



Commission for
Communications Regulation

An Post's losses on international inbound mail in the universal postal service

Response to ComReg Document No. 16/53

Information Notice

Reference: ComReg 16/63

Date: 26 July 2016

An Coimisiún um Rialáil Cumarsáide

Commission for Communications Regulation

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This Information Notice contains:

- Response by An Post (dated 5 July 2016) to ComReg Document No. 16/53 'An Post's losses on international inbound mail in the universal postal service' and associated report by Frontier Economics (extract published as ComReg Document No. 16/53a)
- Response by Frontier Economics (dated 22 July 2016) to An Post's response of 5 July 2016

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1: Response by An Post (dated 5 July 2016) to ComReg Document No. 16/53 'An Post's losses on international inbound mail in the universal postal service' and associated report by Frontier Economics (extract published as ComReg Document No. 16/53a)

2: Response by Frontier Economics (dated 22 July 2016) to An Post's response of 5 July 2016

1: Response by An Post (dated 5 July 2016) to ComReg Document No. 16/53 'An Post's losses on international inbound mail in the universal postal service' and associated report by Frontier Economics (extract published as ComReg Document No. 16/53a)

Stephen Brogan
Senior Manager, Postal Regulation Policy
ComReg
Abbey Court
Lower Abbey Street
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Dublin 1
D01 W2H4

5 July 2016

Reference: Response to ComReg Information Notice 16/53

Dear Stephen

In response to the above Information Notice, I consider that the publication would benefit from the following points of clarification to ensure the reader is fully briefed on the complex issues dealt with in the paper.

- 1) **Background to Terminal Dues:** This should be made clear to the reader, I suggest this includes the following important points in relation to Terminal Dues agreements:
 - Cover both Inbound and Outbound traffic to and from Ireland.
 - Based on the underlying worldwide UPU agreement. The UPU is a specialized agency of the United Nations (UN).
 - Delivery rates are generally set using domestic tariff(s) as a base.
 - Before the late 1960's no Terminal Dues charges were made between operators exchanging international mail. The UPU, REIMS and Interconnect agreements are a significant improvement in this respect.
 - An Post is a large net importer of mail, i.e. it receives substantially more inbound mail than it sends in outbound mail.

- 2) **An Post efficiency:** The conclusion section of the notice states “*An Post could become more efficient in its costs. ComReg, in its 2014 price cap decision, noted that An Post, based on internal benchmarking, was up to 22% inefficient.*” The reference to An Post being 22% inefficient is misleading if the full context is not included.

The PCM report from ComReg, document (14/59), actually states “*Econometric benchmarking of An Post’s delivery network revealed inefficiencies in the range of 7% to 22%.*” ComReg then set an efficiency target of “*2% p.a. for total 10% over 5 year period of this price cap control*”. This is significantly lower than the 22% included in the Information Notice.

- 3) **UPU rates:** The proposal from ComReg for An Post and the State to negotiate better Terminal Dues rates is somewhat simplistic. The UPU Congress is not a forum to “*negotiate*” Terminal Dues rates, this will have been carried out by all operators, on behalf of the members, during the four years since the last Congress. It is not realistic that the UPU will accommodate An Post by setting higher rates than those available to all other 191 members.
- 4) **Fully Allocated Costs (FAC):** The Frontier report refers to FAC and makes reference to two alternative cost benchmarks, “*attributable costs and retail minus*”. However, no further reference is made to these alternative benchmarks in the extract from the Frontier Report.
- 5) **Interconnect Agreement timelines:** Frontier state that “*An Post advises that these negotiations are likely to conclude within the next two years*”. These negotiations effectively concluded in early 2016 with the vast majority of REIMS signatories now signed up to the Interconnect agreement and many have started to implement the terms of the agreement in 2016. An Post has not signed this agreement.
- 6) **REIMS agreement:** Many REIMS members have given notice to exit the REIMS agreement in 2017, it is therefore unlikely that An Post will be able to remain in the REIMS agreement in the long term. The REIMS agreement is likely to dissolve in the next 2/3 years and will be replaced by the Interconnect agreement.
- 7) **Pressure to reduce rates:** The increasing focus on the reduction of cross-border delivery rates, to support the Commission’s Digital Single Market (DSM) strategyⁱ, is likely to continue to put downward pressure on Terminal Dues delivery rates into the future. This should be further noted in point 12 of the conclusion section of the Information Notice, “*An Post’s ability to negotiate increased terminal dues tariffs is limited.*”

An Post considers that clarification of the above points would be of benefit to the reader to ensure that the complex issues dealt with and the conclusions reached by ComReg in the Information Notice are clear.

Yours sincerely


Damian Quinn
Head of Regulatory Affairs

ⁱ http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8822&lang=en&tpa_id=1074&title=New%2De%2Dcommerce%2Drules%2Dto%2Dhelp%2Dconsumers%2Dand%2Dcom%2ADpa%2ADnies%2Dreap%2Dfull%2Dbenefit%2Dof%2DSingle%2DMarket

2: Response by Frontier Economics (dated 22 July 2016) to An Post's response of 5 July 2016

Stephen Brogan
Senior Manager, Postal Regulation Policy
ComReg
Abbey Court
Lower Abbey Street
Dublin 1

Date: 22.07.2016



Reference: Review and Assessment of An Post's Terminal Dues Agreement

Dear Stephen

As requested, we have reviewed An Post's letter of 5th July to identify whether any amendments to our report are required. Following our review, we suggest that An Post's comments are adequately addressed in the current report. We will not therefore be making any further amendments to our report.

