



Commission for
Communications Regulation

General

**Oireachtas Joint Committee on
Communications, Marine and Natural
Resources**

**Address by Etain Doyle, Chairperson, Commission for
Communications Regulation, 29 January 2003**

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Mr Chairman, Members

I would like to thank you for your invitation to explain the role of the Commission for Communications Regulation (“ComReg”) in regard to the operation of the Postal Service in Ireland.

I would like to start by setting out in broad terms the role of Comreg. Then I would like to address some current issues that have been much covered in recent times.

Government’s Objectives

May I take as my starting point the Government’s key objective for the postal sector as set out in the Department for Communications’ statement of strategy and included in the draft ministerial direction to ComReg, which is:

“To ensure Irish industry and domestic customers enjoy competitively priced, high-quality postal services on a par with the highest quality standards elsewhere in the EU;”

Postal Directive

The overall framework for postal services was changed substantially in 2000 in Ireland by the adoption of new EU directives into Irish law. Broadly speaking, this legislation had two main goals. The first was to introduce competition to the Postal sector on a phased basis through the gradual liberalisation of the sector. The second was to ensure the continuing provision of a universal postal service, which means that there would be daily postal deliveries throughout the country at affordable prices.

There was concern at European level about the

“... possibility that, where they are granted special or exclusive rights, postal operators may let the quality of the service decline and omit to take necessary steps to improve service quality.”¹

Improving quality of service was therefore explicitly mentioned as a key issue in the title of the directive.

Transposition into Irish Law

In transposing the Postal Directives the Minister has designated An Post as a “universal service provider” and placed specific obligations on An Post in this context.

The Minister also designated the ODTR, now ComReg, as the national regulatory authority for the postal sector with the function of ensuring “compliance by providers of postal services with obligations in relation to the provision of postal services”

¹ 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 (98/C 39/02)

Market opening

At the outset we found ourselves dealing with a partially liberalised market in which our main focus is on securing the universal service and the impact that market opening will have on it. The timetable for market opening is quite complex but I am circulating a slide which presents this as simply as possible. It is important to note that in terms of numbers of items the proportion of An Post's domestic business exposed to competition was 2% when we started. It is now 8% and from January 2006 it will be 11%.

In money terms the exposure is more significant and currently 20% of An Post's domestic business is exposed to competition.

Companies such as Hays DX who are already well established here will obviously be seeking a share of the opportunities that are opening up

Cross-border mail is more significant in Ireland than in other countries and there has always been "de facto" competition from companies such as TNT, DHL, Fedex and UPS. Currently 17% of An Post's outbound business by volume and 50% by revenue is exposed to competition and from next January anyone will be able to offer outbound cross-border services.

Inbound cross-border services will continue to be reserved to the same extent as the domestic service, but already competition is developing. Some parcels posted at post offices in America or Britain are no longer delivered by An Post but by GLS – a subsidiary of Britain's Royal Mail. There is considerable dissatisfaction with the GLS service, but the basic point is it is quite clear that this will happen more and more if An Post's prices and quality are not right.

Long Term Business Trends

Another significant factor has been that for most of the 1990s the volume of post was increasing and the economies of scale that flowed from this, coupled with relatively low rates of pay increase enabled An Post to hold its price steady. Now things are changing. Wage increases are running at a much a higher rate and while overall volumes are still growing the crucial figure for items delivered per delivery point has levelled off. I am circulating a chart which illustrates this point. This is one of the reasons for the price increase of 3c implemented last April.

New Accounting Information

The new accounting procedures that An Post were required to adopt have also revealed important information about which aspects of An Post's business are profitable and which are losing money. These swings and roundabouts have arisen because postal tariffs have traditionally been based on weight whereas the costs are driven by the format, ie whether the item is in a standard envelope that can be sorted by the most efficient machines, or in a larger envelope or in a bulky packet.

They have also revealed the extent of the losses incurred in handling inbound international mail.

The two price increase packages we approved in the last year have included positive steps to remove these cross-subsidies and to ensure that prices are more "geared to cost" as required by law. We are currently reviewing a further application for a price increase and again the main theme will be to bring the different prices into line with costs.

Specific functions of ComReg

Our role can be summarised under four main headings

- Universal Service Obligations
- An Post's Quality of Service
- An Post's Prices
- Rules for Competitors

Universal Service Obligation

The focus of postal services should be on the users, not the providers of the services. The key provisions of the universal service obligation (USO) are set out in national and EU legislation which also gives responsibility to the regulator to define these in more detail and ensure that An Post comply with them.

Before I discuss our current work on the USO let me say a few words on our approach to dealing with major issues. ComReg/ODTR has a policy of developing a paper analysing the issues and where appropriate, giving international comparisons, and publishing it for comment. These comments are reviewed before any decisions are made. At the end of the process we publish a response to the consultation outlining what views have been expressed and what our reasons are for decisions. This means that everyone can see what we are considering and the reasons for our decisions.

At the beginning of November we published a consultation paper which was intended to describe in some detail what exactly is required from a universal service provider. The paper dealt with a number of important issues including where you can post letters and how you can get your complaints resolved.

But two issues are receiving all the attention

- Roadside Letter Boxes, and
- Postcodes

Roadside Letter Boxes

An Post have recently sought tenders for 500,000 roadside letterboxes and much of the public debate is about An Post's plans for these. We do not have details of their plans and will not until the Consultation is closed this Friday.

