



An Coimisiún um
Rialáil Cumarsáide
Commission for
Communications Regulation

Postal Strategy Statement 2020 - 2022

Response to Consultation

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Commission for Communications Regulation

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Additional Information

Draft Postal Strategy Statement 2020 - 2022	ComReg Document 19/90
Consultation Document	ComReg Document 19/90a
Submissions to Consultation 19/90	ComReg Document 19/113s

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1 Introduction

1. By ComReg Documents 19/90 and 19/90a, ComReg commenced a public consultation on its draft Postal Strategy Statement for the period 2018-2020. ComReg sought written responses from interested parties on the preliminary strategy outlined in the consultation and received two responses:
 - 1) An Post
 - 2) Tico Mail Works ("Tico")
2. Within this document, ComReg has summarised the two responses received and set out its assessment of views expressed in those responses, but does not seek to respond to each individual comment.
3. In concluding the consultation and its final Postal Strategy Statement (Document 19/113) which is published in tandem with this document, ComReg has had regard to its statutory functions and objectives, the two responses submitted as well as to other relevant information before it. Following consideration of certain views expressed by the respondents, some adjustments have been made in finalising the Postal Strategy Statement 2020 - 2022.

2 Summary and assessment of submissions

2.1 Sectoral trends and challenges

4. In Consultation 19/90a, ComReg sought views on the sectoral trends and challenges identified in the draft Postal Strategy Statement by asking:

Q.1 Do you agree that Chapter 2 captures the most important sectoral trends and challenges over the period 2020 to 2022? In providing your view, please also provide supporting evidence.

Q.1a In consideration of the sectoral trends and challenges, the European Commission's possible review of the postal regulatory framework and ComReg's postal research, do you have any views on the reasonable needs of postal service users and the appropriate framework, in particular if related to the delivery frequency for universal postal services. Please also provide supporting evidence.

Q.1b ComReg is also interested in the views of postal service providers, including the universal postal service provider on whether any changes to the framework requirements on collection and delivery frequency of the universal postal service would be beneficial to postal service providers. Please also provide supporting evidence.

2.1.1 Respondents' views

5. Both An Post and Tico are satisfied that the draft Postal Strategy Statement identifies the sectoral trends and challenges.
6. Both An Post and Tico provide a number of comments on the points raised in those sectoral trends and challenges:

Trend 1: A continued decline in letter mail volumes

7. An Post submits that *"it is not possible to accurately predict when, or if, parcel revenue will adequately compensate for losses in letter revenue"*.

Trend 2: A significant threat to letter volumes arising from electronic substitution

8. An Post submits that *“competitive or low postal pricing will not protect ... mail from migrating to electronic communications over time”*. According to An Post, this is due to a number of inter-related factors including the *“cost savings across a number of fronts, not just post”* associated with migrating to electronic communications. According to An Post, *“as electronic communications evolve and companies’ consumer bases become increasingly technologically literate, electronic communications will continue to replace the use of traditional mail, likely at an accelerated pace. This decline is, in all probability, irreversible and will continue, independent of pricing considerations.”*
9. According to Tico, *“e substitution is a misnomer. It should be called e complement. All businesses (and most citizens) use e communications, including, of course, postal service providers. ... There is a demand for paper communications and that demand needs to be developed and met.”*

Trend 3: End user needs – changing mix of mail and speed of delivery

10. An Post submits *“as ComReg correctly notes, the majority of post sent in Ireland does not fall within the universal postal service, and is sent by large mailers of deferred delivery bulk mail service, largely deferred delivery within three days.”* An Post submits that it cannot reduce its cost base in line with letter volume declines as *“An Post must incur the fixed costs associated with the maintenance of a network capable of delivery to every address in the country five days a week”*.
11. An Post also submits that research shows that postal users’ needs are moving toward delivery frequencies less than every day and that *“this trend, in response to reduced consumer demand and falling volumes, is evident across Europe”*.

