



An Coimisiún um
Rialáil Cumarsáide
Commission for
Communications Regulation

Report to Minister of Communications Climate Action and Environment ‘Review of consequences of the repeal of section 30 of the Communications Regulation (Postal Services) Act, 2011 concerning the price cap on certain of the universal postal services’

Non-confidential submissions by An Post after
ComReg’s public consultation

Non-confidential submissions

Reference: ComReg 20/24

Date: 03/04/2020

An Coimisiún um Rialáil Cumarsáide
Commission for Communications Regulation

1 Lárcheantar na nDugaí, Sráid na nGildeanna, BÁC 1, Éire, D01, E4X0.
One Dockland Central, Guild Street, Dublin 1, Ireland, D01, E4X0.
Teil | Tel +353 1 804 9600 Suíomh | Web www.comreg.ie

Related documents

ComReg Report	
Report to Minister of Communications Climate Action and Environment - 'Review of consequences of the repeal of section 30 of the Communications Regulation (Postal Services) Act, 2011 concerning the price cap on certain of the universal postal services' dated 20 September 2019	Non-confidential at: https://ptfs-oireachtas.s3.amazonaws.com/DriveH/AWData/Library3/Documents%20Laid/pdf/CCAEdoclaid310320_310320_122010.pdf
Publication Date	31 March 2020 on https://www.oireachtas.ie/en/publications/docs-laid/

ComReg Documents	
Consultation	ComReg 19/43 ¹
Response to Consultation	ComReg 19/62 ²
Submissions to Consultation	ComReg 19/62s ³

¹ <https://www.comreg.ie/publication/consequences-of-the-repeal-of-the-price-cap-on-certain-of-the-universal-postal-services-consultation-seeking-views>

² <https://www.comreg.ie/publication/consequences-of-the-repeal-of-the-price-cap-on-certain-of-the-universal-postal-services-response-to-consultation>

³ <https://www.comreg.ie/publication/consequences-of-the-repeal-of-the-price-cap-on-certain-of-the-universal-postal-services-submissions-to-consultation>

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1: An Post submission dated 16 September 2019

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Barbara Delaney
Director - Retail and Consumer Services
Commission for Communications Regulation
One Dockland Central
Guild Street, Dublin 1
D01 E4X0
Ireland

16 September 2019

Reference: Draft Updated ComReg Report for An Post E&O check on ComReg Review of consequences of the repeal of section 30 of the Communications Regulation (Postal Services) Act, 2011 concerning the price cap on certain of the universal postal services

Dear Barbara,

Within the context of your review of any consequences of the repeal of the Price Cap Mechanism ("PCM"), I think it important to recall some key points.

In March 2017, the Irish Government decided to introduce primary legislation to repeal the price cap mechanism, in order to ensure the liquidity and future viability of An Post for all postal users in Ireland.

By June 2017, the Company had developed and commenced implementation of a major corporate strategy to transform An Post, restore its financial position and its centrality to Irish life and the economy, by transitioning from an old mails world to a new world of e-commerce.

As a consequence of repealing the price cap mechanism, in addition to other actions taken by An Post, the Company's financial position has been restored. The Company has been enabled to react more dynamically to the ongoing changes in the postal sector, including by way of pricing changes, while always seeking to uphold the postal tariff principles enshrined in both EU and domestic legislation.

Only two years into the implementation of our strategy, the financial performance of the business has moved from having an operating loss of €12.4m in 2016 to an operating profit of €41.2m in 2018 and the company is on track to repeat this performance in 2019. The profit level is that required for a stable national postal operator and is comparable with peers elsewhere.

The company has implemented efficiency measures in the period since the PCM was removed. By the end of 2017, the An Post management team, working collaboratively with our Unions,

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jointly implemented a step-change cost efficiency programme, which resulted in a reduction of 333 front line delivery FTE's. This has been followed with 150 overhead FTE reductions. The decision to close a mail centre in 2019 adds 200 further reductions.

This achievement over the two years since the PCM was removed places An Post in the upper quartile of postal operators in terms of achieving efficiency. Our observations on the sector globally are that the capacity of good operators to reduce headcount is between 2% and 4% per annum with 4% being a very good achievement. We have been performing at the top end for postal operators on this measure.

In parallel to securing cost efficiencies to address the globally experienced structural decline in traditional mail volumes due to e-substitution, the Company also made a conscious decision to accelerate investment in e-commerce products and services and the associated infrastructure and people required to deliver on this growth opportunity.

All e-commerce ends in a physical transaction: individual parcels need to be handled. Our objective is to be the best e-commerce service in Ireland, in and out of home, backed by automation. Due to economic restrictions resulting from the price cap An Post had zero investment in parcel infrastructure.

The strategy of targeting increased market share in this sector has been successful with the business experiencing significant revenue growth from new and existing, Irish and international customers. As we transition to a new world, we increased staffing numbers to enable this transition, while making parallel investment in automation to ensure the most cost efficient processing of a growing packets and parcels business.

Efficiency and continuous improvement does not come without investment. Confidence that there is a route to financial stability is a key requirement for this confidence to build and the repeal of the price cap mechanism an essential stimulus for this confidence. As a consequence of the removal of the price cap mechanism, the Company has been enabled to invest in its people, brand and infrastructure.

All national postal operators are significant employers in their economies. This is equally true for An Post. The 9,500 employees deserve the right to work in a financially stable environment. Decent work which is not of the "gig economy" or zero hours type of work is one of the company's key sustainability objectives within the framework of the UN Sustainable Development Goals. As a consequence of the repeal of the price cap, the company in a better position to discharge its obligations towards its employees and invest in the correct skillsets that the business requires going forward.

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An Post is focused on delivering on our brand promise to customers. Deliveries are now made six days a week and in evenings. There are a whole range of services not previously available and new interfaces and technology to ensure that Irish consumers have one of the best national postal services in the world. The main brand and two critically important market facing brands An Post Money and An Post Commerce have been successfully launched.

As outlined above, the repeal of the price cap mechanism led to renewed confidence in the future of the sector and the company has made significant capital investment into the automation of the mails and parcels businesses.

Adaptability to change as well as having the ability to react swiftly to change is crucial to securing external finance. This is one of An Post's core objectives and is also a term of the Government Loan of €30m extended to An Post in December 2017. Third parties who review the business and sector to establish its ability to attract support look at the regulatory environment. The removal of the price cap mechanism has been a key part of their analysis and since its removal the company has succeeded in attracting financial support from both the EIB and domestic banks. This could not have been achieved with the price cap still in place and continued support would be in doubt if there was any threat of reinstatement.

An Post has not received nor is it in receipt of any Government subsidy. This is at variance with what many Governments have had to do for their postal operator. Across Europe there are many examples of subsidy to national postal operators, UK, Belgium, France being amongst them. This is a transfer of resources from the taxpayer to the postal operator. In Ireland the taxpayer has not had to bear this burden. Policies like the repeal of the price cap and other initiatives are critical to maintain this situation and we believe a review of the consequences of the removal of the price cap mechanism in Ireland should refer to this fact.

