ComReg’s assessment of An Post’s cross- border single piece parcel tariffs

Information Notice – non-confidential

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An Coimisiún um Rialáil Cumarsáide
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1: The Commission for Communications Regulation ("ComReg"), as the national regulatory authority for postal services in Ireland, is required to identify the cross-border tariffs of the parcel delivery service provider ("PDSP") that originates in Ireland and that are subject to a universal service obligation that it objectively considers necessary to assess.

2: ComReg is then required to objectively assess, in accordance with the principles in Article 12 of Directive 97/67/EC[1], the tariffs identified in order to identify those tariffs that it considers to be "unreasonably high". In that assessment ComReg is required to in particular take into account certain specified elements. These obligations are imposed by Article 6 of Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services ("the Regulation")[2]. ComReg considers that in Ireland, this assessment is required of the cross-border parcel delivery tariffs of the universal service provider An Post only.

3: On 5 April 2019 the European Commission published the public lists of relevant tariffs for cross-border parcel delivery services applicable on 1 January 2019 and obtained in accordance with Article 5 of the Regulation. On 10 May 2019 the European Commission flagged to ComReg eleven tariffs for seven of An Post's products as being in the top quartile (top 25%) of tariffs, as identified via their pre-assessment filter mechanism. These tariffs were corrected according to purchasing-power parities, as laid down by Eurostat to achieve a true and fair comparison of the applicable tariffs across Europe

4: Having objectively assessed, in accordance with the principles in Article 12 of Directive 97/67/EC, the cross-border tariffs of An Post (as the PDSP that originates in Ireland and that is subject to a universal service obligation) that ComReg considered objectively necessary to assess and having taken into account the elements specified in Article 6 of the Regulation, ComReg has not identified any such tariffs that that it considers to be "unreasonably high".

[1] Article 12 of Directive 97/67/EC published at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31997L0067&from=EN

[2] Article 6 of Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services ("the Regulation") published at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R0644&rid=1

2: Information gathering

5: On 5 April 2019 the European Commission published the public lists of relevant tariffs for cross-border parcel delivery services applicable on 1 January 2019 and obtained in accordance with Article 5 of the Regulation. On 10 May 2019 the European Commission flagged to ComReg eleven tariffs for seven of An Post's products as being in the top quartile (top 25%) of tariffs, as identified via their pre-assessment filter mechanism. This is illustrated in Figure 1. These tariffs were corrected according to purchasing-power parities, as laid down by Eurostat to achieve a true and fair comparison of the applicable tariffs across Europe[3].

Figure 1

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6: On 16 May 2019[4] ComReg wrote to An Post asking for information from An Post that justified, in detail, why each of the flagged tariffs should not be considered *"unreasonably high"*. ComReg advised An Post that it needed this information in order to carry out an objective assessment of these tariffs, pursuant to Article 6 of the Regulation. ComReg also required An Post to provide information to demonstrate how each of these flagged tariffs met the obligation to uphold the principles contained in Article 12 of Directive 97/67/EC i.e. that tariffs must be cost-orientated, affordable, transparent and non-discriminatory.

7: On 14 June 2019 An Post responded to ComReg's letter of 16 May 2019. In addition to a detailed response, An Post noted the following:

a. ✂;
b. *"[An Post's] prices, across the referenced products, are cost-oriented and reflect [their] commitment to the principles set out in Article 12 of Directive 97/67/EC throughout [their] operations";*
c. *"the prices charged by An Post are comparable to those charged by [their] competitors".*

8: An Post also noted, amongst other things, the following:

a. *"An analysis conducted by An Post of the public tariffs (not adjusted for PPP) on cross- border parcel delivery services published by the European Commission, across the seven referenced products, has suggested that, for shipments by all operators who reported prices to EU destinations, that An Post's tariffs sit within the top quartile for only one product (a 5 kg (domestic and intra Union) standard parcel), of the seven flagged within your letter of 16 May 2019. These data are (sic) supplied at Annex A to this correspondence"*
b. An Post noted that the analysis should be conducted using comparable parcel delivery services and indicated that it considered the following two comparators to be relevant *"other operators taking parcels from Ireland to other EU destinations*

[3] This correction was noted in the '*Communication from the Commission on guidelines to national regulatory authorities on the transparency and assessment of cross-border parcel tariffs pursuant to Regulation (EU) 2018/644 and Commission Implementing Regulation (EU) 2018/1263' (*COM (2018) 338 final)

[4] This letter and all subsequent correspondence referenced is attached at Appendix 1.

