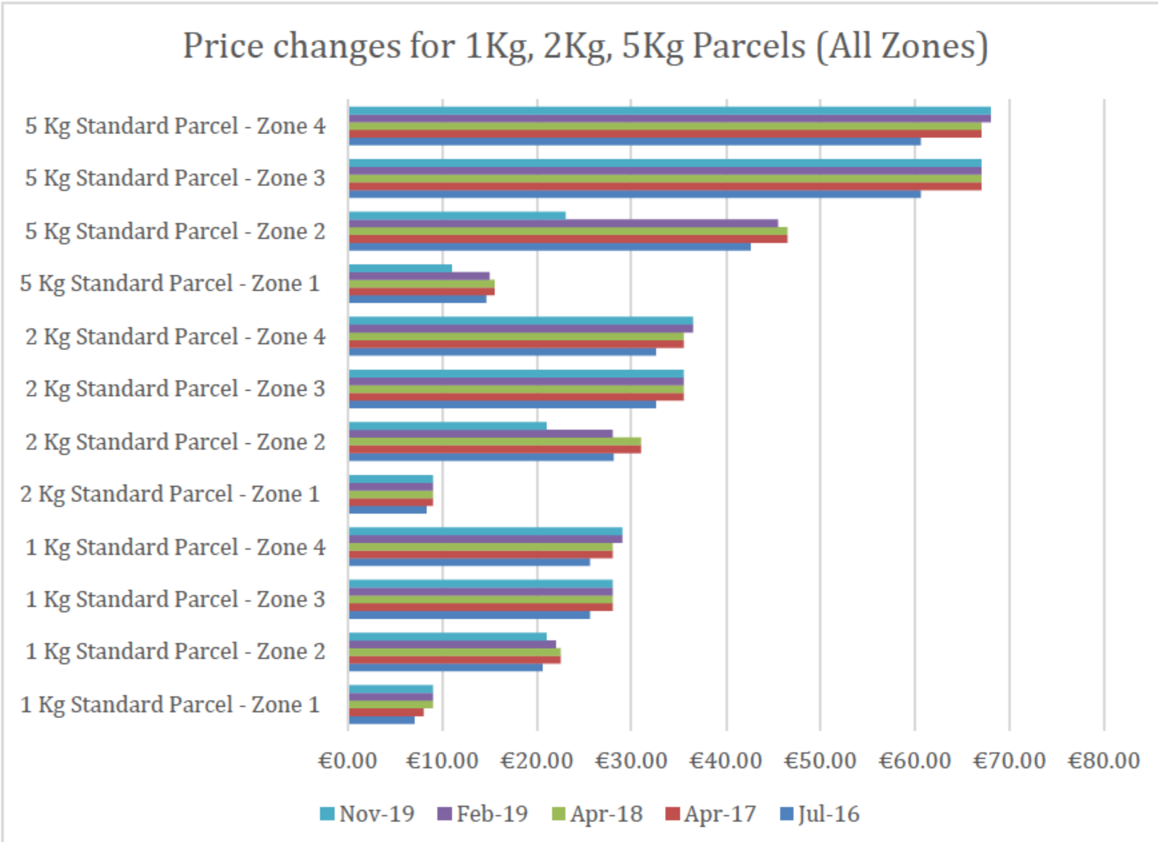
97. The following is the trend in prices for the standard 1Kg, 2Kg and 5Kg standard parcels under assessment from the period 2016 – 2021 for all zones / segments. The following are An Post's zones for pricing of outbound mail at 1 January 2021:

- Zone 1 – Domestic & Northern Ireland,
- Zone 2 – UK,
- Zone 3 – EU and other destinations,
- Zone 4 - RoW

98. As seen in Figure 41, Zone 2 tariffs (UK) had significant reductions in prices in the last price change.

[33] 2019 rate still applicable as at 01/01/2021 which is applicable for assessment

Figure 41



99. Exploring these price changes for the UK in Figures 42 & 43, it is identified that there were two price changes made in 2019. Prices reduced by a cumulative amount of €1.50 for a 1Kg standard parcel (6.67%), by €10.00 for a 2kg standard parcel (32.26%) and by €23.50 for a 5Kg standard parcel (50.54%) to the UK.

Figure 42

	1Kg Standard Parcel				2Kg Standard Parcel				5Kg Standard Parcel			
Year - Price Guide	**Zone1**	**Zone 2**	**Zone 3**	**Zone 4**	**Zone1**	**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

100. No similar price reductions were made for the Zone 3 (EU and other destinations) for standard parcels at 1Kg, 2Kg and 5Kg since April 2017, which are the tariffs under review for the third year in row since the Regulation has been in effect.

Figure 43

	1Kg Standard Parcel				2Kg Standard Parcel				5Kg Standard Parcel			
Year - Price Guide changes	Zone1	Zone2	Zone3	Zone4	Zone1	Zone2	Zone3	Zone4	Zone1	Zone 2	Zone3	Zone4
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

101. In setting pricing, the USP notes[34] that the increase in freight and terminal dues (in USA) costs caused pricing pressure, which led to increase in prices to Zone 4 and Zone 5 (new zone for Australia and New Zealand is post 1 January 2021 and not applicable for assessment). The USP asserted that if they had also sought to address the overall outbound parcel profitability with price increases to other zones to enable certain Zone 3 price reductions, they believe this wouldn't be in public interest. The USP noted[35] though that there is disparity of cost for delivering parcel to destinations within Zone 3. According to the USP changing the pricing strategy to country pricing or splitting the zone into further price bands, would raise issues of arbitrage, non-socially cohesive pricing, and a need for possible higher frequency price changes.

102. The USP also noted[36] that consideration needs to be made regarding inflation with Ireland hitting a 10 year high recently and that Ireland was the second most expensive cost country in the EU.

