



An Coimisiún um
Rialáil Cumarsáide
Commission for
Communications Regulation

Consequences of the repeal of the price cap on certain of the universal postal services Response to consultation

Response to Consultation

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Commission for Communications Regulation

1 Lárcheantar na nDugaí, Sráid na nGildeanna, BÁC 1, Éire, D01 E4X0.
One Dockland Central, Guild Street, Dublin 1, Ireland, D01 E4X0.
Teil | Tel +353 1 804 9600 Suíomh | Web www.comreg.ie

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1 Introduction

- 1 The Communications Regulation (Postal Services) (Amendment) Act 2017 (“the Repeal Act”) requires the Commission for Communications Regulation (“ComReg”) to undertake a review of any consequences of the repeal of the price cap. That review is now commenced and as required by the Repeal Act a report will be provided to the Minister for Communications, Climate Action and Environment by 21 September 2019 at the latest. The Repeal Act stipulates that this report will then be laid by the Minister before both houses of the Oireachtas as soon as practicable after it is furnished to the Minister by ComReg.
- 2 The Repeal Act also noted that an optional public consultation could be conducted by ComReg to seek the views of interested parties on the consequences following the repeal of the price cap.
- 3 By public Consultation Document No. 19/43, issued 16 May 2019, ComReg sought the views of interested parties on the consequences following the repeal of the price cap. ComReg allowed its usual consultation period of 28 days to facilitate responses to Consultation 19/43. The publication of this response to consultation document alongside publication of the non-confidential responses received closes the optional consultation process within the 42 days limit set by the Repeal Act.

2 Summary of responses and response to consultation

4 There were 3 responses to the public consultation as follows:

- i. An Post
- ii. Tico Mail Works
- iii. Chambers Ireland

2.1 Summary of responses

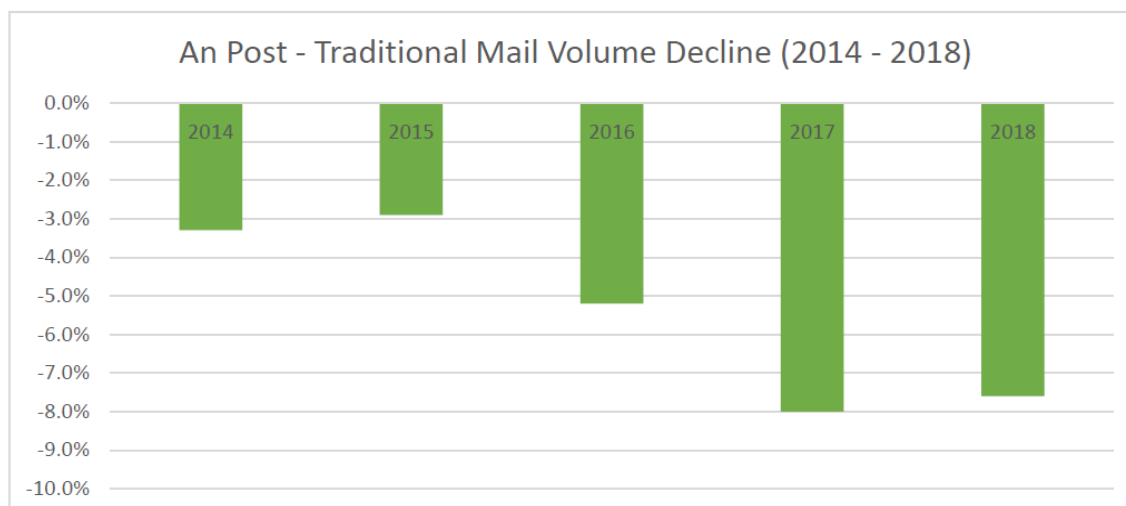
5 The following summaries the key points raised in the submissions, using the headings as per paragraph 19 in Consultation 19/43:

Whether the repeal of the price cap has ensured the continued availability of the universal postal service and the USP's ability to cover its efficient costs

- 6 An Post submits that the repeal of the price cap has not undermined the delivery of the universal postal service, as evidenced by the retention of a service ensuring next day delivery of mail on a five day a week basis. An Post states that this is not the case for a number of European states, which have curtailed the delivery of a universal five-day service. An Post submits that An Post's ability to ensure cost-reflective pricing has meant that universal postal service losses no longer threaten the viability of An Post.
- 7 According to Chambers Ireland, the removal of the price cap allowed An Post to establish prices that had remained artificially below cost for many years. Chambers Ireland submits that this effectively saved An Post and sustained the provision of the universal postal service.
- 8 An Post states that since of the repeal of the price cap, it has continued its drive for greater efficiency and cost-reduction in the provision of the universal postal service. An Post notes that universal postal service costs reduced by €1.3m (0.3%) in 2017.

