



# **New Prices for Certain Postal Services**

---

## MaltaPost plc proposal

**Response to Consultation and Decision Notice**

23 June 2021

MCA/D/ 21-4238



## Contents

1	Summary.....	3
2	MaltaPost's Requests .....	4
3	Consultation Feedback and Responses .....	7
4	MCA Decision and Way Forward.....	10



## 1 Summary

On 31 May 2021 the Malta Communications Authority (hereafter 'MCA') published for consultation a proposal submitted by MaltaPost plc (hereafter 'MaltaPost') requesting a revision of tariffs for certain postal services.

MaltaPost had proposed to the MCA two requests relating to the prices of a number of services.

The first request made by MaltaPost related to the tariffs of Domestic single-piece and bulk mail, and Domestic and Foreign Outbound Registered Mail services. The second request made by MaltaPost related to the Foreign Outbound Single-Piece tariffs. MaltaPost submitted that internal costs are continually increasing, and it faces competition for the last mile delivery, with these challenges weighing heavily on the financial performance of the universal postal service. MaltaPost also submitted that increases in external costs, such as Universal Postal Union ('UPU') international terminal dues, are impacting the sustainability of the universal service. MaltaPost also highlighted that the COVID-19 pandemic impacted their revenue flows and accelerated the transition to digitalisation which further affected the postal market.

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 21 June 2021, the MCA received feedback from MaltaPost concerning the proposed tariff revisions. No other feedback was received.

This report on consultation and decision now contains the MCA's final assessments, based on the cost-accounting reviews, assessing the compatibility of the proposed changes with ensuring an affordable universal service, and after considering the feedback received further to the public consultation undertaken by the MCA.

The changes that were proposed by MaltaPost are described in Section 2 of this document. Section 3 provides an overview of the consultation feedback and the MCA's response. The MCA's decision and way forward are laid out in Section 4.



## 2 MaltaPost's Requests

### 2.1 Background

MaltaPost provides domestic and foreign outbound single-piece, bulk mail services and registered mail services on a nationwide basis. Single-piece mail refers to mail on which the customer attaches a stamp before mailing it. Bulk mail refers to large numbers of postal articles (50 or more) of identical size and format presented at a post office counter, which is charged at a reduced rate than the single-piece rate. Registered mail refers to the service that provides the sender with optional tracking functionality (since it is provided to the sender upon request). This service also makes available optional proof of successful delivery since the sender may also request a copy of the signature provided by the recipient once the item is delivered.

MaltaPost requested different tariff revisions for various weight-steps, as is described below in further detail.

### 2.2 Basis for the requested price increases

In line with EU and national norms MaltaPost is entitled to adjust prices in line with the principles of cost-recovery and a fair rate of return. As the designated provider of the US, MaltaPost is required to seek the MCA's approval before increasing tariffs for certain regulated services. Accordingly, MaltaPost maintains an Activity-Based Cost-Accounting ("ABC") system and prepares regulatory separated accounts that are audited annually, showing the financial performance of the individual universal postal services.

MaltaPost stated that the overall profitability of the entire Universal Postal Service is decreasing, and the latest results indicated profitability that is below an acceptable rate of return. Furthermore, MaltaPost submitted that without any price adjustments, the US profitability would continue to decrease, given the ongoing challenges such as cost increases and other operational challenges. MaltaPost also submitted that both the internal and external costs are continually increasing, and these considerations impacted on US profitability.

### 2.3 Current status

The tariffs currently charged by MaltaPost for these services depend on specific weight-steps except for the registered mail service. The following are the current rates for local single-piece services:

Current Rates	Domestic Single-Piece	Domestic Bulk Mail
0.50g	€0.30	€0.27
51-100g	€0.50	€0.39
101-150g	€0.70	additional €0.20 (for each additional 50g)
151-200g	€1.85	
201-2Kg	additional €0.20 (for each additional 50g)	

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



## MaltaPost plc - New Prices for Certain Postal Services – June 2021

The tariffs currently charged by MaltaPost for registration services are charged per item as follows:

Current Rates	Domestic Registered Mail	Outbound Registered Mail
Registration Fee	€2	€5
Advice of Delivery	€2	€2.60

Table 2: Current MaltaPost Domestic and Outbound Registered Mail tariffs

The Foreign Outbound mail, apart from varying by the weight-step, also varies by zone. MaltaPost distributes the Foreign Outbound mail in five zones; European countries in zone A1, and other Non-European countries categorised as zone A2, B, C or D.

