



# Domestic Single-Piece and Bulk Mail Services

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## MaltaPost plc proposal

Response to Consultation and Decision

29<sup>th</sup> May 2019

MCA/D/19-3608



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## 1 Executive Summary

On 23 April 2019 the Malta Communications Authority (hereafter 'MCA') published for consultation a proposal submitted by MaltaPost plc (hereafter 'MaltaPost') requesting a revision of tariffs for the domestic single-piece and domestic bulk mail.

MaltaPost requested a revision of the local single-piece and local bulk mail tariffs since MaltaPost contended that these services have been loss-making for a number of years, that the internal costs are constantly increasing, and these are weighing heavily on financial performance and the US sustainability.

The consultation published by the MCA offered the opportunity for stakeholders to provide feedback and complemented several interactions with MaltaPost that included detailed analyses of cost accounting information. During the public consultation period which closed on 15 May 2019, the MCA received no feedback from stakeholders concerning the proposed tariff revisions.

This report on consultation and decision now contains the MCA's final assessments, including that:

- The cost accounting analysis carried out by the MCA confirmed that the domestic single-piece and bulk mail services are loss-making, and that the option to refuse any price increase is financially unsustainable.
- The MCA also notes that the domestic single-piece tariff in Malta is the lowest in Europe.
- Consumer surveys carried out in 2018 by the MCA revealed that within a 12-month period, most respondents spend less than €10 on posting articles.
- The MCA however notes that, depending on different scenarios, a partial adoption of the proposed tariffs may be sufficient to maintain financial sustainability of the universal service for at least the short term.
- In view of this possibility, the MCA decided that it should maintain a prudent approach and, for the time being, grant only a partial approval for revised prices.

### 1.1 Structure of this Document

The document is structured as follows:

- Section 2: An overview of MaltaPost's request.
- Section 3: The consultation outcome and the MCA response.
- Section 4: The MCA's decision and way forward.



## 2 MaltaPost's Request

### 2.1 Background

The domestic single-piece and bulk mail services are part of the Universal Service (hereafter 'US') and are provided by MaltaPost on a nationwide basis. Single-piece mail refers to mail on which the customer attaches a stamp before mailing it. Bulk mail refers to mail that is sent in a large number of items (50 or more) in identical size and format at a post office counter, and which is charged at a reduced rate than the single-piece rate.

MaltaPost requested different tariff revisions for particular weight-steps as will be described below in further detail.

### 2.2 Current rates and financial performance

The tariffs currently charged by MaltaPost for these services depend on the specific weight-step of the single-piece or bulk mail. The following are the rates that are currently charged for the domestic service by MaltaPost:

Current Rates	Domestic Single-Piece	Domestic Bulk Mail
0.50g	€0.26	€0.24
51-100g	€0.42	€0.36
101g – 2Kg	additional €0.20 <i>(for each additional 50g)</i>	additional €0.20 <i>(for each additional 50g)</i>

Table 1: Current MaltaPost Local Single-Piece and Bulk Mail tariffs

MaltaPost maintains an Activity Based Cost-Accounting ("ABC") system and prepares separated accounts which are audited on an annual basis. MaltaPost submitted that the domestic single-piece and bulk mail services have been incurring losses. MaltaPost also stated that even the overall profitability of the entire Universal Postal Service, which includes other products, is constantly decreasing and that the latest results indicated profitability that is only just within the acceptable range of return set by the MCA. In addition, MaltaPost submitted that without any price adjustments, the US profitability would continue to decrease below that level, given the ongoing challenges such as internal and external cost increases and other operational challenges.



## 2.3 MaltaPost’s Proposed Tariffs for Local Single-Piece and Bulk Mail

MaltaPost had proposed new tariffs taking into account the loss-making situation of the domestic single-piece and bulk mail services shown from the audited separated accounts. MaltaPost also highlighted that its operating expenditure is constantly increasing, and the trend indicates that this will be the ongoing pattern. MaltaPost in particular submitted that it is currently incurring increasing costs mainly originating from the two main sources listed below:

- Staff costs which are subject to constant yearly growth; and
- Other costs that are influenced by various factors, including general inflation.

In its proposals MaltaPost proposed the lowest increases in the domestic bulk mail tariffs. The largest increase proposed by MaltaPost was for single-piece mail above 150g which in terms of mail articles represent less than 1% of total domestic single-piece and bulk mail flows.

