

## Price Control Mechanism for MaltaPost plc and Revised Postal Tariffs

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### Response to Consultation and Decision Notice

**November 2012**

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## Executive Summary

The Malta Communications Authority ('MCA') is the entity responsible for the regulation of universal postal services in Malta. On various occasions, the MCA stated the need to engage in consultation on a price control framework for the universal postal service provided by MaltaPost plc. On 8<sup>th</sup> October 2012, the MCA published a consultation document on this subject.

The consultation period ran till the 19<sup>th</sup> of October 2012, with one respondent, MaltaPost, submitting its response. This document reports the feedback received from MaltaPost, puts forward the MCA's view in this regard as well as presents the Authority's final decisions.

Throughout 2012, MaltaPost was adversely affected by changes in the Universal Postal Union's framework regulating inter-operator fees receivable/payable (referred to as "Terminal Dues") in respect of cross-border mail. This, coupled with declining volumes of domestic mail, has put increasing pressures on the long-term sustainability of the Universal Service Area. This negative impact is exacerbated by a number of products and services, particularly Domestic Letter Mail and Mail Registration, which have recorded systematic losses.

Against this backdrop, following a number of requests by MaltaPost, the MCA believes that certain price increases are required to maintain the sustainability of the universal service products on an individual basis, and is putting in place a price control mechanism which in the Authority's opinion is most likely to achieve its regulatory objectives.

The MCA has considered the various forms of price control mechanisms used in the regulation of the postal industry and concluded that *ex ante* price control is still warranted. The price control mechanism implemented is an *ex ante* price control mechanism based on holistic price changes proposed by MaltaPost that are consistent with the results of regulatory accounts and cost accounting systems which are appropriately audited and scrutinised.

The initial price control mechanism will span over MaltaPost's financial year ending 2013, but the document also establishes the basis for the form and ensuing tariffs of a subsequent price control mechanism covering financial years 2014 and 2015. The mechanism sets both products-specific as well as overall price control parameters for the universal service products.

Following technical consultations with MaltaPost on the proposed price control mechanism, in September 2012 MaltaPost submitted its request for tariff revisions. In evaluating these requests, the MCA applied a two-pronged test to check compliance of the resultant price structure with the price control mechanism and assess affordability implications. The requests are in line with the price control mechanism requirements and the MCA deems that the revised postal tariffs will generally remain affordable to users, and continue to be amongst the lowest within the EU. To this effect, the MCA is accepting the proposals by MaltaPost to revise the prices of the following postal products as follows:

<b>Product</b>	<b>Revised Price</b>
<b>Domestic Single Piece Letter Mail</b>	
0 – 50g	<b>€0.26</b>
50 – 100g	<b>€0.32</b>
>100g, up to 2kg, for each additional 50g	<b>€0.20</b>
<b>Domestic Bulk Letter Mail</b>	
0 – 50g	<b>€0.24</b>
50 – 100g	<b>€0.30</b>
>100g, up to 2kg, for each additional 50g	<b>€0.20</b>
<b>Domestic Registered Mail</b>	
Registration fee	<b>€0.90</b>
Advice of delivery	<b>€0.90</b>
<b>International Registered Mail</b>	
Registration fee	<b>€2.25</b>
Advice of delivery	<b>€1.75</b>
<b>Note:</b> The prices of Domestic Single Piece/Bulk Letter mail above will also apply to Domestic Postcards, Domestic Printed Papers and Domestic Direct Mail. Also, International Outbound Printed Papers and International Outbound Postcards will be charged at the existing prices of International Outbound Letter Mail. MaltaPost will also be able to offer bulk-mail discount schemes on non-discriminatory bases.	

The first set of changes are approved with effect from Monday 19<sup>th</sup> November 2012. This first set of changes will include:

- the increases approved for Domestic Bulk Letter Mail, Domestic Registered Mail and International Registered Mail;
- the grouping of Domestic Postcards, Domestic Printed Papers and Domestic Direct Mail with Domestic Letter Mail; and,
- the grouping of International Outbound Postcards and International Outbound Printed Papers with International Outbound Letter Mail.

The remaining changes relating to Domestic Single Piece Letter Mail shall come into effect on Monday 1<sup>st</sup> April 2013.

MaltaPost also submitted its price proposals for the period 2014-2015. The MCA is accepting these tariffs unless, following the Authority's review, these are found non-compliant with the parameters of the subsequent 2014/5 price control period. In setting this price control, the MCA will assess any new developments that may come to light, as well as the assumptions, forecasts and efficiency levels considered by MaltaPost, prior to confirming such tariffs.

## **1 Introduction**

On 8<sup>th</sup> October 2012, the Malta Communications Authority ('MCA') published a document entitled "Consultation and Proposed Decision on a Price Control Mechanism for MaltaPost plc and Revised Postal Tariffs" ('the Consultation Document'), whereby it invited interested parties to submit their comments on a number of proposed decisions related to a price control mechanism for MaltaPost plc ('MaltaPost') and revised postal tariffs.

The consultation period ran till the 19<sup>th</sup> of October 2012, with one respondent, MaltaPost, submitting its response. The MCA wishes to thank MaltaPost for its feedback.

The scope of this document is to report on the feedback received from MaltaPost, put forward the MCA's view in this regard as well as present the Authority's final decisions. The report on consultation is split in two major parts. Part 1 treats the Price control mechanisms proposed by the MCA, whilst Part 2 focuses on the specific tariff requests submitted by MaltaPost.

## 2 Market Context

The characteristics and state-of-play of the postal market pre-condition the preference towards one price control model over another.

In this regard, the MCA considered the following factors:

- Mail Volumes;
- Changes in the UPU framework for cross-border terminal dues;
- Profitability and pricing aspects of the Universal Service Area; and,
- Full market opening of the postal sector.

### 2.1 Mail volumes

On the one hand, Maltese households are increasingly engaging in e-commerce and online shopping. This has led to continuing increases in the volumes of international cross-border mail.

However, domestic mail volumes have been on the decline over the last years. This was illustrated in Table 1 of the consultation which is being reproduced hereunder. This trend is expected to continue as more customers are increasingly shifting to electronic alternatives. In line with this drop in volumes, MaltaPost’s domestic mail revenues decreased and average unit cost per letter increased. Together with other factors mentioned below, this has contributed to the current situation where the domestic mail service is not currently sustainable at the prevailing tariffs.

	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Domestic Mail Volumes</b>	36.5 million	35.9 million	35.1 million

Until recently, the strong performance of MaltaPost in the international mail market has been contributing positively to its operational profits and hence alleviating the pressure for domestic mail products to increase. However, this state of affairs has changed drastically as indicated in the next section.

### 2.2 Changes in the UPU framework for cross-border terminal dues

When a Maltese person sends a letter-post item<sup>1</sup> to a foreign country, the sending operator (MaltaPost) sends the letter-post item to the receiving (destination) operator to process and deliver that item in the foreign country. Subsequently MaltaPost pays the foreign operator for delivering the letter-post item. The remuneration paid is known as a “terminal due” and is regulated by the Universal Postal Union (‘UPU’). The same principles apply when a foreign mail operator sends a letter-post item to MaltaPost for delivery in Malta.

