

Review of the Postal Tariff Mechanism:

Safeguarding the Sustainability of the Universal Postal Service

Report on Consultation and Decision Notice

MCA Reference: MCA/D/24-5393

Publication Date: 30th August 2024

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1 Summary

On 12th July 2024, the Malta Communications Authority (hereafter 'MCA') published a consultation on the proposed review of the postal tariff mechanism to safeguard the sustainability of the universal postal service (hereafter the 'universal service').

MaltaPost plc (hereafter 'MaltaPost') provides customers with various services nationwide in accordance with Maltese Law as part of the universal service. During Financial Year (hereafter 'FY') 2022, MaltaPost faced several challenges in terms of market developments, including the continuation of market trends aggravated by COVID-19, BREXIT, the introduction of VAT for low-value items from non-EU countries, and other global market forces. Apart from postal market dynamics, costs kept increasing both locally and internationally. The aggregate effect of these elements negatively impacted the financial performance of the universal service, which reported a loss of € 0.5 million in FY2022. During FY2023, although MaltaPost managed to mitigate its costs, the financial performance of the universal service fared only slightly better than break-even; hence, sustainability remained volatile.

Apart from taking measures to contain costs, in order to improve sustainability of the universal service, MaltaPost also submitted proposals to review specific postal service characteristics and tariffs. The Authority analysed these proposals, and following public consultation, a decision¹ was published in August 2023. Amendments to the Postal Services Act (Cap 254) are also being considered to enhance flexibility in defining universal service obligations².

Apart enabling MaltaPost to manage its costs to provide the universal service, a comprehensive strategy to support sustainability also requires MaltaPost to be able to revise its tariffs in a manner that addresses ongoing market dynamics and challenges by taking into account volume and cost developments, whilst respecting tariff principles enshrined in legislation.

Hence, a mechanism that automatically caps price increases was developed following discussions between the MCA, MaltaPost and Government. Subsequently the MCA published a consultation inviting stakeholders to provide feedback. The MCA received input from two entities during the public consultation period, which closed on 9th August 2024.

Section 2 of this document describes the mechanism. Section 3 provides an overview of the respondents' main points and the MCA's analysis. Finally, Section 4 lays out the MCA's decision and way forward.

¹<https://www.mca.org.mt/sites/default/files/Providing%20Sustainable%20Universal%20Postal%20Services%20Decision.pdf>

² <https://www.gov.mt/mt/publicconsultation/Pages/2023/L-0020-2023.aspx>

2 Tariff Revision Mechanism

2.1 Current Process

The current process for requests by MaltaPost to change tariffs for services that are part of the universal service is based on case-by-case applications. Any changes in the tariffs of regulated postal services thus require several steps before they are approved. Hence, the current procedure is time-consuming and restricts the opportunity to take proactive measures in step with dynamic market developments.

2.2 Proposed Mechanism

Discussions between MaltaPost, the MCA, and the Government were held to address the shortcomings of the current process. The proposed tariff control procedure is based on developing a mechanism that considers financial performance and market developments to safeguard the sustainability of the universal postal service.

2.2.1 Context of Universal Service Financial Performance

During FY 2022, the universal postal service reported a loss of approximately €500,000. Postal volumes continued decreasing following the impact of Covid-19, Brexit, the introduction of VAT for low-value items from non-EU countries, and further digitalisation of correspondence. At the same time, pressures acting on costs kept increasing locally, such as Cost of Living Allowance (hereafter 'COLA') and inflation, and internationally, such as terminal dues and transport costs.

During FY 2023, although further market challenges came about, MaltaPost managed to mitigate the financial challenges. This resulted in a slightly better performance than break-even for the universal postal service. Although the universal postal service did not remain loss-making, its sustainability remained volatile and subject to developments in market trends and costs, both locally and internationally.

2.2.2 Design and Procedure of the Proposed Mechanism

The ongoing provision of the universal postal service depends on its being financially sustainable in the face of the above-mentioned challenges. Therefore, a mechanism was designed to determine a tariff cap for those postal services provided by MaltaPost that fall within the scope of the Universal Service and are subject to specific criteria as defined in the new mechanism.

The new mechanism follows a process that includes various steps and controls to ensure proper data mapping (further details are given in Annex 1).

Below is an overview of the process:

- The focus of the mechanism is to cap the tariffs of those services that:

- Fall within the scope of the Universal Postal Service;
- Are subject to price regulation;
- Their profitability is lower than a determined return on sales.
- The mechanism is based on the Audited Regulatory Accounts of the previous Financial Year³.
- Apart from the Audited Regulatory Accounts, the mechanism requires further cost-related inputs that MaltaPost needs to populate. The main cost drivers are wages and salaries, terminal dues, conveyance costs, and the inflation rate. These cost aspects are mapped accordingly to the various universal service products and cost elements.
- Based on the inputs and trend analysis, the mechanism estimates the volumes and costs for the following financial year.
- Given the abovementioned criteria, the mechanism will assess the tariff caps for the various identified services to obtain the determined return on sales.
- The mechanism foresees that the tariff caps will be revised every three years³; however, should unforeseen extraordinary circumstances occur during the three-year cycle, the mechanism incorporates two additional triggers: one related to costs and the other related to volumes, which could enable tariffs to be revised during the three-year cycle.
- Once the model is populated and run by MaltaPost, it is submitted to the MCA before MaltaPost implements new rates.

³ The initial run based on FY 2023 audited accounts being adopted in generating the first caps with effect from the coming into force of the mechanism.