Whether the price increases for universal postal services has changed use of the universal postal services

- 9 An Post states that use of the universal postal service in Ireland has continued to decline year-on-year with increased volume losses since 2017 onwards as follows:



- 10 With regard to this volume decline, An Post submits that it is not possible to wholly disaggregate the effect pricing from other factors, such as an increasing proliferation of digital communications media.
- 11 An Post states that prior to the repeal of the price cap, Ireland had one of the lowest rates of annual domestic letter post volume decline in Europe, at half the European average. According to An Post, some acceleration in the volume decline following its post price cap repeal price increases is likely attributable to Irish consumer behaviour moving to meet trends already exhibited by their European counterparts.
- 12 According to An Post, it is likely, independent of pricing considerations, that traditional mail volume will continue to drop at high rates annually as greater internet access, a broader range of low-cost digital communications products, and increased IT literacy on the part of consumers, usurps the position of traditional mail as a preferred communications medium for consumers and businesses.
- 13 Tico Mail Works states that it has experienced significant postage price increases of more than 35% over the past three years. According to Tico Mail Works, the scope for passing on these price increases to its customers is constrained, especially at a time of very low inflation. In addition, it is Tico Mail Works' observation, based on contact with its customers, that significant increases in postage prices do lead, on the one hand, to resistance to using post and on the other hand, to incentivising the exploration of alternatives to post.

The affordability of universal postal services and any consequence on the socially excluded / vulnerable

- 14 An Post submits the price of a stamp for a domestic letter for next day delivery, at €1, remains competitive in European terms. According to An Post, the relative affordability of An Post's domestic rate for individual customers is evidenced by:
- a purchasing power parity analysis included in Deutsche Post's 2018 Letter Price in Europe Report¹, which shows An Post's adjusted prices as sitting below the European average;
 - a work minutes per letter analysis included in Deutsche Post's 2018 Letter Price in Europe Report¹, which shows that a comparator worker needs to work for just 2.34 minutes in Ireland to earn the price of a domestic letter, well below the European average of 4.06 minutes.
 - the Central Statistics Office press release of 9 May on the CPI for April shows a miniscule postal weighting at 0.1276².
- 15 Chambers Ireland states that postal prices in Ireland are clearly average when compared to postal services provided in other countries.

Consequence on competitiveness

- 16 According to An Post, the concept of a postal market is a label often erroneously attributed to what is in fact a communications market. An Post states that for a wealth of postal products effective digital or e-substitutions exist, which businesses and individual citizens may utilise to communicate. Therefore, according to An Post, postal products compete, not necessarily with each other in isolation, but with digital and other alternatives. In this regard, An Post submits that it is cognisant that its pricing must continue to offer value for its products to consumers, in competition with a range of digital solutions.
- 17 Tico Mail Works states that very significant price increases for business mail have followed the repeal of the price cap. According to Tico Mail Works, in a declining postal market, with intense competition from electronic communications, it is counterintuitive to force business customers to pay more for the post.

¹ <https://www.dpdhl.com/content/dam/dpdhl/en/media-center/media-relations/documents/2018/letter-price-survey-2018.pdf>

² Central Statistics Office, Consumer Price Index April 2019.

Consequence on postal competition

- 18 An Post and Chambers Ireland submit that where prices are charged for a service which do not bear a reasonable relation to the costs of the service, it presents an opportunity for competitors to enter the market and price accordingly. However, according to An Post, this has not occurred in relation to letter post since the repeal of the price cap, with no new entrant arriving into the letters market since the repeal of the price cap and An Post's price increases of 2017. An Post notes that CityPost exited the market in 2018.
- 19 According to An Post, this reveals an unfortunate position of the letters market in Ireland, which is that, even at these more recent higher prices, little commercial appetite appears to exist for competitors to enter in which scant opportunity to generate profit exists at competitive rates, and ongoing volume decline, or market contraction, appears a steep and irreversible trend.
- 20 Chambers Ireland submits that there has been no impact on competition. Chambers Ireland further submits that the postal market has now been shown to be commercially viable through the turnaround of the incumbent, An Post, in the market.
- 21 Tico Mail Works states that very significant price increases for business mail have followed the repeal of the price cap. Tico Mail Works submits that it cannot adopt a policy of automatically recovering these significant price increases from its customers. According to Tico Mail Works *"the road being travelled here could be catastrophic for our company, which provides employment for some forty people. Should we fail as a business, then one existing element of the limited competition in the mails business will have been removed."*

