

Decision on MaltaPost's tariff adjustment proposals on Domestic Letter Mail, Registration of Domestic Articles, and Foreign Outbound Parcels Requests

Responses to Consultation and Decision Notice

Document No:	MCA/D/11-0429
Date:	22 nd July 2011

Malta Communications Authority

Valletta Waterfront, Pinto Wharf, Floriana FRN1913, Malta.

Telephone: +356 21 336 840

Facsimile: +356 21 336 846

Web: <http://www.mca.org.mt>

Table of contents

Executive Summary	3
1. Introduction	5
2. Context of the MCA's decisions	6
2.1. Background	6
2.2. Status Report on Identified Milestones	6
3. Review and Decisions on MaltaPost's Tariff Requests	9
3.1. General Note on MCA's approach	9
3.2. Individual Tariff Requests	10
3.3. Affordability Considerations	15
3.4. USO Sustainability	16
3.5. Report on consultation and MCA's Decisions	16
4. Effective Date	21
5. Way Forward	22

Executive Summary

The Malta Communications Authority (hereafter "MCA") last reviewed a request from MaltaPost plc (hereafter "MaltaPost") for a change in its domestic mail tariffs in 2006. At that time, the Authority had already identified the need to move towards a more pro-competitive and forward looking price control framework. In this regard, the MCA had identified the milestones listed hereunder:

1. Review of MaltaPost's cost accounting system.
2. Building a control model to simulate financial performance of individual services.
3. Consultation on the technical parameters that are to act as building blocks for the price control mechanism.

In 2009, MaltaPost submitted a number of tariff requests to the attention of the MCA, covering domestic letter mail, registration of domestic postal articles and foreign outbound parcels.

The MCA was amenable to evaluate these tariff requests, given that work related to milestones 1 and 2 above, which were deemed as essential pre-requisites for such a tariff review were completed.

Although work on all technical parameters related to the price control mechanism is not finalised yet, and hence the ultimate level of the required price adjustments is not known at the moment, the MCA has evaluated the requests at face value. The tariff requests were evaluated separately and where it was deemed that a request was fully justified and there were no risks of jeopardising the future price mechanism, the MCA proposed that such an adjustment is granted. The proposed decisions were published for consultation on 10th June 2011 in a document entitled "Review of MaltaPost's tariff adjustment proposals on Domestic Letter Mail, Registration of Domestic Articles, and Foreign Outbound Parcels Requests".

Following the evaluation process explained in this document and after taking in consideration the consultation responses received, the MCA is approving an increase of 1 euro cent on single piece domestic mail for the 0-50g weight step as well as various

adjustments in foreign outbound parcels (see section 3.2.3 for tariff details). These tariffs shall come into force one week following the publication of this decision notice.

Other requests made by Maltapost for registration of articles, higher weight-steps (>50g) of domestic mail and bulk mail, as well as any other additional adjustments in the USO area, are not being approved at this stage but will be considered within the context of the future price control mechanism.

The price control mechanism is required in light of the market liberalisation of the Maltese postal market scheduled for January 2013¹ which calls for a more flexible price control approach able to deliver the right price signalling conducive to efficient market entry. In addition, the Universal Postal Union² (hereafter "UPU") inter-operator charging regime for the handling of cross-border mail, known also as terminal dues, is also scheduled to change. The combined effects of both these developments may require action to safeguard the sustainability of the universal postal service.

Accordingly, following the conclusion of this tariff evaluation exercise, the MCA will continue with its work on the price control framework with the aim of consulting on the major characteristics and technical parameters underlying the future price control mechanism.

¹ In line with the requirements of Directive 2008/6/EC regarding the full accomplishment of the internal market of Community postal services.

² The Universal Postal Union (UPU) is the international organization that coordinates postal policies among member nations, in addition to the worldwide postal system.