(including Northern Ireland and the rest of the UK)"; and *"operators taking parcels from other EU countries (including Northern Ireland and the rest of the UK) to the Republic of Ireland".* According to An Post's analysis on this basis, An Post ranks as follows as compared with other Irish PDSPs: ✂.

c. An Post indicated that "✂".[5]

d. An Post addressed the transparency and non-discriminatory requirements of section 28(1)(d) of the Communications Regulation (Postal Services) Act 2011 as follows:
   - Transparency: An Post has three different levels for prices for other Member States. An Post stated that it considered that pricing by country to reflect the exact cost for each location would reduce transparency for end-users; and
   - Non-discrimination: *"An Post applies these prices for USO parcels no matter where in Ireland they are deposited into the network, and no matter which of the countries in the Zone is the relevant end destination. Therefore these prices charged must consider not only the average cost allocation across the zone, but also the incremental cost to the most expensive country in each band (to avoid loss-making arbitrage)."*

9: On 19 June 2019 ComReg wrote to An Post, included a table based on the information provided by An Post showing the respective costs and profit/loss for each of the flagged eleven tariffs and sought further information in relation to these tariffs. On 26 June 2019 An Post responded and in its response provided further details relating to internal and external costs of products for the purpose of this assessment.

[5] Audited Regulatory Accounts 2018 (summary version) published at https://www.anpost.com/AnPost/media/PDFs/Regulatory%20Reports/Regulatory-Reports-2018.pdf. Note at page 12 the statement that "*Outbound International Parcels: During 2018, while reviewing the data sources for the calculation of Outbound International Parcel volumes, it was decided to use data available from the UPU and the IPC of items scanned as delivered in foreign destinations. This is a more accurate source compared to the previous source (operational data) and this data was used in the completion of the 2018 Regulatory Financial Statements. In order to ensure appropriate comparability, the prior year figures have been restated to reflect this improved methodology. The impact on the 2017 Regulatory Financial Statements is a reduction of €9.5m in the stamped and metered revenue categorised as relating to Outbound International Parcels and reduction of 0.19m in the volume of items recognised in this category. This results in a €7.9m reduction in the profits recognised as arising from USO International Outbound Parcel Services.*"

3: Assessment

10: In conducting its assessment ComReg took into account the following:

a. The relevant provisions of the Regulation (in particular, the elements specified in Article 6(2));
b. The *'Communication from the Commission on guidelines to national regulatory authorities on the transparency and assessment of cross-border parcel tariffs pursuant to Regulation (EU) 2018/644 and Commission Implementing Regulation (EU) 2018/1263'* (COM (2018) 338 final); and
c. The relevant provisions of Directive 97/67/EC (in particular, the principles in Article 12 thereof).

11: ComReg relied upon the following information as part of its assessment;

a. An Post's audited Regulatory Accounts[6] for 2017 and 2018; and
b. Information and data provided by An Post in correspondence dated 14 June 2019 and 26 June 2019.

12: Using and relying upon the information provided by An Post, ComReg compiled the following table (Figure 2) which shows the respective costs and profit/loss for each of the eleven flagged tariffs, which are those it objectively considered necessary to assess:

Figure 2

✂

Figure 2 demonstrates that ✂ of the products flagged across Zones 2 and 3 are reporting profits, ✂ of which have profit margins which could be considered high i.e.:

✂

13: As part of its assessment, ComReg particularly took into account the following:

a. **Intra Union tariffs** - Intra Union tariffs for comparable parcel delivery services across all Member States and the tariffs of the comparable parcel delivery services in Ireland, which ComReg has reviewed. In particular, ComReg's review utilised the information in Table 1 and the information provided by An Post in its correspondence of 14 June 2019 and 26 June 2019. ComReg concluded that the tariffs being assessed compared favourably with comparable parcel delivery services both domestic and cross-border, especially when it is taken into account that Ireland is a small island on the periphery of Europe and a different cost structure applies in transporting parcels to and from it. Such high transportation costs are reflected in the information provided by An Post, which shows that transportation amounts to be on average ✂% of costs in Zone 2 and Zone 3 for

[6] Which An Post, as universal postal service provider, is required to provide to ComReg pursuant to a direction issued by ComReg pursuant to section 31 of the Communications Regulation (Postal Services) Act 2011. Public summary Regulatory Accounts are published at https://www.anpost.com/About/Reports

standard parcel and track and trace parcels, while for track and trace letters in the same zones transportation costs represents only ✂% of costs. ComReg notes that it does not have the remit or ability to assess transportation costs of other PDSPs within Ireland, or of PDSPs in other Member States. On the basis of the knowledge it has, ComReg considers that there are no substantive differences between An Post's tariffs and those of competitors. (Article 6(2)(a) of the Regulation).

