



## Registered Mail – MaltaPost plc change in tariffs

Consultation

15<sup>th</sup> October 2018

MCA/C/18-3351

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## Executive Summary

The postal services market is becoming increasingly dynamic, with ongoing challenges especially due to the downward trend in traditional mail services on the one hand, and opportunities due to the growth in eCommerce-related services on the other hand. MaltaPost plc (hereafter 'MaltaPost') is the provider of Universal Postal Services in Malta, and all the above aspects influence the company's overall performance.

One of the traditional services which are impacted by such factors is Registered Mail. MaltaPost offers this service on a nationwide basis. This service is also subject to various challenges present within the postal sector.

In April 2018, MaltaPost sent a letter to the Malta Communications Authority (hereafter 'MCA') requesting revisions of the local and outbound registered mail fees.

In its proposal, MaltaPost requested a number of revisions to the registration and the advice of delivery fees over the coming three to four years. The reasons given for such requests were that both local and cross-border costs are constantly increasing while the volumes of traditional mail are constantly decreasing. Hence, MaltaPost submitted that in order to mitigate these aspects and to ensure the continuity of essential services, the company's registered mail fees require an upwards revision. The last revision to registration fees had been carried out in December 2013.

The MCA reviewed the request and corresponded with MaltaPost for further information and clarifications. The MCA evaluated and took into consideration the feedback obtained from MaltaPost and identified three possible scenarios that will be described in further detail below.

## Structure of the Document

The document is structured in four sections:

- Section 1: A background on the registered mail service;
- Section 2: A detailed overview of MaltaPost's request;
- Section 3: The MCA analysis regarding MaltaPost's request;
- Section 4: The next steps of this consultation.



## 1. Background

MaltaPost's proposal relates to the registered mail service, i.e. the service that provides the sender with optional tracking service (since it is provided to the sender upon request). This service also guarantees a proof of successful delivery since a signature has to be provided by the recipient once the item is delivered.

MaltaPost is the local designated Universal Service Provider and, as part of the universal service obligations, the operator is required to provide such a nationwide registration service. Changes in the price of registered mail services require the MCA's approval. The registered mail service is provided for domestic mail and for the outbound market. MaltaPost, as part of this service, also offers two additional options to the customers:

1. The first option is the 'advice of delivery' service, whereby the sender receives a copy of the signature of the recipient attesting that the item has been delivered successfully.
2. The second option is 'proof of delivery' whereby the customer subsequently requests that a proof of such delivery is provided.



## 2. MaltaPost's Request

As mentioned earlier, MaltaPost requested the MCA to approve revisions to the local and outbound registered mail fees. The proposals cover the registration fees as well as the advice of delivery fees. The following sections will provide further detail of the current service and the specific proposed rates.

### Current Situation

MaltaPost indicated that profitability of the Universal Postal Service area is constantly decreasing, although currently it is within an acceptable range of return. In addition, MaltaPost indicated that without any price changes the overall profitability would continue to decrease given ongoing challenges, such as internal and external cost increases as well as volume drops. Registered mail is one of those services that, notwithstanding previously profitable returns, is now incurring ongoing losses, and that as a commercial going concern MaltaPost has to ensure that the services run on a sustainable basis.

The registered mail service is an add-on service whereby the customer, upon request, opts that the letter is monitored via a track and trace system. The customer also has the choice to opt for an advice of receipt service. MaltaPost and the sender can also trace the registered letter by means of a barcode issued when the item is posted.

The following table shows the current price rates.

Current Fees	Domestic	Outbound
Registration Fee	€0.90*	€3.00
Advice of Delivery	€1.20	€2.00

\*With two delivery attempts

Table 1: Current Registered Mail Fees



The following chart reflects the volume trends of the domestic and outbound registered mail as reported by MaltaPost. Figure 1 reflects the volume trends in the registered mail market in the last few financial years. On the other hand, until FY2016 the profitability of both domestic and outbound segments was generating a contribution to the company (especially the outbound registered mail) but both ended up with loss-making performance during financial year 2017.