1. Introduction

On 10th June 2011, the Malta Communications Authority (hereafter "MCA") published a document entitled "Review of MaltaPost's tariff adjustment proposals on Domestic Letter Mail, Registration of Domestic Articles, and Foreign Outbound Parcels Requests", whereby it invited interested parties to submit their comments on a number of proposed decisions related to the review of tariffs of a selected set of postal services offered by MaltaPost plc (hereafter "MaltaPost").

This document outlines the work undertaken by the MCA in arriving at the proposed decisions, gives an overview of the consultation responses received and presents the MCA's final decisions with respect to the review of postal tariffs dealt with in the consultation.

2. Context of the MCA's decisions

2.1. Background

The MCA last reviewed a request from MaltaPost for a change in its domestic mail tariffs in 2006. At that time, the Authority had already identified the need to move towards a more pro-competitive and forward looking price control framework. In this regard, the MCA had identified the milestones listed hereunder:

1. Review of MaltaPost's cost accounting system.
2. Building a control model to simulate financial performance of individual services.
3. Consultation on the technical parameters that are to act as building blocks for the price control mechanism.

A more detailed account on the status of the work streams related to the above milestones can be found under section 2.2 of this document.

In 2009, MaltaPost submitted a number of tariff requests to the attention of the MCA, covering domestic letter mail, registration of domestic postal articles and foreign outbound parcels.

As stated in the consultation document, the MCA was amenable to evaluate these tariff requests, given that work related to milestones 1 and 2 above, which were deemed as essential pre-requisites for such a tariff review were completed. The completion of work related to these milestones gave the Authority the required level of comfort that the underlying information used for the tariff evaluation process would be robust and fit for purpose.

2.2. Status Report on Identified Milestones

2.2.1. Milestone 1 – Review of the Cost Accounting System

The MCA carried out a detailed review of the cost accounting system employed by MaltaPost. Regulatory accounts are prepared by Maltapost through the cost accounting

system by disaggregating the balances which have been recorded in the general ledger of the company. A cost accounting system is therefore a set of rules to ensure a fair attribution and allocation of revenues and costs (and underlying capital employed in certain instances) to individual products and services.

The main purpose of MaltaPost's regulatory accounts is to give a true and fair picture of the costs incurred and revenues earned from different postal services, as well as serve as a valuable tool to assess the cost orientation of the tariffs currently deployed in the market. In March 2010, the MCA finalised the detailed review of MaltaPost's cost accounting system. This review was undertaken to ensure that the system meets all the regulatory requirements, and thus increase the level of confidence in the reliability of the results presented in the regulatory accounts - which in turn represent the basis of all the underlying information required to make inference on price-control mechanisms and individual tariff reviews.

Following the review, a number of issues were identified and a directive was issued to MaltaPost. The directive identified those matters which needed to be addressed and provided directions on how they were to be rectified. Some of these directions had a significant effect on the costs allocated to a number of products, whilst others required MaltaPost to design new data extraction procedures to be able to provide the information required in the directive.

2.2.2. Milestone II - Development of Control Model to simulate financial performance

Following the issue of the directive, the MCA proceeded to the next milestone, namely the development a control model of the regulatory accounts of MaltaPost. The objective of the model was to form the basis for both a transparent analysis of the tariff requests by MaltaPost as well as the price control framework.

In practice such a tool gives the Authority the faculty to simulate, on a forward looking basis, the impact of changes of certain key exogenous variables such as prices and volumes on MaltaPost's profitability both on a service-by-service level as well as any potential tariff baskets that might feature in the price control mechanism. The relevance of such a tool is reinforced within the context of a postal operator which typically

features a significant amount of joint and common costs. These characteristics generally result in costs being shifted amongst different individual services making use of the Universal Service Provider's (hereafter "USP") resources and hence the ability to be able to have a holistic view of all the USO set of services emerges as a crucial asset in price-control and tariff approval related fields.

With MaltaPost's cooperation, the first version of the model incorporating the minimum requirement for the above pre-requisites was finalised in April 2011. The MCA, with the help of its consultants, intends to develop further the model in order to enhance its forward looking capabilities to be able to support the price-control regime that will be proposed in the future.