We will be in further contact on this issue over the coming days.

Yours sincerely,


Dr. Tanya Harrington
Chief Regulatory Affairs Officer

2: An Post submission dated 17 September 2019

Barbara Delaney
Director - Retail and Consumer Services
Commission for Communications Regulation
One Dockland Central
Guild Street, Dublin 1
D01 E4X0
Ireland

17 September 2019

Reference: PCM Review

Dear Barbara,

I attach some research which may be of assistance in reviewing the consequences of the repeal of the price cap mechanism ("PCM").

The attached slides explain the decline in mail volumes globally – Ireland is no exception in this regard.

The material also demonstrates that there is a low volume of mail per head of capita in Ireland, with a diverse geography. This makes the challenge for efficiency harder.

The material demonstrates, that relative to its peers, Ireland is efficient in the FTE numbers servicing the population and the number of households.

In addition, the materials demonstrate the subsidy regime which exists in many European states.

I hope the attached is helpful to you in your deliberations.

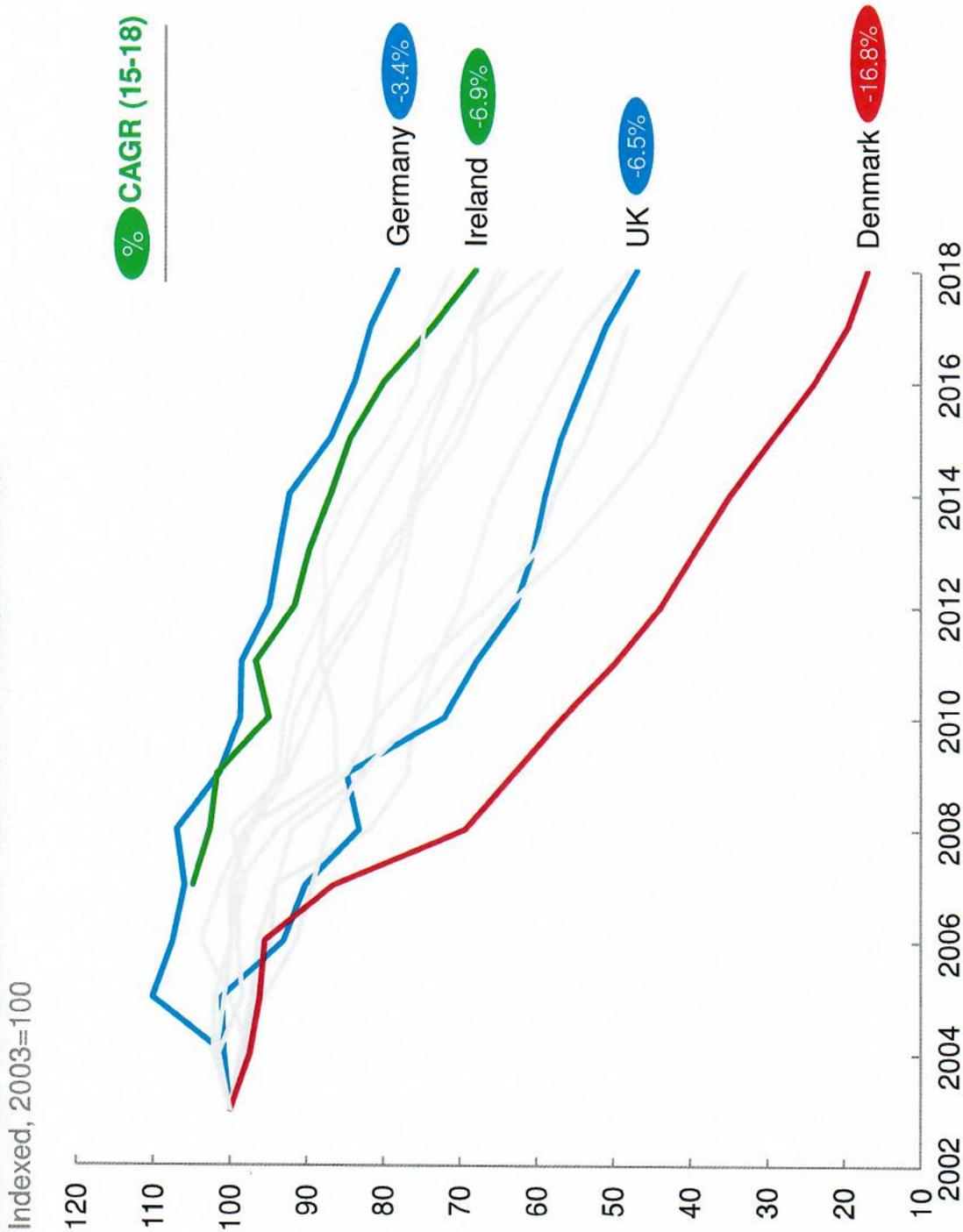
Yours sincerely,



Dr. Tanya Harrington
Chief Regulatory Affairs Officer

Mail volume decline happening all across Europe at different speed

Addressed domestic letter volumes in selected markets¹



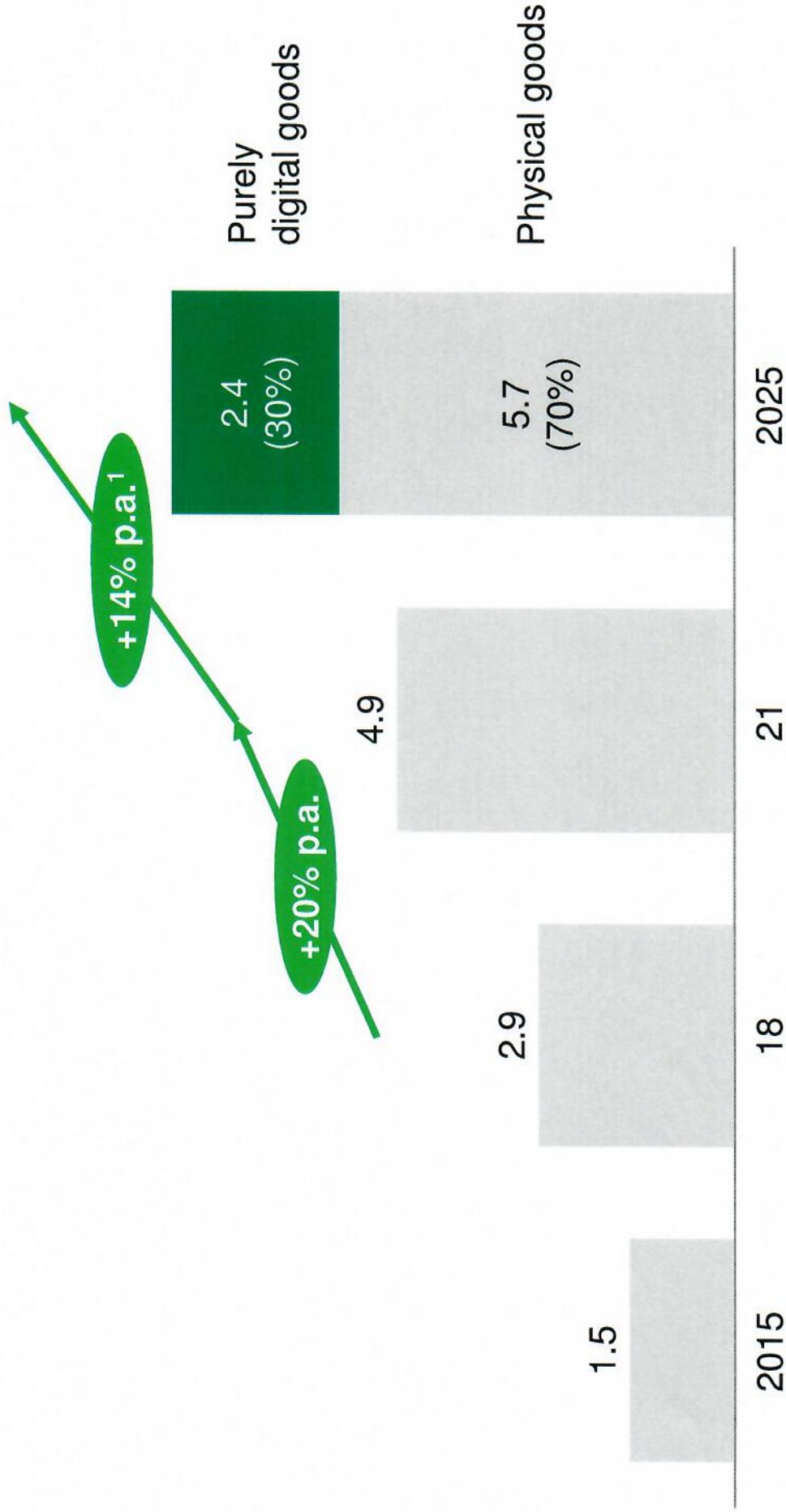
Key insights

- Drop in letter volumes in key European postal markets – speed of decline driven by local habits and regulation
- 80% drop in letter volume in Denmark since 2003 – eGovernment initiatives since 2007 accelerated decline
- ~20% drop in letter volume in Germany – least affected market in the analyzed set

¹ Austria, Belgium, Denmark, France, Germany, Ireland, Netherlands, Norway, Spain, Sweden, Switzerland, UK

Global eCommerce market will quintuple between 2015-25

E-commerce market worldwide
USD trillions

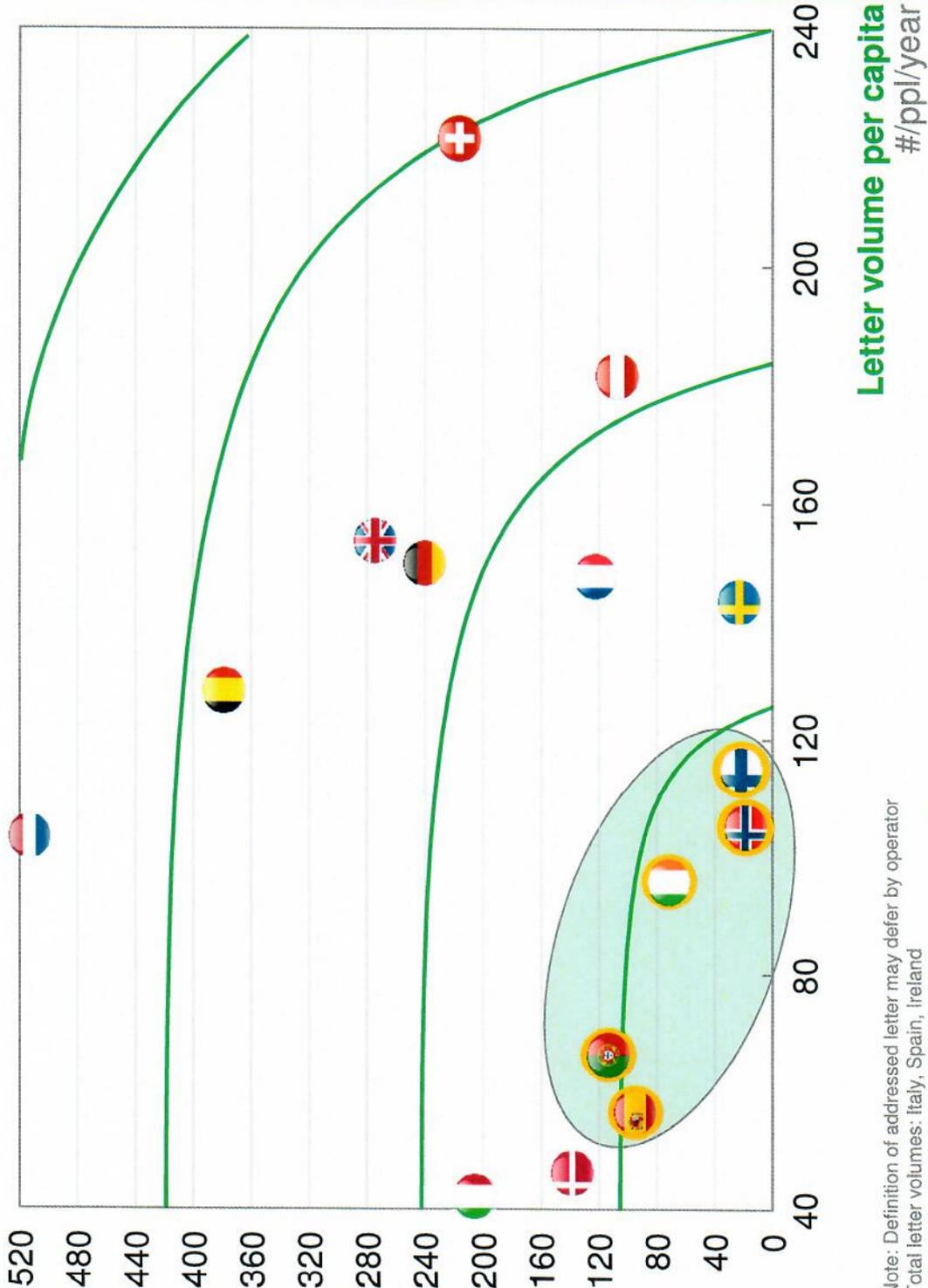


¹ Based on observation of historic growth of most mature e-commerce markets (e.g., UK, US), our assumption is that growth rate will decline from 2020 onwards and further from 2025

Many countries with low population density face also rather low letter volumes per capita

