

Pricing of Postal Redirection Services provided by MaltaPost plc

Responses to Consultation and Decision Notice June 2012

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| Document No: | MCA/D/12-0889 |
| Date | 06/06/2012 |

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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, is required to provide redirection services as part of its Universal Service Obligation.

For a number of years, Maltapost has charged 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.

The MCA published a consultation paper on 23rd May 2012 entitled "Pricing of Postal Redirection Services provided by MaltaPost plc" detailing a proposal submitted by Maltapost that 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 had also proposed that the company enjoys freedom to price and operate all other redirection requests.

After having assessed redirections cost data, the MCA considered that the tariffs proposed by MaltaPost are not priced excessively. In its assessment, the MCA also recognised 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 will continue to be part of the universal service, when considering the cost involved in providing the service and the impact on postal operations, MaltaPost will be allowed freedom to price and operate other redirections.

After taking in consideration the consultation responses received, the MCA is approving the revised tariff structure proposed by MaltaPost. The new tariffs may be introduced after 30 days from the publication of this decision notice. The MCA also concluded 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.

1 Introduction

On 23rd May 2012, the MCA published a document entitled “Pricing of Postal Redirection Services provided by MaltaPost plc”, whereby it invited interested parties to submit their comments on a number of proposed decisions related to the review of the tariff structure of postal redirection services offered by MaltaPost.

This document outlines the work undertaken by the MCA in assessing the proposed pricing structure, gives an overview of the consultation responses received, and presents the MCA’s final decisions with respect to the review of the tariff structure of postal redirection services.

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) Regulations¹ (the 'Regulations'), MaltaPost as the designated Universal Service Provider (USP) is obliged to provide a mail redirection service.

2.1 Pricing for Postal Redirection Services

For a number of years, MaltaPost has charged the following annual 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 applied to the redirection of postal articles to an alternative local delivery address, as well as the redirection of postal articles 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 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) fell 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.

¹ As per Subsidiary Legislation 254.01 of the Laws of Malta.

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 and decisions on the above proposed pricing structure.

3 Review and Decisions on MaltaPost's Tariff Requests

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 review² of the cost accounting system³ employed by MaltaPost. Regulatory accounts⁴ 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.

² 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.

³ 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.

⁴ 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 31st 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 services⁵.

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. Also, 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.

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.

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 uses⁶. During this interim period, users are expected to diligently inform senders of the change in delivery address.

⁵ In the near future the MCA will also consult on a price control mechanism covering the wider Universal Service Area.

⁶ 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).

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 Universal Service Obligations 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 Regulations⁷.

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. 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.

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.

3.3 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

⁷ Regulation 23 includes re-direction as part of the universal service while Regulation 28 regulates its provision.

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 parity⁸

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

⁸ 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).

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.

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.

3.4 Report on Consultation and MCA's Decisions

This section presents the feedback received by the MCA on the proposed decisions featured in the consultation document and the MCA's final decisions in this regard.

The consultation period ran till the 30th of May 2012, with one respondent, Maltapost, submitting its response. The MCA wishes to thank MaltaPost for its feedback.

MaltaPost stated that it agreed with all proposed decisions in the consultation document and proposed a minor amendment in the appendix to the consultation. The appendix listed the draft amendments to MaltaPost's Licence, and MaltaPost proposed that for Outbound Cross Border Mail, "Other redirections" should be replaced by "All redirections". The MCA considers this clarification to be appropriate and the revised appendix is reproduced in this Decision Notice.

In line with the above considerations, the MCA agrees that the prices for redirection services of general mail to local addresses up to one year, are to be revised as proposed by MaltaPost.

Decision 1:

The MCA authorises the revision of the tariff structure for redirection of mail services proposed by MaltaPost as follows:

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

Decision 2:

The MCA concludes 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 requires that sufficient advance notice and price transparency is provided.

Decision 3:

The MCA mandates that:

- a) the above mentioned **Decision 1** and **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 effect⁹.

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

⁹ The MCA may establish more comprehensive general requirements, in accordance with its powers at law, following appropriate consultation.

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 circumstances¹⁰. 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.

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.

¹⁰ 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.

4 Effective Date

In line with Decision 3:

- Maltapost will be entitled to introduce new tariffs pursuant to Decisions 1 and 2 following the expiry of at least 30 days from the publication of this decision notice.
- MaltaPost shall publish as public tariffs its prices for comprehensive postal redirection prices, giving a minimum notice period of 30 days from when any new prices are to come into effect.

These Decisions 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 of the Postal Services Act Article and 76A(2)(d).

Appendix A – 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 follows as at July 2012:

| 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 | All redirections: | As established by MaltaPost from time to time | N |