2.2.3. Milestone III – Consultation on the technical parameters of a new price control framework

The MCA has already completed a preliminary assessment of the various price control regimes featured throughout Europe in order to identify and evaluate the advantages and disadvantages of each price control alternative.

The next step in this process is for the MCA to consult on its preferred price-control regime as well as treating the major characteristics and technical parameters underlying the preferred framework. Amongst others the following are expected to be covered during this upcoming consultation:

- Establishing a rate of return for the regulated services;
- Regulatory process by which MaltaPost interacts with the MCA with respect to periodical information needed in the process;
- Regulatory coverage in terms of the service regulated and in what form (individual, use of price caps and sub-caps, etc);
- Time horizon of the regulatory period in the price control; and,
- Safeguards if any for deviations from expected scenarios.

3. Review and Decisions on MaltaPost's Tariff Requests

3.1. General Note on MCA's approach

Given that milestones 1 and 2 referred to in Section 2.2 were finalised in so far as a tariff evaluation exercise is concerned, the MCA was in a position to consider the tariff requests as proposed by MaltaPost.

However since work on all technical parameters related to the price control mechanism is not finalised, and hence the ultimate level of the required price adjustments is not known at the moment, the MCA's approach limited itself to evaluate the requests at face value. In other words, the MCA did not propose any price changes apart from those requested from MaltaPost. The tariffs were evaluated separately and where it was deemed that a request was justified and there was no risk of jeopardising the future price mechanism, the MCA proposed that such an adjustment is granted. Where such risks were deemed to exist, the MCA proposed that the adjustment needed, if any, will be taken in the context of the future price control framework. This stance was taken in order to limit the risks of granting an increase that would potentially have to be reversed when the mentioned new price control framework kicks in.

In taking this approach, a number of important policy considerations were also kept at the fore by the Authority such as:

1. Overall Profits within the Universal Service remaining healthy even after taking into account any predictable or expected future changes in cost and revenues faced by MaltaPost.
2. Ensuring that the postal services in question remain affordable to users.
3. Current and future prices changes need to be conducive of adequate signalling and incentives for efficient market entry post liberalisation.

Section 3.2 lays down the underlying rationale of the MCA's proposed decisions on each individual tariff request made by MaltaPost from a technical point of view, without taking

into consideration the criteria for affordability and sustainability. These are in turn dealt with in sections 3.3 & 3.4 hereunder, to arrive at the final decisions on tariffs which were subject to consultation.

3.2. Individual Tariff Requests

3.2.1. Domestic Letter Mail – Technical Evaluation

In its tariff proposals, MaltaPost requested an increase of 1 cent in the tariff of a local letter weighing less than 50g, which at present is 19 cents; and an increase of 2 cents in the tariff of a local letter weighing in the range of 50-100g, which at present is 26 cents. The tariff for a letter weighing more than 100g is equal to the tariff of a letter in the range of 50-100g plus 9 cents for each additional 50g. Effectively, this means that the requested increase of 2 cents for letters in the 50-100g weight-category would apply to all letters weighing more than 50g.

The table hereunder summarises the proposed revisions to the rates as requested by MaltaPost.

	Current €	Maltapost Proposed €
Up to 50g	0.19	0.20
50g – 100g	0.26	0.28
100g – 150g	0.35	0.37
For each additional 50g	+0.09	+0.09

The proposals by MaltaPost did not distinguish between single piece letter mail and bulk mail. However in evaluating the tariff requests, the MCA is of the opinion that these should be considered separately.

As defined in the MCA's decision on "MaltaPost's Quality of Service (QoS) Targets to be achieved by MaltaPost" (December 2007), bulk mail comprises of a substantial number of similar postal articles which are deposited with the postal service provider, at the same place and time, to be conveyed and delivered to the addressees indicated on the items. In line with MaltaPost's Bulk Posting Scheme, postal articles consisting of fifty (50) or more items of identical format, size and of the same weight step may be handed

over at MaltaPost branches and at the Bulk Post Office during their respective opening hours, to be delivered by MaltaPost to the addressees indicated on the postal articles themselves.

