




# Providing Sustainable Universal Postal Services

**MaltaPost plc proposals on revisions to specific postal service characteristics and tariffs**

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## 1 Summary

As part of the Universal Postal Service MaltaPost plc (hereafter 'MaltaPost') provides customers with various services nationwide in line with the requirements of Maltese Law.

During Financial Year (hereafter 'FY') 2022, MaltaPost faced several challenges in terms of market developments, including the continuation of market trends aggravated by Covid-19, BREXIT, the introduction of VAT for low-value items from non-EU countries, and other global market forces. Apart from postal market dynamics, costs kept increasing both locally and internationally. The aggregate effect of these elements impacted negatively the financial performance of the Universal Postal Service which incurred a loss of € 0.5 million in FY 2022.

MaltaPost has taken measures to contain costs and additionally, in order to ensure the sustainability of the Universal Service, it submitted various proposals dealing with reviews of specific postal service characteristics and revision of tariffs.

The first request by MaltaPost included the review of specific postal service characteristics, such as reviewing the quality of service (QoS) performance targets in line with updated users' needs, that certain postal services should no longer be part of the Universal Service, reducing the Redirection Mail service free months, reviewing the earliest collection times from letter boxes, and changing the cut-off time for Bulk Mail.

The second request included the review of the Foreign Outbound Parcels tariffs, and bringing into force earlier the already approved tariffs for Domestic Single-Piece Mail, Domestic Bulk and Outbound Mail which had been envisaged to become effective from FY2024<sup>1</sup>.

MaltaPost submitted the above revisions to the Malta Communications Authority (hereafter 'MCA') since, as the Universal Service Provider, it is required to obtain approval from the Authority for any revisions of services that fall within the scope of the Universal Service.

The MCA considered MaltaPost's requests by undertaking cost-accounting examinations and by assessing the compatibility of the proposed changes in the postal service characteristics with the objective of ensuring the sustainable provision of an affordable universal service.

The Authority is publishing MaltaPost's proposals and, in doing so, it is enabling stakeholders to provide feedback as required by Article 4A of the Malta Communications Authority Act [Chapter 418 of the Laws of Malta], while taking into account the financial and market challenges impacting the universal postal services.

The changes being proposed by MaltaPost are described in Section 2 of this document. Section 3 provides an overview of the MCA's main evaluation points. Feedback may be sent to the MCA as laid out in Section 4.

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<sup>1</sup> <https://www.mca.org.mt/consultations-decisions/price-revisions-certain-postal-services-0>

## **2 MaltaPost's Requests**

### **2.1 Background**

As mentioned, MaltaPost submitted several considerations to collectively counter the ongoing market challenges and ensure a sustainable Universal Service. The details of MaltaPost's proposals are described below.

### **2.2 The basis for the proposals and the requested price revisions**

During these last financial years, MaltaPost faced several market challenges that impacted the sustainability of the Universal Service; during the financial year 2022, the universal postal service incurred a loss of approximately €500,000. Postal volumes continued decreasing due to the impact of Covid-19, Brexit, the introduction of VAT for low-value items from non-EU countries and further digitalisation. At the same time, pressures acting on costs kept increasing locally, such as Cost of Living Allowance (COLA) and inflation, and internationally, such as terminal dues and transport costs.

Accordingly, MaltaPost put forward several proposals for a review of particular characteristics of the postal service and the need for revision of tariffs.

In line with EU and national norms, the prices of universal postal services should be affordable in a manner that allows users to access the services, cost oriented, and give incentives for efficient service provision. Furthermore, as the designated provider of the Universal Postal Service, MaltaPost is required to seek the MCA's approval before increasing tariffs for certain regulated services. For this purpose, 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.

### **2.3 MaltaPost proposals on service characteristics**

The following are the proposals that MaltaPost considered as part of the initiatives to support the sustainability of a continued universal postal service.

