



Commission for
Communications Regulation

Decision Notice & Response to Consultation

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

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1 Foreword

The need for major change in the way postal service providers structure their international services has been on the agenda for more than a decade. An Post took its first steps when it decided to join the IPC (International Post Corporation) consortium. In 1991 it took the first steps in bringing prices for mail to Britain in line with those for other European countries, instead of charging the domestic rate. Now there is a statutory requirement to ensure that prices are “geared to cost” and this means that there must be significant changes – down as well as up.

One of the most difficult decisions that an organisation has to make when faced with the need to make such significant changes is whether to make them all at the same time, or whether to phase them in over a period.

In submitting their proposals to ComReg for a restructuring of outbound international prices An Post has decided on the second course. Taking account of ComReg’s concerns about the impact of the REIMS agreement¹ which needs to be revised and in the light of the responses to the public consultation initiated in October ComReg has decided to concur with this approach.

User respondents’ adverse comments related to the impact of even these phased increases, difficulties with format change and indicated a belief that Irish tariffs are higher than those in certain European countries.

In response to these, ComReg notes:-

- It will still be open to use An Post’s economy service at the old prices.
- Format pricing will create a simpler and more transparent pricing structure, when the change-over is complete. Also, encouraging the use of standard formats where possible will help contain overall costs and improve service quality. It is noted that 70% of business respondents to a recent ODTR survey approved of the introduction in April last of a single tariff for all standard sized envelopes in the domestic service.
- The consultation paper contained a benchmarking of pricing in Denmark, the UK and Belgium. This has been extended to Germany and the Netherlands, but the results are still the same – pricing in Ireland is more favourable.

Many Respondents shared ComReg’s concern about the inequities of the REIMS II agreement which governs how much An Post receives for delivering mail on behalf of other European operators and a consultation on whether to issue a Direction requiring An Post to renegotiate this agreement will be initiated shortly.

Etain Doyle

Commission for Communications Regulation.

¹ The agreement which covers how much An Post is paid for delivering mail from the other EU countries except for the Netherlands, and how much it pays for delivery in those countries

2 Introduction

The Commission for Communications Regulation (“ComReg”) is responsible for the regulation of Universal Postal Services in Ireland in accordance with National and EC legislation. ComReg is the National Regulatory Authority (“NRA”) for the purposes of that legislation.

One of the functions given to ComReg is to monitor compliance with the Tariff Principles set out in the EC “Postal Directive”². These require, inter alia, that the prices charged for all services within the universal service obligation are “affordable to all” and “geared to cost”. The onus is on An Post to comply with these principles and ComReg's functions are concerned with ensuring, on an ex-post basis, that there is such compliance.

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

2.1 Proposals by An Post to increase prices

In December 2001 An Post submitted an application for an interim price increase. The ODTR³ went to consultation about this application in January 2002 (see ODTR 02/15). In response to that consultation the ODTR’s position was clearly stated as follows:

“Approval is conditional on An Post undertaking: (a) to provide full separated accounts as required by the Direction on Accounting Separation dated 20 September 2001” (see ODTR 02/32 Section 3).

“The proposals for international increases are of a holding nature pending the radical rebalancing of prices that is inevitable in this segment of the market” (see ODTR 02/32 Section 6).

The Separated Accounts for 2001 published by An Post on its website (www.anpost.ie) show that international outbound mail in the reserved area made a €5.6m loss although overall the profit was €5.1m. The An Post results for 2001 also show a loss of €19.3m for incoming services.

An Post submitted a proposal on 7 October 2002 to adjust international tariffs for all mail to Britain, Europe and Rest of the World.

2.2 Consultation Paper

In carrying out its functions under the legislation, ComReg is obliged to take into account the views of interested parties. At the end of October 2002

² Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service. OJ L 15 21.1.1998, p. 14

³ Office of the Director of Telecommunications Regulation, whose functions were transferred to ComReg on 1 December 2002 under the Communications Regulation Act, 2002.

ComReg launched a consultation on An Post's proposals to increase the price of international outbound reserved Postal Services. The process involved the publication of a consultation document ODTR 02/94 which addressed the issues that required careful consideration in advance of forming a definitive response to the application.

The responses received to the consultation paper have been of assistance to ComReg in helping it to form a view as to whether the price increases in the reserved area are warranted based on the information provided by An Post and to decide whether any other appropriate regulatory measures are required in relation to approving the application.

ComReg wishes to express its thanks to everyone who contributed to the consultation. Eight responses to the consultation paper were received from the organisations and individuals listed in Appendix 1. All points raised have been taken into account, although readers will appreciate that it is not feasible to refer to every point made by every respondent in a document of this nature.

With the exception of material marked as confidential, the written comments of respondents are available for inspection at ComReg's offices in Dublin.

2.3 Format of this Document

This report deals with the main issues raised during the consultation, each under three sub-headings:

- A summary of the consultation topic.
- A summary of the views of respondents.
- ComReg's position.

The document is then concluded by comments bringing the analysis together, accompanied by ComReg's decision.

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

3 Background

3.1 Legislation

3.1.1 The European Communities (Postal Services) Regulations 2000 (S.I. No. 310/2000)

The EC “Postal Directive” establishes a harmonised regulatory framework for postal services throughout the European Union and for securing improvements in the Quality of Service provided. It defines a decision-making process regarding further opening of the postal market to competition. It was transposed into national law by the European Communities (Postal Services) Regulations 2000 (SI No.310/2000 "the Postal Regulations").

Under these Regulations ComReg has been given certain responsibilities for regulation of the postal sector and An Post has been designated as the Universal Service Provider.