MaltaPost's rates for Zone A1 – European countries are as follows.

Mail Type	Weight Step	Outbound Single-Piece
Postcards	Flat rate	€0.59
Letters	0-30g	€0.59
	31-60g	€1.25
	61-100g	€1.55 - €1.85
	101-250g	€2.15 - €4.25
Packets	251-500g	€4.25 - €7.25
	501-2000g	€8.15 - €30.35

Table 3: Current MaltaPost Outbound Single-Piece Mail tariffs for Zone A1 European Countries

### 2.4 MaltaPost's Proposed Tariffs

MaltaPost proposed new tariffs considering that its operating expenditure is continuously increasing, and the trend indicates that this will be the ongoing pattern. MaltaPost in particular contends that it is currently incurring drops in volumes and increasing costs originating from the sources listed below:

- Internal staff costs which are subject to constant yearly growth;
- Other internal costs which are influenced by various factors, such as general inflation; and
- External costs that are subject to factors not in MaltaPost's control.

In its proposals, MaltaPost requested tariff increases across the whole range of weight categories. The changes proposed by MaltaPost are shown in the following tables:

Domestic Single-Piece Tariffs	Current	Proposed
0-50g	€0.30	€0.36
51-100g	€0.50	€0.54
101g – 150g	€0.70	€0.74
151g – 200g	€1.85	€1.85
201g+ - 2kg	€0.20 (for each additional 50g)	€0.20 (for each additional 50g)

Table 4: MaltaPost proposed Domestic Single-Piece Tariffs



## MaltaPost plc - New Prices for Certain Postal Services – June 2021

Domestic Bulk Mail Tariffs	Current	Proposed
0-50g	€0.27	€0.30
51-100g	€0.39	€0.40
101g – 2kg	€0.20 (for each additional 50g)	€0.20 (for each additional 50g)

Table 5: MaltaPost proposed Domestic Bulk Mail Tariffs

Domestic Registered Mail Tariffs	Current	Proposed
Registration Fee	€2	€3
Advice of Delivery	€2	€3

Table 6: MaltaPost proposed Domestic Registered Mail Tariffs

Outbound Registered Mail Tariffs	Current	Proposed
Registration Fee	€5	€6
Advice of Delivery	€2.60	€4

Table 7: MaltaPost proposed Outbound Registered Mail Tariffs

Outbound Single-Piece Tariffs	Current	Proposed
Flat Rate	€0.59	€1.25
0-30g	€0.59	€1.10
31-60g	€1.25	€1.40
61g – 100g	€1.55 - €1.85	€1.70 - €2
101g – 250g	€2.15 - €4.25	€2.30 - €4.40
250g – 500g	€4.25 - €7.25	€4.40 - €7.40
501g+ - 2kg	€8.15 - €30.35	€8.30 - €30.50

Table 8: MaltaPost proposed Outbound Single-Piece Tariffs



### 3 Consultation Feedback and Responses

The MCA reviewed the price changes proposed by MaltaPost. As part of this process the MCA requested 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 service affordability and the importance of service efficiency and reliability to end-users.

The MCA considered various scenarios and parameters in evaluating the impact of the tariff increases on MaltaPost's profitability. As part of this process, MaltaPost provided multi-annual forecasts reflecting projected financial performance, both without and with the proposed increases. Although the MCA considers all these forecasts to be of relevance, financial year 2021 cannot be considered a 'normal year' given the COVID-19 situation, and hence the MCA analysis gives greater relevance to the long-term impact when disruptions caused by the pandemic gradually decline. Nonetheless, the effect of the COVID-19 pandemic accelerated digital substitution trends which appear unlikely to reverse. Due account is also taken of the international changes in terminal dues for cross-border mail mandated by the UPU in recent years.