#### **2.3.1 Single-piece and bulk mail next-day delivery targets**

Postal service users, both residential and commercial, are entitled to an affordable high-quality universal postal service that meets their reasonable needs. This includes quality of service (QoS) standards related to: (1) the time permitted for delivery; and (2) the regularity and reliability of the universal postal service. As part of its monitoring of the universal postal service, the MCA sets targets that MaltaPost, as the Universal Service Provider, is required to maintain. The objective of MaltaPost's QoS performance targets is to ensure that consumers receive an adequate level of service. One such target is the speed of delivery for specific mail

services that MaltaPost is required to handle daily. Currently, the next-day delivery target for local single-piece mail and bulk mail is 95%, meaning that MaltaPost is required to deliver on average 95% of the mail collected on one day by the following day. The MCA will be consulting separately on revisions to such QoS performance targets in the near future. The assessment of the current QoS performance targets (that were last set in 2016) must be viewed within the context of the postal market evolution as well as that of the developments in the wider communications market.

### 2.3.2 Earlier cut-off times for collection from letterboxes

One of the proposals raised by MaltaPost was to review the earliest collection time from letterboxes to 7am. MaltaPost mentioned that with the revision of timings, the postal network would be more efficient since the post-person could collect the mail from the letterboxes and simultaneously deliver the mail. Mail posted in letterboxes at, or nearby, MaltaPost retail counters (post offices or sub-post offices) would be collected after 12:30pm.

### 2.3.3 Earlier cut-off time for consignment of Bulk Mail

Another proposal was to review the current bulk mail cut-off times for high-volume mailers to consign bulk mail (50 or more postal articles of identical size and format) from 3:30pm to 10am. MaltaPost highlighted that such a shift in timings would facilitate its operations and provide a more efficient service.

### 2.3.4 Revision of the free months of the Redirection mail service

Currently, a non-business end-user can opt for the first six months for free of the mail redirection service. MaltaPost indicated that these free months do not encourage users to inform senders of their new addresses and generate numerous complications due to legal and social reasons. Hence, MaltaPost proposed reducing the number of free months.

### 2.3.5 Removal of services from the Universal Service

Another three proposals raised by MaltaPost were that the PO Box Mail service, Newspaper Post Services and Registered mail service should no longer be part of the Universal Service.

In this regard, the MCA notes that the registered mail service is an obligation set by the EU Postal Service Directive; accordingly, the removal of Registered Mail from the Universal Service is not being consulted upon.

An additional fourth proposal made by MaltaPost was that cross-border parcel services should no longer be part of the Universal Service as the cross-border market is very competitive.

In this regard, the MCA notes that according to the Postal Services Act (Cap. 254), parcels that weigh less than or equal to 20kg are part of the Universal Service. The MCA considered MaltaPost's proposal and notes that the EU Postal Services Directive allows room for flexibility in setting the threshold between 10kg and 20kg. Such an adjustment would require

amendments in the Maltese Law, and the MCA will be consulting separately on weight thresholds of parcels within the scope of the universal service in the near future, before following up with further recommendations on this matter to Government given also that if matters are to be taken forward in this regard then the law will have to be amended.

## 2.4 MaltaPost's Proposed Tariff Revisions

### 2.4.1 Outbound Parcels

#### 2.4.1.1 MaltaPost proposed tariff revision

The outbound parcel service is one of the highest loss-generating services provided by MaltaPost. As mentioned earlier, given the challenges encountered, MaltaPost requested to review the Outbound Parcel tariffs and simultaneously implement a pricing structure by zone. The following table reproduces the proposal submitted by MaltaPost for each zone, with different rates for the initial weight and each additional kilo.

Proposed Outbound Parcel Tariff				
Zone <sup>2</sup>	Zone A	Zone B	Zone C	Zone D
Country	All Countries	All Countries	All Countries	All Countries
<b>2001g rate</b>	€ 36.50	€ 46.50	€ 55.50	€ 74.50
<b>Each additional 1000g</b>	€ 5.00	€ 10.00	€ 15.00	€ 20.00

Table 1: MaltaPost Proposed Outbound Tariffs

#### 2.4.1.2 Current tariffs

The tariffs currently charged by MaltaPost for Outbound Parcels vary by country and weight<sup>3</sup>. The table below provides an overview of the current outbound parcel tariffs for specific destinations.