Trend 4: Continued competition and growth in the packets and parcels sector

12. An Post submits that *“in order to address the globally experienced structural decline in traditional mail volumes due to e-substitution, An Post has made a conscious decision to accelerate investment in e-commerce products and services, and the associated infrastructure and people, required to deliver on this identified growth opportunity. ... Irish consumers have been the greatest beneficiaries of this transformation. Today, deliveries are now made six days a week and in the evenings.”*

Challenge 1: The continued liquidity challenges for An Post, given its statutory designation as the sole universal postal service provider

13. An Post acknowledges that the series of one-off transactions has contributed to An Post's improved liquidity position over the past two years. However, An Post submits that it has also made meaningful strides with profit increasing to €41.2m in 2018 against a profit of €8.4m in 2017.

Challenge 2: Limited scope for future significant price increases

14. Tico submits that it *"does not believe that there is any scope (not even "limited scope") for further price increases for bulk mail. In the face of ComReg's accurate assessment, that large senders of post are very sensitive to price increases, An Post has imposed bulk mail tariff hikes of the order of 35% since the removal of the price cap. An Post needs to accept that there is an incontrovertible case to be made for giving customers a break and reducing bulk mail prices. In ComReg's recent Postal Users Survey of SMEs, jumping off the page is the low level of satisfaction of SMEs with the price of bulk mail. Only 10% of SME users are satisfied with bulk mail and meter prices, which is, perhaps, not surprising, given the recent substantial increases in bulk mail tariffs. Significantly, the levels of price dissatisfaction increase with the number of letters sent. So, the most valuable customers are the most dissatisfied. This is alarming. We note from An Post accounts that bulk mail is a profitable business and therefore there is some scope for price decreases. We believe that such a move will help stem the continuing decrease in mail volumes."*
15. An Post submits that ComReg should also include a comparison of prices adjusted for purchasing power differences.

Challenge 3: Need to reduce costs to reflect letter mail volume declines

16. Tico submits that *"An Post has got sucked into the zero sum game of chasing losses, suffered on letter volume declines, with price increases. Instead, An Post should redouble the efforts it is making to bring costs into line."*
17. An Post submits that *"it is simply not reasonable to expect the cost base to decrease linearly in line with letter volumes. This has been the experience of postal operators internationally who, due to network costs that are largely resistant to reduction in line with volume, cannot achieve linear cost reductions in line with letter volumes."* An Post further submits that *"ComReg states that An Post's cost base has not reduced in line with letter volume declines, however this cannot realistically occur where An Post must incur the fixed costs associated with the maintenance of a network capable of delivery to every address in the country five days a week."*

Challenge 4: Need to reduce losses (by negotiating better terminal dues agreements) on International Inbound mail

18. An Post submits that *“terminal dues, particularly for mail moving from developing to developed states, frequently do not meet the costs of delivery in the recipient state. This means that the processing of international mail for net importers, such as Ireland, is often loss-making. Ireland, rather than An Post, is a signatory of the UPU Treaties. An Post has worked closely with the Irish Government to prepare for UPU Congress meetings and we have raised the issue of the damaging nature of UPU terminal dues, with all relevant stakeholders including the Irish Government, ComReg and the European Commission. The entry of An Post to IRA-E, and recently agreed terminal dues improvements following a recent UPU Extraordinary Congress in September 2019, have improved, and will continue to improve, the remuneration received by the company in this regard. The Draft Statement appears to evenly distribute the additional revenue that will be derived by An Post from the new UPU agreement on packets, however, it is our understanding that the anticipated gains will be back-loaded to later years. Critically, the new UPU agreement does not extend to letters or flats, which will continue to be loss-making. Despite An Post’s aggressive pursuit of improved terminal dues, it must be acknowledged that achieving material further change in terms of the remuneration for letters/ flats will be extremely challenging. Similarly, while An Post will continue to press for the best deal available with regard to terminal dues agreements with European operators, cognisance must be had of the limited bargaining power rendered by scale of Ireland’s postal market.”*
19. Tico submits that *“the scale of these losses and their continuing and worrying rising trajectory leaves no room for complacency and they should be monitored closely to ensure that the inbound international mail stream no longer loses money for An Post. Therefore, while noting ComReg’s view that it has a limited role, nevertheless ComReg could, in the interests of transparency, revert to its previous policy of reporting on progress with actions on terminal dues, together with informed commentary.”*