The MCA also considers that while price increases do sustain revenues, particularly in the short run, the future evolution of volumes and costs are open to continuing increases. Accordingly, price increases on their own may have limited effectiveness in ensuring long-term US sustainability, which would be better served by strategic realignments to the scope and level of the postal universal service with the intent of shaping cost evolution going forward. This process will require the full collaboration of MaltaPost.

The MCA had also proposed that specific elements of the price changes proposed by MaltaPost are brought into effect in conjunction with the following considerations:

1. Reliability of the registered mail delivery attempts and facilitating collection;
2. Managing variations in daily mail which disrupt postal operations;
3. Enabling Bulk-mailers to update their mailing databases with Post Codes.

#### 3.1 Feedback Received and responses

The feedback received from MaltaPost is classified in these main categories:

- The number of tariff revisions requested by MaltaPost;
- The recovery of costs related to services;
- Earning a fair rate of return;
- The outbound mail tariff revision request;
- Consideration 1: The reliability of the registered mail delivery attempts;
- Consideration 2: The management of daily bulk mail variations;
- Consideration 3: The Post Codes database.



### 3.2 Number of Tariff Revision Requests

#### Stakeholder's Feedback

MaltaPost stated that it only requested one tariff revision for the outbound services (November 2020), while the other request (26 June 2020) was for “promulgation” of the MCA 2018 & 2019 Decisions (MCA/D/18-3432 and MCA/D/19-3608).

#### MCA's Response and Decision

In both decisions mentioned by MaltaPost, the MCA states that “The MCA will keep under review the financial performance of the universal postal service, ...”. As stated earlier, MaltaPost is required to submit its regulatory accounts which show the financial performance of individual postal services. The MCA monitored the performance of the various services and in the case of the registered mail services (domestic and outbound) the MCA noted an improvement. In the case of the Domestic Single-Piece and Bulk Mail, the MCA Decision (MCA/D/19-3608) stated that “...will reserve a decision on the extent of any price increases that may be required during year 3.”. Hence, for the cases mentioned, the MCA considers that MaltaPost's request was not a “promulgation” but a fresh submission subsequent to earlier requests.

### 3.3 Recovery of costs related to services

#### Stakeholder's Feedback

MaltaPost mentioned that the consultation paper does not address uniform recovery of costs throughout the range of postal services provided.

#### MCA's Response and Decision

During the various correspondences between the MCA and MaltaPost, and as mentioned earlier in the consultation paper, the MCA has indicated its concern that price increases on their own may have limited effectiveness in ensuring long-term US sustainability, which would be better served by strategic realignments to the scope and level of the postal universal service with the intent of shaping cost evolution going forward. The MCA is available to discuss further with MaltaPost on this aspect.

### 3.4 Earning a Fair Rate of Return

#### Stakeholder's Feedback

MaltaPost mentioned that apart from the COVID-19 pandemic, Brexit impacted their cross-border flows and the introduction of VAT on low consignments bought from outside the EU is expected to further impact this market. MaltaPost submitted that in view of the challenging outlook, it should be allowed to earn a fair commercial Rate of Return.

#### MCA's Response and Decision

The MCA took into consideration various scenarios and based its analysis on the information provided by MaltaPost. Furthermore, MCA's forecasts focused on financial year 2022 as financial year 2021 cannot be considered a ‘normal’ year given the Covid-19 pandemic. The MCA will keep monitoring MaltaPost's performance and review its separated accounts as part of this process.





### **3.5 Outbound Mail Tariff Revision**

#### **Stakeholder's Feedback**

MaltaPost stated that for the Outbound Mail service, various tariff revisions proposed were not taken into consideration. MaltaPost asked for a reconsideration also taking into account the performance of this service, notably following changes in UPU terminal dues.

