

Pricing of Postal Redirection Services provided by MaltaPost plc

Consultation and Proposed Decision

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Executive Summary

Postal redirection services allow an addressee who has moved to a new address to continue receiving mail, bearing the previous address, for a period of time. MaltaPost plc ('MaltaPost'), as the designated Universal Service Provider (USP), is required to provide redirection services as part of its Universal Service Obligation (USO).

At present, Maltapost charges for redirection requests and the extension of existing redirections according to the following annual tariff structure:

- Inland Mail / Outbound Cross Border Mail:
 - € 4.66 for normal redirections;
 - € 23.29 when the redirection is to a Post Office Box/Branch.

MaltaPost has submitted a proposal for the Malta Communications Authority's ('MCA') consideration that prices for redirection services should be amended according to the following tariff structure:

- General mail addressed to local addresses:
 - Individuals, NGOs, Not-for-Profit Organisations-
 - Free for the first 6 months;
 - €5 for the second 6 months.
 - Businesses and other Entities-
 - €10 for the first 12 months.

MaltaPost has also proposed that the company enjoys freedom to price and operate all other redirection requests.

The primary aim of the MCA with regard to the regulation of the postal sector is to safeguard the provision of an efficient, affordable, and high quality universal postal service on a sustainable basis.

After having assessed redirections cost data, the MCA considers that the above tariffs proposed by MaltaPost are not priced excessively. In its assessment, the MCA also recognises that postal redirection services are primarily intended as an interim solution to customers' relocation needs, and that multiple-tier prices should be sufficient to screen users genuinely using the service as a temporary solution for relocation purposes.

In line with the above, while the service would continue to be part of the universal service, when considering the cost involved in providing the service and the impact on postal operations, MaltaPost would be allowed freedom to price and operate other redirections.

1 Introduction

The primary aim of the MCA with regard to the regulation of the postal sector is to safeguard the provision of an efficient, affordable, high quality universal postal service on a sustainable basis.

Currently MaltaPost, as the designated USP, is required to provide specified postal services in Malta under its USO. Postal redirection is one of the services that MaltaPost is required to provide as part of its USO.

Any postal service offered by the USP, which falls within the scope of the universal postal service, is by default subject to *ex-ante* price control. Tariffs for such services must comply with the principles in article 21 of the Postal Services Act.

Under *ex-ante* price control, a request for a modification to the price of an existing service must be submitted by the USP together with sufficient information as to why the proposed price modification is required, and be supported by cost data and any other information that may be requested by the MCA. Such requirements ensure, amongst others, the affordability of the universal postal service in view of the USP's dominant position. In addition to ensuring the affordability of the universal service, the MCA must also ensure that prices incentivise the service to be provided efficiently.

Nonetheless, the USP may seek to remove certain services from *ex-ante* price control, to the extent that it believes that such control is no longer required.

Given the fact that the postal market will be fully liberalised by the end of 2012, the MCA recognises that regulatory provisions with regard to tariff approvals for products or services falling within the scope of the universal service should be conducive to a smooth transition to a competitive environment¹. Price regulation would still apply in those cases where the MCA deems it necessary, and may also be withdrawn where this is no longer the case.

Against this background, MaltaPost has been in discussions with the MCA, amongst others matters, on changes to the pricing of postal redirection services. This workstream was also mentioned in the MCA's Decision Notice of July 2011 entitled

¹ The MCA will soon consult on a review of the current postal regulatory framework to ensure a level playing field for all undertakings competing in the relevant postal markets. This will involve a transition from a framework that essentially centres around one USP to one that deals with potentially a multi-player sector.

Review of MaltaPost's tariff adjustment proposals on Domestic Letter Mail, Registration of Domestic Articles, and Foreign Outbound Parcels Requests.

This Consultation and Proposed Decision gives further details of the changes to the pricing of postal redirection services, the MCA's assessment thereof, and the MCA's proposed decision.

2 Postal Redirection Services

The postal redirection service allows an addressee who has moved to a new address to continue receiving mail, bearing the previous address, for a period of time. In line with Regulation 23(c) of the Postal Services (General) Regulations² (the 'Regulations'), MaltaPost as the USP is obliged to provide a mail redirection service.

