



Registered Mail – MaltaPost plc change in tariffs

Response to Consultation and Decisions

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Table of Contents

Executive Summary	3
1. Background	4
2. MaltaPost's Request	5
3. Consultation Feedback and Responses	8
4. MCA Decision and Way Forward	11



Executive Summary

In April 2018, MaltaPost plc (hereafter 'MaltaPost') wrote to the Malta Communications Authority (hereafter 'MCA') requesting revisions of the local and outbound registered mail fees.

In its proposal, MaltaPost requested a number of revisions to the registration and the advice of delivery fees over the coming three to four years. The reasons given for such requests were that both local and cross-border costs are constantly increasing, while the volumes of traditional mail are constantly decreasing. Hence, MaltaPost submitted that in order to mitigate these aspects and to ensure the continuity of essential services, the company's registered mail fees require an upwards revision. The last revision to registration fees had been carried out in December 2013.

Following several of interactions with MaltaPost that included detailed analyses of cost accounting information, the MCA published a public consultation on 15th October 2018, which was open for feedback until 15th November 2018. This report on consultation and decision now contains a summary of the feedback received and the MCA's final decision.

During the consultation period, the MCA received feedback from stakeholders concerning quality-related factors, the equivalence of automated locker delivery, and how the increase in tariffs impacts certain users.

In view of the fact that the latest Universal Service profitability is reflecting drops, the option to refuse any price increase is financially unsustainable. In order to manage the price increases, the first year tariff revision will be followed by monitoring of the registered mail service performance. The MCA will also separately continue to discuss with MaltaPost the equivalence of optional automated locker delivery¹.

Structure of the Document

The document is structured in four sections:

- Section 1: A background on the registered mail service;
- Section 2: A detailed overview of MaltaPost's request;
- Section 3: The consultation feedback and the MCA response;
- Section 4: The MCA's decision and way forward.

¹ Updated January 2019: The MCA discussed this matter further with MaltaPost and following the feedback obtained, the MCA approved that MaltaPost provides the 'EasyPik' parcel locker collection free of charge instead of a second delivery attempt service, **but this is not applicable** when an 'Advice of Receipt' is required and such mail will remain served by two delivery attempts.



1. Background

MaltaPost's proposal related to the registered mail service, i.e. the service that provides the sender with optional tracking functionality (since it is provided to the sender upon request). This service also guarantees a proof of successful delivery since a signature has to be provided by the recipient once the item is delivered.

MaltaPost is the local designated Universal Service Provider and, as part of the universal service obligations, the operator is required to provide such a nationwide registration service. Changes in the price of registered mail services require the MCA's approval. The registered mail service is provided for domestic mail and for the outbound market. MaltaPost, as part of this service, also offers two additional options to the customers:

1. The first option is the 'advice of delivery' service, whereby the sender receives a copy of the signature of the recipient attesting that the item has been delivered successfully.
2. The second option is 'proof of delivery' whereby the customer subsequently requests that a proof of such delivery is provided.



2. MaltaPost's Request

As mentioned earlier, MaltaPost requested the MCA to approve revisions to the local and outbound registered mail fees. The proposals cover the registration fees as well as the advice of delivery fees. The following sections provide further detail on MaltaPost's request.

Current Situation

MaltaPost indicated that profitability of the Universal Postal Service is constantly decreasing, although currently it is just within the lower range of an acceptable range of return. In addition, MaltaPost indicated that without any price changes, the overall profitability would continue to decrease given ongoing challenges, such as internal and external cost increases as well as volume drops. Registered mail is one of those services that, notwithstanding previously profitable returns, is now incurring ongoing losses, and that as a commercial going concern MaltaPost has to ensure that the services run on a sustainable basis.

The following table shows the current price rates.

Current Fees	Domestic	Outbound
Registration Fee	€0.90*	€3.00
Advice of Delivery	€1.20	€2.00

*With two delivery attempts

Table 1: Current Registered Mail Fees

Until financial year 2016 the profitability of both domestic and outbound segments was generating a contribution to the company (especially the outbound registered mail), but both ended up with loss-making performance during financial year 2017.

As part of its analysis following the submission of MaltaPost's proposal, the MCA engaged with the company and the next sections give additional insights of the registered mail service,



especially in relation to the proposal made and the forces which are influencing the service provided by MaltaPost.

Domestic Registered Mail

As already mentioned earlier, the profitability of the domestic registered mail service has been declining for the past few years, but has now started incurring a loss and, given persistent cost trends, without any intervention this scenario would continue. Those cost increases are originating from the below two main sources:

- Staff costs which are subject to a constant yearly growth;
- Other costs that are influenced by various aspects, especially the inflation rate.