<sup>1</sup> The term “letter-post item” includes letters as well as packets weighting up to 2kg.



As mentioned above, the strong financial contributions from international terminal dues alleviated pressure on other loss-making domestic services. However, as from January 2012, developments in the UPU's framework for cross-border terminal dues: (a) increased considerably MaltaPost's direct mail costs of international mail; and (b) adversely impacted its international revenue streams. These changes had a negative impact on the overall profitability of MaltaPost.

This reduction in overall profitability poses a threat to the long-term sustainability of the Universal Service Area and points to the need for rebalancing loss-making tariffs to offset the drop in profits, and maintain the sustainability of the USO products on an individual basis.

## **2.3 Profitability and pricing aspects of the Universal Service Area**

The individual products/services offered within the Universal Service Area, contribute differently to MaltaPost's profitability. The two major products contributing to the profitability of the Universal Service Area are International Inbound Mail services (derived from terminal dues receivable) and International Outbound Mail. As mentioned in the previous section, these have now been negatively impacted by the changes in terminal dues. This negative impact is exacerbated by a number of products and services, particularly Domestic Letter Mail and Mail Registration, which have recorded systematic losses. This uneven contribution to profits is symptomatic of unbalanced price structures, which need to be rebalanced.

## **2.4 Full market opening of the postal sector**

Full market opening ('FMO') of the postal sector will take place in Malta on 1<sup>st</sup> January 2013. In a completely liberalised market, MaltaPost may be subject to increased competition, which would increase pressure on MaltaPost to become more efficient, offer new and innovative services and increase further its customer focus.

On the other hand, without the proper price signals, new entrants will not be drawn into the market, hence neutralizing the potential benefits of liberalisation. It should also be noted that efficient market entry is not a question of how many new entrants enter the market, but requires that new entrants enter the market in those areas where competition is sustainable under efficient operational levels. Inefficient price signals might therefore not only discourage entry in certain areas, but might encourage it in the wrong areas to the detriment of the market in the longer term.

In this context, the MCA feels that cost-oriented tariffs are the most appropriate means by which to maximize incentives for efficient market entry, ensure the long-term sustainability of the products on offer, as well as minimizing the scope for predatory pricing and market foreclosure by operators enjoying significant market power.

## **2.5 Conclusions from the market context**

The reduction in profitability of international mail combined with declining volumes of domestic mail put increasing pressures on the long-term sustainability of the Universal Service Area, and point towards the need to increase tariffs and address existing differences in contribution to profitability between services.

In a competitive market, the operator would opt for an increase in prices only after having exhausted all other cost recovery alternatives. Over the years, the MCA was monitoring certain operational efficiency indicators of MaltaPost. Reflective of the profit maximisation objectives of a privately owned business, there are strong indications that MaltaPost put in place measures to increase operational efficiency as well as contain costs. MaltaPost was also able to do this whilst meeting the Quality of Service targets set by the MCA, and in some cases exceed them, whilst keeping the prices of domestic letter amongst the lowest in Europe.

Against this backdrop, the MCA believes the various price increases proposed by MaltaPost are required to maintain the sustainability of the Universal Service products on an individual basis. In view of the FMO in 2013, balanced price structures are also crucial to provide correct price signalling to potential competition. This positions the principle of cost-orientation as a core objective of the price control framework.

After summarising the MCA's proposed price control mechanism featured in the Consultation Document, the next sections gives an overview of the consultation responses received, the MCA's respective views on the issues raised, as well as the Authority's final position.

**Part 1 – Report on Consultation on  
Proposed Price Control Mechanism**

## **3 Summary of the approach proposed in the Consultation Document**

### **3.1 Form of price control**

As stated in the Consultation Document, the MCA considered various alternatives but was of the opinion that a delimited *ex ante* price approval model was warranted.

#### **Delimited *ex ante* price approval models**

Under these models, each request for a change in prices by the regulated body must be supported by cost analysis for the national regulatory authority ('NRA') to decide if the proposed prices are in line with expected costs. The level of detail to be submitted by the regulated undertaking and the depth of analysis exercised by the NRA will be significantly influenced by the reliability and relevance of the regulatory accounts.

Accordingly, delimited price approval models may range between:

- individual detailed cost accounting investigations by the NRA for each price change proposal ('intensive *ad hoc* price approval investigations'); to
- models whereby the NRA needs to be satisfied that holistic price change proposals are consistent with the results of regulatory accounts and cost accounting systems which have been appropriately audited and subjected to regulatory scrutiny ('reasonably considered, holistic price approval methods').

As detailed in the MCA's July 2011 Decision, in preparation for the setting up of the price control parameters the MCA had finalised the following two important regulatory work streams to allow it to make informed decisions going forward:

#### *a) Review of MaltaPost's Cost Accounting System*

The MCA carried out a detailed review of the cost accounting system employed by MaltaPost to ensure a fair attribution and allocation of revenues and costs from different postal services. This review was undertaken to ensure that the system meets all the regulatory requirements, and thus increase the level of confidence in the reliability of the results presented in the regulatory accounts - which in turn represent the basis of the underlying information required to make inference on price control mechanisms and individual tariff reviews. Apart from being reviewed by the MCA, MaltaPost's cost accounting system and regulatory accounts are also audited on an annual basis by MaltaPost's external independent auditors.

#### *b) Development of Control Model to simulate financial performance*

The MCA also developed a control model of MaltaPost's regulatory accounts. The objective of the model was to form the basis for both a transparent analysis of the tariff requests by MaltaPost as well as the price control framework. In practice such a tool gives the Authority the faculty to simulate the impact of changes of certain key variables, such as prices and volumes, on MaltaPost's services.

Given the above, the MCA had concluded that the most suitable form of price control mechanism for the intermediate-term is a flexible “reasonably considered, holistic price approval system”. Further details of its implementation are given in Sections 3.2-3.4. The Consultation Document set the intermediate-term as being the time until Universal Service postal tariffs are adequately rebalanced. The MCA believes that such an *ex ante* price approval system will contribute towards the following objectives:

- **Safeguard sustainability and affordability of Universal Service;** in approving tariffs, the MCA will seek to set affordable tariffs which allow for the recovery of the efficient costs incurred by MaltaPost to fulfil its Universal Service Obligations (‘USO’) as well as a fair return for MaltaPost’s shareholders. This will contribute to the affordability and viability of the Universal Service.
- **Promote competition;** the MCA is seeking a price control that is conducive to adequate and efficient price signaling to competition. The MCA is of the opinion that an *ex ante* price approval model is the most adequate to control the required rebalancing of price structures for services/products within the Universal Service Area.
- **Prevent abuse of market power;** *ex ante* price approval allows the regulatory authority to reduce the potential for unfair cross-subsidisation and predatory/discriminatory pricing. The MCA sees this as increasingly important in the first years of market liberalisation.
- **Contribute towards productive and allocative efficiency;** allocative efficiency requires that prices are based on the underlying costs. This will be achieved with more cost-oriented tariffs. Productive efficiency requires products and services to be produced at the lowest possible cost. With MaltaPost being fully privatised, it is reasonable to suppose that its incentives to achieve efficiency targets are already maximised. This assessment is corroborated by restructuring plans that have been carried out in practice. Additionally, under an *ex ante* price approval approach, if the management of MaltaPost manages to reduce costs, the benefits will immediately and directly flow to the firm. This should incentivise MaltaPost to keep identifying any potential cost savings.
- **Rebalancing of price structures;** *ex ante* allows for more staggered adjustments in prices to take place. Hence, it is a valid mechanism by which to manage the required rebalancing under this price control.
- **Minimise regulatory costs;** the principal tools required for the effective implementation of *ex ante* price approval on a reasonably considered basis are a sound cost accounting system and robust separated accounts. Both the MCA and MaltaPost have already invested substantial resources to have these infrastructures in place.
- **Comply with tariff principles in the Postal Directive;** the directive imposes the obligation to have cost-oriented tariffs. As identified in Section 2 of this document, the present unbalanced price structures of MaltaPost are not fully aligned with the principle of cost-orientation. Supported by strong cost accounting data and regulatory accounts, *ex ante* price approval provides the best tool for the MCA to bring about tariff changes, which lead to more cost-oriented tariffs.