Under current conditions the service starts to be offered within a maximum period of ten (10) working days after a request in writing and the necessary documentation is received.

The same Quality of Service (QoS) target indicated for the relevant postal article applies for redirected mail, with an additional day due to the transfer of postal articles from the original address to the new directed address or PO Box.

2.1 Current Pricing for Postal Redirection Services

At present, MaltaPost charges the following fees for redirection requests and the extension of existing redirections:

- € 4.66 for normal redirections.
- € 23.29 when the redirection is to a Post Office Box or to a Post Office Branch.

The above prices apply to the redirection of postal articles from a local delivery address to an alternative local delivery address, as well as the redirection of postal articles from a local delivery address to an alternative foreign delivery address.

2.2 Proposed Revision in Pricing

Following various interactions with MaltaPost, during 2011 the MCA initiated a process review covering redirection of mail services. As part of this review, MaltaPost will be updating the terms and conditions applicable in the scheme regulating the same service. In parallel with this process review, a number of discussions took place in relation to pricing of redirection services, and in this process detailed cost accounting information was exchanged and analysed.

At the end of these discussions, in April 2012 MaltaPost initially communicated that it was ready to offer the service free of charge for the first six months, in respect of general mail, to first time individuals, NGOs, and not-for-profit organisations who are redirecting to a local address. MaltaPost requested to be allowed to establish

² As per Subsidiary Legislation 254.01 of the Laws of Malta.

tariffs at its discretion for other instances. The MCA however indicated its concerns that a deregulated price after a six-month period (and with immediate effect for businesses) falls short of safeguarding the accessibility of this Universal Service. The main concern was that the six-month timeframe may not be long enough for genuine uses of the service, due to processing of change of address notifications, as well as the incidence of correspondence typically occurring at an annual frequency. The MCA also indicated that it would reserve the right to monitor the availability of the service at a high level, taking into account the overall performance of the business, and the protection of end-users.

Subsequently MaltaPost proposed to the MCA that the following services should continue to be considered as falling within the universal service obligations and charged according to the following tariff structure:

General mail addressed to local addresses:

- Individuals, NGOs, Not-for-Profit Organisations
 - First 6 months = FREE
 - Second 6 months = €5
- Businesses and other Entities
 - First 12 months = €10

Others:

MaltaPost proposed that all other redirection requests shall be deemed to fall outside the universal service obligations to be carried out by Maltapost, and the company shall enjoy freedom to price and operate these requests.

The next sections of this document lay out the MCA's assessment of the above proposed pricing structure.

3 MCA's Assessment and Proposed Decision

In assessing whether a proposed tariff structure for a new or existing service is just and reasonable the MCA assesses whether the prices, terms and conditions are either excessive or inadequate. To this end the MCA applies the following criteria:

- To assess whether the prices are excessive, the MCA takes into consideration cost data. The MCA may also consider how the prices compare to those offered by other postal service providers.
- The MCA also considers other relevant factors including affordability, ensuring that the service can be provided on a sustainable basis, and the provision of services on an efficient basis.
- Given the fact that the postal market will be fully liberalised by the end of 2012, the MCA recognises that regulatory provisions with regard to tariff approvals for products or services falling within the scope of the universal service should be conducive to a smooth transition to a competitive environment.

3.1 Cost Data and Sustainability of the Service

The MCA has carried out a detailed review³ of the cost accounting system⁴ employed by MaltaPost. Regulatory accounts⁵ are prepared by MaltaPost through the cost accounting system to give a true and fair picture of the costs incurred and revenues earned from different postal services.

The regulatory accounts show clearly that the individual products/services offered within the Universal Service Area contribute differently to its overall profitability. The two major products contributing to the profitability of the Universal Service Area are Inbound Mail services (derived from terminal dues receivable) and Foreign Outbound Mail. On the other hand, there are a number of loss-generating products/services, the main ones being: Single Piece Letter Mail, Outbound Mail Registration, and Mail Redirection.

³ This review was undertaken to ensure that the cost accounting system meets all regulatory requirements, and thus increase the level of confidence in the reliability of the results presented in the regulatory accounts.

⁴ A cost accounting system is a set of rules to ensure a fair attribution and allocation of revenues and costs (and underlying capital employed in certain instances) to individual products and services.