[34] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs
[35] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs
[36] An Post correspondence – 22/10/2021 – re. cross border parcel regulation ("CBPR") and 'potentially unreasonably high' tariffs

4: Assessment

103. ComReg objectively considers that the following identified three tariffs of the USP 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 are as follows:

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

104. In objectively assessing these identified tariffs, 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).

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

a. The USP's audited Regulatory Accounts[37] for 2018, 2019 and 2020; and
b. Information and data provided by the USP in correspondence in 2021, both in terms of determining a new methodology for determining margins on tariffs under assessment, but also based on data and information provided under previous years assessments.

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

[37] 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.

107. The USP was also provided a draft version of this assessment for error and omission checking. Where required, comments from the USP have been reflected in the final version of this assessment.

4.1 a 5 kg (domestic and intra Union) Standard Parcel

108. 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.

109. The following objective assessment is made of the “5kg (domestic and intra Union) standard parcel”:

1) The tariff in question has been maintained at €67 since the last price change in April 2017.

2) The USP submits that the margin for the 5kg standard parcel is [✂ [redacted] ✂]. The considerations outlined under Article 6(2) of the Regulation for the objective assessment of these identified tariffs, with more details on findings outlined in section “3.1 Assessment Process and Analysis” above.

   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 5kg standard parcel tariff outbound to each destination Member State to the corresponding USP tariffs in each destination Member State to Ireland, the 5kg standard parcel at €55.77 (adjusted PPP tariff) is the most expensive amongst other USPs in Europe. When comparing this tariff to the average tariff of €31.62 for 14 Member State tariffs, the USP tariff is 76% more expensive that the average.

      ii. **USP tariff versus Domestic competitor outbound tariffs** - When comparing the USP 5kg standard outbound parcel tariff to similar 5kg products of PDSPs based in Ireland, this shows that the USP has the most expensive tariff amongst non USO PDSPs i.e., 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. Although the pricing structures would be different for these domestic PDSPs, and some do not deliver to the most expensive locations in EU, the USP tariff is still considered high amongst domestic competitors when taking these other factors into consideration.

iii. **Comparison of ratio for domestic to cross-border tariff versus other USPs in Europe** –the USP cross-border tariff for the 5kg parcel is 6 times greater than domestic rate. The median amongst MSs is 4.9. This ratio increased in 2019 due to An Post reducing the domestic rate to €11 from €15.

iv. **Non adjusted tariff versus all PDSPs tariffs declared in database** - Out of all PDSPs who declared tariffs in CBPR database for 5kg parcel, the USP ranks 10th most expensive amongst non-adjusted tariffs (not adjusted for PPP).

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 through investigation shows that Zone 3 (Mainland Europe and other destinations) has zonal pricing for 46 destinations, and this is the applicable Zone as part of the "5kg (domestic and intra Union) standard parcel" tariff being identified for 2021 assessment. [✂[redacted]✂]. This is further evidenced by information in Figure 44.

Figure 44 [✂Redacted✂]

[redacted]

ii. The USP notes above that it seeks to maximise transparency and minimise complexity in its current pricing structures which is done by avoiding multiple pricing zones with Europe or by applying a specific country price. It recognises the disparity of cost for delivering parcels to certain destinations within Zone 3 but notes there is issues of arbitrage and non-social cohesiveness by implementing, and possibly the need for more frequent price changes if such changes in pricing strategy were implemented.

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 that for the products under assessment this year, the volumes only represent [✂[redacted] ✂] of all outbound USO parcel volumes. ComReg reviewed the counter information data on outbound standard parcels which we understood represented c. [✂[redacted] ✂] of outbound parcel traffic. It was noted that the product cohorts provided did not match previous years, therefore trend analysis could not be relied on for volume analysis, but it would be still useful in understanding the small volumes of parcels at certain weights delivered to each destination in Zone 3. ComReg also reviewed the cost model data for the Regulatory Accounts and noted the below observations on volume changes which indicates the volume effects on cost per unit for the tariffs under assessment:

1. Volumes increased by 20% for outbound parcels (all zones).
2. This contributed to cost per unit decrease from €38.20 to €35.20.
3. [✂ [redacted] ✂].

ii. **Specific transportation or handling costs, other relevant costs and service quality standards** – [✂ [redacted] ✂].

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 2kg parcel is the 2nd most expensive parcel when compared to other USPs tariffs adjusted for PPP in EU member states. The USP is also realising a profit margin of [✂ [redacted] ✂] on its 5 kg parcels, [✂ [redacted] ✂].

Figure 45 [✂Redacted✂]

[redacted]

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 ongoing 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 then margin information which has been determined through a new methodology agreed with the USP.

3) It is ComReg's objective assessment, in accordance with the principles in Article 12 of Directive 97/67/EC, that the outbound tariff of €67.00 for the identified "5kg (domestic and intra Union) standard parcel" is unreasonably high.

4.2 a 2 kg (domestic and intra Union) Standard Parcel

110. 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.

111. The following objective assessment is made of the “2kg (domestic and intra Union) standard parcel”:

1) The tariff in question has been maintained at €35.50 since the last price change in April 2017.

2) The USP submits that the margin for the 2kg standard parcel is [✂[redacted] ✂]. The considerations outlined under Article 6(2) of the Regulation for the objective assessment of these identified tariffs, with more details on findings outlined in section “3.1 Assessment Process and Analysis” above.

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 2kg standard parcel tariff outbound to each destination Member State to the corresponding USP tariffs in each destination Member State to Ireland, the 2kg standard parcel at €29.55 (adjusted PPP tariff) is the most expensive amongst other USPs in Europe. When comparing this tariff to the average tariff of €22.79 for 14 Member State tariffs, the USP tariff was 29.6% more expensive that the average.

ii. **USP tariff versus Domestic competitor outbound tariffs** - When comparing the USP 2kg standard outbound parcel tariff to the similar 2kg products of PDSPs based in Ireland, this showed that the USP has the third most 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.

iii. **Comparison of ratio for domestic to cross-border tariff versus other USPs in Europe** –the USP cross-border tariff for the 2kg parcel is 3.94 times greater than domestic rate. The median amongst MSs is 4.01.

iv. **Non adjusted tariff versus all PDSPs tariffs declared in database** - Out of all PDSPs who declared tariffs in CBPR database for 2kg parcel, the USP ranks 13th most expensive amongst non-adjusted tariffs (not adjusted for PPP).