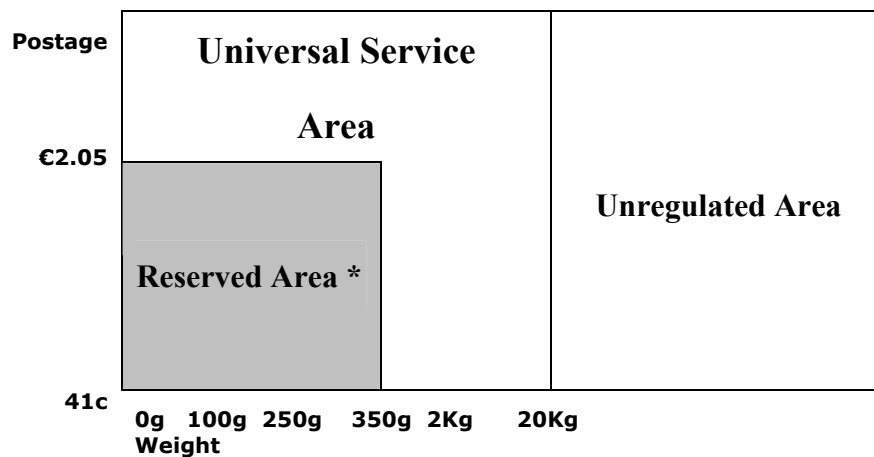
Under Regulation 10(1) the tariffs for each of the services provided by the Universal Service Provider which forms part of its universal service must comply with the tariff principles set out therein. Under Regulation 10(2), where ComReg is of the opinion that a universal service provider is not complying with the principles ComReg may, after consultation with the Minister, issue Directions to ensure compliance with the principles.

3.1.2 The Postal & Telecommunications Services Act 1983("The 1983 Act")

Under section 70 of the Postal & Telecommunications Services Act 1983 An Post may make, as respects any of the postal services provided by it, a Scheme providing all charges which are to be made by it and the other terms and conditions which are to be applicable to those services. The Postal Regulations amend the Act to provide that An Post shall not increase any charge under such a Scheme relating to postal services reserved to An Post without the concurrence of ComReg (this role had previously been given to the Minister).

3.1.3 Distinction between the two legal provisions

ComReg’s powers under section 70 of the 1983 Act is of a different nature to that arising from the Postal Directive requirement which is to ensure that An Post complies with the Tariff Principles and covers different (albeit overlapping) areas of An Post’s business.



Not to scale

* except for Britain the reserved area is restricted to 100g (priority and 250g (economy) because of the price restriction

Figure 1. Inter relationship between Universal, Reserved and Unregulated International Outbound Letter and Parcel services

Section 70 of the 1983 Act

This responsibility only relates to some services, i.e. those reserved to An Post under Regulation 9 of the Postal Regulations. Reserved Services currently refers to correspondence weighing up to 350 grams and charged less than five times the standard tariff for an item in the first weight step (€2.05). It creates a mechanism whereby An Post must seek ComReg’s approval before implementing any price increase.

Tariff Principles

These Principles apply to all of the universal services. The onus is on An Post to comply with these principles. Under Regulation 19(1) of the Postal Regulations ComReg’s responsibility is to monitor compliance, but without any requirement to approve prices in advance. If ComReg considers that An Post is not complying, they may after consulting the Minister require An Post to come into compliance. However, in order to convenience users it is the intention of ComReg to let An Post know of its views at the earliest possible date.

3.2 Criteria which ComReg takes into account in making its decision

Following on the ODTR position as indicated in the Report on Consultation ODTR 02/32, in addition to the Tariff Principles, ComReg will take into account the following factors when considering, under Section 70(2) of the 1983 Act, as amended, whether to approve proposals to increase prices for services within the Reserved Area for outbound international services:

1. Observations made to ComReg under Regulation 17(1) of the Postal Regulations about the adequacy of An Post's justification for the proposals.
2. The obligations which are placed on An Post by EC competition law, by statute (eg Section 13 of the 1983 Act which requires prices to be kept at the minimum rates consistent with meeting approved financial targets) and by its own memorandum and articles of association.

3.2.1 *Competition Law*

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

The European Commission has published a Notice⁴ on how competition law applies in the postal sector. Point 3.4 of this Notice provides that monopoly operators such as An Post "should not use the income from the reserved area to cross subsidise activities in areas open to competition. Such a practice could prevent, restrict or distort competition in the non-reserved area". There is an assumption in Article 7(1) of the Postal Directive that subsidies from the reserved area to the non reserved area may be permissible "to the extent necessary to ensure the maintenance of the universal service".

This Notice recognises that dominant companies may compete on price or improve their cash flow and obtain only partial contribution to their fixed (overhead) costs, so long as such prices are not predatory or in conflict with relevant national or Community regulations. (It should be noted that the tariff principles set out in the Postal Directive and Irish Regulations require that the prices should be "geared to cost").

3.2.2 *Section 13 of the 1983 Act*

Other legislative requirements must also be taken into account. In this regard section 13 of the 1983 Act sets out in detail the financial objectives for An Post (in summary to "breakeven") and specifically provides that "charges for services are kept at the minimum rates consistent with meeting approved financial targets".

3.3 Summary of An Post's Price Proposals

In the consultation paper, section 3 sets out a summary of An Post's justification for the proposed restructured international tariffs.

An Post proposed increases for the lower weight categories in Britain and Europe and reductions for packets to Europe and the Rest of the World.

⁴ Notice from the Commission on the application of the competition rules to the postal sector and on the assessment of certain State measures relating to postal services Official Journal C 39, 6.2.1998, page 2

Application to increase the price of International Outbound reserved Postal Services

- Uniform pricing for Europe (excluding Britain) and the Rest of the World for items up to 100g
- Introduction of format-based pricing up to 100g
- Significant tariff reductions at the higher weight steps in the Rest of the World category
- The option for users to avoid a price increase on letters by using the economy service.

An Post estimated that the proposed new tariffs would generate a net revenue yield of the order of the €6.1m p.a. This is inclusive of the yield from the interim price increase effective from 2 April this year; the additional yield from the current proposed increase is therefore of the order of €4.7m p.a. An Post state that the overall net yield is required in order to maintain margins at about the 2001 levels.

An Post stated that the proposal seeks to deal with the cost and rebalancing issues arising in respect of international tariffs in a positive way and represents, in its view, a further step towards cost-reflective and balanced pricing whilst taking account of commercial imperatives, including the need to fund the Universal Service Obligation.