⁵ The regulatory accounts are submitted by MaltaPost on an annual basis and are also subjected to a detailed annual review by the MCA.

This uneven contribution to profits might be symptomatic of unbalanced price structures, which need to be rebalanced. This process takes added significance when considering the full market opening of the postal sector in Malta by the end of 2012. It is important that overall profits within the Universal Service remain healthy even after taking into account any predictable or expected future changes in cost and revenues faced by MaltaPost.

As evidenced by the Interim Financial Statements for the six month period ended 31 March 2012 published by MaltaPost pursuant to the Malta Financial Services Authority Listing Rules, recent developments in cross-border inter-operator tariff structures led to a considerable increase in direct mail costs for outbound cross-border mail, and have also adversely impacted the company's revenue streams. These developments in cross-border inter-operator tariff structures are therefore leading to a situation whereby loss generating products/services (including Redirection Services amongst others) can no longer be sustained from cross-border Inbound Mail services and Foreign Outbound Mail services⁶.

Following the review undertaken, and in line with the conclusions described above, the MCA agrees with MaltaPost that current tariff structure for postal redirection services is no longer sustainable.

Assessment 1:

Based on the above considerations the MCA deems that the prices proposed by MaltaPost for the redirection of general mail addressed to local addresses during the first comprehensive twelve month period are not priced excessively in relation to costs.

The MCA also considers that the removal of *ex-ante* price control and universal service obligation from other redirection requests has to be seen in the light of balancing the availability of a long-term redirection service, efficient service provision, and the related costs of providing the service. This issue is analysed further in the following parts of this section.

3.2 Long Term Redirection Service and Efficient Service Provision

The MCA recognises that the inclusion of postal redirection services as part of the Universal Service *per se* is primarily intended as an interim solution to customers' relocation needs, and hence it agrees, in principle, that the pricing of this service should reflect this intention.

⁶ In the near future the MCA will also consult on a price control mechanism covering the wider Universal Service Area.

The MCA believes that regulatory protection should be principally focused on addressees who use postal redirection services only as a temporary solution for change of address purposes as opposed to other uses⁷. During this interim period, users are expected to diligently inform senders of the change in delivery address.

In attempting to find a balance, the MCA believes that at the outset, a distinction between the provision of this service *vis-a-vis* MaltaPost's USOs and its pricing aspects is warranted. Therefore, the MCA would like to make it clear that the indeterminate provision of the service should continue to be safeguarded as required under Regulations 23 and 28 of the Regulations⁸.

The MCA takes a very positive view of MaltaPost's proposal to provide local redirection services to individuals, NGOs and Not-for-Profit organisations, free of charge for the first six months. In this light, it is of the opinion that the first and second pricing tiers should be sufficient to screen users genuinely using the service for relocation purposes from other users who use the service for other purposes, with the former being incentivised to notify senders of the change in delivery address as soon as possible.

Assessment 2:

In view of the above, while the MCA believes that in view of different users' needs the service should continue to be part of the universal service, when considering the cost involved in providing the service and the impact on postal operations, MaltaPost should be allowed freedom to set redirection prices of general mail to local addresses at an affordable rate after a twelve-month period.

Maintaining postal redirections as part of the universal service will principally mean that comprehensive prices for redirection services continue to be published by MaltaPost, terms and conditions continue being included in a scheme, and that redirections continue to be shown separately in regulatory accounts for reporting purposes. Similarly the obligation on MaltaPost to share redirection information with other licensed operators would be retained⁹.

⁷ Various users of postal redirection services may also use the service in order not to disclose their real postal delivery address to senders (sometimes with the intent of deception).

⁸ Regulation 23 includes re-direction as part of the universal service while Regulation 28 regulates its provision.

⁹ According to MCA's Decision Notice of 1st December 2009 entitled *Postal Sector – Managing Common Operational Issues in a Multi-Operator Environment*.

3.1 Affordability

In line with its mandate to safeguard the affordability of the postal products falling under the universal services area, the MCA takes into consideration the impact of the proposed price increases on the general public.