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 through investigation shows that Zone 3 (Mainland Europe and other destinations) has zonal pricing for 46 destinations, and this is the applicable Zone as part of the "2kg (domestic and intra Union) standard parcel" tariff being identified for 2021 assessment. [✂ [redacted] ✂]. This is further evidenced by information in Figure 46.

Figure 46 [✂Redacted✂]

[redacted]

ii. The USP notes above that it seeks to maximise transparency and minimise complexity by in its current pricing structures which is done by avoiding multiple pricing zones with Europe or by applying a specific country price. It recognises the disparity of cost for delivering parcels to certain destinations within Zone 3 but notes there is issues of arbitrage and non-social cohesiveness by implementing, and possibly the need for more frequent price changes if such changes in pricing strategy were implemented.

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 that for the products under assessment this year, the volumes only represent [✂[redacted]✂]. It was noted that the product cohorts provided did not match previous years, therefore trend analysis could not be relied on for volume analysis, but it would be still useful in understanding the small volumes of parcels at certain weights delivered to each destination in Zone 3. ComReg also reviewed the cost model data for the Regulatory Accounts and noted the below observations on volume changes which indicates the volume effects on cost per unit for the tariffs under assessment:

1. Volumes increased by 20% for outbound parcels (all zones).
2. This contributed to cost per unit decrease from €38.20 to €35.20.
3. [✂ [redacted] ✂].

ii. **Specific transportation or handling costs, other relevant costs and service quality standards** – [✂ [redacted] ✂].

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 2kg parcel is the 2nd most expensive parcel when compared to other USPs tariffs adjusted for PPP in EU member states. The USP is also realising a profit margin of [✂ [redacted] ✂] on its 2 kg parcels, [✂ [redacted] ✂].

Figure 47 [✂Redacted✂]

[redacted]

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 ongoing 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 then margin information which has been determined through a new methodology agreed with the USP.

3) It is ComReg's objective assessment, in accordance with the principles in Article 12 of Directive 97/67/EC, that the outbound tariff of €35.50 for the identified "2kg (domestic and intra Union) standard parcel" is unreasonably high.

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

112. It is ComReg's objective assessment, in accordance with the principles in Article 12 of Directive 97/67/EC, that the outbound tariff of €28.00 for the identified "1kg (domestic and intra Union) standard parcel" is not unreasonably high. This objective assessment is largely informed by the USP submission that the profit margin on this tariff is [✂[redacted] ✂].

Figure 48 – Summary of ComReg's objective assessment

Identified Tariff Products	Tariff Zone 3 [38] - 2019	2019 - Identified Tariffs	Tariff Zone 3 - 2020	2020 - Identified Tariffs	Price Change 2019/20	ComReg's objective assessment
a 1 kg (domestic and intra Union) standard parcel	28.00	Yes	28.00	Yes	0.00	Not considered unreasonably high
a 2 kg (domestic and intra Union) standard parcel	35.50	Yes	35.50	Yes	0.00	Considered unreasonably high
a 5 kg (domestic and intra Union) standard parcel	67.00	Yes	67.00	Yes	0.00	Considered unreasonably high

[38] The USP's Zone 3 is a uniform tariff for sending to Europe, including European countries that are not Member States.

5: Legal Basis

113. 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

15 April 2021

Dr. Tanya Harrington
Chief Regulatory Affairs Officer
An Post
General Post Office
Dublin 1
D01 F5P2

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

Dear Tanya

I write to you in follow up to our previous correspondence of 7 January 2021. I outline below the next steps of the Regulation requirements for 2021 and the respective deadlines for each.

1. **Public list of tariffs pursuant to Article 5 of Regulation 2018/644**

An Post as a declared "parcel delivery service provider" submitted its public list of tariffs applicable at 1 January 2021 for the delivery of certain single-piece postal items as outlined under the Regulation. On receipt of this information from An Post, ComReg reviewed and forwarded this information to the European Commission via the European Commissions' web-based tool. ComReg can confirm these tariffs have now been published on the European Commission website and there is no further action required.

2. **Assessment of cross-border single-piece parcel tariffs ("CBPR Assessment") pursuant to Article 6 of Regulation 2018/644**

2a. European Commission – Pre-assessment filtering mechanism

Following the same process as last year, the tariff information submitted to the European Commission was collated and analysed by the European Commission, with an output of the tariffs, adjusted by purchasing power parity ("PPP"), that were in the top 25% quartile. This threshold has been maintained at 25% for 2021 as a recommended threshold by the European Commission, however, this is only guidance and can still be set at a different threshold by each individual NRA if considered appropriate. The following results, Figure 1 below, are the output of the European Commission for 2021, with three of An Post's products being flagged by the European Commission as being in the top 25% quartile of tariffs.

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Figure 1 – List of product tariffs flagged in top 25% quartile for 2021 by the European Commission

Products	Tariff Zone 3 - 2019	2019 - Zone 3 - Top 25% Tariff	Tariff Zone 3 - 2020	2020 - Zone 3 - Top 25% Tariff	Tariff Zone 3 - 2021	2021 - Zone 3 - Top 25% Tariff
a 1 kg (domestic and intra Union) standard parcel	28.00	Yes	28.00	Yes	28.00	Yes
a 2 kg (domestic and intra Union) standard parcel	35.50	Yes	35.50	Yes	35.50	Yes
a 5 kg (domestic and intra Union) standard parcel	67.00	Yes	67.00	Yes	67.00	Yes

2b. Request for information to inform ComReg's CBPR Assessment of potentially unreasonably high tariffs pursuant to Article 6 of Regulation 2018/644 – Deadline - 17 May 2021 for A&B; C&D shortly after Regulatory Accounts 2020 (expected late May 2021)

In order to carry out an objective assessment of the tariffs pursuant to Article 6 of the Regulation, ComReg requires information from An Post that justifies, in detail, why each of these 3 products and 3 tariffs listed below should not be considered unreasonably high:

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.