In conclusion, the MCA reserved the right to review its position regarding its preferred form of price control mechanism once the required rebalancing is deemed complete.

## 3.2 Scope of price control

The scope for regulation under the price control framework proposed in the Consultation Document followed the principles first set out in the Decision Notice on “*Regulatory Direction on Specific Aspects of the Universal Postal Service*” published by the MCA in March 2011. The main principles stemming from this decision are reproduced below.

Any service offered by MaltaPost which falls within the scope of the Universal Service is currently subject to *ex ante* price control. During the term of the price control, in filing for the MCA’s approval of new postal services including their pricing, MaltaPost must provide a memorandum containing:

- a clear description of the service to be offered;
- a clear statement of the prices, terms and conditions; and,
- any discounts or special considerations that will be offered and the requirements that must be satisfied to obtain these discounts.

The Decision Notice also stated that MaltaPost may request the MCA to remove *ex ante* price control obligations if it believes that competition has developed sufficiently in the provision of those services within the postal market (or its various market segments). In such cases, the MCA will, following an analysis of the related postal market (or its various market segments), consult with all stakeholders before concluding that particular parts of the market can be deemed to be effectively competitive. However, it will be the MCA’s responsibility to determine whether removal of *ex ante* price control on postal services should be permitted or not.

On 1<sup>st</sup> November 2012, the MCA published the decision entitled “*Regulating the Postal Sector in a fully Liberalised Market - An ex-ante framework for the regulation of competition*”<sup>2</sup> which gives further details on the MCA’s envisaged way forward in this regard.

## 3.3 Price control parameters

### 3.3.1 Duration of price control

Amongst other factors mentioned above, with the price control mechanism proposed in the Consultation Document the MCA was *inter alia* seeking to address the issue of unbalanced price structures in the Universal Service Area.

When setting an appropriate regulatory period for the duration of the price control, the MCA sought to balance the need to spread the required price changes over an adequate timeframe with that of a dynamic period which is short enough to afford timely intervention in the light of unexpected market developments brought about by FMO.

For this reason, the MCA proposed two distinct regulatory periods, namely:

**2013 Price Control Period (hereafter ‘PC2013’):** a short-term price control spanning over MaltaPost’s Financial Year 2013. This will represent the first phase of the

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<sup>2</sup> <https://www.mca.org.mt/article/regulating-postal-sector-fully-liberalised-market-response-consultation-document-and-next>

rebalancing process during which the MCA will also monitor market developments following full liberalisation.

**2014/5 Price Control Period (hereafter ‘PC2014/5’):** a subsequent regulatory period featuring a forward looking framework covering the financial years 2014 and 2015. Within this period, the price control will focus more on the expected changes in revenues and cost in the medium term, hence taking a more proactive approach to the required tariff adjustments going forward.

This Decision Notice deals first with PC2013 but also establishes the basis for the form/tariffs of PC2014/5. This is discussed in more detail in Section 6.5 and Section 7.4.

### **3.3.2 First level controls (PC2013) – specific ceilings and floors**

As stated in the Consultation Document, these controls consist of price ceilings/floors which will delimit MaltaPost’s price structures for the respective products. In arriving at its decision on such the “First Level” controls, the MCA took consideration of;

- cost-accounting data and volume forecasts for individual products;
- the need to ensure that products can be provided on a sustainable and efficient basis; and
- the necessity to have tariffs which are conducive towards a smooth transition to a competitive environment.

After taking into account these considerations, the MCA decided on the First Level controls summarised in Table 1 hereunder, where a “ceiling” sets the limit of the maximum tariff that can be charged and a “floor” sets the minimum tariff that can be charged.

**Table 1**

<b>Product</b>	<b>Type of Control</b>	<b>Ceiling/Floor Limit</b>
Domestic Single Piece Mail 0 – 100g	Ceiling	Current tariffs + €0.06 (max.)
Domestic Bulk Mail 0 – 100g	Floor	Current tariffs + €0.02 (min.)
Domestic Registration Fee	Ceiling	Current tariffs + €0.41 (max.)
PO Boxes	Ceiling	Current tariffs (max.)

The Consultation Document stated also that if the MCA finds any of the above products to be effectively competitive in terms of the market review procedure referred to in Section 3.2 above, the respective First Level controls specified above will cease to apply.

### **3.3.3 Second level controls (PC2013) – the wider Universal Service**

The Consultation Document proposed that in respect of other products within the scope of the Universal Service and not subject to First Level controls, the MCA will be allowing a degree of flexibility to MaltaPost to apply prudent judgement in proposing sensible

tariffs that promote the efficient and sustainable provision of the Universal Service. However, all tariff proposals by MaltaPost will still be subject to *ex ante* approval.

The provision of postal services is characterised by a common underlying platform exhibiting high fixed costs. This results in common and joint costs in the provision of postal services. In line with these structural characteristics, the MCA feels that the USP's profitability should therefore be regulated on an overall basis.

For this reason, the Consultation Document treated also the issue of establishing an adequate profitability indicator able to gauge the sustainable rate of return ('ROR') In this regard the document considered two alternative indicators, namely a Return on Sales measure ('ROS') or a Return on Investment ('ROI') counterpart.

After considering the strengths and weaknesses of the two alternatives, having undertaken specific studies on the adequate ROR to be used in the local context, and following various discussion with MaltaPost regarding implementation aspects, the MCA was of the opinion that a ROS before interest and tax ('EBIT ROS') should be set as the profitability measure for the provision of postal USO services in Malta. As part of the setting of the profitability measure, the MCA proceeded to set an adequate target level aimed at ensuring the sustainability of the postal Universal Services provision.

To establish this rate, the MCA commissioned a study on the fair rate of return applicable in the local context which included benchmarking and stress-testing. After taking into consideration this study, the MCA was of the opinion that an EBIT ROS in the region of the returns recorded in the past financial year (FY2011) is a fair commercial ROR for the price regulation of the Universal Services provided by MaltaPost.

In addition, the MCA reserved the right to investigate and request clarifications in conjunction with any pricing strategy that would be expected to amplify further any existent imbalances in terms of level of returns on individual regulated services. By way of an example, the MCA reserved the right to investigate MaltaPost's motivations if it had to hypothetically propose a price decrease on a loss-making service.