The drop in volumes and the constant cost increases both negatively affect the domestic registered mail service.

MaltaPost proposed the following domestic fee changes:

Domestic Registered Mail Fees	Current Prices	Proposed by MaltaPost		
		Yr 1 (2018)	Yr 2 (2019)	Yr 3 (2022)
Registration Fee	€0.90	€2.00	€2.50	€3.00
Advice of delivery	€1.20	€2.00	€2.50	€3.00

Table 2: Domestic Registered Mail – Current & Proposed Fees

MaltaPost also proposed a reduction to one delivery attempt. During ensuing discussions with MCA, the company stated that it is adding the option for an addressee to retrieve registered articles from the “EasyPik” parcel locker service on a 24/7 basis, free of charge.

Outbound Registered Mail

Similar to the domestic scenario, the ‘Outbound registered mail’ is also experiencing a negative trend, moving from a profitable situation to a loss-making one.



In the case of Outbound Registrations, the decline in profitability is sharper and does not form part of a trend. The principal reason is that, apart from the costs mentioned for the domestic service (staff costs and other costs), the outbound service is affected by international fees, paid by the postal operator in the sender's country to the postal operator in the addressee's country, which are called 'Terminal Dues'.

These costs are incurred by MaltaPost when a letter from Malta is to be delivered abroad, since MaltaPost has to rely on a third party operator's service. These charges are generally calculated on a standard fee, and are established under the auspices of the Universal Postal Union (UPU)². As from 2018, these charges will increase, implying more costs for MaltaPost. The MCA has taken into account that MaltaPost will also be able to charge other foreign operators more under the new arrangements, however this effect will be insufficient to counter the increase in costs that it will face.

On these lines, MaltaPost proposed that the fees for registered cross-border services be revised in order to balance out the cost increases.

Outbound Registered Mail Fees	Current Prices	Proposed by MaltaPost		
		Yr 1 (2018)	Yr 2 (2019)	Yr 3 (2021)
Registration Fee	€3.00	€5.00	€5.50	€6.00
Advice of delivery	€2.00	€2.60	€3.25	€4.00

Table 3: Outbound Registered Mail - Current & Proposed Fees

² The Universal Postal Union (UPU) was established in 1874 by the Treaty of Bern and became a specialized agency of the United Nations (UN) on 1 July 1948. Amongst other functions, the organisation sets the rules for international mail exchanges.



3. Consultation Feedback and Responses

In its Consultation Paper the MCA had identified a number of scenarios;

- **Case 1:** All the registration fees remain as they are.
- **Case 2:** The MCA approves only a subset of MaltaPost's requests.
- **Case 3:** All registration price changes are implemented.

During various communications with MaltaPost, the MCA had undertaken detailed analyses regarding the proposed fee increases, so as to be able to understand further the need for tariff adjustments and the impact that the current situation has on MaltaPost.

MaltaPost maintains an Activity Based Cost-accounting ("ABC") system and also prepares detailed separated accounts for regulatory purposes, which are audited on an annual basis. As mentioned earlier, the current and unfolding financial performance of the registered mail services is not very promising, especially since latest figures confirm a change from their overall profitable scenario to a loss-making one. According to MaltaPost projections also examined by the MCA, without any price adjustments the loss would recur and increase in the coming years. Therefore, not accepting any fee changes would impinge on the bottom line of MaltaPost's performance and on the sustainable provision of the Universal Postal Service in Malta.

When analysing the changes in prices that MaltaPost proposed, the first change is the most significant one, while the other subsequent changes are of relatively lower impact in terms of financial effect. The MCA also evaluated the possible impact that such increases could have on the volume trends apart from the profitability of the service.

Feedback received and responses

The MCA received feedback from a number of stakeholders and the following is an overview of the feedback obtained and the MCA's position. The feedback is classified in three main categories:

- The quality of service that is currently provided;
- The price increase impact;
- The second delivery attempt and optional automated delivery.



The Quality of Service provided

Stakeholders' Feedback

Respondents to the public consultation were of the opinion that MaltaPost is not providing an adequate service and therefore they believe that MaltaPost should first improve the service quality rather than increase the tariffs. They argue that if a good quality of service is provided then an increase in tariffs to sustain the service quality could be justifiable.

MCA's Response and Decision

The MCA took note of the feedback submitted regarding the quality of service. MaltaPost submits periodic quality of service reports on a number of postal services it provides, including for registered mail, indicating whether MaltaPost is keeping its standards for on-time delivery as per MCA's targets. The latest reports indicate that in the case of registered mail, MaltaPost always maintained its performance above the set targets for on-time delivery. The MCA will keep monitoring the quality of service performance and continue to seek improvements when necessary.