An Post is required to submit information as follows:

A) Previously provided operational data submitted by An Post which is updated again for 2021 for what are the products flagged. Excel workbooks provided by An Post are attached for your convenience from last year's assessment. In this update for 2021, and as per discussion with An Post in 24 February 2021, ComReg requires that operational information submitted in spreadsheets in respect of each product are also supported by documentation to verify / provide audit evidence of these costs and how they are associated to the products flagged. This was discussed and agreed at our meeting.

B) Outbound volumes to each intra EU member states for each of the flagged products at the specific weight breaks. See attached file provided last year that should this year include 2020 figures for this year's assessment.

Furthermore, in relation to our meeting of 24 February 2021 to discuss the methodology to be taken in calculating cost allocations per flagged product and resultant profit margins (which was required as noted in our assessment[1] in 2020), we understood that An Post is now proposing the following steps which will be taken to calculate each profit margin for a product tariff and this proposed methodology is now considered to be the most accurate by An Post:

1) Tariff minus (Internal cost (Reg Accounts) + External cost (operational data) = profit margin,

2) Regulatory Accounts (2020) would be used to produce what are the Internal costs associated to each product at weight break level,

3) For external costs (terminal Dues/Delivery costs etc), operational data will be used to adjust for what is then the total cost. Supporting files will also be provided as validation / audit evidence for charges per product flagged.

An Post would also seek the Regulatory Accounts Auditor to validate / confirm this proposed methodology and cost calculations for this CBPR assessment. We understand this proposed methodology is being finalised and An Post have met with the Regulatory Auditor on same[2].

We await the detail of the final proposed methodology from An Post on this and we remain available to engage on this proposal. ComReg reserves its rights on any change to the methodology to calculating cost allocations per flagged product and resultant profit margins. When the 2020 audited Regulatory Accounts are complete (expected late May 2021) and we have agreement on the methodology and validation for cost calculations for this CBPR Assessment, ComReg will require the following:

C) P&L breakdown for each flagged tariff;

D) information to demonstrate how each of these 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.

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[1] ComReg Assessment on unreasonably high tariffs 2020 – "…*the USP disagrees with the reliance by ComReg on the audited Regulatory Accounts to inform the objective assessment and the identification of the tariff that is considered to be unreasonably high. The USP claims there are issues with relying on the audited Regulatory Accounts as it does not provide specific granularity on cost for each of the tariffs under assessment. ComReg will discuss with the USP for next year how to allocate costs accurately, as required by ComReg's Accounting Direction*."

[2] Email from An Post 01/04/2021

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Please note that this correspondence and An Post's response will be submitted to the European Commission. Please further note that the correspondence on this matter will form part of ComReg's assessment under Article 6 and will be provided to the European Commission. A non-confidential version of this assessment will be published by the European Commission and ComReg; therefore, please clearly note in your response what information An Post considers to be confidential.

3. Information on the PPP adjusted tariffs – how to calculate adjusted tariff

Further to our meeting in 24 February 2021, An Post requested explanation on how the tariffs were adjusted for PPP by the European Commission.

Please note the following table to adjust flagged tariffs for 2021:

Products	(A)Tariffs	(B) PPP adj. Figure	(C) Adj. Tariff
a 1 kg (domestic and intra Union) standard parcel	€ 28.00	1.20133	€ 23.31
a 2 kg (domestic and intra Union) standard parcel	€ 35.50	1.20133	€ 29.55
a 5 kg (domestic and intra Union) standard parcel	€ 67.00	1.20133	€ 55.77

Note, The tariffs were converted using the purchasing power parities (EU27_2020= 1) of the category "Gross domestic product" in Eurostat – i.e., the tariffs reported in national currency in PARCEL tool by the Commission were divided by the latest available PPP-factor (= 2019), see table in Annex 1.

The calculation for the above is to divide the tariff in column (A) by column (B) = column (C). This calculation is carried out for all USPs in Member States, which in turn produces the results of ranking i.e. the top quartile (25%) of tariffs amongst USPs across Europe.

4. Information required pursuant to Article 4 of Regulation 2018/644 – deadline 30 June 2021.

An Post is required to fill out the form attached at Appendix 1 to this letter, and return it by email to postreg@comreg.ie by no later than 30 June 2021. This is a version of the form in Annex II of the Commission Implementing Regulation (EU) 2018/1263 of 20 September 2018 and is in electronic excel format to ease the process of submitting such information. This

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form includes An Post's figures submitted in the prior year as a comparison. Given the need for standardisation and assurance of data integrity, we ask An Post to review last year's submission at this stage. As part of your response, please advise clearly of confirmation of last year's information or of any correction to last year's information if now required.

Please note that ComReg will publish the aggregate data and information received by it from parcel delivery service providers. However, no individual submissions will be published, and your individual submission will remain confidential to ComReg. The publication of aggregate data will better inform all stakeholders on cross border parcel delivery to/from Ireland.

Please feel free to contact me at postreg@comreg.ie should you have any further queries on the above.