### **3.4 Administrative aspects**

#### **3.4.1 Price proposals**

The MCA proposed that MaltaPost would be required to submit its proposed price structures for the MCA's approval. In its submissions, MaltaPost must include workings to show the expected impact of the proposed price changes on the profitability of the individual products and the Universal Service as a whole.

#### **3.4.2 Releasing of products/services from price control**

The MCA proposed that during the price control period, if any products were to be found effectively competitive in terms of the market review procedure referred to in Section 3.2 above, the Authority will determine whether the removal of *ex ante* price control on such products should be permitted. For any products freed from *ex ante* price control, MaltaPost will not be required to submit tariffs for the MCA's approval. However, the MCA will still take in consideration the profitability of these products when assessing the overall profitability target for the Universal Service.



### **3.4.3 Re-opening mechanism**

In the event of unforeseen events, which could occur during the price control period and which are accepted by the MCA as being outside of MaltaPost's control, MaltaPost will be able to apply to the MCA for a re-opening of the control. The MCA will take into account the representations made by MaltaPost and decide whether to reopen the price control immediately, or whether the resulting net cost deviations that MaltaPost incurs as a result of such unforeseen circumstances would be taken into account in setting the control for the next price control period.

### **3.4.4 Adjustment mechanism**

With a view to have a forward looking and dynamic price control mechanism, the proposed *ex ante* price control system took into consideration volumes and expense forecasts provided by MaltaPost. Given the inherent limitations of forecasts, the MCA foresaw a risk of granting tariff increases which could result in excessive returns for MaltaPost. Consequently, an adjustment mechanism was proposed to correct for such potential deviations. Depending on the materiality of any excessive returns, the MCA reserved the right to choose one (or a combination) of the following modes of adjustments:

- offsetting by limiting scope for adjustment in the subsequent price control mechanism; or,
- offsetting through re-adjustment of other tariffs.

## **4 Report on consultation on the proposed price control approach and MCA's position**

In terms of the price control approach, MaltaPost's response centred on the following aspects:

- Duration of price control;
- First level controls;
- Second level controls; and,
- Adjustment mechanism.

Below is an overview of MaltaPost's response followed by the MCA's respective comments and position.

### **4.1.1 Duration of price control**

#### **MaltaPost's response**

MaltaPost commented that the regulatory constraints placed upon the company should, as a minimum, be counter-balanced by better commercial visibility via a three-year pre-approved scheme.

#### **MCA's comments and position**

The MCA agrees in principle with MaltaPost that a price control mechanism with a longer duration would provide better commercial visibility to MaltaPost. However, this is less straightforward when it is considered in the context of a change in the regulatory environment brought about by FMO. In fact, as stated in the Consultation Document, the MCA sought to balance commercial visibility with the need to afford timely intervention in the light of unexpected market development brought about by FMO.

Furthermore, a multi-year price control relies on robust, forward-looking data. In this regard, the MCA's considerations when designing the duration of the price control were affected by MaltaPost's stance not to submit the needed forecasts to the Authority. Although MaltaPost changed its initial stance, the timing when this occurred did not afford the required time for the MCA to conduct a comprehensive review of these forecasts.

For these reasons, the MCA believes that a shorter duration makes it feasible to respond more effectively to uncertainties surrounding the effects of liberalisation. Furthermore, it will allow time for the MCA to review the methodology applied by MaltaPost in preparing its volume and costs forecasts and monitor their performance vis-a-vis the actual data of the Financial Year 2013. This is necessary for the MCA to obtain the required assurance on the volume forecasts provided by MaltaPost.

The MCA therefore believes that a price control spanning over Financial Year 2013 is appropriate. Additionally, as proposed in the Consultation Document, the MCA is providing commercial visibility to MaltaPost by establishing the basis for tariffs under the next price control mechanism.

#### **4.1.2 First level controls**

##### **MaltaPost's response**

MaltaPost supported the ceilings set for domestic single piece mail, the domestic registered mail fee and PO Boxes based on a forward-looking three-year period and stated that the setting of a floor for domestic bulk mail was inconsistent with the approach taken by the MCA with regard to the other service types. In this regard, MaltaPost maintained that a 'legal floor' already exists in Competition legislation.

According to MaltaPost, revisions to price ceilings should be readily accepted once reasonable and acceptable justifications are presented. MaltaPost claimed that it should be allowed to price freely once the rates do not exceed the regulated cap and that the obligation to file a request to change prices within such a cap only serves to weigh-down its commercial freedom. Consequently, MaltaPost recommended that the amended licence should reflect the cap and not the actual tariff charged.

##### **MCA's comments and position**

A commercial entity enjoying significant market power in a given market has the incentive to price excessively when no competitive threat exists, whilst engaging in market foreclosure or predatory pricing in response to a competitive presence. Hence, the MCA's objective is not limited to safeguards against excessive pricing but also to foster competition by limiting foreclosing practices by operators enjoying significant market power in a retail market. In this regard, price ceilings by themselves may be insufficient safeguards against foreclosure and/or predatory pricing. For this reason, the MCA does not agree with MaltaPost that the setting of a floor for domestic bulk mail is inconsistent with the ceilings set for other products.

MaltaPost maintained that a 'legal floor' already exists in Competition Legislation but did not explain how the floor set by the MCA is inconsistent with this 'legal floor'. Consequently, the MCA fails to understand the merits of this argument.

With regards to MaltaPost's comments on the price approval mechanism, given the short time span covered by PC2013, the MCA does not envisage that the ceilings will need to be revised again. This notwithstanding, the MCA would like to remark the re-opening mechanism in the price control (Section 3.4.3) is in itself a safeguard against unexpected developments during the regulatory period set. Furthermore, *ex ante* regulation requires that requests for price changes are filed with the MCA for its approval. The MCA's liberalisation framework referred to in Section 3.2 above, maintains *ex ante* regulation on universal services which will only be withdrawn after the MCA undertakes a market analysis and concludes that MaltaPost is subject to competitive market forces. As a result, at this stage, the MCA cannot uphold MaltaPost's request to be allowed to price freely.

### **4.1.3 Second level controls**

#### **MaltaPost's response**

MaltaPost agreed that an adequate ROR guarantees the sustainability of the provision of the Universal Service, but is of the opinion that the most suitable measure is an overall Return on Capital Employed ('ROCE'). MaltaPost emphasised that the Universal Service has a high cost base, a great part of which is fixed and irrespective of changes in volume.