Data from 2018

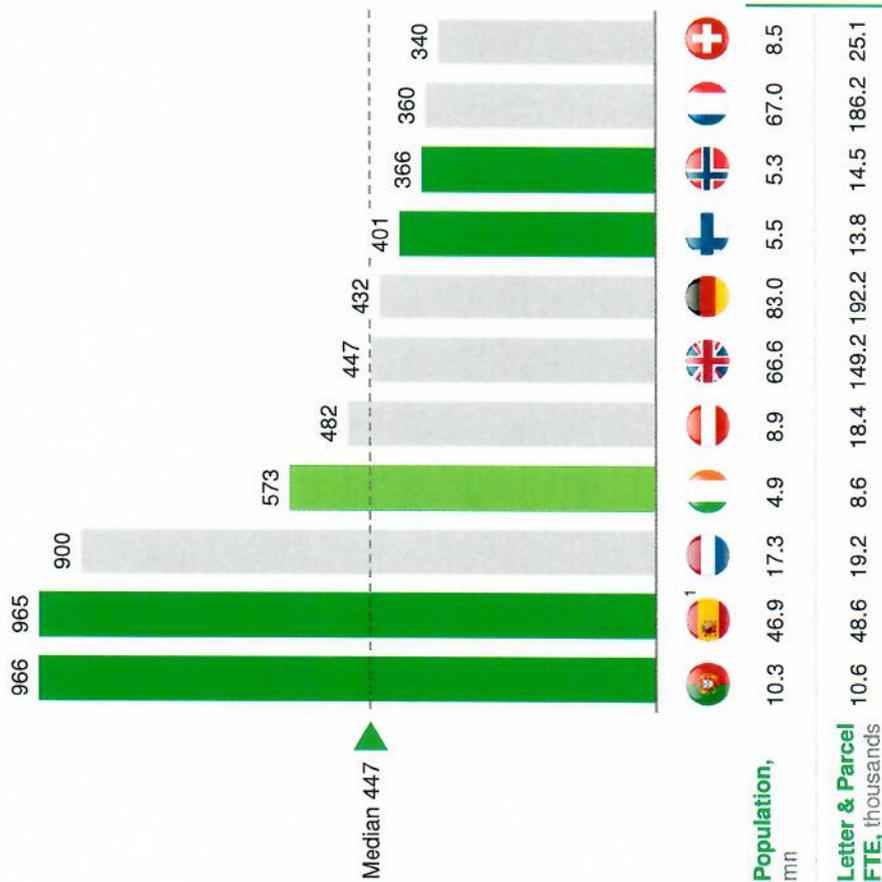
Population density, ppl/sqkm



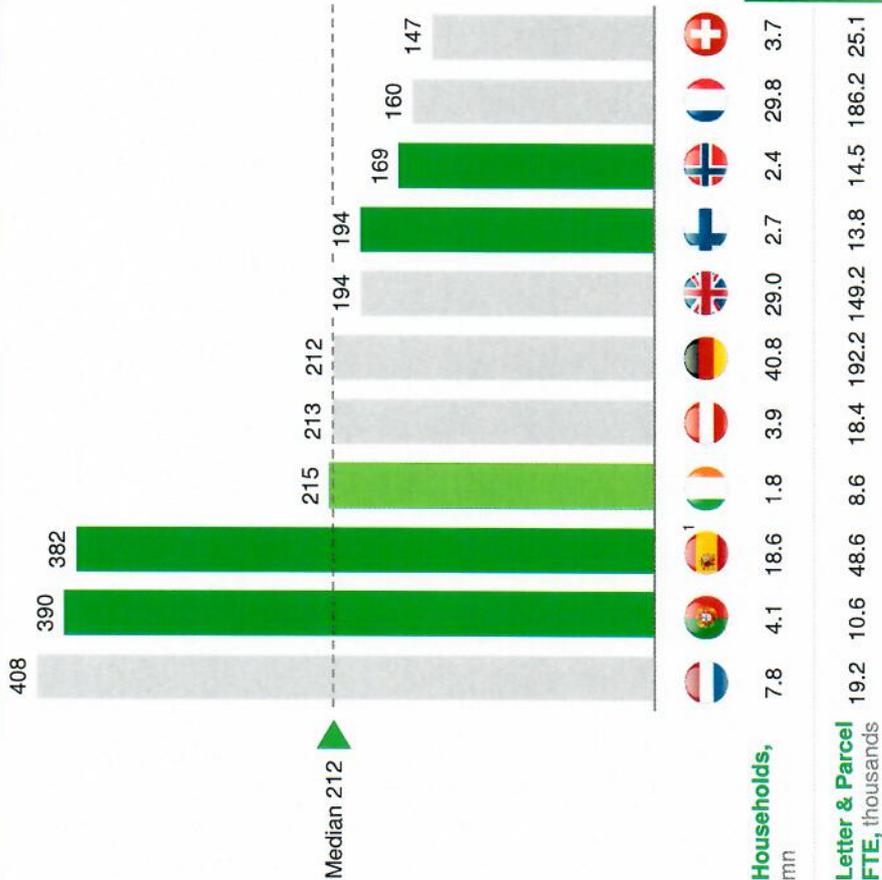
Overview of average population per letter & parcel business unit FTE

Peer group

Population per letter and parcel FTE, 2018



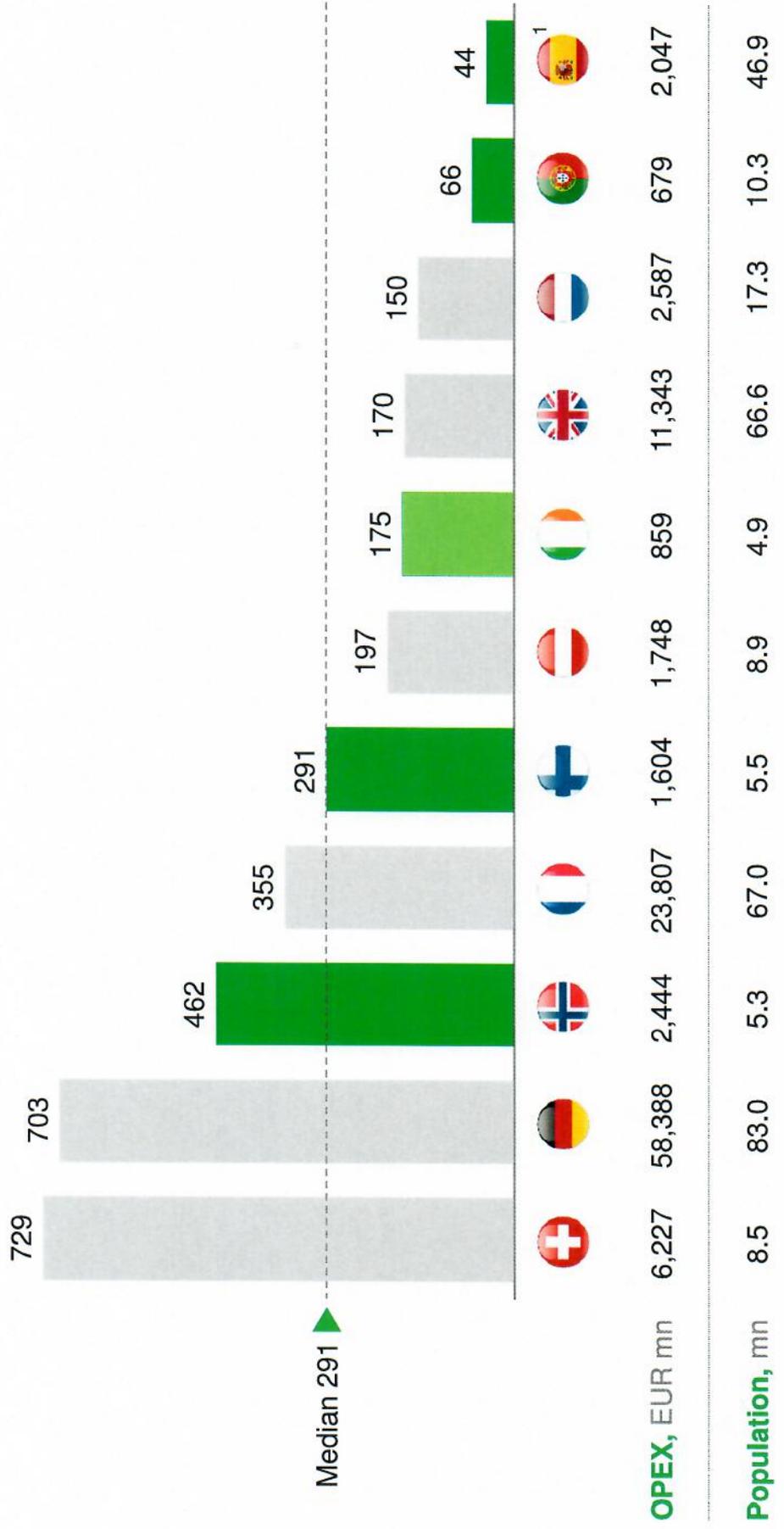
Private households per letter and parcel FTE, 2018