Yours sincerely

Lorcan Pringle
Postal Regulation, ComReg

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Annex 1:

Source - http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

Important legal notic

eurostat

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Explanatory texts (metadata) | Information | Download | Preview | Bookmark | Demo | Help | Login

Purchasing power parities (PPPs), price level indices and real expenditures for ESA 2010 aggregates **[prc_ppp_ind]**

Last update: 15-02-2021

Table Customization show

TIME | GEO | National accounts indicator (ESA 2010): Purchasing power parities (EU27_2020=1)

Analytical categories for purchasing power parities (PPPs) calculation: Gross domestic product

GEO \ TIME	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
European Union - 27 countrie	1.00000	1.00000	1.00000	1.000000	1.000000	1.000000	1.00000	1.000000	1.00000	1.000000
European Union - 28 countrie	1.01111	1.01225	1.02341	1.01863	1.02920	1.04591	1.02903	1.01880	1.01896	1.02158
European Union - 27 countrie	1.01269	1.01396	1.02526	1.02047	1.03108	1.04790	1.03093	1.02066	1.02080	1.02346
European Union - 25 countrie	1.02766	1.02870	1.04108	1.03549	1.04648	1.06362	1.04699	1.03701	1.03706	1.04047
European Union - 15 countrie	1.07194	1.07455	1.08966	1.08429	1.09738	1.11690	1.09776	1.08451	1.08412	1.08785
Euro area - 19 countries (fror	1.04766	1.04695	1.04791	1.04725	1.04954	1.05059	1.05090	1.05006	1.05174	1.05366
Euro area - 18 countries (201	1.05002	1.04939	1.05045	1.04986	1.05219	1.05319	1.05343	1.05256	1.05422	1.05613
Euro area - 17 countries (201	1.05130	1.05066	1.05169	1.05112	1.05346	1.05448	1.05470	1.05382	1.05544	1.05730
Euro area - 16 countries (200	1.05221	1.05162	1.05265	1.05204	1.05437	1.05534	1.05553	1.05462	1.05621	1.05805
Euro area - 15 countries (200	1.05670	1.05590	1.05699	1.05642	1.05886	1.05978	1.05921	1.05787	1.05933	1.06097
Euro area - 13 countries (200	1.05732	1.05645	1.05750	1.05691	1.05935	1.06033	1.05983	1.05849	1.05996	1.06161
Euro area - 12 countries (200	1.05837	1.05752	1.05864	1.05807	1.06049	1.06145	1.06095	1.05963	1.06110	1.06279
Euro area - 11 countries (199	1.06122	1.05994	1.06166	1.06225	1.06519	1.06615	1.06544	1.06427	1.06583	1.06771
Belgium	1.10534	1.11603	1.11291	1.11748	1.11683	1.11285	1.12477	1.12951	1.12835	1.12835
Bulgaria	0.894418	0.940513	0.937848	0.942606	0.922856	0.944121	0.960092	0.984827	1.00567	1.04008
Czechia	18.0644	17.9031	18.0008	17.7226	17.7294	17.9976	18.1117	18.0938	18.2478	18.6501
Denmark	10.0296	10.0165	10.2394	10.1951	10.2284	10.1623	10.1960	10.0068	9.98394	9.91017
Germany (until 1990 former t	1.06368	1.05812	1.06567	1.07398	1.07318	1.08242	1.08386	1.08458	1.08656	1.10576
Estonia	0.676618	0.686327	0.705349	0.724169	0.735363	0.747812	0.760177	0.778956	0.796618	0.812606
Ireland	1.12242	1.11550	1.11417	1.12450	1.14311	1.12633	1.14389	1.15685	1.16694	1.20133
Greece	0.953927	0.956730	0.926811	0.875071	0.852940	0.847260	0.847638	0.837399	0.832130	0.825118
Spain	0.960464	0.958026	0.940772	0.935389	0.924431	0.924701	0.925499	0.918655	0.932072	0.932104
France	1.12920	1.12871	1.14291	1.12508	1.12709	1.12495	1.12337	1.12146	1.11424	1.08767
Croatia	5.11796	5.03428	4.96005	4.95572	4.94552	4.88597	4.87058	4.84151	4.86956	4.87194
Italy	1.02151	1.01780	1.01219	1.02202	1.03230	1.02758	1.00888	1.00465	1.00281	0.995388
Cyprus	0.925073	0.937224	0.956847	0.952737	0.948649	0.922476	0.896240	0.895856	0.897608	0.906304
Latvia	0.643464	0.668760	0.685233	0.692075	0.694428	0.692155	0.697799	0.705603	0.724159	0.739527
Lithuania	0.595067	0.606265	0.612750	0.614555	0.617752	0.620220	0.631416	0.644706	0.658928	0.670932
Luxembourg	1.22302	1.21422	1.22750	1.24098	1.23396	1.22590	1.22685	1.23535	1.24903	1.26099
Hungary	167.023	166.715	170.054	173.243	180.620	184.391	190.147	198.102	205.475	213.260
Malta	0.756397	0.770239	0.784765	0.800482	0.818362	0.834226	0.839628	0.853974	0.861216	0.858491
Netherlands	1.12843	1.12161	1.11598	1.10640	1.12881	1.12674	1.14556	1.13900	1.14417	1.16956
Austria	1.11276	1.11531	1.10141	1.10489	1.11485	1.11121	1.11889	1.12860	1.12695	1.13661
Poland	2.38465	2.41667	2.43143	2.44250	2.46634	2.45540	2.49554	2.53806	2.57675	2.62707
Portugal	0.823313	0.835885	0.819512	0.808980	0.807907	0.813702	0.822920	0.838342	0.842441	0.839898
Romania	2.03164	2.07942	2.11660	2.22650	2.27266	2.31317	2.29980	2.34975	2.46446	2.51804
Slovenia	0.842838	0.837076	0.821401	0.818405	0.825170	0.828101	0.831115	0.830276	0.838144	0.837537
Slovakia	0.663391	0.679360	0.682986	0.680782	0.677472	0.683779	0.724671	0.752052	0.768032	0.787341
Finland	1.18977	1.20479	1.22981	1.25498	1.26616	1.26274	1.26861	1.25769	1.25602	1.25662
Sweden	11.9240	11.8646	11.7157	11.9179	12.1802	12.3171	12.7058	12.8910	13.0688	13.2178
Iceland	175.572	181.311	185.410	189.937	193.367	197.497	201.663	201.365	203.977	209.292
Norway	12.0913	12.1848	12.2333	12.5162	12.9496	13.8168	14.4618	14.1981	14.1556	14.5366
Switzerland	1.93707	1.87479	1.83297	1.81932	1.78891	1.71907	1.73100	1.72962	1.73847	1.72625
United Kingdom	0.927853	0.947191	0.949784	0.963733	0.974794	0.963388	0.991686	0.996945	1.00819	1.01839
Candidate and potential cand	0.448477	0.465402	0.453842	0.470475	0.465498	0.464608	0.470932	0.483968	0.499703	0.506976
Montenegro	0.488849	0.488052	0.500547	0.504573	0.504932	0.500284	0.502814	0.511074	0.512989	0.507635
North Macedonia	24.7478	25.8775	25.7246	26.4833	26.5119	27.0433	27.3031	27.6251	28.0694	28.0199
Albania	58.3950	58.8366	59.0949	61.1491	59.8656	59.4068	61.0416	61.5342	62.1326	61.5551
Serbia	46.0243	48.7294	51.4159	54.5081	55.5503	56.6686	58.2611	59.4451	60.4168	61.3550
Turkey	1.21598	1.29615	1.38055	1.48361	1.54152	1.61705	1.78729	2.01541	2.40924	2.82225
Bosnia and Herzegovina	0.967497	0.963436	0.955614	0.951128	0.959109	0.965532	0.972912	0.991211	0.994863	1.00460
Kosovo (under United Nation:	:	:	:	:	:	:	:	:	:	:
United States	1.32228	1.34153	1.35368	1.38617	1.39567	1.39107	1.44014	1.45624	1.47493	1.48891
Japan	147.654	144.153	141.153	140.423	143.826	143.933	151.963	153.054	152.96	154.289

