



# **New Prices for Certain Postal Services**

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## MaltaPost plc proposal

31 May 2021

MCA/C/ 21-4215



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## 1 Summary

The Universal Postal Service (hereafter 'US') that MaltaPost plc (hereafter 'MaltaPost') offers to its customers comprises various elements such as Domestic and Foreign Outbound Single-Piece Mail, Domestic Bulk Mail, and Domestic and Foreign Outbound Registered Mail services. Given that the mentioned services form part of the US, they are provided by MaltaPost on a nationwide basis.

MaltaPost has proposed to the Malta Communications Authority (hereafter the 'MCA') two separate requests to increase the prices of a number of services.

The first request made by MaltaPost is to review the tariffs of Domestic single-piece and bulk mail, and Domestic and Foreign Outbound Registered Mail services. The second request made by MaltaPost is to review 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 MCA is reviewing MaltaPost's requests. The MCA's analysis includes cost-accounting reviews and assessing the compatibility of the proposed changes with ensuring an affordable universal service.

The Authority is publishing MaltaPost's proposals and in doing so is affording stakeholders the opportunity to provide feedback as required by Article 4A of the Malta Communications Authority Act [Chapter 418 of the Laws of Malta].

The changes being proposed by MaltaPost are described in Section 2 of this document. Section 3 provides an overview of the main points being considered by the MCA. Feedback may be sent to the MCA as 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-step 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



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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 request focuses on Zone A1 – European countries rates.

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 is proposing 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



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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 MCA's Evaluation

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.

In the interim, the MCA is consulting 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.

#### **Consideration1: - Registered Mail service**

In January 2019, the MCA published a decision in which MaltaPost was allowed to review registered mail tariffs and allowed MaltaPost to replace the second delivery attempt with free Easipik locker service. Although most registered mail is delivered successfully to the recipient on the first delivery attempt, the reliability of the first attempt is a leading cause of complaints. Although a digital track-and-trace system is used, it does not allow recipients to receive automated electronic alerts about imminent delivery. Furthermore, statistics indicate that take-up of Easipik by recipients to collect registered mail is very low. The MCA considers that if MaltaPost had to increase the registered mail tariff, it would be necessary to improve transparency on the consistency of first delivery attempts.

Therefore, for the registered mail service, the MCA proposes the following condition that MaltaPost would have to implement before implementing tariff increases for registered mail namely that:

- MaltaPost develops a framework for independent monitoring of first delivery attempts of registered mail, and for reporting the results of such measurement.



**Consideration 2: - Management of daily bulk mail variations**

During the evaluation process, MaltaPost highlighted that operational issues are encountered when there are irregular surges in mail, especially in bulk mail. MaltaPost encounters operational disruptions and incremental costs when a sizeable irregular mail volume is received, and which MaltaPost would need to sort out and deliver within the next day. The MCA requested further information on this matter, and it emerged that two of the reasons behind such surges are: cyclical (such as, on a weekly, or monthly pattern) and sporadic (these occur unexpectedly and without prior notice).

The MCA considered this matter further and proposes the following two changes which MaltaPost could implement for domestic bulk mail:

- a) MaltaPost would be able to establish daily bulk-mailer thresholds (of not less than 10,000 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 would be able to establish daily bulk-mailer thresholds (of not less than 10,000 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 being delivered with a corresponding time lag) of up to two-days.

In relation to the above, MaltaPost may establish one or more different thresholds, provided that these do not go below 10,000 articles being presented by a bulk mailer on a particular day.

**Consideration 3: - Updating of bulk-mailing lists with postcodes**

MaltaPost has observed that there is a lack of usage of the postcode, and along with other factors, delivery is becoming more challenging and costly for the company, particularly when a post-person is unfamiliar with the beat area. Currently MaltaPost has a postcode look-up system that is accessible via its website, which may be used to find the postcode for a particular address.

Hence the MCA proposes that tariff increases for the domestic bulk mail would be subject to the provision of a full postcode database provided free of charge to large bulk mail senders for the purpose of updating their mailing lists.

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<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.





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### Pricing review

As already mentioned above, the MCA considers that tariff revisions may also be justified in addition to other operational measures. Therefore, in addition to the above three considerations, the MCA is consulting on approving the following tariff increases:

Mail Type	Weight Category	Current	MaltaPost Proposal	MCA Consultation
Domestic Ordinary Mail	0-50g	€0.30	€0.36	No increase
Domestic Ordinary Mail	51-100g	€0.50	€0.54	No increase
Domestic Ordinary Mail	101-150g	€0.70	€0.74	No increase
Domestic Ordinary Mail	151-200g	€1.85	€1.85	No increase
Domestic Ordinary Mail	201g-2Kg	€0.20 <i>(for each additional 50g)</i>	€0.20 <i>(for each additional 50g)</i>	No increase
Domestic Bulk Mail	0-50g	€0.27	€0.30	Subject to management of daily bulk-mail variations *
Domestic Bulk Mail	51-100g	€0.39	€0.40	
Domestic Bulk Mail	100g+	€0.20 <i>(for each additional 50g)</i>	€0.20 <i>(for each additional 50g)</i>	
Outbound Mail (Zone A1 Europe)	Postcards	€0.59	€1.25	No increase
Outbound Mail (Zone A1 Europe)	0-30g	€0.59	€1.10	No increase
Outbound Mail (Zone A1 Europe)	31-60g	€1.25	€1.40	€1.35
Outbound Mail (Zone A1 Europe)	61-100g	€1.55 - €1.85	€1.70 - €2.00	€1.65 - €1.95
Outbound Mail (Zone A1 Europe)	101-250g	€2.15 - €4.25	€2.30 - €4.40	€2.25 - €4.35
Outbound Mail (Zone A1 Europe)	251-500g	€4.25 - €7.25	€4.40 - €7.40	€4.35 - €7.35
Outbound Mail (Zone A1 Europe)	501g-2Kg	€8.15 - €30.35	€8.30 - €30.50	€8.25 - €30.45
Domestic Mail Registration	not applicable	€2	€3	€2.50
Domestic Advice of Delivery	not applicable	€2	€3	€2.50
Outbound Mail Registration	not applicable	€5	€6	€5.50
Outbound Advice of Delivery	not applicable	€2.60	€4	€3.50

Note (\*): As per Consideration 2 above.

Table 9: Tariffs for consultation

### Implementation

MaltaPost would be required to submit its proposals to the MCA on how it would intend to meet the above-mentioned considerations 1 to 3 before any respective new prices are approved and come in force. The MCA would monitor the implementation of the prices and related conditions and would retain the right, to issue further directions in case of non-compliance with the MCA prerequisites. The tariffs would be intended to cover a time horizon of approximately two (2) years.



## 4 Consultation Framework

In accordance with Article 4A of the Malta Communications Authority Act [Chapter 418 of the Laws of Malta], the Authority welcomes written comments and representations from interested parties and stakeholders during the national consultation period from the **Monday 31 May 2021**.

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 annexe and 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 publishes 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 wherever possible.

All respondents should be submitted to the Authority in writing by not later than 12.00hrs on **Monday 21 June 2021** and addressed to:

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