Overview of average company wide operating expenses per capita

Company wide OPEX per Population, 2018, EUR

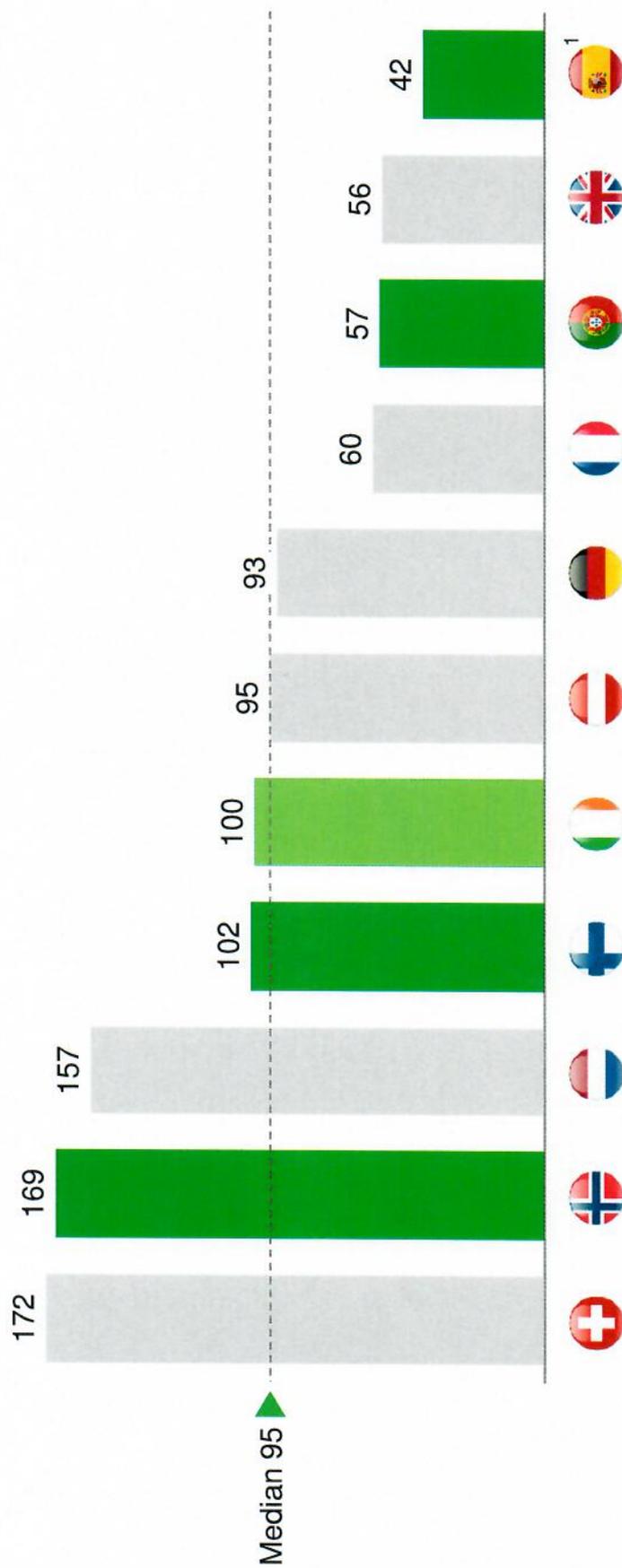
■ Peer group



Overview of average letter and parcel operating expenses per letter and parcel business unit FTE