Challenge 5: Responding to the changing demand dynamics of the postal sector

20. An Post submits that *“research conducted by Frontier Economics on behalf of ComReg, research conducted for An Post, and research conducted by WIK consulting on behalf of the European Commission, all indicated the postal users’ needs are moving towards delivery frequencies less than every day.”* An Post further submits that *“experience in other countries has demonstrated that less than everyday delivery is becoming more common. For example, Sweden has*

now moved delivery quality to D+2, Denmark has removed D+1 mail from the USO, with this becoming a priority product, while Finland has discontinued the delivery of USO letters on Tuesdays and has moved to deliver non USO mail on only three days a week in large cities. This trend, in response to reduced consumer demand and falling volumes, is evident across Europe.”

21. Tico notes *“that while the universal service obligation demands a collection and delivery every working day, some postal users in Ireland would be satisfied with a less frequent service. In view of this interesting customer feedback, options to be considered might include an easing of the requirement for a five day delivery service.”* Tico submits that *“it would be useful if ComReg would commit, in its Strategy Statement, to bringing forward options, perhaps in a discussion paper, to expand on framework requirements (with consequent cost reductions) to better meet customers’ needs at more realistic prices.”* Tico further submits that such a discussion paper *“would greatly help inform domestic debate on how the State should respond”* to the changed regulatory framework initiatives at EU level to develop positions for Ireland on any new Postal Directive.

Challenge 6: Responding to the delivery challenges resulting from “Brexit”

22. There were no submissions on this challenge.

Challenge 7: Responding to the delivery challenge resulting from climate change actions

23. An Post submits *“it is committed to the five UN Sustainable Development Goals most relevant to the postal sector (decent work; sustainable communities; climate action; innovation and partnerships; and responsible consumption and production) ... As the operator of the largest nationwide fleet An Post has made a leading commitment to reducing carbon emissions and switch to renewable electric delivery vehicles. From the end of this year the company will have only electric vehicles in the City Centre of Dublin, and from the end of 2020 in all cities. An Post aims to reduce carbon emissions by 50% by 2030, and completely by 2050.”*
24. Tico submits that there are two sides to be considered in relation to climate action, stating that paper is an important carbon sink and that data centres which comprise a vital element of the digital and e-communications business are a significant consumer of natural resources, much of it electricity generated from non-renewables.

2.1.2 ComReg's assessment of respondents' views to Q.1

25. Regarding An Post's submission for 'Trend 1: A continued decline in letter mail volumes' that that it is not possible to accurately predict when, or if, parcel revenue will adequately compensate for losses in letter revenue; ComReg has updated the final Postal Strategy Statement to reflect this submission.
26. Regarding An Post's submission for 'Trend 2: A significant threat to letter volumes arising from electronic substitution' that postal pricing has no bearing on the rate of electronic substitution, ComReg disagrees and notes the research commissioned by ComReg that found among large mailers that there is a large focus on postal costs¹. Further, ComReg considers that increased postal pricing may bring forward electronic substitution plans to reduce the increased postal costs.
27. Regarding Tico's submission to 'Trend 2: A significant threat to letter volumes arising from electronic substitution', this is noted and acknowledged in the Postal Strategy Statement.
28. Regarding An Post's submission for 'Trend 3: End user needs – changing mix of mail and speed of delivery', ComReg has updated the final Postal Strategy Statement to reflect An Post's submission that it cannot reduce its cost base to reflect letter volume declines as "*An Post must incur the fixed costs associated with the maintenance of a network capable of delivery to every address in the country five days a week*" in accordance with the current legislative requirement.
29. Regarding An Post's submission for 'Trend 4: Continued competition and growth in the packets and parcels sector' noting its increased delivery frequency for parcels, ComReg notes that this is a commercial decision of An Post (likely a contractual requirement by e-commerce sellers) and that six day delivery and evening delivery for parcels, with its resultant cost, is not a regulatory or legislative requirement.
30. In response to An Post's submission for 'Challenge 1: The continued liquidity challenges for An Post, given its statutory designation as the sole universal postal service provider', ComReg notes that the increased profitability of c.€33m submitted by An Post needs to exclude event driven revenue of c.€15m in 2018 for presidential election and referenda mailings, this was zero in 2017, for a like-for-like comparison.
31. In response to Tico's submission for 'Challenge 2: Limited scope for future significant price increases', ComReg acknowledges Tico's submission that bulk

¹ ComReg Document No. 16/107

mail has incurred significant price increases. With regard to Tico's submission on the profitability of bulk mail services, ComReg notes that the profitability margin on the main bulk mail service in the universal postal service is less than 1%². ComReg has no regulatory role for the pricing and profitability of the other bulk mail services that are not in the universal postal service.