The changes which were proposed by MaltaPost are shown in the following tables:

Domestic Single-Piece Tariffs	Current	Yr 1	Yr 2	Yr 3
0-50g	€0.26	€0.30	€0.33	€0.36
51-100g	€0.42	€0.50	€0.52	€0.54
101g – 150g	€0.62	€0.70	€0.72	€0.74
151g – 200g	€0.82	€1.45	€1.65	€1.85
201g+ - 2kg	€0.20 <i>(for each additional 50g)</i>			

Table 2: MaltaPost proposed Domestic Single-Piece Tariffs

Domestic Bulk Mail Tariffs	Current	Yr 1	Yr 2	Yr 3
0-50g	€0.24	€0.28	€0.29	€0.30
51-100g	€0.36	€0.38	€0.39	€0.40
101g – 2kg	€0.20 <i>(for each additional 50g)</i>			

Table 3: MaltaPost proposed Domestic Bulk Mail Tariffs



In the public consultation, the MCA had stated that it had some concerns and was not in agreement with certain aspects of MaltaPost's proposals which would increase tariffs for 3 consecutive years. The MCA had further stated that its analysis would include assessing the compatibility of the proposed changes with ensuring the availability of an affordable universal service.



### 3 Consultation Outcome and Responses

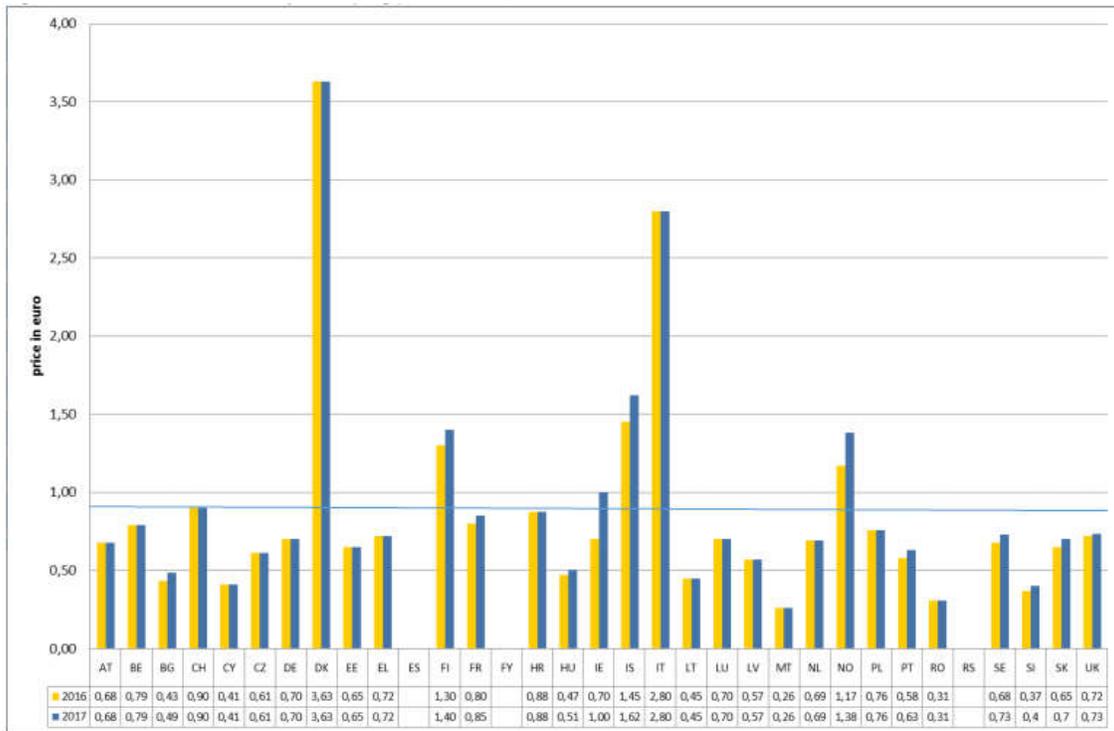
During the public consultation period, the MCA received no feedback from stakeholders concerning the proposed tariff revisions.

The MCA took into consideration the fact that during these last years, the market dynamics have evolved and the costs kept increasing. As it had stated in the consultation, the MCA also assessed the compatibility of the proposed changes with ensuring the availability of an affordable universal service. This assessment included benchmarking against tariffs for basic letter mail charged in other countries, an evaluation of the annual household expenditure on postal services, and an analysis of changes in the Retail Price Index over a period since the basic letter-mail prices were last reviewed in 2012/13.