Letter & parcel OPEX per letter and parcel BU FTE, 2018, '000 EUR

Peer group



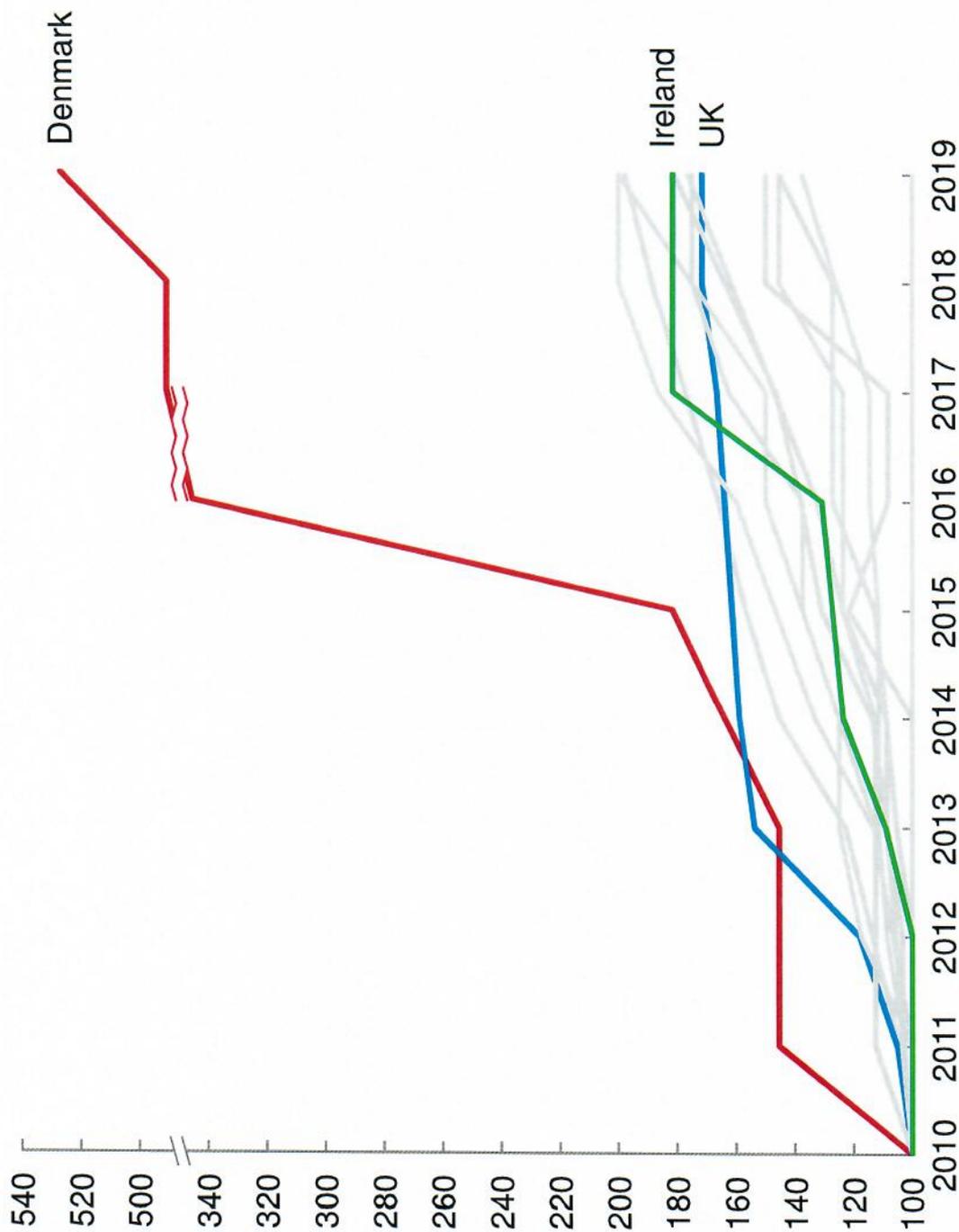
Letter & Parcel OPEX, EUR mn

Letter & Parcel FTE, thousands

Notes: FTE and OPEX metrics for letter and parcel divisions, i.e. excl. banking, fulfillment etc.
 Austrian Post: Letter and Branch, Parcel BU II CTT; Letter, Parcel and Express BU II DP DHL; PeP BU II La Poste; Services-Mail-Parcels BU II PostNL; Letter in the Netherlands, parcel BU II Royal Mail; UKPIL BU II Correos; Group FTE excluding corporate II Posten Norge; Group FTE II Swiss Post; PostMail, Network, Logistics BU II Posti; Mail and parcel logistics BU II An Post; Operational FTE 1 2017

European postal player have been increasing prices in the last decade

Standard first class letter price development¹, Indexed (2010=100)



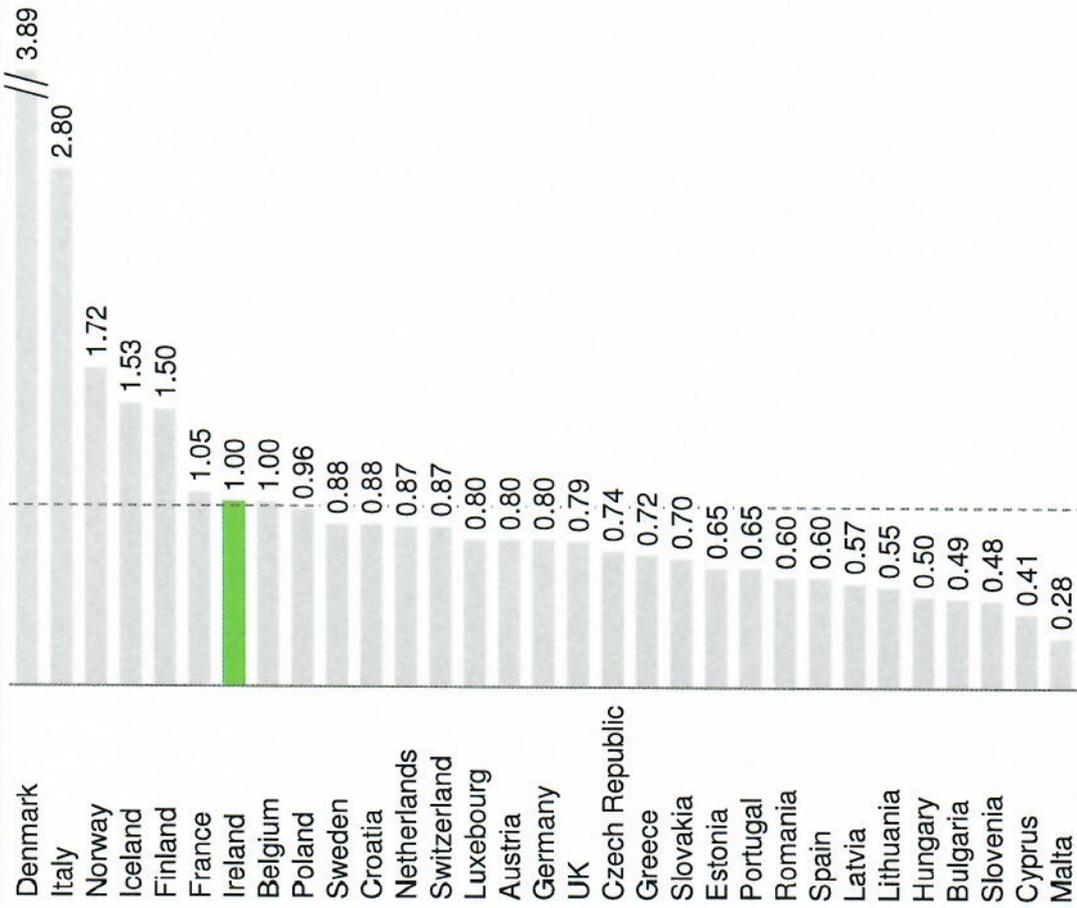
Key insights

- An Post increased prices annually between 2013-2017, with ~40% increase to EUR 1 in 2017
- In contrast, PostNord Denmark increased prices heavily due to falling letter volumes, converting standard product to a express product at high price
- Exception Swiss Post with constant letter price