The main price increases in the An Post proposal apply to Britain (up 29.7% on average) and to Europe (up 15.9% on average) while mail to the Rest of the World is reduced by 14.3% on average.

The increases are offset by a number of factors:

- For particularly price sensitive customers of the ordinary letter service there is the option of avoiding any price increase by switching to the Economy service.
- The new moves towards Format Pricing ensures that the significant cross-subsidies between Packets and mail in conventional envelopes will be eliminated, thereby avoiding any distortion of the competitive market.
- Additional reductions in the number of weight steps, particularly at the lower end of the scale. With regard to POP letters to Europe and the Rest of the World, the differential between the cost of a 0-25g letter and a 26g-50g letter has been reduced. (To eliminate it altogether at this stage, as was done earlier this year for the Domestic Service and to Britain, would necessitate a lot of people paying an extra 2c or 3c so that a few would gain a price reduction of about 23c).
- A significant move has been made towards eliminating the unwarranted price differential between the price of mail to Europe and the Rest of the World, with many prices being reduced by up to 38%. The Rest of the World service accounts for 35.9% of total

mail (by value) of which a very significant portion is posted by residential consumers who would benefit from these changes.

The proposals heralded the end of the domestic tariff being charged for mail to Britain (excluding Northern Ireland). Mail to Northern Ireland will continue to be charged at domestic rates. The consultation paper proposed that all mail to Northern Ireland should be classified as part of the domestic service in the separated accounts from 2002 onwards.

3.4 An Post's justification of its pricing proposals

Aside from the interim increase earlier this year, the last substantive price increase in outbound international mail was in 1991. As An Post have outlined previously, costs have increased significantly in the meantime and margins on international outbound mail have been substantially eroded.

As reported in the separated accounts for 2001, the overall margin on outbound international letterpost was 7.5%. This margin will be further reduced in future years by increasing costs, as detailed below.

The principal increases in costs in the period 2002- 2003 are stated by An Post to be:

- Payroll cost will increase by over 11%.
- Delivery and Handling costs in destination countries have increased significantly
- Air conveyance costs have escalated since the events of 11 September 2001 and are set to increase further in 2002-2003.
- Other costs are influenced by the general level of inflation in the economy which is estimated at 4.5% in 2002 and 3.7% in 2003.

An Post states that overall total outbound international costs in 2003 are set to increase by over 9% above the 2001 levels.

The 2001 An Post Separated Accounts indicate that, in terms of rebalancing international tariffs, the focus of any price application should be to:

- Reduce the significant level of losses being incurred in the Reserved Area;
- Implement a mixture of increases and decreases in tariffs in the non-Reserved Area to better reflect costs; and
- Introduce format-based pricing.

The An Post proposal addresses this requirement in a balanced manner and continues the process of rebalancing initiated under the interim price changes in April last.

3.5 Consultation Paper's observations on the proposals as put to consultation.

The application of the tariff principles set out for the regulation of An Post have required major analysis and review of the cost drivers affecting An Post. The Direction issued to An Post in September 2001, required separated accounts disaggregated to the level of service, to be provided to the ODTR in confidence, within 19 weeks of the end of the financial year. An analysis of these revealed very considerable variations between cost drivers and price trends. It is crucial that An Post address these in terms of its own finances and as they could distort the market for international letter services when those markets are fully opened to competition. The Consultation Paper noted that An Post is losing some €14.2m on the €123.2m turnover from international services (inbound and outbound) and the proposals made here would limit this loss. The proposals recently submitted by An Post therefore envisage some large increases as well as price reductions.

The main price increases in the An Post proposal apply to Britain (up 29.7% on average) and to Europe (up 15.9% on average) while mail to the Rest of the World is reduced by 14.3% on average. The increases are offset by a number of factors:

- For particularly price sensitive customers of the ordinary letter service there is the option of avoiding any price increase by switching to the Economy service.
- The new moves towards Format Pricing ensures that the significant cross-subsidies between Packets and mail in conventional envelopes will be eliminated, thereby avoiding any distortion of the competitive market.
- Additional reductions in the number of weight steps, particularly at the lower end of the scale. With regard to POP letters to Europe and the Rest of the World the differential between the cost of a 1-25g letter and a 26g-50g letter has been reduced. (To eliminate it altogether at this stage, as was done earlier this year for the Domestic Service and to Britain, would necessitate a lot of people paying an extra 2c or 3c so that a few would gain a price reduction of about 23c.)
- Also a significant move has been made towards eliminating the unwarranted price differential between the price of mail to Europe and the Rest of the World, with many prices being reduced by up to 38%. The Rest of the World service accounts for 35.9% of total mail (by value) of which a very significant portion is posted by residential consumers who would benefit from these changes.

4 Issues raised in Consultation

4.1 General Overview

The issues that have been raised in response to this consultation can be summarised as follows:

Timing / Phasing of Price Changes

International Benchmarking

Format Pricing

Geographical Zones

Affordability

Other Issues (Implementation Date etc)

Incoming International Mail

4.2 Timing / Phasing of Price Changes

4.2.1 Summary of Consultation Issues

To comply fully with the “Geared to Cost” principle as set out in the Postal Directive and Irish Regulations and to ensure undistorted competition when these markets are fully open to competition some specific tariffs in the Reserved area for Britain and Europe need to be increased substantially on the basis of current cost structures. The ability of the market to absorb the price increase, dictates that this needs to be tackled on a phased basis.

An Post is proposing to reduce other prices as part of this phased approach to rebalance the tariffs. ComReg is of the view that there is scope for further reductions in the price of heavier weight items outside of the Reserved Area and expects further progress on reducing the number of weight steps – in particular the introduction of a single price for all POP envelopes weighting less than 50g to all counties, not just Britain and Ireland.

The Consultation Paper asked the following specific question:

Q. 1. Do you agree that the adjustment to Prices for International Mail to comply with the “geared to cost” principle should be made on a phased basis to limit the extent of the price increase at any one time to be borne by those who face the largest increases? If not please state your reasons.