#### 3.1 Compatibility with an affordable universal postal service

##### 3.1.1 Benchmarking of domestic standard letter-mail prices

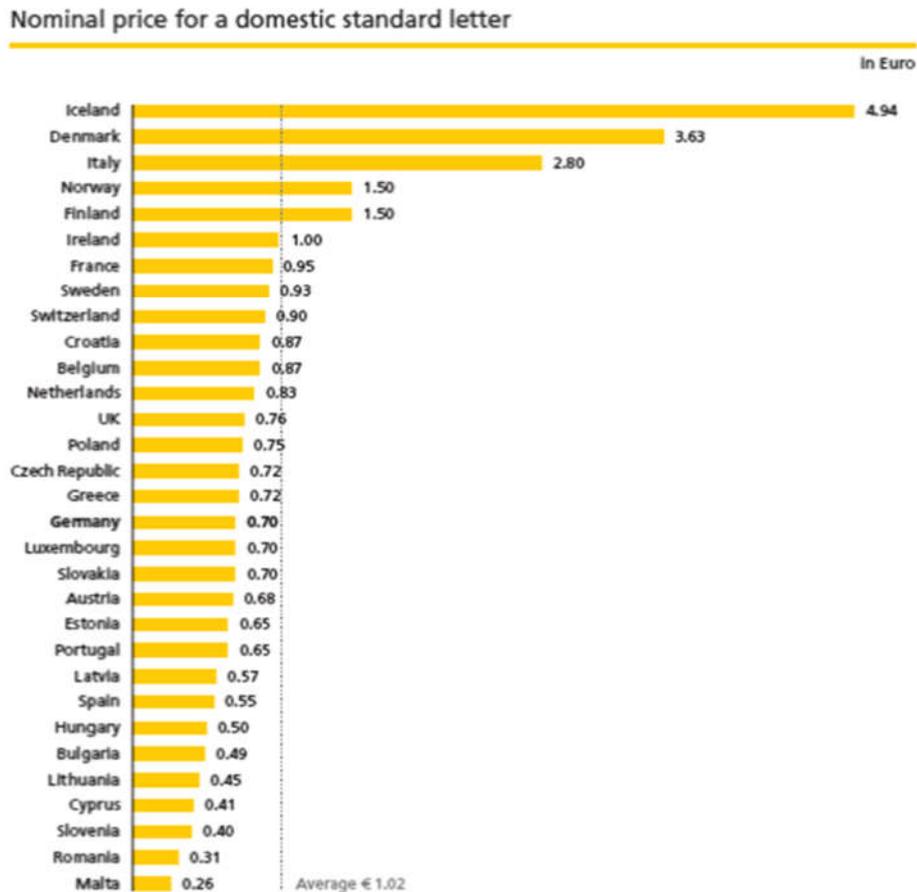
The European Regulators Group for Postal Services (ERGP) and Deutsche Post AG both publish comparative information on the prices in Europe for domestic standard letter-mail services.



Source: European Regulators Group for Postal Services (ERGP), 2018



The ERGP's comparison shows the Price of Domestic Priority Letter (20 gr) in 2016 and 2017, and does not include price increases carried out in the respective jurisdictions following that timeframe.



Source: Deutsche Post, 2018

The comparison made by Deutsche Post refers to 2018 and includes prices in the European Union as well as in the European Free Trade Area (EFTA) countries of Iceland, Norway, and Switzerland.

Both reports show that the domestic lowest-weight single-piece tariff in Malta is the lowest in Europe. The new tariff proposed by MaltaPost for the first year would still remain the lowest in Europe.

### 3.1.2 Annual Household Expenditure on Postal Services

Consumer surveys carried out in 2018 by the MCA reveal that 42% of respondents spend less than €5 on posting articles in comparison to just 28% in 2016.



(Source: MCA Consumer Surveys, 2018)

From the above information, it is apparent that a contained increase in the domestic standard letter-mail prices due to cost increases would not in general be unaffordable to households.

### 3.1.3 Changes in the Retail Price Index

MaltaPost has not reviewed the tariffs for more than four years, and accordingly its proposed price increase would be equivalent to 15.4% (up to 2019) in the case of a domestic single piece letter up to 50g, and 16.7% (up to 2019) in the case of a domestic bulk-posted letter up to 50g. In comparison, the Retail Price Index rose by between 6% and 6.3% over the respective periods

Last Increase	Domestic Single Piece Letter up to 50g (€)	Domestic Bulk-Posted Letter up to 50g (€)	Retail Price Index (December 2009=100) <sup>1</sup>
Effective 19.11.12	0.26	n/a	108.38
Effective 01.04.13	n/a	0.24	108.08
Proposed by MaltaPost	0.30	0.28	114.94
Increase (%)	15.4%	16.7%	6% - 6.3%

From the above table, it is apparent that the increase in prices proposed by MaltaPost would exceed the Retail Price Index. Although households are unlikely to be impacted by this difference due to the low level of expenditure, businesses who send items of correspondence in the lower weight category

<sup>1</sup> Source: NSO



(letter mail) would be more impacted. This assessment leads MCA to consider a prudent approach, as will be elaborated further below.