The Price increase impact

Stakeholders' Feedback

The second aspect identified by respondents was the impact of the prices on the business sector especially small enterprises since they do not have the financial strength as the big enterprises. The feedback noted that the increase in prices will impact the costs of certain mail-order businesses.

MCA's Response and Decision

MaltaPost proposed increases spanning over a number of years. During the evaluation process, the MCA took into perspective the impact of such increase on MaltaPost volumes performance. The scenario of not implementing any price increase would be financially unsustainable and put in jeopardy the continuing provision of universal services. In order to ensure that prices do not increase any higher than needed, only part of the proposals will be approved, in this case the first tariff increase, with the other increases being subject to further MCA direction. Therefore, MaltaPost will be able to **only implement the first year increase**



applicable as from **1st January 2019**. The MCA will keep monitoring the financial performance of the universal postal services, in particular of the Registered Mail service, and the Authority will subsequently direct MaltaPost whether and when the other increases can be adopted.

Second Delivery attempt and the ‘EasyPik’ parcel locker service

Stakeholder’s Feedback

The third aspect that stakeholders mentioned was on equivalence of the automated ‘EasyPik’ parcel locker service compared to a second delivery attempt. For the Registered Mail service, the customer has the option to opt for an Advice/Proof of Delivery Receipt. In this context MaltaPost currently provides a service that includes two delivery attempts to deliver the registered letter. The Advice/Proof of Delivery Receipt guarantees the customer who sent the letter with a form of evidence on whether and to whom the letter was delivered within those two delivery attempts. According to MaltaPost’s proposal, the second delivery attempt would be substituted with the automated ‘EasyPik’ parcel locker service. The stakeholders raised queries on how such proof of delivery notifications will be maintained and how the customer who sent the registered letter will be informed whether the letter is delivered, collected from the parcel locker, or not collected at all.

MCA’s Response and Decision

The MCA took into account the queries raised regarding the ‘EasyPik’ parcel locker service. The MCA is currently engaged in additional technical interactions with MaltaPost to ensure that the automated ‘EasyPik’ parcel locker system will be equivalent to the Advice of Receipt service. In the interim, MaltaPost will keep the current second delivery attempt service until the MCA deems that the clarifications provided by MaltaPost ensure an equivalence of service. The MCA reserves the right to authorise such a development, accompanied by measures to advertise and provide knowledge to the customers regarding such a change³.

³ Updated January 2019: The MCA discussed this matter further with MaltaPost and following the feedback obtained, the MCA approved that MaltaPost provides the ‘EasyPik’ parcel locker collection free of charge instead of a second delivery attempt service, **but this is not applicable** when an ‘Advice of Receipt’ is required and such mail will remain served by two delivery attempts.



4. MCA Decision and Way Forward

In view of the fact that the profitability of the universal postal service and registered mail services are reflecting drops, the option to refuse any price increase is financially unsustainable. In order to manage the price increases, the first year tariff revision will be followed by monitoring of the registered mail service performance.

Accordingly, in order to safeguard the financial sustainability of the universal postal service and of the registered mail service, the following is the MCA decision regarding the Registered Mail tariff and service review. The MCA will also separately continue discussing with MaltaPost the equivalence of optional automated locker delivery.

MaltaPost may adopt the tariff changes proposed by it for the first year as from 1st January 2019, with the tariffs for local and outbound registered mail found in the following table.

Tariffs to be implemented	Domestic		Outbound	
	Current Prices	Year 1 (2019)	Current Prices	Year 1 (2019)
Registration Fee	€0.90	€2.00	€3.00	€5.00
Advice of Receipt	€1.20	€2.00	€2.00	€2.60

The MCA will keep under review the financial performance of the universal postal service, including the registered mail service, and will direct MaltaPost whether and when it can adopt the other tariff reviews proposed for the subsequent years.

MaltaPost will, for the time being, maintain a second delivery attempt for registered mail services. The MCA reserves the right to authorise the replacement of the second delivery attempt with automated “EasyPik” locker collection, accompanied by measures to advertise and provide knowledge to the customers regarding such a change.

Updated January 2019: The MCA discussed this matter further with MaltaPost and following the feedback obtained, the MCA approved that MaltaPost provides the ‘EasyPik’ parcel locker collection free of charge instead of a second delivery attempt service, but this is not applicable when an ‘Advice of Receipt’ is required and such mail will remain served by two delivery attempts.