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22 October 2021

Re: Cross Border Parcel Regulations ("CBPR") and 'potentially unreasonably high' tariffs

Dear Stephen,

As part of the 2021 Cross Border Parcel review, correspondence dated 15 April 2021 from ComReg identified the following tariffs as 'potentially unreasonably high':

'Potentially Unreasonably High' Tariffs
1kg (Domestic and Intra-Union) Standard Parcel
2kg (Domestic and Intra-Union) Standard Parcel
5kg (Domestic and Intra-Union) Standard Parcel

An Post would highlight that together, the above items represent a very small proportion of total USO outbound parcel volumes, with the tariffs under review representing just [redacted]. As a result, and as outlined further below, although the margins on these may appear high, they are not indicative of USO product margins more generally.

In addition, it should be noted that as a peripheral country (and the resultant effect that inbound flows are greater than outbound) fair and reasonable comparisons with other EU member states may not be entirely practical.

In the same correspondence, ComReg requested:

A. Previously provided operational data submitted by An Post which is updated again for 2021 for what are the products flagged;
B. Outbound volumes to each Intra EU member state for each of the flagged products at the specific weight breaks;
C. P&L breakdown for each flagged tariff;
D. Information how each of these 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.

Requests A) & B) were provided on 28 May 2021 and are again provided here in the attached Appendices A & B.

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Request C) is currently under review [redacted] and will be provided to ComReg as soon as this is completed. This letter uses revenues and costs derived from the current draft model which are subject to ongoing review. The current draft model [redacted] [redacted] have been supplied as Appendices C & H. These are provisional only and subject to change. A final version of each will be issued to ComReg upon conclusion of the review.

Request D) is contained within this letter. This is provided with supporting margins and costs, but as requested in ComReg's email of 7 October 2021, cost and margins from the current draft model are used as the final model review has not yet been fully completed [redacted]. We have endeavoured to provide and explain the basis on which we set the relevant outbound prices with accompanying audited data, where possible.

Note on P&L Breakdown

The 'Methodology- CBPR Margin Assessment Standard EU Outbound' document provided as an appendix to the letter received from ComReg dated 28 June 2021 states the following in relation to 'Destination Independent Costs':

"Cost per unit for each of the pipelines will be determined for assessment based on 2020 Reg Accounts. The cost per item will be adjusted by weightings to reflect item weights i.e. 1kg parcel cost only. Only exception will be an adjustment in Scale Payments…."

Verifiable weightings are not available to allocate these costs according to the specific product weight categories identified in the EU Cross Border Parcel Regulation of 2018. The methodology by which these costs are allocated within the Regulatory Accounts is complex and was not designed with the CBPR requirements in mind.

[redacted] Any weightings calculated by An Post in an attempt to fulfil this request would not meet this requirement.

Further, the large majority of the 'Destination Independent' costs under examination are Common Costs and Revenue Collection costs for which it is not clear that an adjustment for the weight of an item would be appropriate.

Therefore, An Post believes that the average per item cost from the audited Regulatory Accounts would be more appropriate to use in the assessment for these cost categories, as outlined in the original methodology. This is the methodology used in the provided P&L split.

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The above also implies that the 'long term trend' adjustment for Destination Independent costs should be dropped from the assessment methodology. Upon further review, An Post accepts that given the lack of a clear trend in these costs over the last four years, this would be appropriate in the case of the current assessment, but reserves the right to raise the matter again if a clear trend in these costs emerge.

[redacted]. According to the [redacted] methodology, the following margins can be determined for each product under review:

'Potentially Unreasonably High' Tariffs[1]	Margin
1kg (Domestic and Intra-Union) Standard Parcel	[redacted]
2kg (Domestic and Intra-Union) Standard Parcel	[redacted]
5kg (Domestic and Intra-Union) Standard Parcel	[redacted]

Together, these items represent a small proportion of total USO parcel volumes, with the tariffs under review representing just 1.8%. As a result, these margins are not indicative of USO product margins more generally. See Fig A below.

Fig A- Tariffs under review as % of USO Outbound Parcels (2020)

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As requested in ComReg's email of 7 October 2021, these margins are derived from the draft version of the model for which the [redacted] review is ongoing.