4.2.2 Views of Respondents

Contradictory positions were taken by two key market players. At one extreme the Express industry argued that any decision should be postponed until after the Government makes its decision on the liberalisation of cross-

border mail. At the other extreme a representative of the Direct Mail industry argued that An Post has had some five years notice of the need for change and that all prices should comply with the tariff principles as quickly as possible.

Three of the four respondents who answered our specific question about phasing in of the necessary changes agreed with An Post's approach:

"However, any significant changes in method of charging should be phased in to reduce hardship. . ."

4.2.3 Commission's Position

ComReg notes that in ODTR 02/32 An Post were directed that they should take into account

"(a) the views of their customers in respect of the size and timing of price increases"

In view of the re-balancing required to the tariffs to ensure prices are "geared to cost" and that the current proposals are a step towards offering tariffs that reflect the cost of provision of the service ComReg agrees that a phased approach is acceptable.

There are three key reasons why ComReg should consider concurring with An Post's proposals now, rather than waiting until after the Government announces its decisions about transposing the EU's amended Postal Directive on Outgoing Cross-Border Mail:

- The necessity to restructure An Post's International Tariffs as indicated by the separated accounts exists whether outgoing cross-border mail is opened to competition in 2003, 2006 or 2009.
- Taking into account also the current structure of the REIMS agreement, the scale of adjustments necessary to comply with the "geared to cost" principle means that a "phasing in" approach is a necessity. This will both mitigate the effects of significant changes and allow for the prospect of reduced international in-bound costs in future.
- If outgoing cross-border mail is to be opened to competition sooner rather than later the existing tariffs for ordinary POP letters to Britain and Europe is likely to distort the market considerably.

4.3 International Benchmarking

4.3.1 Summary of Consultation Issues

The international benchmarking exercise in section 5 of the consultation paper ODTR 02/94 undertook a comparison of rates from Ireland, Britain, Denmark and Belgium. It showed that An Post's proposed tariffs compared favourably with those of Britain, Denmark and Belgium.

4.3.2 Views of Respondents

One respondent strongly disagreed with An Post’s proposals, and argued “comparing this Service with other European Countries e.g. Germany and the Netherlands ... Irish Postal Service is still one of the expensive one.” [sic]

4.3.3 Commission’s Position

In the light of this respondent’s comments the International Benchmarking analysis published as part of the Consultation Paper has been expanded to include Germany and the Netherlands. This addition does nothing to alter the conclusion that An Post’s proposed tariffs compare favourably with those of the European benchmarks – see Appendix 2. It should be noted however, that this comparison does not take account of quality issues.

4.4 Format Pricing

4.4.1 Summary of Consultation Issues

Prices for postal services have traditionally been based on a series of weight steps 0g - 25g, 25g - 50g, 50g - 100g, etc. The costing model shows that on average within the reserved area only a very small percentage of the average costs are weight related. The vast bulk of the costs are influenced by the format i.e. letter, larger envelope and packet.

There are four different formats for operational purposes being POP envelopes, larger envelopes, packets and parcels. There are different costs associated with each of the formats and different tariffs are therefore appropriate to them. As items of the same weight could be handled in more than one format it is incumbent on An Post to ensure the lowest applicable tariff is applied.

The current price proposal sees a definite move to format pricing for packets by offering one price for all packets up to 100g. For letter formats and larger envelopes the surcharge on the tariffs for mail weighing between 25g and 100g has been reduced.

(i) Letter Format - Post Office Preferred Envelopes & Postcards

	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
25g (incl postcards)	41c	44c	57c	50c	57c	
50g		83c	95c		83c	
100g ⁵	76c	€1.21	€1.71	85c	€1.20	
Surcharge on mail between 25g – 50g	Nil	39c	38c	Nil	26c	

⁵ Very few letters weight between 50g and 100g and in common with other countries these prices are the same as for larger envelopes.

(ii) Larger Envelopes⁶

	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	55c	83c	95c	75c	95c	
100g	76c	€1.21	€1.71	85c	€1.20	
Surcharge on mail between 50g - 100g	21c	37c	76c	10c	25c	

(iii) Packets⁷

	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	55c	83c	95c	€1.20	€1.70	
100g	76c	€1.21	€1.71			
Surcharge on mail between 50g - 100g	21c	37c	76c	0	0	

The specific questions posed with regard to format pricing included:

- Q. 2. Do you agree that it is desirable to ultimately have a single price for all mail in POP envelopes, as currently applies in the Domestic service and to Britain subject to a weight limit of 50g? If not please state your reasons.**
- Q. 3. Should An Post be required to move to a single price for mail in POP letters weighing up to 50g addressed to Europe or the Rest of the World at this time? If Yes please state your reasons.**
- Q. 4. Do you agree that there should be a higher price for handling bulkier packets weighing more than 50g compared with the price for items of similar weight in conventional envelopes to reflect the extra costs involved? If not please state your reasons.**

⁶ Items with dimensions up to 400mm length x 300mm width x 25mm depth

4.4.2 Views of Respondents

Two of the four respondents who specifically answered question 4 indicated that they did not agree with format pricing.

“The reality is that format based pricing – a creation of the “geared to cost” principle – will slow down the preparation of mail and create additional costs for our members.”

“The paid staff already on duty are able to handle this mail – bulky or flat equally.”

In addition the entire submission of one respondent set out why they opposed format pricing:

“We believe that the introduction of format based pricing will put extra work and extra labour costs on medium to large users in the preparation of their mail. . .

It is our view that the ODTR should examine all the possibilities in determining An Post’s actual costs other than the option of format based pricing. . .

It is not the function of the ODTR to make the postal system more cumbersome or more customer unfriendly.”

On the other hand two of the four respondents who specifically answered question 4 agreed with the proposal:

“Yes. As stated before tariffs in the area reserved to the universal service operator tariffs must be geared to cost”

“If tariffs are to be properly geared to costs in a liberalised market then the cost of providing the service must be reflected in the tariff applied.”

4.4.3 Commission’s Position

The respondent who remarked that Format Pricing is a direct consequence of the “geared to cost” principle is of course correct.