In MCA's Decision Notice of July 2011 entitled *Review of MaltaPost's tariff adjustment proposals on Domestic Letter Mail, Registration of Domestic Articles, and Foreign Outbound Parcels Requests* the MCA adopted a two pronged approach to do this. One comprised an investigation in the share of postal related purchases as a share of total household expenditure, so as to gauge the impact of the proposed tariff changes on the overall expenditure level of the average household. This was followed by an impact assessment on the Maltese Retail Price Index (RPI).

In terms of household expenditure, based on the latest Household Budgetary Survey (HBS) published by the National Statistic Office (NSO), it transpired that the share of postal-related household expenditure per annum is quite low, standing at around €18, and down from the €26 registered in the previous 2000 HBS. This indicates that the impact of postal tariff changes on household expenditure is expected to be minimal. The same conclusion is arrived at when considering the impact on the RPI, which was estimated to show a negligible effect on its overall level.

The MCA is also sensitive to the fact that the proposed price changes can affect the supply side stakeholders of the economy. In this regard, the MCA notes that the proposed price of €10 during the first twelve-month period is undoubtedly affordable for business users.

Another aspect which the MCA considered is the effect of releasing other redirections of certain postal articles (apart from general mail to local addresses) from price control. In situations where the addressee opts only for the redirection of parcels, the MCA considers that addressees are generally able to provide senders with the correct delivery address to which these articles should be posted in the first place.

In addition to the above analysis, the MCA also took into consideration the prices charged for postal redirection services by other postal service providers in Europe:

	<u>Royal Mail</u>		<u>Jersey Post</u>		<u>AN Post</u>		<u>Deutscheposte</u>		<u>Poste Italiane</u>	
	<u>Local</u>	<u>Foreign</u>	<u>Local</u>	<u>Foreign</u>	<u>Local</u>	<u>Foreign</u>	<u>Local</u>	<u>Foreign</u>	<u>Local</u>	<u>Foreign</u>
	€	€	€	€	€	€	€	€	€	€
<u>Personal Mail</u>										
3 months	15.16	63.75	26.43	93.29	39.24	52.33	n/a	n/a	13.66	27.32
6 months	23.32	97.18	42.76	178.81	52.33	78.49	11.35	n/a	16.39	45.54
1 year	36.54	144.60	73.86	310.98	78.49	104.65	18.82	n/a	20.95	67.74
<u>Business Mail</u>										
3 months	46.65	80.08	59.86	241.01	78.49	104.65	n/a	n/a	n/a	n/a
6 months	85.52	122.06	108.84	427.59	104.65	156.98	22.56	n/a	n/a	n/a
1 year	159.38	181.92	202.14	816.32	156.98	209.30	37.49	n/a	n/a	n/a

Table 1: Prices of postal redirection services adjusted for purchasing power parity¹⁰

The above table shows the prices charged for postal redirection services in other European countries after being adjusted for purchasing power parity relative to Malta. The MCA considers that these results indicate that prices for postal redirection prices in Malta will not place Maltese users at a comparative disadvantage from their counterparts in terms of service affordability.

Finally, the MCA also considered whether certain categories of persons would still warrant pricing protection. In this respect the MCA is proposing that this may be mitigated by ensuring that a new tariff structure is introduced after having given the opportunity to all existing users to make alternative arrangements. The MCA also intends to monitor how MaltaPost will continue to ensure that users' genuine redirection needs are reasonably met.

¹⁰ Prices are converted into EUR purchasing power parity relative to Malta, based on the index of comparative price levels of final consumption published by Eurostat (2010).

Assessment 3:

Considering the above factors, the MCA deems that the prices for postal redirection services will generally remain affordable to users, particularly to those users who make use of the service as an interim solution to customers' relocation needs.

3.2 MCA Proposed Decision

In line with the previous parts of this section the MCA is proposing that the prices for redirection services, of general mail to local addresses up to one year, are to be revised as proposed by MaltaPost.

Proposed Decision 1:

The MCA proposes to accept the price proposals by MaltaPost for the following redirection services:

General mail addressed to local addresses:

- Individuals, NGOs, Not-for-Profit Organisations
 - First 6 months = FREE
 - Second 6 months = €5
- Businesses and other Entities
 - First 12 months = €10

The MCA is also proposing to allow freedom to MaltaPost in establishing the pricing of other redirections which shall nonetheless continue to be part of the universal service.