CBPR Quartile Analysis

The three products identified as 'potentially unreasonably high' by ComReg are those calculated as being in the 'Top Quartile' of tariffs by the European Commission. An Post has recreated this analysis as Appendix D to this document. The following rankings can be determined for each product.

'Potentially Unreasonably High' Tariffs	Rank
1kg (Domestic and Intra-Union) Standard Parcel	4/16
2kg (Domestic and Intra-Union) Standard Parcel	2/16
5kg (Domestic and Intra-Union) Standard Parcel	1/15

An Post notes that the 1kg Parcel product is only €0.58 higher than the threshold for the top 25% quartile. In addition, this analysis is based on information provided by only 15-16 of the 27 EU USPs.

Cost Orientation

An Post notes that none of the identified tariffs were assessed as unreasonably high in the 2020 review. The 1kg, 2kg and 5kg Standard Parcel tariffs were flagged as 'potentially unreasonably high, consider for assessment next-year'.

An Post further notes that the tariffs charged for these products have not changed since the date of the last review.

An Post's overall USO Outbound mail business operated at below what we consider to be an acceptable margin in 2019. Primarily due to increased freight costs due to COVID-19, the performance of the Outbound mail business deteriorated to an overall (-13%) loss in 2020.

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.

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

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In setting prices, An Post must consider the sustainability of the USO overall including 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 currently make over -€8m loss on Outbound USO and [redacted]. 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 the 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.

Due to COVID-19, 2020 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 (See Appendix E). Transport costs account for a high proportion of the overall cost of an outbound parcel [redacted] according to the 2020 Regulatory Accounts). Freight costs remain unpredictable as international freight capacity continues to be highly affected by the pandemic. Fig 2 below illustrates the high variation in freight costs across 20-21.

Fig 1- Proportion of Overall Parcel Cost that is Freight

Fig 2- Variation in Freight Cost 20-21[2]

2 [redacted]

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 services to EU member states are air freighted and are directly affected by flight capacity constraints. Therefore, An Post faced an unusually demanding set of circumstances with regard to COVID-19 compared to other European postal operators.

Ireland is the second highest cost country in the EU[3]- and inflation is rising, recently reaching a 10-year high which will put further pressure on costs[4]. An Post must of course be future-oriented with respect to price setting.

It is clear that reducing prices during this period of escalating and unpredictable costs, with the emergence of losses in USO outbound traffic, could have put the sustainability of the USO at risk.

[redacted]

An Post did implement a price change to Zones 4 and 5 in 2021 which was carefully designed to maintain the viability of the service and avoid sticker shock to customers. [redacted]

[redacted]

In the context of the current challenges and flux within the international mails sector, An Post considers these prices to be acceptably cost-orientated.

Affordability

The CBPR collected data for the domestic operators in each country under review. Four operators were profiled in Ireland, including An Post. Appendix F shows this information and calculates an average price to all destinations profiled. In two out of three products under review An Post is the

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

[4] https://www.irishtimes.com/business/economy/irish-inflation-hits-10-year-high-as-cost-of-transport-and-housing-jumps-

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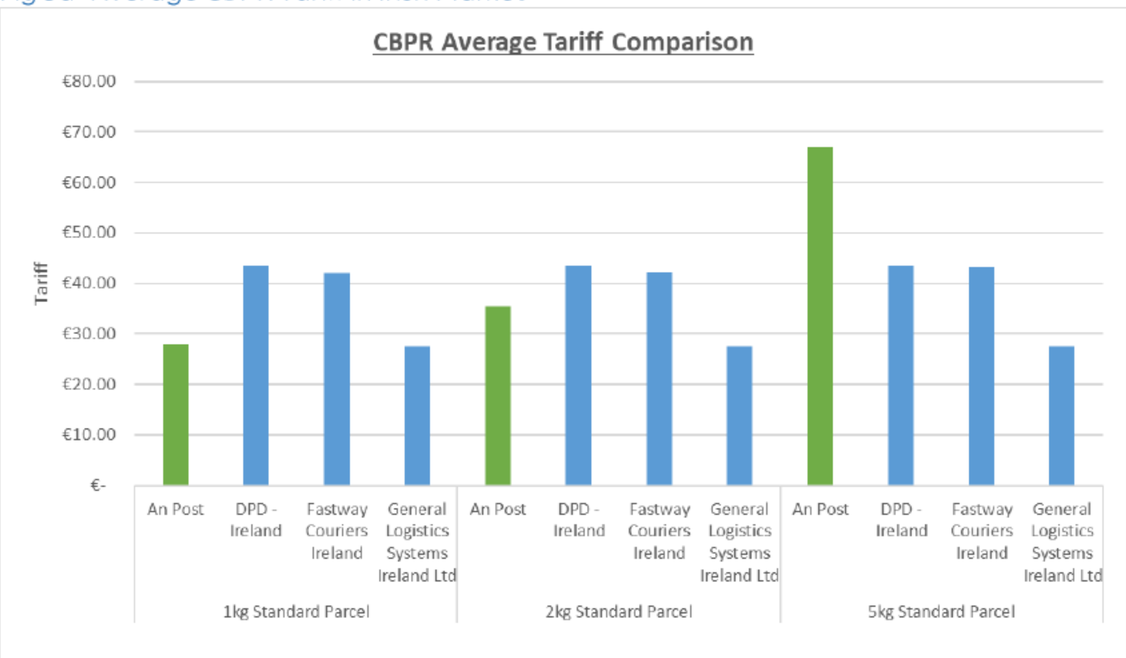
second lowest average price profiled (Fig 3a). Also, An Post's flat rate throughout the EU means that our tariffs remain affordable for all EU destinations (Fig 3b). Overall, the Standard Parcel service to the EU offered by An Post is highly competitive and affordable.

An Post 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 and that An Post is subject to a far greater level of regulatory oversight than its competitors [redacted]

Fig 3a- Average CBPR Tariff in Irish Market



It should be further noted that 'postal services' account for barely one tenth of one percent of household expenditure in Ireland[5].