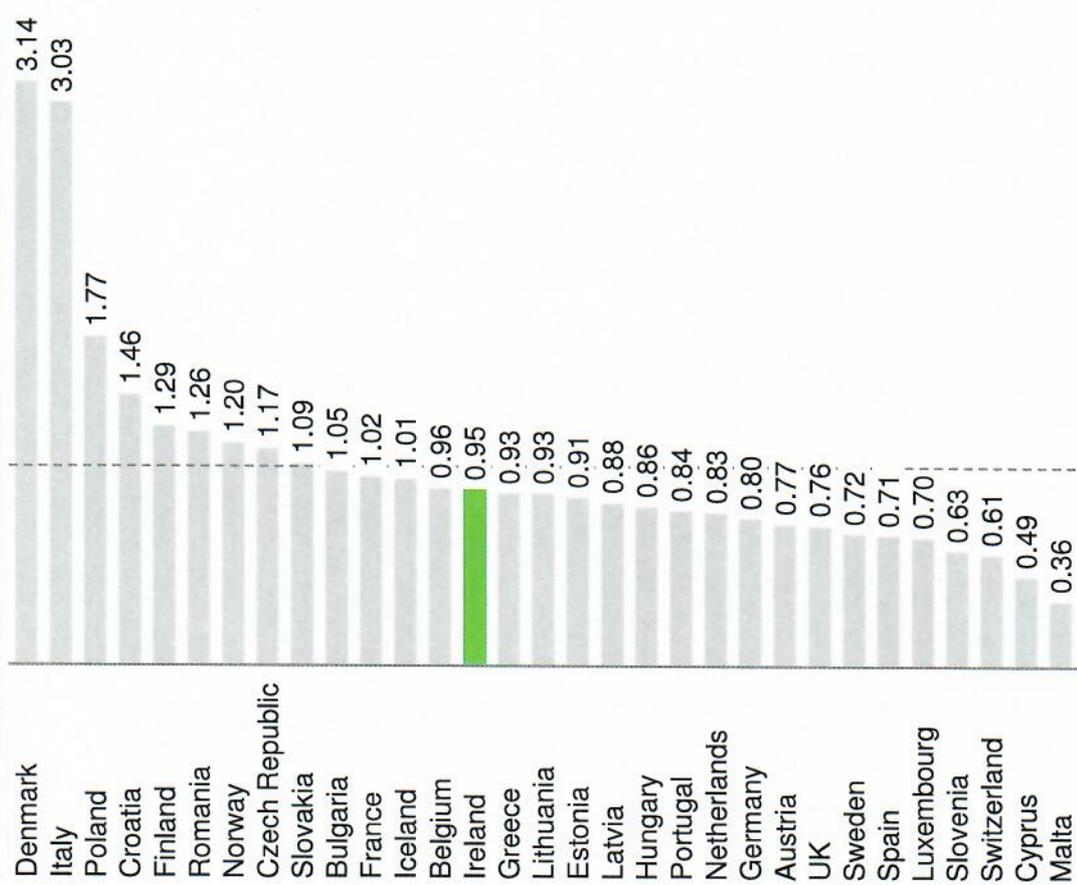
¹ As of September 2019

2019 comparison of prices in EUR and PPP adjusted

Nominal price for a domestic standard letter, EUR



Letter prices adjusted for purchasing power differences, EUR

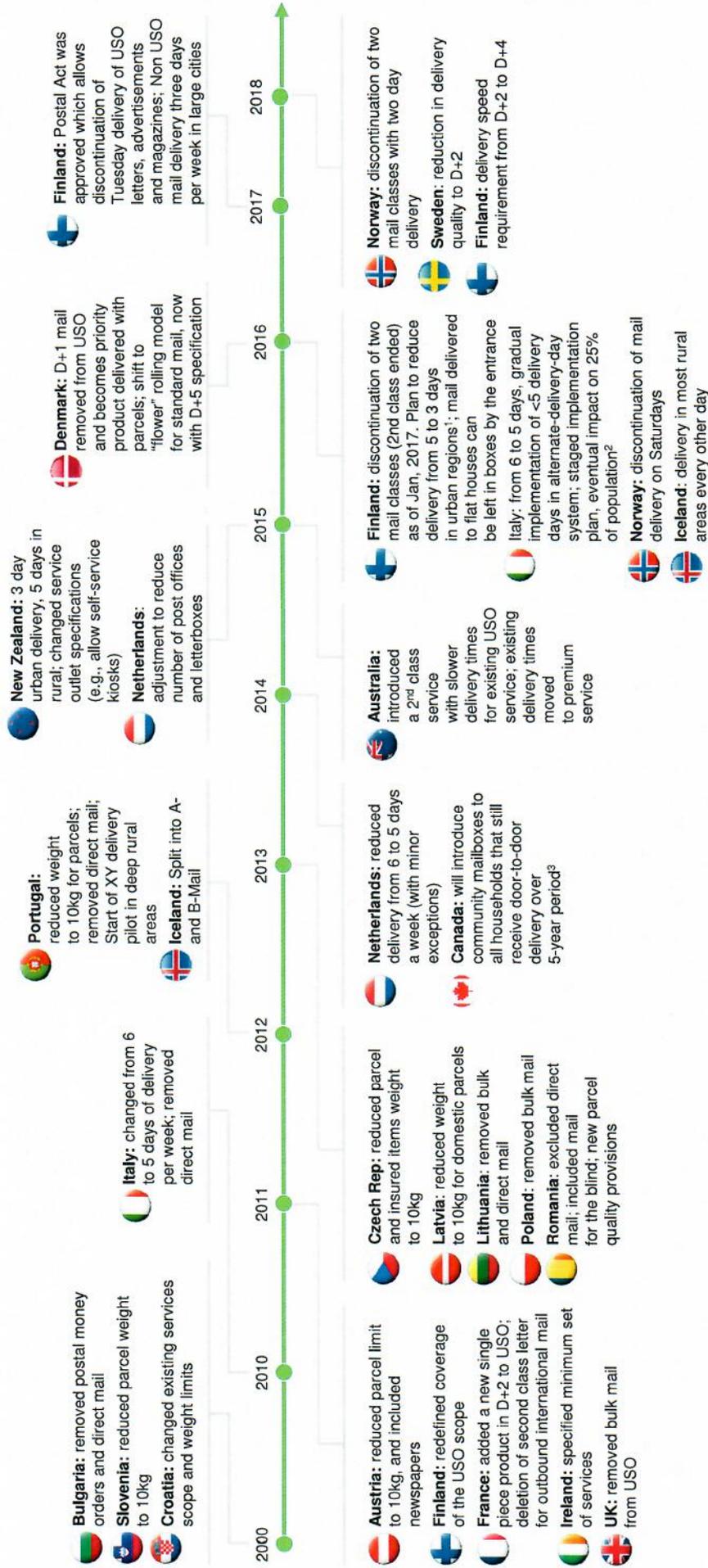


As mail volumes decline, operators obtain more important USO scope modification...