#### **MCA's comments and position**

In deciding on the ROR, the MCA studied and considered the strengths and weaknesses of both the ROS and ROCE. On the basis of this evaluation, the MCA considers ROS to be more suitable for the price regulation of the postal sector in Malta. The main arguments supporting this conclusion were:

- ROCE is more justifiable in capital-intensive industries with long-life assets such as those prevailing in electronic communication markets. In the postal sector, it seems that ROS may be more appropriate due to the small size of the fixed asset base. In low capital intensity industries such as the postal sector, there is a high Operating Cost-to-Asset Base ratio, such that it takes only a relatively small change in costs or revenues to feed through and generate a significant impact on ROI.
- Imposition of a maximum ROCE causes the regulated firm to adopt more capital-intensive production techniques which could lead to productive inefficiency. On the other hand, ROS places focus on operational efficiency.
- The calculation of ROCE requires the separate identification of regulatory assets. This would require putting in place allocation methodologies to split regulatory and non-regulatory assets (to different levels of service categories) in order to prepare regulatory statements of financial position.
- ROCE is generally determined through an estimation of the company's Weighted Average Cost of Capital ('WACC'). In order to compute a WACC for a postal operator comparable to MaltaPost, it would be necessary to use a number of benchmarks, including the target sectoral gearing ratio and the unlevered beta of the sector. Given that many Universal Service providers are state-owned and not listed on any stock exchange, data availability is limited. In addition, the different size of postal operators limits the comparability.

The MCA agrees with MaltaPost that the Universal Service has a fixed cost base. As MaltaPost's network is largely based on people, the main cost is labour. This is a major characteristic of a low capital intensity industry. ROS ensures that all the costs of the Universal Service are recovered and as explained above, it is generally considered to be more appropriate to regulate businesses which are not capital intensive. The MCA's opinion is also in line with that of other European postal regulators that have recently reviewed these issues.

On these grounds, the MCA believes that in the current scenario an EBIT ROS is the most practicable and fair profitability measure for the regulation of postal tariffs. This

approach was also agreed during meetings held between MCA and MaltaPost in September 2012.

#### **4.1.4 Adjustment mechanism**

##### **MaltaPost's response**

With respect to the proposed adjustment mechanism, MaltaPost stated that this should equally provide for those instances where profits do not reach those levels considered 'acceptable' or losses are registered.

##### **MCA's comments and position**

Given the inherent limitations of forecasts, the MCA recognises there is a risk that forecasted profits may not materialise. The MCA understands MaltaPost's concern in this regard and will be predisposed to apply the adjustment mechanism in such situations. If profits do not reach the allowed levels, the MCA will look into the cause. Compensation may be allowed if the lower profits are the result of:

- actual volumes being lower than forecast; or,
- unfavourable events which are out of MaltaPost's control.

On the other hand, compensation will not be allowed if the MCA deems that the lower profits are the result of improper management decisions or other inefficiencies.

**Part 2 - Report on Consultation on  
MaltaPost's Proposed Tariffs**

## 5 Summary of MaltaPost’s Proposed Revisions to Tariffs

As stated in the Consultation Document, following technical consultations with MaltaPost on the proposed price control mechanism, on 18<sup>th</sup> September 2012 MaltaPost submitted its request for tariff revisions. Table 2 below summarises the proposed tariff revisions as requested by MaltaPost for PC2013.

**Table 2**

<b>Product</b>	<b>Current Tariff</b>	<b>MaltaPost Proposed</b>
<b>Domestic Single Piece Letter Mail</b>		
0 – 50g	€0.20	<b>€0.26</b>
50 – 100g	€0.26	<b>€0.32</b>
>100g, up to 2kg, for each additional 50g	€0.09	<b>€0.20</b>
<b>Domestic Bulk Letter Mail</b>		
0 – 50g	€0.19	<b>€0.24</b>
50 – 100g	€0.26	<b>€0.30</b>
>100g, up to 2kg, for each additional 50g	€0.09	<b>€0.20</b>
<b>Domestic Registered Mail</b>		
Registration fee	€0.49	<b>€0.90</b>
Advice of delivery	€0.40	<b>€0.90</b>
<b>International Registered Mail</b>		
Registration fee	€1.40	<b>€2.25</b>
Advice of delivery	€0.61	<b>€1.75</b>

In addition, MaltaPost highlighted the need for flexibility to offer bulk mail schemes (such as price adjustments on the basis of volumes and service level (e.g. pre-sorting)).

MaltaPost also requested that some products be grouped with existing mainstream products for a more accessible price list and that Domestic Parcels should be made redundant. The groupings requested from MaltaPost comprised:

- the grouping of Domestic Postcards, Domestic Printed Papers and Domestic Direct Mail with Domestic Letter Mail; and
- the grouping of International Outbound Printed Papers and International Outbound Periodicals with International Outbound Letter Mail.

Also, MaltaPost submitted an additional request showing the evolution of certain tariffs relating to its Financial Years 2014 and 2015 as shown in Table 3 hereunder.

**Table 3**

Product	Current Tariff	MaltaPost Proposed Tariffs		
		2013	2014	2015
<b>Domestic Single Piece Letter Mail</b>				
0 – 50g	€0.20	<b>€0.26</b>	<b>€0.32</b>	<b>€0.36</b>
50 – 100g	€0.26	<b>€0.32</b>	<b>€0.42</b>	<b>€0.46</b>
>100g, up to 2kg, for each additional 50g	€0.09	<b>€0.20</b>	<b>€0.20</b>	<b>€0.20</b>
<b>Domestic Bulk Letter Mail</b>				
0 – 50g	€0.19	<b>€0.24</b>	<b>€0.28</b>	<b>€0.30</b>
50 – 100g	€0.26	<b>€0.30</b>	<b>€0.36</b>	<b>€0.40</b>
>100g, up to 2kg, for each additional 50g	€0.09	<b>€0.20</b>	<b>€0.20</b>	<b>€0.20</b>
<b>Domestic Registered Mail</b>				
Registration fee	€0.49	<b>€0.90</b>	<b>€1.70</b>	<b>€2.00</b>
Advice of delivery	€0.40	<b>€0.90</b>	<b>€1.70</b>	<b>€2.00</b>
<b>International Registered Mail</b>				
Registration fee	€1.40	<b>€2.25</b>	<b>€4.25</b>	<b>€4.75</b>
Advice of delivery	€0.61	<b>€1.75</b>	<b>€2.50</b>	<b>€3.00</b>



## **6 Summary of MCA's Assessment and proposed Decisions on Tariffs**

In assessing the tariff revisions, the MCA looked into detailed cost accounting data and available forecasts to ensure that the ensuing tariff revisions would fit within the proposed price control framework. In parallel with this process, the MCA evaluated MaltaPost's requests to group certain products by categorising them as Letter Mail for pricing purposes, and to offer bulk mail price adjustment schemes. Subsequently, the MCA applied a two-pronged test to check compliance of the resultant price structure with the proposed price control mechanism and assess affordability implications. The conclusions of these tests were referred to as Assessment 1 and 2 in the Consultation Document.

### **6.1 Grouping of products as Letter Mail and Domestic Parcels**

The MCA evaluated MaltaPost's request to group some products with existing mainstream products for a more accessible price list. As mentioned in Section 5 these requests comprised:

- the grouping of Domestic Postcards, Domestic Printed Papers and Domestic Direct Mail with Domestic Letter Mail; and
- the grouping of International Outbound Printed Papers and International Outbound Periodicals with International Outbound Letter Mail.

Essentially, this meant that these products would no longer have separate prices and any such mail would be treated as ordinary Letter Mail and charged the respective tariffs.

The underlying reasons provided by MaltaPost were that these products have in effect the same product characteristics as ordinary Letter Mail and are delivered through one and the same processes. The MCA has looked in the cost accounting system of MaltaPost to see if the accounting treatment supports these assertions from MaltaPost. This analysis concluded that these products have virtually the same cost base of Letter Mail. MaltaPost also contended that any other reasons which might have justified different prices in the past are not valid any longer for these specific postal articles.