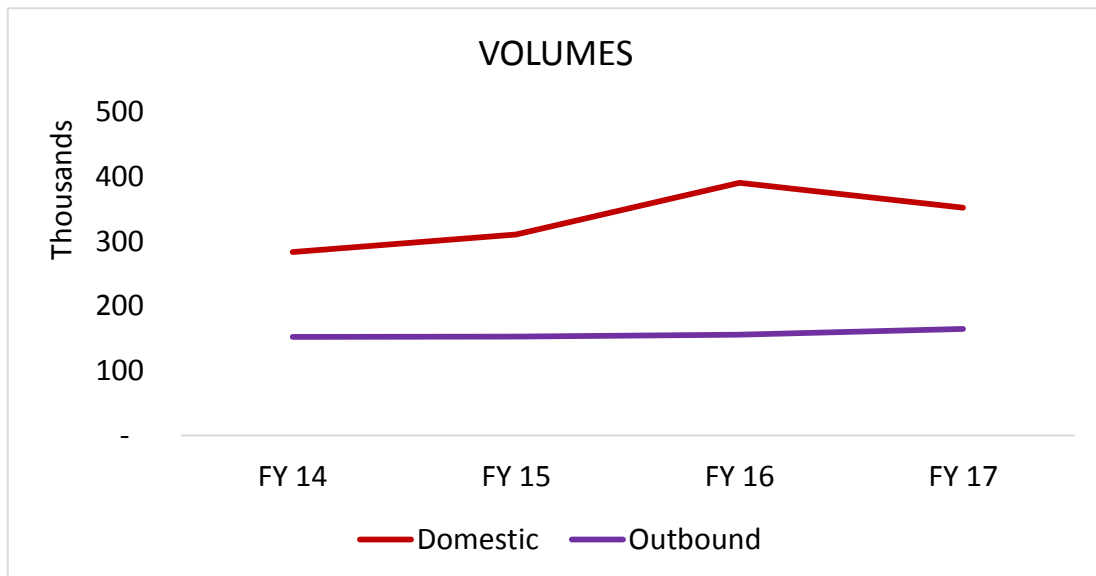


Figure 1: Registered Mail Volume Trends (Domestic & Outbound)

As part of its analysis following the submission of MaltaPost’s proposal, the MCA engaged with the company and the next sections will give additional insights of the registered mail service, especially in relation to the proposal made and the forces which are influencing the service provided by MaltaPost.

### Domestic Registered Mail

MaltaPost highlighted that their operating expenditure is constantly increasing and the trend indicates that this will be the ongoing pattern. As already mentioned earlier, the profitability of the domestic registered mail service has been declining for the past few years, but has now started incurring a loss and, without any intervention, this scenario would continue, given persistent cost trends. Those cost increases are originating from the below two main sources:

- Staff costs which are subject to a constant yearly growth;
- Other costs that are influenced by various aspects, especially the inflation rate.



The drop in volumes and the constant cost increases both negatively affect the domestic registered mail service.

MaltaPost proposed the following domestic fee changes:

Domestic Registered Mail Fees	Current Prices	Proposed by MaltaPost		
		Yr 1 (2018)	Yr 2 (2019)	Yr 3 (2022)
Registration Fee	€0.90	€2.00	€2.50	€3.00
Advice of delivery	€1.20	€2.00	€2.50	€3.00

Table 2: Domestic Registered Mail – Current & Proposed Fees

One consideration to mention is that currently MaltaPost makes two delivery attempts. MaltaPost is now proposing a reduction to one delivery attempt. During ensuing discussions with MCA, the company stated that it is adding the option for an addressee to retrieve registered articles from the “EasyPik” parcel locker service on a 24/7 basis, free of charge.

## Outbound Registered Mail

Similar to the domestic scenario, the ‘Outbound registered ‘mail is also experiencing a negative trend, moving from a profitable situation to a loss-making one. In the case of Outbound Registrations, the decline in profitability is sharper and does not form part of a trend. The principal reason is that, apart from the costs mentioned for the domestic service (staff costs and other costs), the outbound service is affected by international fees, paid by the postal operator in the sender’s country to the postal operator in the addressee’s country, which are called ‘Terminal Dues’. These costs are incurred by MaltaPost when a letter from Malta is to be delivered abroad, since MaltaPost has to rely on a third party operator's service. These charges are generally calculated on a standard fee, and are established under the auspices of the Universal Postal Union (UPU)<sup>1</sup>. As from 2018, these charges will increase, implying more costs for MaltaPost. The MCA has taken into account that MaltaPost will also be able to charge other foreign operators more under the new arrangements, however this effect will be insufficient to counter the increase in costs that it will face.

<sup>1</sup> The Universal Postal Union (UPU) was established in 1874 by the Treaty of Bern and became a specialized agency of the United Nations (UN) on 1 July 1948. Amongst other functions, the organisation sets the rules for international mail exchanges.



On these lines, MaltaPost is also proposing that the fees for registered cross-border services be revised in order to balance out the cost increases.

Outbound Registered Mail Fees	Current Prices	Proposed by MaltaPost		
		Yr 1 (2018)	Yr 2 (2019)	Yr 3 (2021)
Registration Fee	€3.00	€5.00	€5.50	€6.00
Advice of delivery	€2.00	€2.60	€3.25	€4.00

Table 3: Outbound Registered Mail - Current & Proposed Fees





### 3. MCA's Evaluation

The MCA reviewed the price changes proposed by MaltaPost, it requested and obtained additional information on the company's proposals, and further evaluated other aspects that could impinge on the service provided by MaltaPost to end-users. The MCA also considered the affordability of the service, and if any added benefits will be obtained by the end-user.