### **3.1.4 Letter mail above 150g**

The highest increase in prices proposed by MaltaPost is for single-piece letter mail above 150g. The increase in question (of €0.63) is proposed only for single-piece letter mail above 150g, as a much lower increase (of €0.02) is proposed for bulk mail (50 articles or more) of the same weight. The amount of domestic single-piece mail which falls above 150g is approximately 0.75% of total domestic mail flows.

The weight of 150g for an article of correspondence is equivalent to approximately 30 standard A4 sheets of 80gsm paper. Since periodical publications are usually mailed as bulk mail, they would not be impacted by the highest increase. High-volume users will also have the possibility of mailing multiple items as bulk-mail, in which case the respective increases would be significantly lower.

## **3.2 Cost Accounting Analysis**

The cost accounting analysis carried out by the MCA confirmed that the domestic single-piece and bulk mail services were loss-making. In view of the fact that the profitability of the universal postal service and the domestic single-piece and domestic bulk mail services are reflecting drops, the option to refuse any price increase is financially unsustainable. The proposals submitted by MaltaPost would lead to an improvement, and depending on different scenarios, a partial adoption of the proposed tariffs may be sufficient to maintain financial sustainability for at least the short term.

## **3.3 Conclusion**

The MCA considers that in view of the possibility that a partial adoption of MaltaPost's proposed changes could suffice to maintain financial sustainability for at least the short term, it should maintain a prudent approach and for the time being grant a partial approval for revised prices. The approved tariffs would also reduce the gap between the first increase and the equivalent change in the Retail Price Index. Since different scenarios may materialise, particularly should the Return on Sales of the Universal Postal Service exceed threshold levels, the MCA is reserving such a decision on price increases for Year 3 to a future date.

In view of the factors mentioned above, the MCA considers that MaltaPost can adopt the following approved tariffs for the first and second year:



Domestic Single – Piece	% of mail affected	Current Prices	Approved vs. Proposed by MaltaPost		
			Yr 1	Yr 2	Yr 3
0-50g	22.12%	€0.26	€0.28 (vs. €0.30)	€0.30 (vs. €0.33)	reserved (vs. €0.36)
51g-100g	0.94%	€0.42	€0.48 (vs. €0.50)	€0.50 (vs. €0.52)	reserved (vs. €0.54)
101g-150g	0.04%	€0.62	€0.68 (vs. €0.70)	€0.70 (vs. €0.72)	reserved (vs. €0.74)
151g-200g	0.52%	€0.82	€1.45 (vs. €1.45)	€1.65 (vs. €1.65)	reserved (vs. €1.85)
201g-2kg	0.23%	€0.20 <i>(for each additional 50g)</i>			

Domestic Bulk Mail	% of mail affected	Current Prices	Approved vs. Proposed by MaltaPost		
			Yr 1	Yr 2	Yr 3
0-50g	73.69%	€0.24	€0.26 (vs. €0.28)	€0.27 (vs. €0.29)	reserved (vs. €0.30)
51g-100g	1.51%	€0.36	€0.38 (vs. €0.38)	€0.39 (vs. €0.39)	reserved (vs. €0.40)
101g-2kg	0.97%	€0.20 <i>(for each additional 50g)</i>			



## 4 MCA Decision and Way Forward

MaltaPost may adopt the following tariffs for domestic single-piece and domestic bulk mail found in the following table.

Domestic Single-Piece Tariffs	Yr 1 (30 May 2019)	Yr 2 (1 Jan 2020)
0-50g	€0.28	€0.30
51-100g	€0.48	€0.50
101g – 150g	€0.68	€0.70
151g – 200g	€1.45	€1.65
201g+ - 2kg	€0.20 <i>(for each additional 50g)</i>	€0.20 <i>(for each additional 50g)</i>
Domestic Bulk Mail Tariffs	Yr 1 (30 May 2019)	Yr 2 (1 Jan 2020)
0-50g	€0.26	€0.27
51-100g	€0.38	€0.39
101g – 2kg	€0.20 <i>(for each additional 50g)</i>	€0.20 <i>(for each additional 50g)</i>

The MCA will keep under review the financial performance of the universal postal service, including the domestic single-piece and domestic bulk mail service, and will reserve a decision on the extent of any price increases that may be required during year 3.