In this price control mechanism, the MCA considers cost-oriented tariffs as essential to the achievement of its price control objectives and consequently, with the exception of International Outbound Periodicals the MCA agreed with the grouping of these products as Letter Mail under PC2013.

With respect to International Outbound Periodicals, locally registered users who send Outbound Periodicals are required to register with MaltaPost and pay in advance an annual registration fee. On enquiry, MaltaPost confirmed that these registrations were renewed on 1<sup>st</sup> October 2012. The MCA did not favour a change in tariffs in the period for which the registration fee has already been paid. In view of this, the MCA was of the opinion that during PC2013, International Outbound Periodicals should continue to be

considered separately from Letter Mail and charged the existing tariffs. However, the MCA stated that it would readdress the matter under PC2014/5.

With respect to Domestic Parcels<sup>3</sup>, MaltaPost argued that this service is virtually extinct. It requested that this product ceases to exist and all Domestic Parcels to be handled as courier services. The MCA noted that the request to stop the provision of the local parcels service effectively amounted to a request to re-dimension a part of the USO, since letter mail only comprised articles up to 2Kg whilst the Universal Service requirement is established at 20Kg. For this reason, the MCA was of the opinion that this request was beyond the scope of the public consultation, which in turn focused solely on the pricing aspects, whilst taking the current coverage of the USO as given.

## **6.2 Bulk mail discount schemes**

Bulk mail discount schemes are common practice in the postal industry and the MCA viewed positively the introduction of such schemes as long as they were transparent and non-discriminatory. In this respect, the MCA proposed to introduce a number of safeguards. These include:

- the obligation on MaltaPost to document a set of standard and non-discriminatory schemes laying out the applicable terms and conditions (incl. price adjustments);
- the requirement on MaltaPost to file the schemes (new or any revisions) with the MCA at least 5 days before being put into effect;
- the condition on MaltaPost to give access to a bulk mail scheme to those clients that meet the associated respective qualifying criteria;
- the right for MaltaPost's bulk mail clients to contact the MCA for verifications on existing schemes. In such cases, the MCA will liaise with MaltaPost to provide any necessary clarifications; and,
- the right for the MCA to ask MaltaPost for details of qualifying bulk mail customers as it may deem necessary.

The MCA proposed also that the monitoring of the First Level control for bulk mail would be assessed against total average revenue from bulk mail services.

## **6.3 Compliance with 2013 Price Control Mechanism (PC2013)**

In terms of First Level controls, the MCA assessed whether the tariffs proposed by MaltaPost for Domestic Single Piece Mail, Domestic Bulk Mail and Domestic Registration Fee complied with ceilings/floors set for these products. The table hereunder reproduces Table 5 of the Consultation Document, which showed that the proposed tariffs for these products satisfied the respective First Level controls.

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<sup>3</sup> Domestic Parcels provided under the USO are distinct from the local courier/express parcel service offered by MaltaPost.

<b>Product</b>	<b>First Level Control</b>		<b>MaltaPost Proposed</b>
	<b>Ceiling</b>	<b>Floor</b>	
<b>Domestic Single Piece Mail</b>			
0 – 50g	<b>€0.26</b>		<b>€0.26</b>
50 – 100g	<b>€0.32</b>		<b>€0.32</b>
<b>Domestic Bulk Mail</b>			
0 – 50g		<b>€0.21</b>	<b>€0.24</b>
50 – 100g		<b>€0.28</b>	<b>€0.30</b>
<b>Domestic Registered Mail</b>			
Registration fee	<b>€0.90</b>		<b>€0.90</b>

Having confirmed that the First Level controls were satisfied, the MCA moved on to test the above tariffs, together with all other proposed tariffs which do not fall under the First Level control, for overall compliance with the Second Level profitability control. At this stage, the MCA used cost accounting models and applied regulatory scrutiny to ensure that the holistic price change proposals made by MaltaPost would result in an adequate and sustainable return for the Universal Services Area.

## **6.4 Affordability**

In line with its mandate to safeguard the affordability of the postal products falling under the Universal Service Area, the MCA took also into consideration the impact of the proposed price increases on the general public. As done in the July 2011 decision<sup>4</sup> on tariffs, to assess affordability, the MCA applied a two-pronged test.

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 in 2008, 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.

<sup>4</sup> <http://www.mca.org.mt/article/decision-MaltaPost%E2%80%99s-tariff-adjustment-proposals-domestic-letter-mail-registration-domestic>

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 concluded that the proposed price changes were still affordable to business users.

As featured in the Consultation Document, the MCA undertook benchmarking exercises to compare the revised tariffs with those of other European countries. The table below reproduces Table 6 of the said consultation which showed the findings of a study commissioned by Deutsche Post<sup>5</sup> in 2011. As shown therein, at €0.26, the price for a standard domestic letter would still be the cheapest in Europe.

<b>Country</b>	<b>Nominal price for domestic standard letter in €</b>
Norway	1.12
Denmark	1.07
Finland	0.75
Switzerland	0.72
Belgium	0.71
Sweden	0.63
Austria	0.62
Italy	0.60
Slovakia	0.60
Greece	0.60
Luxembourg	0.60
France	0.58
Latvia	0.56
Ireland	0.55
Germany	0.55
UK	0.54
Bulgaria	0.51
Poland	0.49
Portugal	0.47
Netherlands	0.46
Lithuania	0.45
Hungary	0.42
Czech Republic	0.39
Romania	0.38
Estonia	0.35
Spain	0.35
Cyprus	0.34
Slovenia	0.27
<b>MALTA – new tariff</b>	<b>0.26</b>

## **6.5 Compliance with 2014/2015 Price Control Mechanism (PC2014/5)**

As stated in the Consultation Document, the infrastructure needed to adequately monitor a forward looking price control could not be finalised. This was mainly due to the late stage at which information on 2014/5 was submitted by MaltaPost. The MCA explained that a forward looking framework needs to have in place additional elements to cater for

<sup>5</sup> Link to publication: [http://www.dp-dhl.com/en/media\\_relations/press\\_releases/2011/european\\_letter\\_price\\_survey\\_2011.html](http://www.dp-dhl.com/en/media_relations/press_releases/2011/european_letter_price_survey_2011.html)

the inherent risks of setting tariffs for a point in time in the future, such as safeguards and appropriate corrective mechanisms for deliberate and/or unexpected deviations.

Also, the MCA recognised the fact that the changes in tariffs for 2013 would not be sufficient in the medium to long-term to ensure sustainability of the Universal Service and for this reason it intended to start working on the set-up of the 2014/2015 price control period (PC2014/5).

The MCA proposed to provisionally accept the tariffs requested by MaltaPost for the period 2014-2015 unless, following the Authority's review, these are found non-compliant with the parameters of the 2014/5 price control period (PC2014/2015).

In setting the PC2014/2015, the MCA stated it will assess any new developments that may come to light following FMO as well as the assumptions, forecasts or efficiency levels considered by MaltaPost, prior to confirming such tariffs.