b. **Uniform zonal tariffs** - The application by An Post of a uniform zonal tariff where per zone prices factor in average cost allocation across each zone and the incremental cost to the most expensive country is absorbed in each price band. ComReg considers that the application of a zonal uniform tariff simplifies the pricing structure to the benefit of postal service users (Article 6(2)(b) of the Regulation).

c. **International outbound parcels** - Its review of costs and volumes for international outbound parcels as per An Post's audited Regulatory Accounts and its review of specific costs such as transportation costs and handling costs which were provided for by An Post. ComReg investigated these costs as a percentage of overall external costs and cross referenced them with the figures for outbound international parcels in An Post's audited 2018 Regulatory Accounts (internal costs included in direct and indirect costs with external costs, with external cost specifically outlining the marginal costs breakdown for outbound mails) which record the loss making position of cross-border outbound parcels. An analysis of actual costs for each of the flagged tariffs demonstrates that all but ✂ of the products report losses, and these ✂ products showing a profit had a profit margin that could be considered high.

d. **Transport / Manual handling / Terminal dues costs** - ComReg notes the following in relation to costs and considers that these costs were fair and reasonable (Article 6(2)(c) of the Regulation):
   - An Post's position that the transport cost out of Ireland is a *"significant proportion"* of cost for outbound international universal service parcels. As noted above, c.✂% of An Post's overall cost per product relates to transportation and this is likely to be mainly made up of air conveyance costs as Ireland is an island on the edge of Europe;
   - ✂*; and*
   - In relation to other costs, terminal dues rates were provided by An Post to ComReg at product level per zone i.e. direct cost payable to relevant postal authority for delivery within destination country. An Post advised that these costs were captured in *"preparation and delivery"* with other costs also allocated under that heading.

e. **No restrictions on place of deposit** - An Post operates a zonal tariff pricing mechanism rather than pricing per Member State. An Post notes there are no restrictions on place of deposit in network across Ireland relating to the end destination of the parcel to be delivered. The impact of this is to benefit users (in particular those situated in remote or sparsely populated areas and individual users with disabilities or with reduced mobility) and does not appear to impose a disproportionate burden (Article 6(2)(d) of the Regulation).

f. **Tariffs subject to price regulation** - That tariffs are subject to a specific price regulation under national legislation i.e. section 28 of the Communications Regulation (Postal Services) Act 2011 (which transposes Article 12 of Postal Services Directive) which amongst other things stipulates that tariffs for a postal service provided by An Post as universal postal service provider must be affordable, cost-orientated, transparent and non-discriminatory. ComReg conducts ongoing monitoring of An Post's compliance with section 28, in particular using the audited Regulatory Accounts which report losses on the provision of outbound parcels for the universal postal service. ComReg has not obtained any information in the process of tariff regulation which would indicate that any of the tariffs are unreasonably high (Article 6(3)(a) of the Regulation).

4: Conclusion

14: Having objectively assessed, in accordance with the principles in Article 12 of Directive 97/67/EC, the cross-border tariffs of An Post (as the PDSP that originates in Ireland and that is subject to a universal service obligation) that ComReg considers objectively necessary to assess and having taken into account the elements specified in Article 6 of the Regulation, ComReg has not identified any such tariffs that that it considers to be “unreasonably high”.

5: Legal Basis

15: ComReg is required to identify the cross-border single-piece parcel tariffs of the parcel delivery service provider that originates in Ireland and that are subject to a universal service obligation that it objectively considers necessary to assess. ComReg is then required to objectively assess, in accordance with the principles in Article 12 of Directive 97/67/EC, those tariffs identified in order to identify those tariffs that it considers to be “unreasonably high”. These obligations are imposed by Article 6 of Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services.

Appendix 1: Correspondence (non-confidential)

An Coimisiún um **Rialáil Cumarsáide**
Commission for **Communications Regulation**

16 May 2019

Damian Quinn
Head of Regulatory Affairs
An Post
G.P.O.
Management Suite
O'Connell Street
Dublin 1, D01 F5P2

Ref: Regulation of the European Parliament and of the Council on cross-border parcel delivery services – assessment of cross-border single-piece parcel tariffs

Dear Damian

Under the Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services[1] ("the Regulation"), there was an obligation on certain "parcel delivery service providers" to provide certain tariff information to the Commission for Communications Regulation ("ComReg") by 28 February 2019. This tariff information in turn was passed onto the European Commission. On 26 February 2019, An Post submitted its tariffs applicable at 1 January 2019 to comply with the Regulation.

Further to this tariff information being submitted to the European Commission, the European Commission has flagged eleven tariffs for seven of An Post's products as being in the top quartile of tariffs, see below:

✂

In order to carry out an objective assessment of these tariffs pursuant to Article 6 of the Regulation, ComReg requires information from An Post that justifies, in detail, why each of these eleven product tariffs should not be considered unreasonably high.