Within An Post’s sorting centres there is a considerable difference in the throughput rate for the different formats of mail. For example automated sorting machines can process up to 35,000 POP letters in an hour, whilst the machines for sorting larger envelopes can only process 7,000 items in the same time.

Delivery costs are also affected by format. Bulkier packets and parcels cannot be posted through a letter box and require the postman to stop and wait for the addressee to answer the door bell. In the event that the addressee is not at home when the postman calls the packet must be held in the local post office until the addressee collects it.

⁷ Items with dimensions greater than 400mm length x 300mm width x 25mm depth and up to 610mm length x 460mm width x 460mm depth

Different “terminal dues” are paid for the different formats for cross border mail within Europe.

On the other hand weight has very little effect on the cost of handling an item – on average less than 5% of the costs of handling a standard envelope vary with weight. The only cost element that truly varies with weight is air conveyance.

The terminal dues arrangements currently in force arbitrarily introduce a weight factor. For example, in Britain the domestic tariff for a letter weighing up to 60g is currently 27p, but the terminal dues agreement (which relates the price paid to the domestic tariff of the country of destination) means that An Post pays 41.5% more for a 60g “Flat” letter than a 20g POP letter, while a very lightweight, but bulky packet could cost up to 23% less. This is an issue that An Post needs to address in the context of reforming REIMS II.

It is unrealistic to expect An Post, or any other service provider, to ignore the real drivers of cost when fixing their prices. In a competitive market it is very important that prices are reflective of costs, thus limiting the opportunity *inter alia* for predatory pricing.

The claim that Format pricing is more cumbersome or customer unfriendly is not understood.

With weight based tariffs it is necessary for the item to be weighed either by the customer, the service provider or both. There can be a significant cost involved in purchasing scales. At current tariffs there can also be significant extra postage payable for a minute increase in weight. So for example an extra sheet of paper or even the inclusion of a reply envelope could increase the postage by up to 89%⁸.

Format pricing, when fully applied, eliminates the need for weight related prices, except possibly in the packet stream. There will be a single rate of postage for each of the standard sizes of envelopes, whatever is included. The issue of the thickness of the item will only arise if any attempt is made to insert more correspondence than the envelope is designed to hold.

There are a number of temporary problems as the change from weight based pricing to format pricing is phased in. For example, An Post’s proposed tariffs to Europe and the Rest of the World envisage a rate of 57c for POP Letters weighing up to 25g and 83c for items weighing between 26g and 50g. To be fully “geared to cost” there should be a single rate for all these letters of around 59c/60c. Respondents generally accepted that An Post’s “phasing in” proposals in this regard were acceptable.

It should also be pointed out that market research conducted for the ODTR by IMS Millward Brown showed that the introduction of a single tariff for all standard sized envelopes in the domestic service (effective from 2 April 2002)

⁸ Currently a 25g POP Letter to Europe is charged at 44c; if an extra sheet of paper is inserted bringing the weight over 25g the postage is 83c, or 89% higher.

was generally welcomed with 70% of business users surveyed indicating approval with the decision and only 6% registering their disapproval.⁹

4.5 Geographic Zones

4.5.1 Summary of Consultation Issues

The existing An Post tariffs offer a range of prices for three international zones - zone 2 (Britain), zone 3 (Europe) and zone 4 (Rest of the World).

The main problem with An Post's international outbound tariffs is that this geographic basis does not have a direct relationship to the costs. The average cost of a POP letter for the current three zones is 90%, 100% and 108% of the overall average cost. Within the highest cost zone, the cost for each individual destination ranges between 86% and 130% of the overall average.

The Separated Accounts suggest that it is desirable to introduce uniform tariffs for each mail stream for all outbound international mail within the reserved area. At current cost levels the variation in the cost of handling outbound international mail between the different destinations is relatively small and does not warrant different prices except for a few "high cost" countries mainly within the European Union.

The reform of the Terminal Dues System which ComReg considers is overdue will reduce these differences in particular mail to specific "high cost" countries must be tackled.

However due to the steep increases required to the current tariffs to Britain and Europe An Post are proposing to introduce uniform tariffs on a phased basis so as not to distort the market. The current proposal merges the European and the Rest of the World zones within the reserved area, as can be seen from the following table:

⁹ See Section 3 of The Irish Communications Market Quarterly Review, Sep 2002 ODTR 02/76

Application to increase the price of International Outbound reserved Postal Services

	Current price			Proposed price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
Letter Format POP¹⁰						
25g (incl postcards)	41c	44c	57c	50c	57c	
50g		83c	95c		83c	
100g	76c	€1.21	€1.71	85c	€1.20	
Larger Envelope⁶						
50g	55c	83c	95c	75c	95c	
100g	76c	€1.21	€1.71	85c	€1.20	
Packet⁷						
50g	55c	83c	95c	€1.20	€1.70	
100g	76c	€1.21	€1.71			

At the same time the size of the variance between those tariffs and the British tariffs will be reduced. ComReg expects the next phases to address the need to complete the convergence of tariffs for mail to Britain with other international rates.

Specific questions asked included:

- Q. 5. Do you agree that the introduction of a single tariff for mail to all international destinations is desirable, providing that present differentials in cost between different countries can be maintained, or reduced? If not please state your reasons.**
- Q. 6. Should a higher price for specific “high cost” European countries be imposed at this stage even if the cost of delivery in those countries is subsequently reduced? If yes please state your reasons.**

4.5.2 Views of Respondents

The issues under this heading can be divided between those concerning the traditional relationship between Ireland and Britain, and those concerning the extent to which there should be geographical aggregation of tariffs.

One customer argued that the traditional application of a common tariff for the whole of Britain and Ireland should be retained. The argument was made in this way:

¹⁰ Standard Business Envelopes up to C5 size, i.e. 162mm w x 235mm h with a thickness of 2mm

“taking a broader viewpoint than that expressed in the document, it would be better to unify British and domestic rates, aggregating the populations of those two islands into a single postal market. This would have an enormously beneficial effect on our nascent e-commerce industry”.