## **7 Report on consultation on the MCA’s assessment of tariffs and MCA’s position**

MaltaPost’s feedback on this section of the Consultation Document revolved around the grouping of products, Domestic Parcels, and the bulk mail discount schemes as detailed hereunder.

### **7.1.1 Grouping of products and Domestic Parcels**

#### **MaltaPost’s response**

On the grouping of certain products, MaltaPost proposed that:

- Outbound Postcards should have the same tariffs as for Outbound Letters; and,
- Outbound Periodicals should have the same tariffs as for Outbound Letters immediately for all clients once the new tariffs are approved. It stated that clients having already registered for mail periodicals during PC2013 would have benefited from the current rates until the date when the new tariffs come into effect.

In respect of Domestic Parcels, MaltaPost stated that given the position taken by the MCA on their continued ‘relevance’, it was requesting the price structure to be revised as follows:

<b>Product</b>	<b>MaltaPost Proposed Tariffs</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>All Domestic Parcels ≤ 20kgs</b>	<b>€3.50</b>	<b>€4.5</b>	<b>€5.5</b>

#### **MCA’s comments and position**

The MCA notes that presently, the tariffs of Outbound Postcards are the same as those for Outbound Letters weighing up to 20g. Postcards do not generally exceed this weight threshold and consequently the grouping proposed by MaltaPost is not expected to result in an effective increase in the prices of Outbound Postcards. Thus, the MCA accepts MaltaPost’s request to group Outbound Postcards with Outbound Letters.

Regarding Outbound Periodicals, the MCA reiterates its stance that in the interest of the consumer, it does not favour a change in tariffs in the period for which the registration fee has already been paid. As stated in the consultation, the MCA will readdress the matter, including MaltaPost’s request to have Outbound Periodicals charged the same tariffs as Outbound Letters, under PC2014/5.

With respect to Domestic Parcels, contrary to what was affirmed by MaltaPost, the MCA did not take a position on the product’s relevance in the consultation paper. The MCA stated that the request to stop the provision of the Domestic Parcels was effectively a request to re-dimension the USO and as such this issue was therefore beyond the scope of the public consultation. Subsequently, in its response to the consultation paper, MaltaPost revised its position and requested a revision in the price structure for Domestic

Parcels. Since this was not incorporated in the original tariff request, the MCA was not in a position to evaluate this request in time for this decision. As such, the MCA will reconsider the request under PC2014/5.

### **7.1.2 Bulk mail discount schemes**

#### **MaltaPost's response**

MaltaPost was of the view that the ability to allow discounts should not be restricted as bureaucratic requirements will frustrate transactions where clients require immediate confirmation and implementation of a discount. MaltaPost added that the granting of discounts should apply to the provision of all postal services as is the case with any other commodity/service. Consequently, it did not agree with the MCA's proposal of pre-notifying the MCA of discount schemes for services that fall within the USO, but was prepared to disclose these to *bona fide* clients who qualify for such discounts.

MaltaPost maintained that discounts may not necessarily be volume related, as there may be circumstances which allow the Company to provide more favourable rates, such as when clients pre-sort their mail, or make use of other company services.

#### **MCA's comments and position**

At the outset, the MCA unfortunately notes MaltaPost's failure to recognise the difference between a market of 'any other commodity/service' and regulated markets such as those falling in the Postal USO in which MaltaPost still enjoys a significant presence.

The MCA does not object to any discount schemes as long as they are consonant with Article 21 of the Postal Services Act; i.e. respecting the principles of transparency and non-discrimination. The MCA firmly believes that the safeguards listed in Section 5.2 of the private consultation are the minimum set of provisions able to ensure the fulfilment of the Authority's legal mandate in this regard.

Furthermore, the MCA believes that MaltaPost has both the necessary regulatory freedom as well as the required commercial expertise to design such schemes so as to minimise their bureaucratic burden and reach its target customer base at the same time.

### **7.2 MCA's decision on PC2013 tariffs**

After taking into account MaltaPost's feedback as summarised above, the MCA is hereby confirming its proposed decision to accept the price proposals by MaltaPost for Domestic Single Piece Mail, Domestic Bulk Mail, Domestic Registered Mail and International Registered Mail as shown in Decision 1 hereunder. These therefore constitute the tariffs set in the price control for 2013 (PC2013) and shall remain at this level in the absence of an invocation of the re-opening mechanism featured in Section 3.4.3 above. These tariffs shall also remain in force at least until 30<sup>th</sup> September 2013.

**Decision 1:**

The MCA accepts the price proposals by MaltaPost for the following postal services:

<b>Product</b>	<b>Revised Price</b>
<b>Domestic Single Piece Letter Mail</b>	
0 – 50g	<b>€0.26</b>
50 – 100g	<b>€0.32</b>
>100g, up to 2kg, for each additional 50g	<b>€0.20</b>
<b>Domestic Bulk Letter Mail</b>	
0 – 50g	<b>€0.24</b>
50 – 100g	<b>€0.30</b>
>100g, up to 2kg, for each additional 50g	<b>€0.20</b>
<b>Domestic Registered Mail</b>	
Registration fee	<b>€0.90</b>
Advice of delivery	<b>€0.90</b>
<b>International Registered Mail</b>	
Registration fee	<b>€2.25</b>
Advice of delivery	<b>€1.75</b>

**Note:** Pursuant to the conclusions of Sections 6.1 and 7.1.1, the prices of Domestic Single Piece/Bulk Letter mail above will also apply to Domestic Postcards, Domestic Printed Papers and Domestic Direct Mail. Also, International Outbound Postcards and International Outbound Printed Papers will be charged at the existing prices of International Outbound Letter Mail. MaltaPost will also be able to offer bulk-mail discount schemes on non-discriminatory bases in line with the provisions set in Section 6.2 above.

### **7.3 Effective dates of Decision 1**

This document identifies a number of pressing factors pointing towards the immediate introduction of the revised tariffs. However, so as to minimise the impact of these tariffs as well as safeguarding the viability of the USO and potential for competition the MCA will adopt a two-speed approach as detailed hereunder.

One of the primary objectives of the MCA is to have in place cost-oriented tariffs by the time of the FMO. Cost-oriented tariffs provide proper price signals to competition and the MCA favours the immediate revision of tariffs for products/services which might attract competition. The MCA considers Bulk Mail and Mail Registration to fall in this category. As such, the increases approved for Domestic Bulk Letter Mail, Domestic Registered Mail and International Registered Mail are approved with effect from Monday 19<sup>th</sup> November 2012.



Also, the MCA does not expect the approved product groupings to have a major impact on households and mandates that they shall also come into effect with the first set of changes. The approved groupings were:

- Domestic Postcards, Domestic Printed Papers and Domestic Direct Mail with Domestic Letter Mail; and
- International Outbound Postcards and International Outbound Printed Papers with International Outbound Letter Mail

On the other hand, the increase of Domestic Single Piece Letter Mail impacts more directly households and the MCA considers a longer notice period to be more appropriate. Accordingly, the increases approved for Domestic Single Piece Letter Mail shall come into effect on Monday 1<sup>st</sup> April 2013.

In order to ensure that users of the postal services are sufficiently informed of the changes in prices, the MCA requires MaltaPost to give appropriate public notice to these changes in a transparent manner.