EXAMPLE

Last Modified 13.09.2019 16:46 W. Europe Standard Time

Printed 13.09.2019 16:46 W. Europe Standard Time



1 Coverage: 85% of the population. This measure is not yet implemented
 2 Delivery standard of 2-13 days depend on distance, product, and urbanization
 3 Halted after government change and review

...and have tested or already implemented decreased delivery frequency or services

- Every day delivery kept
- Tests to decrease USO frequency
- USO delivery frequency already decreased

Sweden

- Delivery every day, but recently approved **Postal Law allowed reduction in quality to D+2 (2018)**
- Exception from daily delivery in extremely isolated areas, e.g. remote parts of Norrland's or Sweden's archipelago islands

Norway

- Move from 6 to 5 days / week delivery in 2016**
- Delivery every day but recent **merge of A-Class and B-Class** mail into one mail class with **D+2 to 4 delivery requirement (2018)**

Austria

- Delivery every day
- In 2018, Austrian Post introduced 3-speed product structure (Prio, Eco D+2-3, Eco Business D+4-5)

Netherlands

- Delivery every day
- Move from 6 to 5 day / week delivery in 2014
- Reduction of post offices (2000 to 1000) and letterboxes (from 18k to 8.7k) approved in 2015

Belgium

- Switch to delivery every other day (bow-tie)** announced
- Reintroduction of non-prior D+3** product in 2019

Portugal

- Pilot (2011-2013) of project of **segmented delivery**
- Today, XY distribution is used at very small scale (rural areas with least mail)



Finland

- 2016 domestic parcels removed from the USO. Delivery in urban areas cut to 3 days / week for non USO
- 2017 **Posti merges A+B letters**, i.e. discontinued the provision of a D+1 service within the USO
- 2018 July: **Delivery speed requirement from D+2 to D+4**
- USO decreases to 4 day delivery, no Tuesday

Denmark

- Elimination of A-Mail from the USO
- B-Mail becomes the standard and its quality requirement decreased from 3 to 5 days in 2016
- Delivery once per week (Flower)** since 2018

Italy

- Decree on delivery frequency dependent on population density (2015):** Urban: delivery every day, non-urban: delivery every other day¹
- The new delivery model will not impact delivery targets for USO, with the exception of priority mail. For **priority mail, the speed will range between D+1 to D+3**

Iceland

- 2012: Split of A - (distributed 5 days/week) and B-Mail (every other day)
- 2016: **Delivery in most rural areas every other day**
- 2019: **Open debate to move to XY delivery for all**

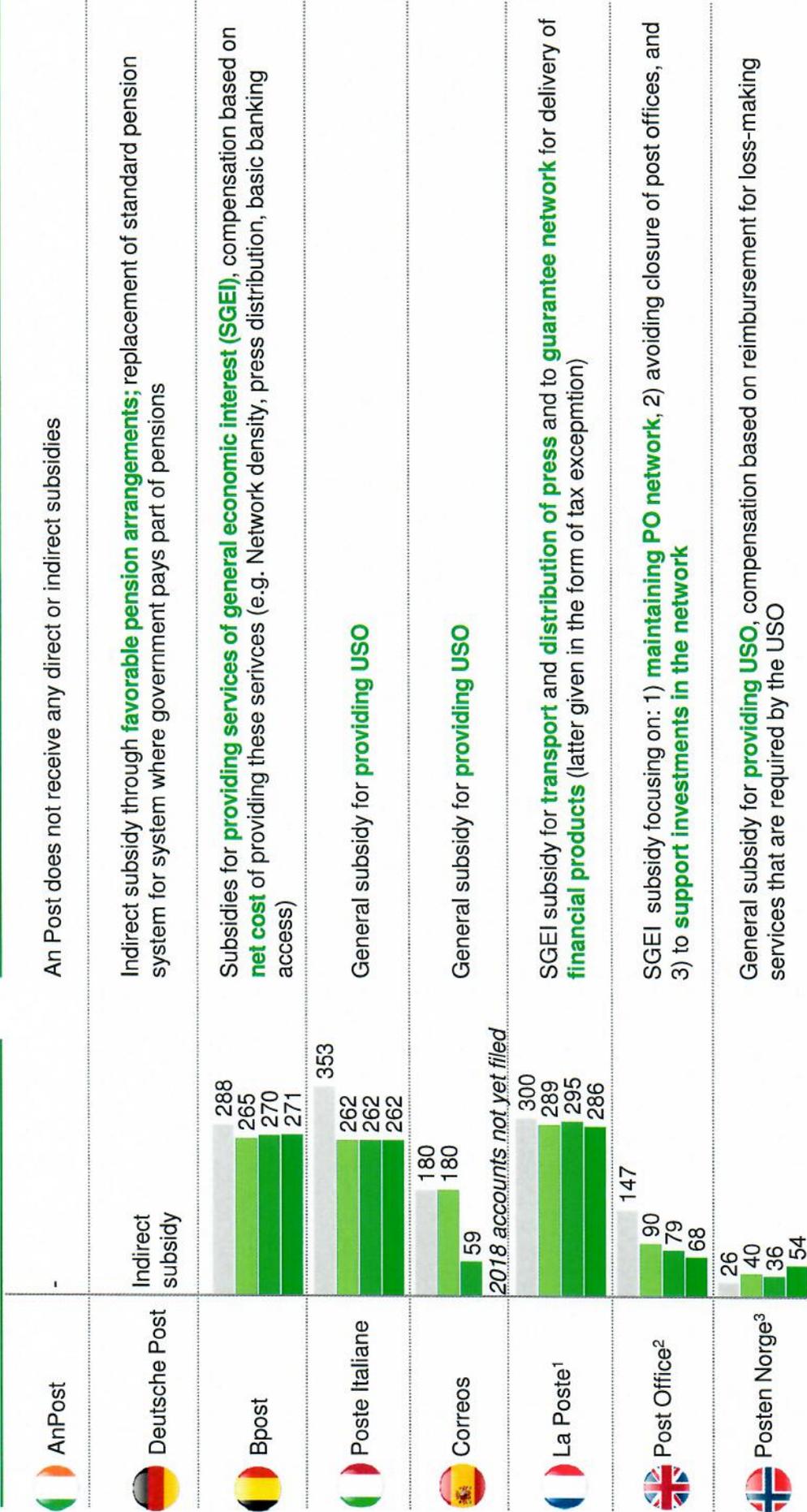
1 Municipalities with: a) <200 inhabitants/sqkm or >200 inhabitants/sqkm but belonging to a Province with <200 inhabitants/sqkm AND b) Municipalities with <30,000 inhabitants where, i) the avg. distance between buildings is >81.7 meters; ii) the avg. distance between buildings is <81.7 meters and the avg. locals for living and/or offices and/or shops per building is <1.4; iii) the avg. distance between buildings is <81.7 meters, the avg. locals at point ii) is >1.4 and the percentage of commercial utilities is <8% of the total utilities; Deliveries on: Monday, Wednesday, Friday, Tuesday, Thursday and so forth

Throughout Europe postal companies receive (in)direct subsidies for sustaining the USO

National subsidies postal companies in Europe, EUR mn

2015 2016 2017 2018

Description



¹ Excluding compensation for providing banking services II 2 Based on exchange rate of 1,13 EUR per GBP; network subsidy payment to Post Office Limited II 3 Based on exchange rate of 0,10 EUR per NOK

Source: Annual reports postal companies, national supervisors