An Post proposed to retain the uniform tariff within the island of Ireland, and the Consultation Paper accepted that this was reasonable in view of Government policy in relation to Northern Ireland. In response to the Consultation An Post argued that they should, nevertheless, account for the service to Northern Ireland as part of the International Service.

On the more general issue some respondents could not understand why it costs more to send a letter to Europe than to the United States or Australia and therefore that it was proposed there should be uniform tariffs for all destinations.

Three of the eight respondents specifically addressed questions 5 and 6.

One respondent stated:

“We do not agree that a single tariff for mail to all international destinations is desirable. EU Regulation has to understand that countries outside its regime are subject to regulations over which the EU has no control but with which An Post must contend”

Another respondent stated:

“Tariffs should be geared to costs and be non-discriminatory. The concept of a single tariff to all international destinations is feasible only if the costs borne by the postal operator in ensuring onward delivery by the receiving postal operator are equal for all destinations”

All but one of the four responses to the higher price for specific “high cost” European countries agrees with the proposal.

4.5.3 Commission’s Position

ComReg notes An Post’s position that the retention of a common tariff with Britain is inconsistent with the statutory requirement that both Terminal Dues and public tariffs be “geared to cost”. As noted below, ComReg intends to review the REIMS agreement in more detail, but even allowing for that notes that the costs associated with mail for delivery in Britain are significantly higher than those for delivery within the State. In the emerging competitive market it is unreasonable to expect An Post to subsidise one group of its customers at the expense of another group.

ComReg agrees that Northern Ireland is clearly a special case, but it is not acceptable for it to be accounted for in a different basis to which it is charged. There must be consistency of treatment. If a service is priced as “domestic” it must be accounted for as “domestic” and vice versa.

The Consultation Paper pointed out that the average cost of a POP letter for the current three zones¹¹ is 90%, 100% and 108% of the overall average cost. This reflects the fact that, like many other utility services (airlines/telecoms etc), the initiation and completion of the service accounts for a far greater proportion of the costs than the distance travelled, and the unit costs for such completion services are particularly sensitive to volume. It also observed that reform of the Terminal Dues System¹² must reduce these differences, and in particular that the cost of mail to specific “high cost” countries participating in the REIMS agreement must be tackled.

If current tariffs were to be fully geared to cost including REIMS costs it would be necessary to charge a higher price for mail to Europe than to the Rest of the World zone. As part of the “phasing in” of the necessary adjustments the current proposals bring the European prices to up to Rest of the World prices (or The Rest of the World prices down to the European level when appropriate).

Between now and the next stage of complying with the geared to cost principle, An Post will need to tackle the cost of delivering mail to eight “high cost” European Countries – Germany, Italy, Sweden, Switzerland, Denmark, Finland, Norway and Iceland. There are basically three options:

- Charge higher rates for mail to those countries; the tariff would need to be 25% to 30% more than the price to other countries. It would be difficult for An Post to convince its customers or the Regulator that its costs in forwarding mail to these countries warranted such a premium, which leaves two options:
- Negotiate cheaper rates with the existing USP in those countries, or
- Find an alternative supplier

4.6 Affordability

4.6.1 Summary of Consultation Issues

The main international letterpost services provided by An Post are partly reserved to An Post and partly in the area where competitors are free to also provide a service. An Post is obliged to comply with the tariff principles in respect of the prices in the non reserved area and ComReg will monitor compliance with these principles in the context of the review of the separated accounts. However, as noted in the separated accounts, the prices in the non-reserved area raise serious issues in relation to the ‘geared to cost’ principle. The An Post proposals to reduce prices in respect of the non-reserved area will go some way towards dealing with these issues.

To comply fully with the “Geared to Cost” principle and to ensure undistorted competition when these markets are fully open to competition some specific tariffs in the Reserved area for Britain and Europe need to be increased further

¹¹ Britain/Europe/Rest of the World

¹² “Terminal Dues” arrangements govern how much An Post pay postal services in other countries and how much they receive from them.

but the ability of the market to absorb the price increase dictates that this needs to be tackled on a phased basis.

The following specific questions were raised:

- Q. 7. Are the reductions in price for Priority Mail weighing more than 25g to countries outside Europe sufficient? If not please state your reasons.**
- Q. 8. Are there any specific points relating to the affordability of An Post's international letter services that you wish to bring to ComReg's attention?**

4.6.2 Views of Respondents

A number of respondents raise the issue of affordability:

"I am a private user of An Post writing over 450 letters a year ...An increase in the cost of postage will result in my writing and sending fewer letters – a pensioner must keep within a tight Budget. ... So I feel the increase in letter post of 9 cent would hit me personally very, very hard indeed. ... Overall, any increase in postage will lead to increased use of emails and the internet ..."

and

"Increasing the Postal Services is nothing but exploitation, according to my own opinion."

and

"These are huge and unprecedented increases that will cause severe hardship to our members. ... The huge increases proposed for mail to Britain will cause significant amounts of mail addressed to Britain to be driven across the border for posting with Royal Mail in Northern Ireland. ... the willingness of customers, particularly business customers who are the core of An Post's business, to pay the unprecedented level of increase being sought is greatly diminished. For our sector, the current trend in postal rates will make the service unaffordable ..."

and

"It is possible today to easily produce mail in the UK for onward delivery to other member states, and commercial suppliers of such a service will give postal tariffs cheaper than An Post's current or proposed tariffs (details supplied) ...Therefore ... there is a huge affordability issue."

Two respondents have raised the question of An Post's own efficiency in the following terms:

“An Post constantly refers to its payroll costs as a major contributing factor to the price increases it seeks. ... However, it constantly pays the full increases under national wage agreements, whilst other companies with similar financial problems plead inability to pay or negotiate conditions that recognise their [sic] financial standing. ... It is obvious that restrictive work practices from a different era, and low productivity levels are major contributory factors to its current financial situation.” and

“We believe the ODTR should consider setting measurable targets for An Post to achieve real cost reductions through increased and measurable internal efficiencies”

Four of the eight respondents specifically addressed questions 7 and 8.