Unlike bulk mail, single piece letter mail is deposited at different access points (public letter boxes and all retail counters) throughout Malta and Gozo, and is then collected by MaltaPost. This and other inherent differences in the processing of bulk mail and single piece letter mail were mirrored in the MCA's control model. Effectively this reflected in the cost base of these products.

In the decision notice published by the MCA in March 2011 entitled "Regulatory Direction on Specific Aspects of the Universal Postal Service", Decision 2 had established that the tariffs for the bulk mail product must, amongst others, comply with the principles stated in Article 21 of the Postal Services Act. Accordingly, tariffs for single piece and bulk mail should reflect the inherent differences in cost.

With respect to bulk mail, results emanating from the MCA's control model indicate that current tariff levels are contributing towards MaltaPost's profits.

To this effect, the MCA concluded that the tariffs for bulk mail are at the moment around their cost-oriented level and hence no immediate adjustment as requested by MaltaPost is warranted.

As to single piece letter mail, the MCA's analysis revealed that MaltaPost is providing the service at a loss. An in-depth analysis of the different weight steps revealed that the root of this loss lies in the tariff of the 0-50g category. Tariffs for letters weighing more than 50g were recovering costs sufficiently. This indicates that weight is not always the major driver of the incremental costs involved in providing postal services.

For the above reasons, the MCA concluded that from a cost-orientation perspective, an increase of 1 cent in the 0-50g weight-step of single piece letter mail is technically justified.

3.2.2. Registration of Domestic Postal Articles – Technical Evaluation

Registration of articles is the service offered by MaltaPost providing a flat-rate guarantee against risks of loss, theft or damage, and supplying the sender, where appropriate and upon request, with proof of the handing in of the postal article and/or of its distribution to the addressee.

Presently, MaltaPost provides this service in the case of inland mail (postal articles posted and delivered in Malta) at an additional charge (registration fee) of 49 cents. The tariff revision requests from MaltaPost included a proposal to increase this registration fee to 80 cents. MaltaPost had supported its claim for this increase with costing information stemming from the September 2008 regulatory accounts.

As outlined earlier in this document, in the process of arriving at its conclusions on the tariff reviews, the MCA undertook various work streams aimed at improving the cost allocation methodologies employed by MaltaPost. Consequent to this work, the various directions issued to MaltaPost were intended to improve the fairness and transparency of the criteria applied in the attribution of costs to products. These required changes affected directly the cost base of the service in question. To this effect, the MCA conducted its analysis using the data reflecting the aforementioned changes in the cost accounting system of MaltaPost.

The cost information resulting from the MCA's workings varied significantly from that underlying the proposal submitted by MaltaPost. The changes implemented in the cost accounting system translated into product costs which are substantially lower than those on which MaltaPost had originally based its claim for the proposed increase in the tariff for registration of domestic postal articles. This means that the request from MaltaPost to increase the registration fee to 80 cents may result in abnormal returns being earned on this product. This is not desirable as it would transmit wrong pricing signals to the market as well as distort the effective operation of the forthcoming price control.

In light of this, the MCA considers the request to increase the registration fee to 80 cents to be technically unwarranted from a cost orientation perspective.

3.2.3. Foreign Outbound Parcels – Technical Evaluation

MaltaPost also submitted proposals to revise tariffs for foreign outbound parcels to a number of destination countries, namely; France, Germany, Italy, Netherlands, Spain and the United Kingdom.

Tariffs for foreign outbound parcels are calculated as a fixed rate for the 1st kg plus a variable rate for each additional ½ kg (1kg for Surface Air Lifted). The current and proposed rates for the destinations under consideration are represented in the table hereunder.