An Post is also required to provide information to demonstrate how each of these tariffs meet the obligation to uphold the principles contained in Article 12 of Directive 97/67/EC i.e tariffs must be cost-orientated, affordable, transparent and non-discriminatory.

This information request includes, but is not limited to, detailed information on transportation costs, handling costs and other costs such as terminal dues i.e.

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018R0644

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required to provide the specifc terminal rates and calculation in question for each tariff under assessment. Supporting data and calculations should be provided to explain respecitve tariffs and costs per product flagged.

An Post is further requested to explain, in the context of An Post's audited Regulatory Accounts 2017 recording a 42% profit margin for International Outbound Parcels, how An Post considers that the each of the flagged tariffs are not unreasonably high. An Post should also refer to the International Outbound Parcels profit recorded in the audited Regulatory Accounts 2018, when available at the end of May 2019.

Please note that this correspondence, and An Post's response will be submitted to the European Commission. Please further note that the correspondence on this matter will form part of ComReg's assessment under Article 6 and will be provided to the European Commission. A non-confidetal version of this assessment will be published by the European Commission and ComReg; therefore, please clearly note in your response what information An Post considers to be confidential.

As ComReg is required to submit its assessment to the European Commision by 30 June 2019, An Post is requested to provide the above information and any additional information An Post wishes to provide as it becomes available and by 12 June 2019, at the latest.

Yours sincerely

Stephen Brogan

Senior Manager, Postal Regulation

Please note that this information supplied by An Post to you contains commercially sensitive information consisting of financial, commercial, technical or other information whose disclosure to a third party could result in financial loss to An Post, or would prejudice the competitive position of An Post in the conduct of its business, or would otherwise prejudice the conduct or outcome of contractual or other negotiations to which An Post is a party. Accordingly, you are required to contact a member of the An Post Regulatory Department where there is a request by any party pursuant to the provisions of the Freedom of Information Act 2014 or any other legislative act to have access to records held by ComReg which may contain any of the information herein, and not to furnish any information without prior written permission from An Post.

Stephen Brogan
Senior Manager, Postal Regulation Policy
Commission for Communications Regulation
One Dockland Central
Guild Street, Dublin 1
Ireland
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14 June 2019

Reference: Regulation of the European Parliament and of the Council on cross-border parcel delivery services – assessment of cross-border single-piece parcel tariffs

Dear Stephen,

I refer to your letter of 16 May 2019, in which you state that the European Commission has flagged eleven tariffs for seven of An Post's products as being in the top quartile of tariffs in the EU.

Notwithstanding the detail set out below, in response An Post wishes to note:

- ✂
- the company's prices, across the referenced products, are cost-oriented and reflect our commitment to the principles set out in Article 12 of Directive 97/67/EC throughout our operations; and
- the prices charged by An Post are comparable to those charged by our competitors.

I note that your letter requests provision of:

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1. information from An Post that justifies, in detail, why each of these eleven product tariffs should not be considered unreasonably high;
2. information to demonstrate how each of these tariffs meet the obligation to uphold the principles contained in Article 12 of the Directive 97/67/EC, i.e. tariffs must be cost-oriented, affordable, transparent and non-discriminatory;
3. supporting data and calculations to explain respective tariffs and costs per product flagged;
4. detailed information on transportation costs, handling costs and other costs such as terminal dues, i.e. required to provide specific terminal rates and calculation in question for each tariff under assessment; and
5. an explanation, in the context of An Post's audited Regulatory Accounts 2017 recording a 42% profit margin for International Outbound Parcels, how An Post considers that each of the flagged tariffs are not unreasonably high.

I acknowledge ComReg's requirement, pursuant to Article 6(2) Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services ("the Regulation"), to objectively assess, in accordance with the principles in Article 12 of Directive 97/67/EC, the cross-border tariffs identified in the Regulation's Annex in order to identify those cross-border tariffs that it considers to be unreasonably high.

I note that Article 6(2) of the Regulation requires ComReg to have particular regard to the following elements in making this assessment:

a) *the domestic and any other relevant tariffs of the comparable parcel delivery services in the originating Member State and in the destination Member State;*
b) *any application of a uniform tariff to two or more Member States;*
c) *bilateral volumes, specific transportation or handling costs, other relevant costs and service quality standards; and*
d) *the likely impact of the applicable cross-border tariffs on individual and small and medium-sized enterprise users including those situated in remote or sparsely populated areas, and on individual users with disabilities or with reduced mobility, where possible without imposing a disproportionate burden.*

Please note that this information supplied by An Post to you contains commercially sensitive information consisting of financial, commercial, technical or other information whose disclosure to a third party could result in financial loss to An Post, or would prejudice the competitive position of An Post in the conduct of its business, or would otherwise prejudice the conduct or outcome of contractual or other negotiations to which An Post is a party. Accordingly, you are required to contact a member of the An Post Regulatory Department where there is a request by any party pursuant to the provisions of the Freedom of Information Act 2014 or any other legislative act to have access to records held by ComReg which may contain any of the information herein, and not to furnish any information without prior written permission from An Post.