#### **MCA's Response and Decision**

The MCA noted the response submitted by MaltaPost and considers that in view of the performance of this service, notably following increases in UPU terminal dues, the €0.10 increase in the higher weight steps (31g – 2Kg) for Zone A1 may also be adopted in the higher weight steps for other Zones. Cross-border postcards for all zones may also be charged at €0.86.

### **3.6 Consideration 1: Reliability of Registered Mail First Delivery Attempts**

#### **Stakeholder's Feedback**

MaltaPost mentioned that it plans to introduce an electronic pre-notification to addressees whenever information is provided. It also stated that the majority of the inbound mail attempts are successful with minimal complaints despite various encountered issues.

#### **MCA's Response and Decision**

The MCA considers the introduction of an electronic pre-notification would be an important functionality that benefits addressees. MaltaPost should continue its monitoring performance study and report it to the MCA. The MCA considers that the need for additional obligations can be therefore reviewed after assessing the effectiveness of the functionality and performance going forward.

### **3.7 Consideration 2: Management of Bulk Mail**

#### **Stakeholder's Feedback**

MaltaPost stated that the individual daily bulk-mailer threshold of not less than 10,000 items could be circumvented or nullified. MaltaPost proposed that the threshold should be lowered to 2,000 items and that after six months of implementation, the MCA reviews its effectiveness.

#### **MCA's Response and Decision**

The MCA noted MaltaPost's feedback, and the daily bulk-mailer threshold may be lowered to not less than 2,000 bulk mail items. The MCA also considers that a period of twelve-months is more reasonable to evaluate the effectiveness of this consideration.

### **3.8 Consideration 3: Post codes database**

#### **Stakeholder's Feedback**

MaltaPost mentioned that they have invested a lot on the Post codes database and management. Also, the information is already shared with major bulk mailers.

#### **MCA's Response and Decision**

The MCA took note of the points raised by MaltaPost.



## 4 MCA Decision and Way Forward

### Decision 1

MaltaPost may adopt the tariffs listed in the following table as from **1<sup>st</sup> July 2021**. The MCA will keep under review the financial performance of the universal postal service and of the individual mail services.

Mail Type	Weight Category	MCA Decision
<b>Cross-Border Postcards (Flat Rate - All Zones)</b>		€0.86
Outbound Mail (Zone A1 Europe)	31-60g	€1.35
Outbound Mail (Zone A1 Europe)	61-100g	€1.65 - €1.95
Outbound Mail (Zone A1 Europe)	101-250g	€2.25 - €4.35
Outbound Mail (Zone A1 Europe)	251-500g	€4.35 - €7.35
Outbound Mail (Zone A1 Europe)	501g-2Kg	€8.25 - €30.45
<b>Outbound Mail (All other Zones)</b>		
<i>The €0.10 increase for Outbound mail is applicable for all other Zones from the second weight step upwards.</i>		
Domestic Mail Registration	not applicable	€2.50
Domestic Advice of Delivery	not applicable	€2.50
Outbound Mail Registration	not applicable	€5.50
Outbound Advice of Delivery	not applicable	€3.50

### Decision 2

MaltaPost may implement the following changes for domestic bulk mail:

- a) MaltaPost may establish daily bulk-mailer thresholds (of not less than 2,000 articles) whereby mail posted by a single bulk-mailer above those daily thresholds would be liable to massive-posting surcharges (of up to 2 cents so that the effective tariff remains lower than the single-piece tariff).
- b) MaltaPost may establish daily bulk-mailer thresholds (of not less than 2,000 articles) whereby all mail posted by a single bulk-mailer when it exceeds those daily thresholds may be subject to delayed induction<sup>1</sup> (hence the mail in question delivered with a corresponding time lag) of up to two-days.

### Decision 3

MaltaPost is to continue providing a full postcode database free of charge to large bulk mail senders for the purpose of updating their mailing lists.

---

<sup>1</sup> In doing so MaltaPost would be required to record full details of all such instances and forward the information to the independent QoS measurement contractor, in order to be taken into account for QoS measurement purposes. Such information would also be made available to MCA.