Proposed Decision 2:

The MCA proposes that other redirection services shall continue to be part of the universal service but the prices to be charged by MaltaPost shall be as established by MaltaPost from time to time.

In order to ensure that users of the service are protected from sudden changes to the prices of redirection services the MCA is proposing that sufficient advance notice and price transparency is provided.

Proposed Decision 3:

The MCA proposes that:

- a) the above mentioned **Proposed Decision 1** and **Proposed Decision 2** shall come into force upon the expiry of 30 days from the publication of the MCA's Decision Notice;
- b) MaltaPost's prices for comprehensive postal redirection prices shall be published as public tariffs, giving a minimum notice period of 30 days from when any new prices are to come into effect¹¹.

As already mentioned earlier in this document, there have been several interactions between the MCA and MaltaPost regarding the revision of postal redirection services. These discussions led to convergence, on points of principle, on how prices for redirection services should be structured (e.g. differentiating domestic/business, no added charge for post-boxes, charging for jointly-addressed mail, etc).

The MCA trusts that MaltaPost will take into account such valid principles, when exercising its pricing freedom, in order to ensure that users' redirection needs are reasonably met. In this context the MCA will, on an ongoing basis, monitor the implementation by MaltaPost of this decision to ensure compliance with the tariff principles depicted in article 21 of the Act, and reserves the right to reassess specific aspects of this decision, should this be warranted by circumstances¹². The MCA considers the removal of *ex-ante* price control from other redirection services as an appropriate opportunity to observe how the USP reacts when allowed pricing flexibility.

These proposed decisions, when adopted, would, for all intents and purposes of Regulation 4 of the MaltaPost plc Licence (Modification) Regulations¹³, constitute a directive issued by the Authority in accordance with Article 21 and Article 76A of the Postal Services Act. Draft changes to the Licence are shown in Appendix A.

¹¹ The MCA may establish more comprehensive general requirements, in accordance with its powers at law, following appropriate consultation.

¹² Amongst others, the MCA will continue to monitor the impact of the revised tariffs and new pricing flexibility afforded to Maltapost on the results of the redirection business in the Separated Accounts.

¹³ Subsidiary Legislation 254.14 of the Laws of Malta.

As part of the overall tariff rebalancing exercise, the MCA will continue with its work on a general price control framework with the aim of consulting on the major characteristics and technical parameters underlying the mechanism.

4 Consultation Framework

The MCA invites comments from interested parties regarding this proposed decision.

Written representations will be made public by the MCA subject to MCA's *Guidelines on Confidentiality* published on 16th December 2004.

The consultation period will run until 1200 hrs on Wednesday, 30th May 2012. The MCA believes this period is sufficient to give the general public the opportunity to comment on the proposed way forward.

Comments should be sent entitled with the following subject:

c/o: Consultation on Pricing of Postal Redirections

Written responses may be sent by email or in writing to the following addresses:

- by e-mail:

info@mca.org.mt

- or by letter mail:

Malta Communications Authority

Valletta Waterfront

Pinto Wharf

Floriana FRN 1913

Malta

Appendix A – Draft Amendments to MaltaPost Licence

Extract from MaltaPost plc Universal Service Product Price List as at July 2011:

Classification	Weight step/description	Price	Reserved Area (Yes/No)
INLAND MAIL			
Redirection	Normal, annually	€4.66	N
	To PO Boxes, annually	€23.29	N
OUTBOUND CROSS BORDER MAIL			
Redirection	Normal, annually	€4.66	N
	To PO Boxes, annually	€23.29	N

To be replaced as proposed:

Classification	Weight step/description	Price	Reserved Area (Yes/No)
INLAND MAIL			
Redirection	General mail:		
	- Individuals, NGOs, Not-for-Profit organisations:		
	- First six months	Free of charge	N
	- Second six months	€5.00	N
	- Businesses and other Entities:		
	- First twelve months	€10.00	N
	Other redirections:	As established by MaltaPost from time to time	N
OUTBOUND CROSS BORDER MAIL			
Redirection	Other redirections:	As established by MaltaPost from time to time	N