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

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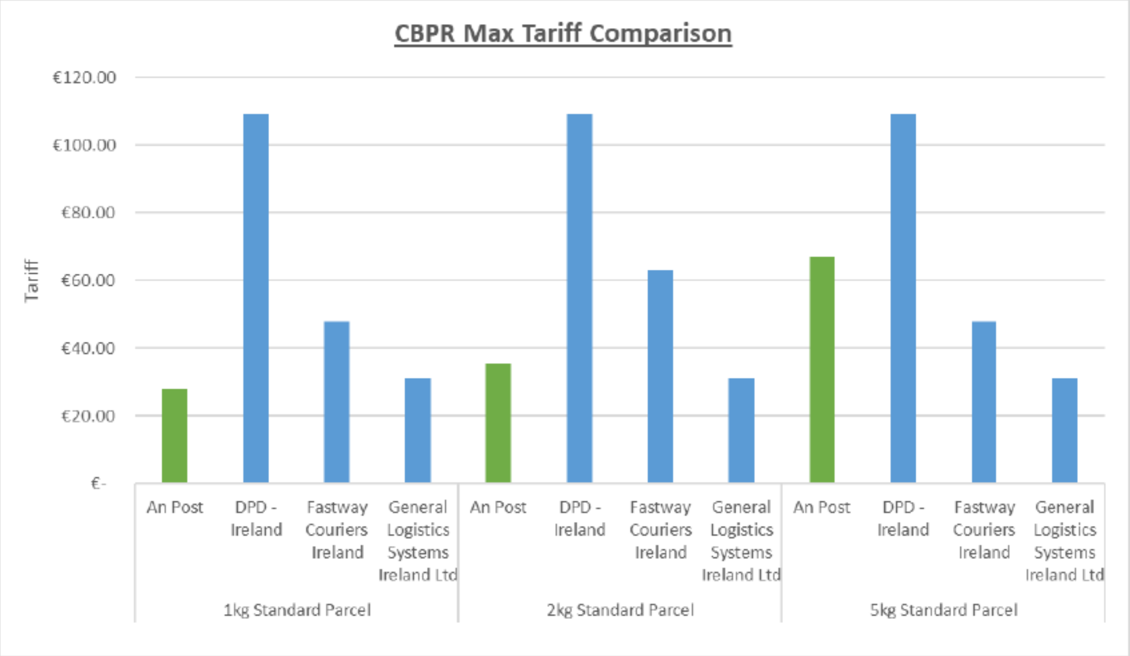
Fig 3b- Max CBPR Tariff in Irish Market



Transparency

In the interest of transparency, An Post has for a long period offered a single price to Europe (exc. UK). This means that a broad variety of costs must 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[6]. [redacted]

As illustrated in Fig 3B above, An Post's single rate to Europe policy stands in contrast to our competitors who do not tend to offer a single rate to the EU, and may not offer easily accessible services to many European destinations[7].

[6] The margin analysis provided is calculated on the basis of the current profile of traffic and does not account for any potential changes in profile.

[7] shipping.dpd.ie and https://gls-group.eu/IE/en/products-services/shipping-calculator do not list services online to Greece, Iceland, Norway, Cyprus or Malta among others. These are all among the most expensive destinations to service. Fastway [parcelconnect.ie] does not offer any overseas services online at the moment (apart from to the UK). In CBPR GLS services were all assessed as the Extra Small service which is not comparable to An Post's product offering. (Websites accessed on 11.10.21)

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Fig 4- 1kg Standard Parcel Zone 3 Costs vs. Tariff[8]

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Fig 5- Standard Parcel Zone 3 Costs vs. Tariff- All USO Weights

In order to prevent arbitrage, it is essential that An Post's published rates for a zone cover the full 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 disparity between costs to different destinations, particularly between core EU countries and periphery and non-EU states. Previously, An Post has attempted to maximise transparency and minimise complexity for the customer by avoiding multiple zones within Europe or by-country pricing. We accept that a move to a larger number of zones or per-country pricing may appear attractive but it is not necessarily practical to implement: tariffs may be required to be changed with greater frequency and may not appear socially cohesive. The current single European zone makes price decreases risky due to the threat of arbitrage.

An Post offers an extremely transparent pricing structure to customers, as unlike many of our competitors we do not levy fuel surcharges 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.

Our outbound parcel service is currently overall loss making and experiencing a high degree of volatility and increase in airfreight rates due to COVID. Ireland's position on the periphery of Europe makes us uniquely vulnerable to this. In this context, it is not practical to attempt to have an equivalent margin across all Zone 3 products and weights without risking the sustainability of the outbound service overall. An Post notes that our Zone 3 service delivers to all European destinations at a flat rate and therefore must cover the costs to all destinations to avoid arbitrage. Therefore, we consider our Outbound Parcel service to the EU to be acceptably cost-orientated. Furthermore, the specific Standard Parcel tariffs under examination were not flagged as unreasonably high in the previous review and tariffs have not changed since then.

Due to our flat rate to all European destinations and lack of hidden fees and surcharges- An Post's service to Europe is uniquely transparent in the Irish market. The service is available to all single

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piece users on an over the counter basis and on a single tariff basis for a broad range of overseas destinations and hence is non-discriminatory.

The affordability of An Post's standard parcel service to Europe is attested in the CBPR data itself, where we are the second lowest price operator on average for 2/3 products reviewed. The value proposition of An Post's parcel service is unrivalled in terms of destination choice, including to peripheral EU countries not served by our competitors, and unlike other competitors offers a large maximum size parcel.

An Post would highlight again that the tariffs flagged as being potentially unreasonably high, together represent a very small proportion of total USO parcel volumes, with the tariffs under review representing just 1.8%.

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

Yours sincerely,

Dr. Tanya Harrington
Chief Regulatory Affairs Officer