Consequences for international inbound pricing, also known as Terminal Dues

- 22 An Post states that after the increase in the base rate to €1, An Post sought entry to the IRA-E remuneration agreement on the basis of the new increased rates, and was accordingly accepted into the agreement on the basis of achieving cost-reflective rates over a three year period to 2020. According to An Post, this improved, and more cost-effective price structure influences the negotiation of future bilateral agreements with other postal operators.
- 23 Tico Mail Works states that it successfully pressed to include in the statutory price cap repeal review the issue of terminal dues, as this has always resulted in losses associated with the universal postal service.

- 24 Tico Mail Works states charges for foreign postal operators for the delivery of inbound international mail are based on the headline tariff, the €1 domestic stamped letter price. Accordingly, while Tico Mai Works opposes price increases for business mail, Tico Mail Works were not opposed to the increase in the headline tariff as Tico Mail Works believed that this would assist An Post in stemming the losses on its inbound international mail. Tico Mail Works notes that An Post's 2017 Regulatory Accounts reported the losses on inbound international mail to be €25.7m. Tico Mail Works submits that support from the State, ComReg and stakeholders would assist in difficult international, EU and bilateral negotiations (particularly the bilateral negotiation with Royal Mail).
- 25 Tico Mail Works submits that it has warned about the danger of "mail leakage" to other jurisdictions, which dangers must be increased by the very large price increases over the past two years. According to Tico Mail Works, *"it seems unconscionable that neighbouring foreign postal service providers may be able to secure cheaper rates for posting to Ireland than Irish postal service providers"*.
- 26 According to Tico Mail Works, the review process prescribed by Section 2 of the Communications Regulation (Postal Services) (Amendment) Act 2017, which includes the effect on terminal dues, presents an ideal opportunity for ComReg to comprehensively revisit the issue of terminal dues and, at the very least, provide an up to date report on progress.

The role of regulation regarding pricing matters in respect of the universal postal services

- 27 An Post states that it has consistently welcomed the decision of the State to repeal the price cap, to provide the company with the freedom required to bring its postal pricing in line with its European peers and achieve cost-oriented pricing. According to An Post, the repeal allowed An Post to balance pricing against loss of volume on an ongoing basis, and ensure maintenance of a high level of quality of service.
- 28 According to An Post, the price cap acted as a barrier to achieving cost-orientation in the pricing of postal products and the efficient operation of An Post's business. An Post states that the price cap required long-term projections of costs, volumes, and market behaviour, all of which are highly susceptible to rapid change. An Post further states that requiring the completion of a prolonged regulatory process to achieve changes in postal service product pricing risked leaving An Post in a position where it was incapable of orienting its pricing to costs or service demand, and therefore endangered its ongoing financial sustainability. According to An Post, the current model where prices are oriented to costs is appropriate and sustainable.

- 29 Tico Mail Works submits that as part of the price cap repeal process, ComReg should initiate an investigation to confirm that the statutory requirements of sections 28 and 29 of the Communications Regulation (Postal Services) Act 2011 are being met.
- 30 Tico Mail Works submits that key rationale for having the universal service provider subject to a regulator is to prevent monopoly pricing where, as in this case, the regulator has identified a lack of competition. According to Tico Mail Works, that is why the price cap was in place.

Other matters

- 31 An Post submits that the combination of low population density and a low number of mail items per capita in Ireland results in a higher cost per item to provide the nationwide delivery service in Ireland. Chambers Ireland also submits that the cost of delivery in Ireland is well above European average.
- 32 An Post further submits that this not only presents additional challenges and costs in the delivery of mail, it also underlines the importance of the sustainability of the universal postal service, given its social function as an important communications medium to rural populations, who, according to An Post, are generally older, possess fewer IT skills, and are prone to social isolation, which daily postal deliveries and collections can assist in mitigating.
- 33 An Post states that the rapid on-going decline in mail volumes and the requirement for An Post to transform into a nationwide e-commerce delivery service will require further creative and substantial changes to pricing.

2.2 ComReg response to consultation

- 34 All responses to this public consultation will be considered³ in ComReg's review of the repeal and in ComReg's report on the consequences of the repeal of the price cap due to be presented to the Minister by 21 September 2019.

³ As noted in Consultation 19/43, the public consultation process is not equivalent to a voting exercise and ComReg will exercise its judgement having considered the merits of the views expressed and any supporting evidence provided.