All of these agree that the reductions in price for mail more than 25g to the Rest of the World are sufficient.

One respondent stated:

“Price reductions are very welcome to us and reflect the economic environment in which we live where communications costs are being reduced”

Another respondent stated:

“We would regard the reductions in price for Priority Mail over 25g to zone 4 as sufficient . . .”

4.6.3 Commission's Position

There are a number of considerations for ComReg in considering these comments and the proposed price changes involved. Firstly, they represent an important step in moving An Post's pricing to the statutory requirement to be geared to cost. Second, it is possible to make use of the economy service and so avoid the impact of the increases. The proposals do represent a phasing of changes necessary to deal with An Post's current financial situation. Much of the costs are not within An Post direct control for the majority of costs incurred for outbound international services represent payments to third parties, principally the universal service providers in the country of destination. To refuse permission would simply be to require An Post's customers to subsidise those of other countries' postal services. Nevertheless, as mentioned in section 4.5.3, An Post needs to challenge the amounts it is paying to these other postal services before submitting proposals for the next and final phase.

4.7 Other Issues raised by Respondents

There are three other issues that need to be addressed.

One response raised the implementation date as a specific point as follows:

“Our immediate concern is that it is planned to grant some increase with effect from next month i.e. after our members have prepared their budgets for 2003. This time scale is not acceptable especially in view of the high dependency of our sector on the postal service”

This respondent suggested that the implementation date should be 1 March 2003 in order to give adequate notice to customers.

In practice the earliest practical implementation date would be 30 December 2002 and ComReg will need to sign the relevant Statutory Instruments before the implementation.

- Two respondents raised questions about a service called IBMS (International Bulk Mail Service). An Post does not provide such a service under a Scheme made under Section 70 of the Postal and Telecommunications Services Act 1983, as amended. Our understanding is that An Post offer customers with bulk mail for several countries, individual agreements on prices that meet their specific needs in terms of price calculation, presentation, etc and that these agreements will be revised to reflect the public tariffs on which the agreements are based.

Two respondents also suggested a national conference or forum to debate how the postal sector may develop and this is an issue that ComReg will wish to take up in the first quarter of 2003.

4.8 Incoming International Mail

4.8.1 Views of Respondents

Two respondents raised the issue of the REIMS agreement and in particular the losses that are incurred in handling incoming mail. As one respondent summed it up:

“... An Post and its customers who mail from Ireland are subsidising foreign postal operators and their customers and in the process moving jobs and profits which should belong to the postal industry in Ireland to other countries ...”

4.8.2 Commission's Position

There is a statutory obligation on An Post to ensure that in its agreements for intra-Community cross-border mail “terminal dues shall be fixed in relation to the costs of processing and delivering incoming cross-border mail” and ComReg may issue Directions to An Post, after consultation with interested parties, for the purpose of ensuring compliance with this principle.

In view of the size of the losses being incurred by An Post, ComReg needs to initiate a Consultation about issuing such a Direction. The interested parties will include organisations such as the European Commission (DG Competition as well as DG Internal Market), IPC (International Post Corporation) as well as universal service providers and national regulatory authorities in other member states. ComReg intends to initiate such a consultation early in the New Year.

5 ComReg's Decision

5.1 Commission's Assessment of Issues raised during the Consultation

There does not appear to be sufficient grounds for refusing to concur with An Post's proposal to increase the prices of its reserved international outbound services having regard to:

- the costs incurred by An Post, and
- the overall proposal which will move international pricing generally towards compliance with the geared to cost principle.

While there has to be concern that An Post is testing the boundaries of "affordability", even at the substantially increased prices they are not "geared to cost". ComReg's view is that this gap has got to be filled by cost reductions rather than further price increases.

The responses to the consultation do not justify ComReg requiring limited modifications to the proposals to be made before implementation. For example the imposition of a single rate of 60c for POP letters to all countries other than Britain could have been required, but the proposed rate of 57c up to 25g and 83c for items weighing between 26g and 50g appears to be acceptable to respondents.

5.2 Approved Prices

Decision No. 1:

The following revised prices, effective from 30 December 2002, or when the seal of ComReg is applied to the relevant Statutory Instrument, whichever is the later, are hereby approved:

Priority Service

(i) Letter Format - Post Office Preferred Envelopes¹⁰ & Postcards

Weight not over	Approved price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
25g (incl postcards)	50c	57c	
50g		83c	
100g	85c	€1.20	

(ii) Larger Envelopes⁶

Weight not over	Approved price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	75c	95c	
100g	85c	€1.20	
250g	€1.75	€2.00	€3.00
500g	€2.60	€4.00	€5.00
1kg	€4.80	€8.00	€10.00

(iii) Packets⁷

Weight not over	Approved price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	€1.20	€1.70	
100g			
250g	€1.75	€2.00	€3.00
500g	€2.60	€4.00	€5.00
1kg	€4.80	€8.00	€10.00
1.5kg	€6.20	€12.00	€15.00
2kg	€7.80	€16.00	€20.00

Please note: Only items weighing less than 100g (350g for Britain) are reserved to An Post, with price increases subject to ComReg's approval under section 70(2) of the Postal and Telecommunications Services Act, 1983, as amended. These items are shown in bold type in the following tables. Other prices, which are subject to ex-post investigation by ComReg are shown for information purposes only.

Economy Service

(i) Letter Format - Post Office Preferred Envelopes & Postcards ¹⁰

Weight not over	Approved price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
25g			44c
50g	41c		71c
100g	72c		€1.02

(ii) Larger Envelopes ⁶

Weight not over	Approved price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g	64c		81c
100g	72c		€1.02
250g	€1.50	€1.70	€2.00
500g	€2.20	€2.80	€4.00
1kg	€4.00	€4.50	€6.90

(iii) Packets ⁷

Weight not over	Approved price		
	Zone 2 Britain	Zone 3 Europe	Zone 4 Rest of World
50g			
100g	€1.02		€1.45
250g	€1.50	€1.70	€2.00
500g	€2.20	€2.80	€4.00
1kg	€4.00	€4.50	€6.90
1.5kg	€5.25	€6.20	€9.60
2kg	€6.50	€7.80	€11.40

Please note: Only items weighing less than 250g (350g for Britain) are reserved to An Post, with price increases subject to ComReg's approval under section 70(2) of the Postal and Telecommunications Services Act, 1983, as amended. These items are shown in bold type in the following tables. Other prices, which are subject to ex-post investigation by ComReg are shown for information purposes only.