But let me make it very clear. Our consultation is about how ComReg should monitor compliance with the statutory obligation on An Post to guarantee daily deliveries, and in particular how to interpret its obligation to deliver "to the home or premises ...". One of the particular uses we addressed was the usage of post boxes

In relation to roadside letter boxes we proposed that An Post should continue its programme to persuade rural residents to use roadside letterboxes by mutual agreement.

We also asked if

- the currently agreed delivery point should comply with the statutory obligation

- in the case of new housing and other new buildings, whether the onus should be on An Post to agree with the developers, at the planning stage, what should be the most appropriate delivery arrangements (within certain parameters set out in the paper)

The consultation period is not yet closed – it ends on 31 January and we will be making a decision shortly thereafter having reviewed all the responses we receive.

Postcodes

With regard to postcodes we believe that there is potentially a lot of merit in considering the idea. We believe that some of the potential benefits may include.

- Faster, easier and more accurate sorting of mail
- Elimination of problems caused by more than one household having the same address.
- Facilitate worksharing between An Post and those who print and envelope the mail, providing the greater competition for bodies who need to use leafleting and mailshots for their business.

Again we will make a decision on how to progress this matter as soon as we can after the consultation closes.

Another key item covered in the consultation is a code for the handling of complaints. It is essential that all organisations have well developed complaints processes that deal with individual failings when they happen and even more importantly feed back into management systems to ensure that the same problems do not continue to hinder good service.

Quality of Service

It is important that not alone is there a universal service but that postal services are delivered to a high standard.

Our first task in this area is to set quality of service standards for domestic mail. This is done by setting the target percentage of domestic items that should be delivered within one day.

Then we must monitor compliance with those quality-of-service standards and publish our findings.

Where we are satisfied that An Post's performance in relation to quality has failed to meet these standards we must seek to ensure that An Post management takes corrective action.

Last year we set the target that 94% of letters for local delivery should be delivered the next day and 92% nationwide

An Post indicated that they were on target until the serious blip at the end of the year.

This year there is a single target of 94%

We have asked An Post to submit a report to us on how they will achieve the target – it is due by end February.

We have put in place a system for independent monitoring of postal quality in accordance with European Standards. This started on 1 January 2003, and the first quarter's results should be published around the end of April. This will provide an independent benchmark comparable to other EU countries as to how good the service is.

Specific problems at Christmas 2002 - An Post Response to Comreg

When the specific problems came to light over the Christmas period we asked An Post for a full report. This was received last Friday and indicates that the main problems concern:

- the new staffing arrangements introduced September 2002 which led to no overtime working and staffing shortages at weekends.
- the mail concentration programme implemented between 22 November - 2 December
- a posting pattern different to that predicted

They have also said that

- square cards were not significant in the overall context, and that
- the advertised last date of posting was not a material factor

John Hynes has, of course, already conceded that with the benefit of hindsight it would have been better to have waited until after Christmas before making these changes. An Post has told us that there will be no long term impact once the changes have bedded down and we will monitor developments carefully.

Competition in Postal Services

The postal market has been partly liberalised, with some of the market open to competitors and some of it reserved to An Post. The idea behind the reserved area is that profits from the reserved area should subsidise provision of universal service in area open to competition. In practice we have found that it is the competitive area that is subsidising the reserved area. This is because postal tariffs have traditionally been based on weight whereas the costs are driven by the format, i.e. whether the item is in a standard envelope that can be sorted by the most efficient machines, or in a larger envelope or in a bulky packet. Other regulators have found the same.

The extent to which services can be reserved to An Post are gradually being reduced. They are defined in terms of weight and price:

Until last month the limits were 350g and 5 times the basic price (currently 41c)

Now they are 100g and 3 times the basic price

From 1 January 2006 they will be 50g and 2½ times the basic price

The intention is that the market will be completely open by 1 January 2009

The Outgoing Cross-Border Market is already fully open in most European countries and will be fully open in Ireland from this time next year.

Pricing and Costing

In a monopoly or near monopoly such as the postal services market there is a danger that customers will have to pay monopoly prices for the services provided. This is of particular concern in respect of utilities which everyone needs to buy. ComReg has specific powers in relation to pricing and costing. In particular An Post must seek our agreement before increasing any price in the reserved area, and we have powers to investigate whether prices for other “universal” services comply with the “geared to cost” and affordability principles.

An Post have submitted several price increase applications to the ODTR and ComReg, following a decade of price stability in the 1990s. In reviewing these, we noted that some services were indeed loss making and others were making very substantial profits. In agreeing to any changes we have been careful also to progress a rebalancing of charges so as to eliminate or reduce cross-subsidies that have arisen. The aim is ultimately to have a single price for:

- Standard Envelopes (whatever the weight)
- Larger Envelopes (up to A4 size)
- Packets, although some adjustment for heavier items might still be needed

An Post have now published their first set of regulatory accounts and I am circulating a copy of the summary available on their website. You will see that overall the universal service was profitable, except for the very significant losses incurred on delivering incoming international mail, the majority of which, we understand comes from Britain. This is because of some technical aspects about An Post’s agreements with operators in other European Countries. I have indicated that I am dissatisfied with the current arrangements and I am reviewing the options available to secure a re-negotiation of these agreements.

Conclusion

I would like to thank the Committee for their time and attention. I have not been able to mention everything that we are doing but I hope I have dealt with all the issues of current importance and you may wish to ask some further questions.