Outbound Parcels – Air Mail

	Current		Maltapost Proposed	
	For 1 st kg	For additional ½ kg	For 1 st kg	For additional ½ kg
France	€15.37	€1.00	€20.37	€1.29
Germany	€12.39	€1.07	€23.38	€0.94
Italy	€15.65	€0.51	€19.47	€1.46
Netherlands	€10.13	€0.91	€18.50	€1.40
Spain	€11.90	€1.09	€18.88	€1.34
United Kingdom	€12.51	€1.09	€23.04	€1.85

Outbound Parcels – Surface Air Lifted

	Current		Maltapost Proposed	
	For 1 st kg	For additional 1 kg	For 1 st kg	For additional 1 kg
United Kingdom	€10.65	€1.75	€22.44	€3.10

The MCA took into consideration that the last revision of the tariffs for foreign outbound parcels took effect in 1997 and MaltaPost claims that since then, its costs have increased significantly such that current tariffs paid by customers for these destinations are not aligned with the cost it incurs to process the parcels.

In evaluating these tariff requests by MaltaPost, the MCA sought to obtain a detailed understanding of the make-up of the costs incurred by MaltaPost in processing foreign outbound parcels. At a high level, conveyance and distribution costs of foreign outbound parcels can be grouped under two categories, those representing external costs and those reflecting their internal counterparts.

External costs are direct costs upon which MaltaPost has limited control since they are charged by third parties and hence being exogenous to MaltaPost's cost base. These comprise:

- Inward Land Rates – Fees charged by foreign administrations (3rd party postal operators) for delivery of parcels in the destination country;
- Conveyance Costs – Costs of international transport (normally by airfreight) of the parcels to the respective destination countries;
- Security Screening Costs – Costs for security screening performed at the Malta International Airport prior to dispatching.

The MCA audited each component of external costs to corroborate the claims made by MaltaPost in its requests. Varying with the weight of the parcel, external costs account for circa 54% to 84% of total costs. The MCA noted also that with the current tariffs, there were instances where external costs alone were higher than the retail tariff presently charged by MaltaPost.

On the other hand, internal costs consist of internal handling costs to collect and process parcels for dispatch, as well as a share of corporate overheads. The MCA reviewed the allocation of these costs to products as part of the work done on the review of the cost accounting system of MaltaPost and is of the opinion that the costs stemming out from its control model allocate a fair and reasonable share of these costs to foreign outbound parcels.

Having obtained the required assurance on the make-up of costs, the MCA proceeded to compare the current tariffs with the respective cost base. The resulting conclusions confirmed the claim by MaltaPost that tariffs for the destinations in question were substantially below costs. In addition to the burden placed on MaltaPost, having tariffs which are significantly below costs is very likely to detract the interest of competition in the sector. Consequently, the MCA assessed the reasonableness of the proposed tariffs

and concluded that these are reflective of cost. **On these grounds, the MCA considers the requests from MaltaPost to increase the tariffs for foreign outbound parcels to France, Germany, Italy, Netherlands, Spain and the United Kingdom to be justified from a cost-orientation perspective.**

3.3. Affordability Considerations

In line with its mandate to safeguard the affordability of the postal products falling under the universal services area, the MCA took into consideration the impact of the proposed price increases on the general public.

To do this the MCA adopted a two pronged approach. One comprised an investigation on the share of postal related purchases as a share of total household expenditure, so as to gauge the impact of the proposed tariff changes on the overall expenditure level of the average household. This was followed by an impact assessment on the Maltese Retail Price Index (RPI).