In making this response, I am cognisant of the European Commission's associated Communication on guidelines to national regulatory authorities on the transparency and assessment of cross-border parcel tariffs pursuant to Regulation (EU) 2018/644, which details guidance on the methodology to be used for the assessment of the cross-border single-piece tariffs (Article 6(2) and 6(3)) (COM(2018) 838 final).

In addition, I am conscious of the application of the Communications Regulation (Postal Services) Act, 2011, which transposes the principles set out at Article 12 of Directive 97/67/EC into Irish law. Section 28(1) of the 2011 provides that:

> *The tariffs for each postal service or part of a postal service provided by a universal postal service provider in the provision of a universal postal service shall comply with the following requirements:*
>
> a) *prices shall be affordable and be such that all postal service users may avail of the services provided;*
> b) *prices shall be cost-oriented, that is to say, the prices shall take account of, and reflect the costs of, providing the postal service or part of the postal service concerned;*
> c) *subject to any decision made by the Commission under paragraph (b) of subsection (2), prices shall comply with the uniform tariff referred to in that subsection;*
> d) *tariffs shall be transparent and non-discriminatory; and*
> e) *where postal service providers apply special tariffs, including special tariffs for postal services for businesses, bulk mailers or consolidators of mail from different postal service users, tariffs and associated conditions shall be transparent and non-discriminatory.*

This response is therefore made with reference to the above legal provisions, and relevant guidelines, governing the tariffs on cross-border parcels.

Please note that this information supplied by An Post to you contains commercially sensitive information consisting of financial, commercial, technical or other information whose disclosure to a third party could result in financial loss to An Post, or would prejudice the competitive position of An Post in the conduct of its business, or would otherwise prejudice the conduct or outcome of contractual or other negotiations to which An Post is a party. Accordingly, you are required to contact a member of the An Post Regulatory Department where there is a request by any party pursuant to the provisions of the Freedom of Information Act 2014 or any other legislative act to have access to records held by ComReg which may contain any of the information herein, and not to furnish any information without prior written permission from An Post.

1. Assessment of Cross-Border Single-Piece Parcel Tariffs

In your correspondence, you have stated that in order to carry out an objective assessment of these tariffs pursuant to Article 6 of the Regulation, ComReg requires information from An Post that justifies, in detail, why each of these eleven product tariffs should not be considered unreasonably high.

We will demonstrate below that we consider the tariffs to be largely cost-oriented. We continually review our prices in the light of market and other information, and we note the fact that while the prices provided were correct as at 1 January 2019, some prices have reduced or changed in the interim and a further review of domestic and international outgoing parcel prices is currently in progress.

It is not immediately evident, which method of calculation was used to determine that An Post's tariffs for a number of products sit within the top quartile of tariffs for such products.

An analysis conducted by An Post of the public tariffs (not adjusted for PPP) on cross-border parcel delivery services published by the European Commission, across the seven referenced products, has suggested that, for shipments by all operators who reported prices to EU destinations, that An Post's tariffs sit within the top quartile for only one product (a 5 kg (domestic and intra Union) standard parcel), of the seven flagged within your letter of 16 May 2019. These data are supplied at Annex A to this correspondence.

We would be interested in further exploring why a discrepancy of this nature exists in the comparative analysis on tariffs provided in your letter, and that which has been completed by An Post.

We note that the analysis should be conducted using comparable parcel delivery services. We consider two important types of comparator are relevant: 1) other operators taking parcels from Ireland to other EU destinations (including Northern Ireland and the rest of the UK), and 2) operators taking parcels from other EU countries (including Northern Ireland and the rest of the UK) to the Republic of Ireland. A comparison document showing An Post and competitor pricing in this regard is provided as an annex to this correspondence (Annex B).

Given the differing costs that might arise in transporting parcels to and from a small island on the periphery of Europe across the continent, it could be argued that a parcel service between two large adjacent countries in the centre of the continent does not represent a fair comparator.

Nevertheless, independent of the relative position of the referenced cross-border tariffs, An Post is satisfied that its tariffs are not unreasonably high, and that they adhere to the principles outlined in Article 12 of Directive 97/67/EC.