#### **Decision 2**

**The MCA is mandating that the price proposals accepted under Decision 1 shall come into effect as detailed hereunder.**

**The first set of changes are approved with effect from Monday 19<sup>th</sup> November 2012. This will include:**

- **the increases approved for Domestic Bulk Letter Mail, Domestic Registered Mail and International Registered Mail;**
- **the grouping of Domestic Postcards, Domestic Printed Papers and Domestic Direct Mail with Domestic Letter Mail; and,**
- **the grouping of International Outbound Postcards and International Outbound Printed Papers with International Outbound Letter Mail.**

**The remaining changes relating to Domestic Single Piece Letter Mail shall come into effect on Monday 1<sup>st</sup> April 2013.**

**The MCA requires MaltaPost to give appropriate public notice to these changes in a transparent manner through the customer channels at its disposal in close coordination with the MCA. Where appropriate, especially in the case of social mail, MaltaPost is to issue appropriate press releases in close coordination with the MCA.**

Decisions 1 and 2 shall, for all intents and purposes of Regulation 4 of the MaltaPost plc Licence (Modification) Regulations, constitute a directive issued by the Authority in accordance with Article 21 and Article 76A of the Postal Services Act. The final changes to the Licence are shown in Appendix I.

## **7.4 MCA's position on MaltaPost's requested tariffs for the period up to 2015**

MCA is aware that, having regard of the expected changes in the market context, the changes in tariffs under PC2013 will not be sufficient to ensure the medium to long-term viability of the universal postal service. On these grounds, the MCA is confirming its

acceptance of the tariffs requested by MaltaPost for the period 2014-2015 unless, following the Authority's review, they are found non-compliant on any of the following objective grounds:

- tariffs were based on grossly erroneous volume forecasts; and/or
- tariffs took in consideration grossly erroneous cost forecasts; and/or
- tariffs reflect erroneous/inadequate assumptions; and/or
- tariffs would need to take into account any envisaged major changes in the cost base following a potential re-dimensioning of the USO.

In defining the parameters of the 2014/5 price control period (PC2014/2015), the MCA will look into the above areas into more detail to confirm the proposed tariffs.

### **Decision 3**

**The MCA is accepting the tariffs requested by MaltaPost for the period 2014-2015 unless, following the Authority's review, they are found non-compliant on any of the following objective grounds:**

- **tariffs were based on grossly erroneous volume forecasts; and/or**
- **tariffs took in consideration grossly erroneous cost forecasts; and/or,**
- **tariffs reflected erroneous/inadequate assumptions; and/or**
- **tariffs would need to take into account any envisaged major changes in the cost base following a potential re-dimensioning of the USO.**

**In setting the PC2014/2015, the MCA will assess any new developments that may come to light following FMO as well as the assumptions, forecasts or efficiency levels considered by MaltaPost, prior to confirming such tariffs.**

## **8 Way Forward**

Following the conclusion of the price control framework and tariff revisions for Financial Year 2013, the MCA will continue with its work on PC2014/2015 with the aim of finalising the major characteristics and technical parameters underlying the mechanism.

Meanwhile, MaltaPost has also approached the MCA to discuss certain aspects of the Universal Service which may be streamlined in order to increase efficiency and reduce overheads.

## Appendix I – Final Amendments to MaltaPost Licence

### Extract from MaltaPost plc Universal Service Product Price List as at July 2012:

CLASSIFICATION	WEIGHT STEP/DESCRIPTION	PRICE
<b>INLAND MAIL</b>		
Letters	Up to 50g in the case of a single piece letter	20c
	Up to 50g in the case of bulk mail for every letter	19c
	More than 50g, less than 100g	26c
	100g and more, up to 2Kg, for each additional 50g	9c
Postcards		16c
Printed Papers	Up to 50g	16c
	Each additional 50g up to 2Kg	5c
	The weight limit for printed papers is 2Kg but packets of books, or pamphlets up to 5Kg may be sent as Printed Papers at the following rate: For every additional kg or fraction thereof over 2Kg	70c
Direct Mail (mailing service same as for normal letters)	Up to 50g	16c
	More than 50g, less than 100g	26c
	100g and more, up to 2Kg, for each additional 50g	9c
	Registration fee	
Advice of Delivery of a registered letter		40c
<b>OUTBOUND CROSS-BORDER MAIL</b>		
Registration fee		€1.40
Advice of Delivery of a registered letter		61c

RATES OF POSTAGE ON AIR MAIL		
Classification	Weight step/description	Price
Letters	Zone A, up to 20g	37c
	Each additional 20g	30c
	Zone B, up to 20g	51c
	Each additional 20g	40c
	Zone C, up to 20g	63c
	Each additional 20g	49c
	Zone D, up to 20g	86c
	Each additional 20g	68c
Postcards	Zone A	37c
	Zone B	51c
	Zone C	63c
	Zone D	86c
Printed Papers and Small Packets (excluding Parcels)	Zone A, up to 20g	26c
	Each additional 20g	26c
	Zone B, up to 20g	35c
	Each additional 20g	35c
	Zone C, up to 20g	44c

	Each additional 20g	44c
	Zone D, up to 20g	58c
	Each additional 20g	58c
Periodicals (Locally Registered)		
	Zone A, up to 20g	21c
	above 20g, up to 40g	42c
	for each additional 20g above 40g	21c
	Zone B, up to 20g	28c
	Each additional 20g	28c
	Zone C, up to 20g	33c
	Each additional 20g	33c
	Zone D, up to 20g	47c
	Each additional 20g	47c

Being replaced as follows<sup>6</sup>:

CLASSIFICATION	WEIGHT STEP/DESCRIPTION	PRICE
INLAND MAIL		
Single Piece Letters	Up to 50g	26c
	More than 50g, less than 100g	32c
	100g and more, up to 2Kg, for each additional 50g	20c
Bulk Mail	Up to 50g	24c
	More than 50g, less than 100g	30c
	100g and more, up to 2Kg, for each additional 50g	20c
Postcards		As established for letters
Printed Papers		As established for letters
Direct Mail (mailing service same as for normal letters)		As established for letters
Registration fee		90c
Advice of Delivery of a registered letter		90c
OUTBOUND CROSS-BORDER MAIL		
Registration fee		€2.25
Advice of Delivery of a registered letter		€1.75

RATES OF POSTAGE ON AIR MAIL		
Classification	Weight step/description	Price
Letters	Zone A, up to 20g	37c
	Each additional 20g	30c
	Zone B, up to 20g	51c
	Each additional 20g	40c
	Zone C, up to 20g	63c

<sup>6</sup> According to the timeframes stated in Decision 2.

	Each additional 20g	49c
	Zone D, up to 20g	86c
	Each additional 20g	68c
Postcards		As established for letters
Printed Papers and Small Packets (excluding Parcels)		As established for letters
Periodicals (Locally Registered)		
	Zone A, up to 20g	21c
	above 20g, up to 40g	42c
	for each additional 20g above 40g	21c
	Zone B, up to 20g	28c
	Each additional 20g	28c
	Zone C, up to 20g	33c
	Each additional 20g	33c
	Zone D, up to 20g	47c
	Each additional 20g	47c