APPENDIX I: List of Respondents

- (1) An Post
- (2) TICO Group Ltd
- (3) IAIEC
- (4) Irish Missionary Union
- (5) Missionaries of the Sacred Heart
- (6) D Havelin
- (7) A Adeyanju
- (8) S Carlson

APPENDIX 2: Revised International Benchmarking Analysis

Priority Services for Post Office Preferred Envelopes & Postcards

	Ireland (proposed)	Britain	Denmark (from 1.1.03)	Belgium (from 18.11.02)	Germany	Netherlands
To Europe						
Up to 25g	57c	59c to 20g	74c	59c	56c to 20g	54c to 20g
>25g up to 50g	83c	82c to 40g			112c	108c
To Rest of the World						
Up to 25g	57c	108c to 20g	87c	84c	€1.53 to 20g	75c to 20g
>25g up to 50g	83c	166c to 40g			€2.05 to 50g	150c

The table above shows that it will generally be substantially cheaper to post a letter in a standard POP envelope in Ireland than in the other countries surveyed. There are two exceptions where it would be one cent cheaper, and one where it would be three cents cheaper, to post a letter to Europe, but this is because these countries apply a substantial surcharge on mail outside Europe.

Priority service for Larger Envelopes

	Ireland (proposed)	Britain *	Denmark (from 1.1.03)	Belgium (from 18.11.02)	Germany	Netherlands
To Europe						
Up to 50g	€0.95	€0.82 to 40g	€1.14	€1.08	€1.53	54c to 20g €1.08 to 50g
>50g up to 100g	€1.20	€1.08 to €1.57 60g to 100g	€1.62	€1.49	€2.56	€1.62
>100g to 250g	€ 2.00	€1.81 to €3.23 120g to 240g	€2.56	€3.79	€4.09	€2.16
>250g to 350g	€ 4.00	€3.47 to €4.42 260g to 340g	€4.44			
>350g to 500g	€ 4.00	€4.65 to €6.32			€7.49	
>500g to 1kg	€8.00	€6.56 to €12.27	€7.67		€8.18 to €10.23	€7.00
To Rest of the World						
Up to 50g	€0.95	€1.66 to 40g	€1.55	€1.59	€3.07	€0.75 to 20g €1.50 to 50g
>50g up to 100g	€1.20	€2.25 to €3.42 60g to 100g	€2.42	€1.98	€5.11	€2.25
>100g to 250g	€3.00	€3.99 to €7.42 120g to 240g	€4.44	€5.49	€8.18	€4.50
>250g to 350g	€5.00	€7.98 to €10.32 260g to 340g	€7.54		€12.27	€9.00
>350g to 500g		€10.90 to €15.01				
>500g to 1kg	€10.00	€15.59 to €29.67	€12.79		€16.36 to €20.45	€17.00

This table confirms the overall trend in the analysis that prices are generally substantially cheaper out of Ireland than out of the other countries surveyed. The few examples of marginally cheaper prices are theoretical in nature, in that they relate to large envelopes with no more than 2 sheets of A4 paper.

Priority service for Packets

	Ireland (proposed)	Britain	Denmark (from 1.1.03)	Belgium (from 18.11.02)	Germany	Netherlands
To Europe						
Up to 50g	€1.70	€0.82 up to 40g	€1.88	€1.08	€1.53	€1.04 to 20g €1.58 to 50g
>50g to 100g		€1.08 to €1.57 60g to 100g	€2.56	€1.49	€2.56	€2.12
>100g to 250g	€ 2.00	€1.81 to €3.23 120g to 240g	€3.50	€3.79	€4.09	€2.66
>250g to 350g	€ 4.00	€3.47 to €4.42 260g to 340g	€5.52		€6.14	€4.75
>350g to 500g		€4.65 to €6.32		€7.49		
>500g to 1kg	€8.00	€6.56 to €12.27	€8.75		€16.49	€8.18 to €10.23
>1kg to 1.5kg	€12.00	€12.50 to €18.21	€13.46	€14.32		€10.50
>1.5kg to 2kg	€16.00	€18.44 to €24.15				
To Rest of the World						
Up to 50g	€1.70	€1.66 to 40g	€2.56	€1.59	€3.07	€1.25 to 20g €2.00 to 50g
>50g to 100g	€1.70	€2.25 to €3.42 60g to 100g	€3.63	€1.98	€5.11	€2.75
>100g to 250g	€3.00	€3.99 to €7.42 120g to 240g	€5.52	€5.49	€8.18	€5.00
>250g to 350g	€5.00	€7.98 to €10.32 260g to 340g	€8.21		€12.27	€9.50
>350g to 500g	€5.00	€10.90 to €15.01		€11.84		
>500g to 1kg	€10.00	€15.59 to €29.67	€14.13		€16.36 to €20.45	€17.50
>1kg to 1.5kg	€15.00	€30.25 to €44.33	€23.56	€27.49	€28.63	€20.50
>1.5kg to 2kg	€20.00	€44.91 to €58.99			€36.81	

Britain rates to Europe from 100g are based on 99p + 15p for every 20g.

Britain rates to Rest of the World for the 100g to 280g start at £2.16 plus an increase of 36p for each additional 20g.

Rates of Exchange: 1 EUR = 0.6310 GBP 1 EUR = 7.4292 DKK

This table confirms the general trend, except that the adoption of a single price for all packets weighing less than 100g means that comparisons with the price for packets weighing less than 20g or 50g ¹³ appear to be less favourable.

¹³ In accordance with the REIMS Standard Structure only 8.2% of Packets fall into the <50g weight step