We also note that prices for parcels to other EU countries are only one element of a much larger schedule of tariffs. ✂

Significant changes in the mix of mail and overall volume declines makes it difficult to ensure every product contributes its fair share of revenue, but An Post is committed to continually improving the level of cost orientation.

✂

✂ Two key components of the costs in this regard are the transport cost out of Ireland, and the payment to postal operators in the other country. Both of these components are a significant proportion of the total costs, are outside of An Post's control and, despite the best efforts of the company, are increasing.

International outbound parcels

We note the requirement at 28(1) (d) that tariffs should be transparent and non-discriminatory. We address this point for outbound international parcels in two ways:

a) *Transparency*

Please note that this information supplied by An Post to you contains commercially sensitive information consisting of financial, commercial, technical or other information whose disclosure to a third party could result in financial loss to An Post, or would prejudice the competitive position of An Post in the conduct of its business, or would otherwise prejudice the conduct or outcome of contractual or other negotiations to which An Post is a party. Accordingly, you are required to contact a member of the An Post Regulatory Department where there is a request by any party pursuant to the provisions of the Freedom of Information Act 2014 or any other legislative act to have access to records held by ComReg which may contain any of the information herein, and not to furnish any information without prior written permission from An Post.

An Post has three different levels for prices to other EU member states:

- Zone 1 to Northern Ireland – matched to Domestic rates;
- Zone 2 to UK excluding Northern Ireland (✂);
- Zone 3 Europe (including EU and certain non-EU areas of Europe for transparency, as different rates for parcels to Norway, Switzerland etc. would be complex to administer and would reduce transparency for end users); and
- An Post also has a set of prices for all remaining countries, which we group into Zone 4.

We consider that pricing by country to reflect the exact cost for each location would reduce transparency for end-users.

b) Non-discrimination

An Post applies these prices for USO parcels no matter where in Ireland they are deposited into the network, and no matter which of the countries in the Zone is the relevant end destination. Therefore, these prices charged must consider not only the average cost allocation across the zone, but also the incremental cost to the most expensive country in each band (to avoid loss-making arbitrage).

An Post has provided, in the attached annex (Annex C), detailed information outlining its relevant costs for the eleven flagged tariffs. The information contained in Annex C and the below tables is commercially sensitive and should therefore be considered confidential. This material should be redacted in any publication of this correspondence.

Furthermore, I draw your attention to section 28(1)(b) of the Communications Regulations (Postal Services) Act, 2011, which requires that

> *"prices shall be cost-oriented, that is to say, the prices shall take account of, and reflect the costs of, providing the postal service or part of the postal service concerned."*

Therefore, the principle of cost-orientation does not require the application of coequal profit margins across all products, but rather that prices reflect the costs of providing the postal service or part of the postal service.

For a range of reasons, including the variation in transportation networks and delivery systems, and price and cost averaging across the range of postal products offered by An Post, variation will exist in the level of profit margin achieved throughout those products. The inclusion of these costs are permitted under COM(2018) 838 final.

✂

✂	✂	✂	✂
✂	✂	✂	✂
✂	✂	✂	✂
✂	✂	✂	✂

2. Profitability of International Outbound Parcels Products Indicated in An Post's Regulatory Accounts 2017

Your letter of 16 May also sought an explanation, in the context of An Post's audited Regulatory Accounts 2017 recording a 42% profit margin for International Outbound Parcels, how An Post considers that each of the flagged tariffs are not unreasonably high.

✂

✂ we have undertaken some analysis of the position for each zone, and the structure of the cost (e.g. per item charges and per additional kilogram of weight costs).

Zonal Analysis of International Outbound Parcels

We have constructed a simplified cost model which uses overall 2018 volumes, current (June 2018) terminal dues and transport costs, and allocations based on 2018 RFS for other costs. It should be noted that the costs may vary significantly between countries within individual postal zones.

This simplified model suggests the following:

- Zone 1 international outbound parcels are ✂;
- Zone 2 international outbound parcels are ✂.
- Zone 3 parcels appear to be ✂; and
- Zone 4 parcels are ✂.

✂

✂		✂	✂	✂	✂	
	✂	✂	✂	✂	✂	✂
✂	✂	✂	✂	✂	✂	✂
✂	✂	✂	✂	✂	✂	✂
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✂	✂	✂	✂	✂	✂	✂

✂ This summary should be regarded as indicative, rather than robust audited accounting data.

These data do clearly suggest that overall profit on outbound international parcels needs to be improved by a combination of cost control, improved efficiency and revised prices. The numbers also indicate that any reduction in parcel prices may need to be funded by clear cost reductions or significant price rebalancing – i.e. any reduction may need offsetting increases on other destinations.