32. In response to An Post's submission for 'Challenge 2: Limited scope for future significant price increases', ComReg notes that An Post used a comparison based on nominal price when it announced its price increase for domestic stamped letter³. The comparison used by ComReg in the Postal Strategy Statement is the same.
33. Regarding Tico's submission to 'Challenge 3: Need to reduce costs to reflect letter mail volume declines', this is noted and recognised in the Postal Strategy Statement.
34. In response to An Post's submission for 'Challenge 3: Need to reduce costs to reflect letter mail volume declines', ComReg has added to the final Postal Strategy Statement the submission from An Post regarding that it cannot reduce its cost base in line with letter volume declines given the legislative requirement for deliver to every address in the country five days a week.
35. In response to An Post's submission for 'Challenge 4: Need to reduce losses (by negotiating better terminal dues agreements) on International Inbound mail', ComReg has added to the final Postal Strategy Statement the submission from An Post regarding:
- the anticipated gains on the new UPU agreement on packets being in later years
 - noting that a new agreement to increase terminal dues on letters and flats is necessary but will be challenging.

Regarding An Post's submission that its bilateral agreements with European operators can be difficult as An Post claims it has limited bargaining power rendered by the scale of Ireland's postal market, ComReg does not agree with this, noting, as An Post has acknowledged, the bargaining power available from being a net importer of such mail.

² <https://www.anpost.com/AnPost/media/PDFs/Regulatory%20Reports/Regulatory-Reports-2018.pdf>

³

<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2017/Postal+rates+2017>

36. In response to Tico's submission for 'Challenge 4: Need to reduce losses (by negotiating better terminal dues agreements) on International Inbound mail', ComReg notes that, as required by legislation⁴, it conducted a review of terminal dues and reported on same in its report to the Minister on the consequences of the repeal of the price cap.
37. In response to Tico's submission to 'Challenge 5: Responding to the changing demand dynamics of the postal sector', ComReg notes that the postal regulatory framework is and will continue to be set by European Directive transposed in associated national legislation. ComReg further notes that the European Commission⁵ is reviewing a possible new future postal regulatory framework and the ERGP has provided its opinion on the review of the regulatory framework for postal services⁶. ComReg continues to engage on this matter by its participation at ERGP.
38. Regarding An Post's submission to 'Challenge 5: Responding to the changing demand dynamics of the postal sector', this is noted and no update to the final Postal Strategy Statement is necessary.
39. Regarding An Post's and Tico's submissions to 'Challenge 7: Responding to the delivery challenge resulting from climate change actions', these are noted, no update to the final Postal Strategy Statement is necessary.

2.2 Strategic Intents and Goals

40. In Consultation 19/90a, ComReg sought views on the strategic intents and goals identified in the draft Postal Strategy Statement by asking:

Q.2 Do you agree with the Strategic Intents discussed in detail in Chapters 3 to 6? In providing your view, please also provide supporting evidence.

Q.3 Do you believe that the Goals associated with the Strategic Intents are appropriate, and relevant? In providing your view, please also provide supporting evidence.

Q.4 In your view, is there anything else that should be added to, or omitted from the draft Postal Strategy Statement 2020 - 2022?

⁴ Communications Regulation (Postal Services) (Amendment) Act 2017

⁵ https://ec.europa.eu/growth/content/public-stakeholder-workshop-studies-user-needs-postal-sector-and-international-postal_en

⁶ ERGP PL I (19) 12 Opinion on the review of the regulatory framework

2.2.1 Respondents' views

41. Tico submits that it is satisfied with the goals identified. An Post did not make a submission to these questions.

2.2.2 ComReg's assessment of respondents' views to Q.2 - Q.4

42. In light of the submissions, no change to the Postal Strategy Statement was made.