As part of the analysis, the MCA identified a number of scenarios and identified three main cases;

- **Case 1:** The MCA does not accept any aspect of MaltaPost's request, and all the fees remain as they are.
- **Case 2:** The MCA approves only a subset (e.g. the first-year fee increases) of MaltaPost's request while the other increases would be considered after further review of the registered mail service performance.
- **Case 3:** The MCA accepts all price changes that MaltaPost proposed.

The following sections will review each case in further detail.

#### Case 1: MaltaPost request not adopted

During various communications with MaltaPost, the MCA has undertaken detailed analyses regarding the proposed fee increases, so as to be able to understand further the need for tariff adjustments and the impact that the current situation has on MaltaPost.

As part of the analysis, the MCA considered that current domestic registered mail volume trends indicate that the market is decreasing while the outbound market trend has slightly increased. The MCA tested whether there is no immediate requirement for higher fees, especially given that the outbound minimal ongoing improvement might balance the declines suffered elsewhere. Furthermore, shifting the domestic service from two delivery attempts to one delivery attempt is something that may have a repercussion in terms of inconvenience for the end-user.

On the other hand, as mentioned earlier, the current and unfolding financial performance of the registered mail services is not very promising, especially since latest figures reflect a change from their overall profitable scenario to a loss-making one. According to MaltaPost projections examined by the MCA, without any price adjustments the loss would recur and increase in the coming years. Therefore, not accepting any fee changes would impinge on



the bottom line of MaltaPost's performance and on the sustainable provision of the Universal Postal Service in Malta. Another aspect to take into consideration is the fact that, although the company is proposing to reduce the service to one delivery attempt, MaltaPost is introducing the free use of postal lockers for the general public to collect registered mail. This is an added value service for the public since the customer has the flexibility to retrieve the mail according to their convenience.

## Case 2: Adopt a subset (e.g. the first –year fee) of MaltaPost's request

The second scenario that the MCA took into consideration is that only part of the proposals are approved, e.g. the first fee change is accepted. When analysing the changes in prices that MaltaPost proposed, the first change is the most significant one, while the other subsequent changes are of relatively lower impact in terms of financial effect. The MCA also evaluated the possible impact that such increases could have on the volume trends apart from the profitability of the service.

The MCA projected the outcome of such change and weighted the possible impact on volumes that such increase could bring about. The outcome of this scenario indicates that it would be sufficient for MaltaPost to maintain a sustainable registered mail service. This is definitely positive, since it is of utmost importance that this service also contributes toward other traditional mail services remaining available and sustainable. However, throughout the years the MCA would still have to re-evaluate possible further fee increases since constant cost increase may be expected.

It should be noted that in order to ensure the financial sustainability of the universal postal service, other pricing adjustments may have to be considered, and the MCA will consult in turn on such adjustments.

## Case 3: All fee changes are adopted

The final scenario factors in all fee changes that MaltaPost proposed. The MCA, as part of the analysis, also weighed the volume drops that such increase could have. In this way, the analysis was modelled to reflect possible trends of the market.

When including all the information, such as the yearly cost increases, the new fees, and the volume declines, the registered mail profitability would also not be loss-making. Nonetheless, such projections would be highly subject to unexpected fluctuations between projected and actual volumes and cost progression.



## 4. Consultation Framework

Having regard to the above, the MCA is potentially considering Case 2, since it would allow MaltaPost to maintain its profitability, support the provision of a quality universal service, but also give leeway to the MCA to keep monitoring this service in the coming years.

**The MCA invites comments from interested parties on this consultation document.**

For the sake of clarity and ease of understanding, the MCA encourages stakeholders to structure their comments in order and in line with the section and sub-section numbers used throughout this document.

In accordance with its obligations under Article 4A of the Malta Communications Authority Act [Cap 418 of the Laws of Malta], the Authority welcomes written comments and representations from interested parties and stakeholders during the national consultation period which shall run from the 15<sup>th</sup> October 2018 to the 15<sup>th</sup> November 2018.

The Authority appreciates that respondents may provide confidential information in their feedback to this consultation document. This information is to be included in a separate annex and should be clearly marked as confidential. Respondents are also requested to state the reasons why the information should be treated as confidential.

For the sake of openness and transparency, the MCA will publish a list of all respondents to this consultation. The Authority will take the necessary steps to protect the confidentiality of all such material as soon as it is received at the MCA offices in accordance with the MCA's confidentiality guidelines and procedures. Respondents are however encouraged to avoid confidential markings where ever possible.

All respondents should be submitted to the Authority, in writing or by email, by not later than 12.00hrs on 15<sup>th</sup> November 2018 and addressed to:

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