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Structural Cost Analysis

As can be seen from the accompanying material, the cost of outbound international parcels may consist of per item costs, and per kilogram costs. The balance of these costs can differ by country and may change over time.

An Post currently has a complex range of weight bands and dimensional rules for packets and parcels. There is some evidence that the prices are not aligned exactly with cost, but there is also a requirement from users for simpler price structures.

This is clear from the price structures of competitor parcel providers in Ireland, which typically have fewer weight and size bands. As previously advised to ComReg, we are investigating ways to simplify the price structure for parcels which would improve transparency while maintaining overall cost orientation and ensuring compliance with the Section 28 tariff requirements in general.

Please note that the cost model using simple per item allocations is designed primarily to identify which zones might need overall prices to be increased or decreased. The profit or loss by weight step may be materially different if more costs are allocated on a weight or revenue basis.

I trust the content of this letter satisfactorily addresses your queries. I remain available to provide further information pertaining to this issue.

Yours sincerely,

Damian Quinn
Head of Regulatory Affairs

An Coimisiún um
Rialáil Cumarsáide
Commission for
Communications Regulation

19 June 2019

Damian Quinn
Head of Regulatory Affairs
An Post
G.P.O.
Management Suite
O'Connell Street
Dublin 1, D01 F5P2

Ref: Regulation of the European Parliament and of the Council on cross-border parcel delivery services – assessment of cross-border single-piece parcel tariffs

Dear Damian,

I refer to An Post's submission of 14 June 2019 in response to my correspondence of 16 May 2019.

Based on An Post's submission, we have created the following table showing the respective costs and profit/loss for each of the flagged eleven tariffs.

✂

With regard to the above:

1. Please confirm that the table above is correct based on An Post's submission. Please advise of any corrections required.

2. Please advise what Internal Costs are and provide more detail on the cost components.

3. Please advise why Internal Costs are the same for standard parcel and track and trace parcel.

4. Please advise if standard parcels and track and trace parcels are processed the same by An Post. If such parcels are processed differently by An Post, please advise why the internal costs are the same.

5. For each of the ✂ tariffs reporting a profit, please advise for each why An Post considers the tariff not to be unreasonably high.

As noted in my correspondence of 16 May 2019, this correspondence and An Post's response will be submitted to the European Commission. Please further note that the correspondence on this matter will form part of ComReg's assessment under Article 6 and will be provided to the European Commission.

As ComReg is required to submit its assessment to the European Commision by 30 June 2019, An Post is requested to provide the above information by 26 June 2019, at the latest.

Yours sincerely

Stephen Brogan

Senior Manager, Postal Regulation

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Stephen Brogan
Senior Manager, Postal Regulation Policy
Commission for Communications Regulation
One Dockland Central
Guild Street, Dublin 1
Ireland
D01 E4X0

26 June 2019

Reference: Regulation of the European Parliament and of the Council on cross-border parcel delivery services – assessment of cross-border single-piece parcel tariffs

Dear Stephen,

It should be noted by ComReg that a full P&L for the Outbound international segment is included in the Regulatory Accounts (Regulatory Financial Statements - RFS) provided to ComReg, in line with the Accounting Direction, and any additional information submitted by An Post is unaudited and only provided in an attempt to address ComReg's questions. Although the additional information provided includes estimates at a greater level of detail than the RFS it does not change the RFS and the aggregated P&L for this segment.

With reference to your letter of 19 June 2019, please find An Post's response to the queries raised, in turn.

Query 1: Please confirm that the table [in ComReg letter of 19 June 2019] is correct based on An Post's submission. Please advise of any corrections required.

We note that the table is materially correct, with the following exception: the 500g (domestic and intra Union) track and trace letter is accounted for by An Post as an 'Outbound Registered Item', rather than an 'Outbound International Parcel', and therefore attracts the costs associated with these items in the Regulatory Accounts. This is detailed in **Table 1** below.

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Query 2: Please advise what Internal Costs are and provide more detail on the cost components.

"Internal Costs" is the term used by An Post in responding to ComReg's letter of 16 May 2019 and your request to provide details on Transport and Terminal Dues costs. Our response provided details on the specific Transport and Terminal Dues costs and all other costs were considered "Internal Costs" for the purpose of the response provided to ComReg on 14 June 2019.

The figure of ✂ shown for Internal Cost is the average cost recorded for an International Outbound item in the Regulatory Accounts minus those "external costs" payable to third parties, such as line-haul transport fees and terminal dues. Internal Costs include substantial overheads, direct and indirect costs.

As such the Internal Cost is a measure of the average cost per item and does not reflect the actual cost for any single item/weight/service to a specific destination. As mentioned in our response, it is 'indicative rather than robust audited accounting data.' It should also be noted that the average internal cost estimate applies to all zones as per the Regulatory Accounts and the Accounting Direction breakdown for the Outbound International segment in total.