Current Outbound Parcel Tariff					
Country	UK	Germany	USA	Australia	Japan
<b>2001g rate</b>	€ 28.59	€ 26.20	€ 27.41	€ 39.67	€ 28.59
<b>Each additional 1000g</b>	€ 3.70	€ 1.88	€ 8.66	€ 12.16	€ 3.70

Table 2: Current Outbound Tariffs for specific destinations.

<sup>2</sup> MaltaPost's international zones are given at <https://www.maltapost.com/pdf.aspx?f=62171>

<sup>3</sup> Parcel Air Mail Rates – Full reckoner (excel): <https://www.maltapost.com/postagerates?l=1>

## 2.4.2 Domestic Single-Piece, Domestic Bulk and Outbound Mail

### 2.4.2.1 Proposed by MaltaPost

Domestic single-piece and bulk mail are also amongst the highest loss-generating services provided by MaltaPost. Cost factors (locally and internationally) are constantly increasing, and the ongoing local and international challenges are causing a burden on the sustainability of the Universal Service. In line with the following table, new tariffs for FY24 had already been approved by the MCA Decision on Price Revisions of 27 June 2022. MaltaPost requested that the prices already approved for FY 2024 (as shown below) should come into force as soon as possible.

Mail Type	Weight Category	Current FY23	Already Approved FY24
<b>Domestic Single-Piece Mail</b>	0-50g	€0.37	€0.38
<b>Domestic Bulk</b>	0-50g	€0.33*	€0.36*
<b>Outbound Mail</b>	Postcards	€1.40	€1.50
	1 <sup>st</sup> . Weight Step	€1.40**	€1.50**

\*A Bulk mailer sending above a threshold of 2,000 mail items daily is charged a surcharge of 2 cents

\*\*Given the various weight categories, a tariff increase in the first weight step will lead to a marginal increase in higher weight step tariffs.

Table 3: Current and already approved FY24 other mail services tariffs.

### 3 MCA's Evaluation

The MCA reviewed MaltaPost's proposals along with the justifications provided. As part of this process, the MCA requested additional information and clarifications 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. At the same time, the MCA weighted the importance of the continued sustainability of the Universal Service and its future viability.

In doing so, the MCA evaluated various scenarios and considered several parameters for assessing the impact of the proposals mentioned above and the tariff increases on service profitability and the Universal Service. The universal postal service generated a loss of approximately €500,000 in FY2022 and market dynamics remain challenging. In terms of affordability, the MCA has taken note that household expenditure on postal services is extremely low, with the largest segment of households (41%) spending less than €5 annually.

Accordingly, the MCA is consulting on the following:

1. The change in the earliest collection time from letterboxes to 7am in order to enable the post-person to collect mail. Mail posted in letterboxes at, or nearby, MaltaPost retail counters (post offices or sub-post offices) would be collected after 12:30pm;
2. The change in cut-off time for high-volume mailers to consign bulk mail (50 or more postal articles of identical size and format) from 3:30pm to 10am to facilitate operations and provide a more efficient service;
3. A reduction in the number of months at which the mail redirection service is provided for free, from six (6) months to three (3) months;
4. The PO Box Service remaining part of the Universal Service but being released from price control;
5. The Newspaper Post remaining part of the Universal Service, but the tariffs will be equivalent to normal respective postal services;
6. Tariff Revision of Outbound Parcels

		Proposed Outbound Parcel Tariff			
Zone		Zone A	Zone B	Zone C	Zone D
Country		All Countries	All Countries	All Countries	All Countries
	<b>2001g rate</b>	€ 36.50	€ 46.50	€ 55.50	€ 74.50
	<b>Each additional 1000g</b>	€ 5.00	€ 10.00	€ 15.00	€ 20.00

Table 4: Outbound Parcels tariffs for consultation



7. Bringing forward the tariffs already approved for FY 2024 for the Domestic Single-piece, Bulk mail and Outbound mail to come into force as soon as possible.

Apart from the proposals mentioned above, the MCA also intends to consult separately in the near future on MaltaPost's other proposals regarding a review of next-day delivery targets, and on revising the weight threshold of parcels falling within the scope of the universal service.

Also, the MCA is working in collaboration with MaltaPost to review the commercial sustainability of the Universal Service through other possible measures.

## 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 4 August 2023.

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 no later than 12.00hrs on **17 August 2023**, and addressed to:

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