3 Report on Consultation and Assessment

3.1 Responses received during Consultation

The MCA received submissions from:

- “*Il-Leñen*”, and
- the Malta Chambers of SMEs.

The MCA wishes to thank these respondents for participating in the consultation process and sending their responses. The following is a summary of the main points that were made in these submissions.

“*Il-Leñen*” focused on the fact that the tariff it pays for posting a newspaper had increased from 18c to 58c in 2023. “*Il-Leñen*” stated that it delivers the newspaper mainly to vulnerable users; hence, a special rate should be introduced to support the delivery of the newspaper to such users. “*Il-Leñen*” also proposed revising the bulk mail rate, stating that a special rate should be considered for entities with significant bulk mail over one year.

The Chamber of SMEs highlighted in its comments the importance of e-commerce and international trade. The following is a summary of the main points made:

- SMEs involved in e-commerce and exporting are sensitive to postal tariff increases. These operators are already facing other challenges, such as global competition, insularity, dependence on third parties for operational efficiency, and small economies of scale, that put pressure on their financial performance and hence postal price increases cause an additional burden.
- The postal service has a social dimension which should be factored. Furthermore, micro-businesses face high costs when sending packages abroad, and other prices of non-regulated services (such as e-commerce pick-ups) have also increased. Thus, a balanced approach that considers affordability and supports internationalisation was encouraged.

As part of the feedback, the Chamber of SMEs also made various recommendations, namely:

- that tariff increases be gradually implemented to allow SMEs to adjust, and to establish tiered tariff structures, especially for high volume SMEs;
- to establish a monitoring exercise that evaluates how tariffs impact the market, and to ensure an ongoing dialogue with all parties, including SMEs; and
- that Government provides financial support to SMEs, particularly those engaged in international trade. Moreover, State Aid to local providers of postal services was suggested.

3.2 MCA analysis and consideration

As per the MCA's 2023 Decision⁴, newspaper post service is no longer separately regulated, implying that MaltaPost is responsible for any tariff revisions (up to the levels charged for ordinary mail). The MCA notes that this decision was taken after MaltaPost had requested that newspaper post be removed from the universal service. The MCA's decision therefore sought to ensure continued availability of the service, while at the same time addressing sustainability for its operations.

Nonetheless, MaltaPost will have the flexibility to offer commercial agreements (including for newspaper post) under the new postal tariff mechanism. Thus, the MCA clarifies that the new mechanism does not prohibit MaltaPost from offering special advantageous rates, e.g. to users requiring assistance, or based on volumes over a certain period of time. MaltaPost may also provide other forms of support to such users.

In relation to any social impact that changes in postal tariffs may have, the MCA has considered that in terms of expenditure on postal services 76% of households spend less than €20 every year on postal services⁵. The MCA also investigated whether the elderly may be subject to a greater impact. However, upon analysing such expenditure in further detail, it resulted that the percentage of respondents aged 65 and over who spend less than €20 every year on postal services increases to 86%, indicating that this demographic segment is even less sensitive to the effect of postal price increases.

The MCA also refers to the results of its business perception survey conducted in 2023 on postal services⁶. In that survey it resulted that 51% of overall business respondents reported spending less than €50 every year on postal services, and that the percentage of such respondents goes up to 70% with an expenditure of less than €250 every year on postal services. 78% of respondents to that survey reported employing up to 9 employees. The MCA had conducted an additional survey amongst larger businesses employing 10 employees or more. Even in that case, 61% of respondents reported spending less than €500 every year on postal services.

Nonetheless, the MCA appreciates that specific businesses, particularly those engaged in e-commerce and international trade, may be more impacted by increases in postal tariffs. In this regard, the MCA reiterates that while the revised model establishes price caps for the various price-regulated postal services, the new mechanism does not prohibit MaltaPost from offering special more advantageous rates based on sender profile or volumes over a certain period of time. The MCA considers that MaltaPost has sufficient incentives to devise and offer

⁴ <https://www.mca.org.mt/consultations-decisions/providing-sustainable-universal-postal-services-report-consultation-and>

⁵ <https://www.mca.org.mt/articles/postal-services-households-perception-survey-2023>

⁶ <https://www.mca.org.mt/articles/2023-mca-business-perception-survey-postal-services>

such arrangements that could very well play an instrumental role in sustaining the financial viability of its services.

In terms of Government assistance to SMEs directly, particularly to those engaged in international trade, and in relation to state aid to local providers of postal services, the MCA notes that these proposals go beyond its regulatory remit. The MCA notes that whilst MaltaPost has declared that it is not seeking state aid⁷, it should not be expected to subsidise certain loss making services. The reviewed price control mechanism is based on the premise that state aid for the fulfilling of the universal service is not provided to MaltaPost. Nonetheless, the MCA remains available to participate and provide its expertise in discussions relating to assistance to stakeholders should this be required.

As part of the ongoing exercise to evaluate continued sustainability, the MCA will also continue monitoring the postal market.

⁷ <https://www.maltapost.com/file.aspx?f=73809>

4 MCA Decision and Way Forward

The MCA considers the universal service's financial sustainability and future viability as important. Hence, based on its analysis and after taking into account the feedback received, the MCA determines as follows:

Decision

The postal tariff mechanism shall come into effect from **1st September 2024** and:

- The first run of the model and any tariff revision is applicable in September 2024.
- During 2025, there will be **no** tariff revisions unless an extraordinary situation results in a revision of tariffs.
- Any subsequent run of the model and tariff revisions will be applicable **during January**.



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