For completeness, we provide a brief commentary below in relation to each of An Post's comments.

1. Background to Terminal Dues: This should be made clear to the reader, I suggest this includes the following important points in relation to Terminal Dues agreements:

- a. Cover both Inbound and Outbound traffic to and from Ireland.

Page 17 of our report provides an overview of the nature of terminal dues arrangements.

- b. Based on the underlying worldwide UPU agreement. The UPU is a specialized agency of the United Nations (UN).

Page 17 of our report provides an overview of the nature of terminal dues arrangements.

- c. Delivery rates are generally set using domestic tariff(s) as a base.

Page 19 of our report notes that terminal dues are linked to domestic postage rates.

- d. Before the late 1960's no Terminal Dues charges were made between operators exchanging international mail. The UPU, REIMS and Interconnect agreements are a significant improvement in this respect.

Section 2.1 of our report sets out the background to terminal dues.

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- e. An Post is a large net importer of mail, i.e. it receives substantially more inbound mail than it sends in outbound mail.

Figure 3 on page 37 of our report shows inbound and outbound mail volumes and revenues

2. An Post efficiency: The conclusion section of the notice states "An Post could become more efficient in its costs. ComReg, in its 2014 price cap decision, noted that An Post, based on internal benchmarking, was up to 22% inefficient." The reference to An Post being 22% inefficient is misleading if the full context is not included.

The PCM report from ComReg, document (14/59), actually states "Econometric benchmarking of An Post's delivery network revealed inefficiencies in the range of 7% to 22%." ComReg then set an efficiency target of "2% p.a. for total 10% over 5 year period of this price cap control". This is significantly lower than the 22% included in the Information Notice.

We do not believe this to be misleading. The PCM report found An Post to be up to 22% inefficient. We note also that this was based only on internal benchmarking within An Post, and did not compare An Post to any external benchmarks. ComReg then made a judgement as to what an appropriate glide path would be for An Post to close the static efficiency gap over the price control period. However, for the purposes of the terminal dues work, the relevant consideration is the size of the efficiency gap, rather than the glide path.

3. UPU rates: The proposal from ComReg for An Post and the State to negotiate better Terminal Dues rates is somewhat simplistic. The UPU Congress is not a forum to "negotiate" Terminal Dues rates, this will have been carried out by all operators, on behalf of the members, during the four years since the last Congress. It is not realistic that the UPU will accommodate An Post by setting higher rates than those available to all other 191 members.

On page 77 of the report we note that "our view is that consideration should be given to how Ireland's interests can be best represented at the upcoming multilateral negotiations given the current losses on international inbound."

4. Fully Allocated Costs (FAC): The Frontier report refers to FAC and makes reference to two alternative cost benchmarks, "attributable costs and retail minus". However, no further reference is made to these alternative benchmarks in the extract from the Frontier Report.

This is addressed in our full report.

5. Interconnect Agreement timelines: Frontier state that "An Post advises that these negotiations are likely to conclude within the next two years". These negotiations effectively concluded in early 2016 with the vast majority of REIMS signatories now signed up to the Interconnect agreement and many have started to

implement the terms of the agreement in 2016. An Post has not signed this agreement.

We have been unable to independently verify that the relevant negotiations have effectively concluded. We suggest it would be helpful for ComReg to seek further clarification from An Post in relation to this statement. We also note An Post's statement that they have not signed the new agreement. Again, we suggest it would be helpful for ComReg to seek further clarification in this regard, given that the current REIMS rates are significantly higher than the UPU rates which are defaulted to in the absence of any other agreement.

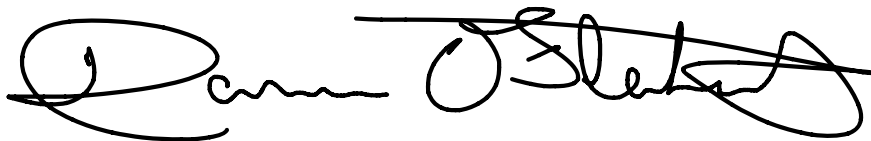
6. REIMS agreement: Many REIMS members have given notice to exit the REIMS agreement in 2017, it is therefore unlikely that An Post will be able to remain in the REIMS agreement in the long term. The REIMS agreement is likely to dissolve in the next 2/3 years and will be replaced by the Interconnect agreement.

Page 19 of our report notes that REIMS is likely to cease in the short term.

7. Pressure to reduce rates: The increasing focus on the reduction of cross- border delivery rates, to support the Commission's Digital Single Market (DSM) strategy, is likely to continue to put downward pressure on Terminal Dues delivery rates into the future. This should be further noted in point 12 of the conclusion section of the Information Notice, "An Post's ability to negotiate increased terminal dues tariffs is limited."

We suggest that the conclusions on page 74 of our report adequately reflect the extent of the challenges facing An Post in relation to terminal dues.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Damien O'Flaherty', with a large, stylized flourish at the end.

Damien O' Flaherty