Under the Accounting Directions, overheads and indirect costs are in fact allocated on an 'equivalent volumes' basis in the Regulatory Accounts, taking account of the fact that some products e.g. heavier parcels, are associated with higher costs.

The Regulatory Accounts provides a total cost split by each activity that drives cost in a product segment. ✂.

This methodology is used in **Table 1** to calculate a total cost per item associated with each product identified in your letter, along with a cost split. Profitability reflects the overall profitability of the segment to An Post.

Query 3: Please advise why Internal Costs are the same for standard parcel and track and trace parcel.

As explained above, the Internal Costs provided were an indicative measure of the average cost per item in the total Outbound International Parcels segment, minus the “external costs”, i.e. Transport and Terminal Dues. It should be again noted that only the Transport and Terminal Dues costs vary by destination and the estimated internal costs therefore do not vary by zone.

As Track and Trace (Registered) and Standard International Parcels are in the same ‘Outbound International’ segment of the Regulatory Accounts, this simplified calculation resulted in the same Internal Cost figure being applied to both products.

Table 1 below provides an estimated high level split reflecting the different cost allocation associated with each product for zones 2 and 3. It should also be noted that traffic to Northern Ireland is included in the Outbound International segment P&L but not shown separately below.

✂

Query 4: Please advise if standard parcels and track and trace parcels are processed the same by An Post. If such parcels are processed differently by An Post, please advise why the internal costs are the same.

Track and Trace (Registered) and Standard International Parcels are very different products. Our Track and Trace (Registered) Parcel offers significantly more value to the customer as they receive worldwide proof-of-delivery and online tracking. This service is not available to customers opting to use the Standard product. All barcoded and tracked items are handled/processed in a similar manner by An Post before leaving Ireland. The handling and processing of these items by other operators in the country of destination may vary but this is at the discretion of the operator. Delivery charges in the country of destination, e.g. Terminal Dues also differ by service.

Query 5: For each of the 5 tariffs reporting a profit, please advise for each why An Post considers the tariff not to be unreasonably high.

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We note that An Post provides 27 weight bands for International Parcels. We further note that the table in your letter of 19 June 2019 selects specific weight bands within specific parcel products for assessment. In our view, it is not meaningful to expect every weight band to have an identical profit margin, as costs shift over time and prices must reflect customer needs.

As noted previously, Internal Costs are provided on an 'averaged' basis only across all services, for traffic to all countries/zones. Given the high level of overhead and fixed costs carried by An Post, in the provision of the universal service, allocation of these costs on a different basis would significantly affect the profitability of each product.

✂

According to our analysis of the price comparison performed by the European Commission, of the three Irish operators profiled, An Post is not the most expensive domestic provider for any of these products. This is further evidence that An Post's tariffs are not unreasonably high.

In addition, despite Eurostat identifying Ireland as a relatively high cost country[1] and the logistical implications of our geographic position, we further note that only one of our products appears in the top quintile for European operators.

That said, An Post is committed to constantly reviewing and changing our Parcel pricing structure to better serve the needs of our customers. We operate in a highly competitive and active market. You can see in **Table 2** that our most recent price changes in this segment were positive for the customer. We will continue to improve our Customer focused Parcel offering in terms of price, simplicity and service- especially as we move to grow our online presence in this area.

[1] https://ec.europa.eu/eurostat/web/purchasing-power-parities/data/main-tables

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TABLE 2- Price Changes in 2019

	TO ZONE 2 (UK)	**TO ZONE 3 (EUROPE)**
a 500 g (domestic and intra Union) track and trace letter	✂	✂
a 1 kg (domestic and intra Union) standard parcel	✂	✂
a 2 kg (domestic and intra Union) standard parcel	✂	✂
a 5 kg (domestic and intra Union) standard parcel	✂	✂
a 1 kg (domestic and intra Union) track and trace parcel	✂	✂
a 2 kg (domestic and intra Union) track and trace parcel	✂	✂
a 5 kg (domestic and intra Union) track and trace parcel	✂	✂

I trust the above response addresses the five questions raised in your letter of 19 June 2019.

In our response of 14 June 2019 An Post raised some queries in relation to the basis used to determine that An Post's tariffs for a number of products sit within the top quartile of tariffs for such products. I would appreciate it if ComReg could engage with the European Commission and provide details of the basis used. It would also be useful if ComReg could confirm if the tariffs used were adjusted for Purchasing Power Parity (PPP) before the comparison and rankings were carried out.

Yours sincerely,

Damian Quinn
Head of Regulatory Affairs