In terms of household expenditure, based on the latest Household Budgetary Survey (HBS) published by the National Statistic Office (NSO), it transpired that the share of postal-related household expenditure per annum is quite low, standing at around €18, and down from the €26 registered in the previous 2000 HBS. **This indicates that the impact of the tariff changes on household expenditure is expected to be minimal.**

The same conclusion is arrived at when considering the impact on the RPI³, which was estimated to show a negligible effect on its overall level

The MCA was also sensitive to the fact that the proposed price changes can affect the supply side stakeholders of the economy, particularly those of foreign outbound parcels. In this regard, the MCA noted that the proposed prices will still remain below those of other market players in the courier field, as well as MaltaPost's own courier arm. This indicates that prices remain consistent with service variation. At the same time, the MCA noted that with respect to lower weight categories (up to one Kg) of outbound parcels, the letter mail services can easily act as an indirect substitute; thus mitigating

³ The NSO was consulted in these estimations

the effect of this price increase from the demand side of both residential and business clients.

Notwithstanding these high-level assessments, the MCA had very limited readily-available tools at its disposal to gauge empirically this impact, and invited constituted bodies as well as individual business to provide feedback on their views on the expected impact of these proposed tariff changes on their business. Copies of the consultation document were sent directly to the *The Malta Chamber of Commerce, Enterprise and Industry* and to the *General Retailers and Traders Union* for their feedback.

3.4. USO Sustainability

From a sustainable USO perspective, the MCA performed various simulations to gauge the expected impact on the overall profitability of MaltaPost's regulated activity. This analysis concluded that the overall profits of the USO are expected to remain healthy and fair. This view is however without prejudice to any decisions the MCA might take on the MaltaPost's regulated rate of return as the designated Maltese USP during the course of work on the new price control framework.

3.5. Report on consultation and MCA's Decisions

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

The consultation period ran till the 7th of July 2011, with one respondent, Maltapost, submitting its response. The MCA wishes to thank MaltaPost for its feedback.

No reactions were received from individual firms and the mentioned constituted bodies. The fact that no reactions were received is taken as an indication that the impact of the tariff changes on Maltese firms will be minimal.

3.5.1. Decision 1 - Domestic Letter Mail

Following the review undertaken and in line with the conclusions described above, in the proposed decision the MCA proposed an increase in 0-50g weight-step of 1 cent for single piece letter mail only. Tariffs for other weight-steps and bulk mail services are to

remain at their current level. Any future application for tariff changes of domestic mail will be evaluated in the context of the forthcoming price control parameters.

MaltaPost stated that it supports the decision on the basis that it is only an interim adjustment.

In the proposed decision, the MCA stated that any future application for tariff changes of domestic mail will be evaluated in the context of the forthcoming price control parameters. This does not mean that future applications for tariff changes will be necessarily unconditionally approved.

The set parameters will aim to strike a regulatory balance between the objectives of the various stakeholders and offer more regulatory certainty. Under the price control, new tariff applications will only be approved if they fit within the objectives of the framework. On this basis, the MCA is of the opinion that the proposed decision on the tariffs for domestic mail should be upheld.

Decision 1

The MCA authorises an increase in 0-50g weight-step of 1 cent for single piece letter mail only.

Tariffs for other weight-steps and bulk mail services are to remain at their current level.

Any future application for tariff changes of domestic mail will be evaluated in the context of the forthcoming price control parameters.

3.5.2. Decision 2 - Registration of Domestic letter mail

Following the review undertaken and in line with the conclusions above, the MCA considered the request to increase the registration fee to 80 cents to be unwarranted. Any future application for changes in the registration fee for inland mail will be evaluated in the context of the forthcoming price control parameters.

MaltaPost stated that considering the increased costs of providing this service, it believed that that an increase would have been warranted. However it stated that it supports the proposed decision on the basis that it is only an interim adjustment.

The MCA has based its evaluation on the latest costing information available. The costings for the registration service indicate that the current tariff of 49 cents is very much close to the cost-oriented level. As such, the MCA maintains that it is appropriate not to consider changes in the registration fee for inland mail until the final price control parameters are in place. On these grounds, the MCA reiterates the stance expressed in the proposed decision as its final decision.

Decision 2

The MCA considers the request to increase the registration fee to 80 cents to be unwarranted. Any future application for changes in the registration fee for inland mail will be evaluated in the context of the forthcoming price control parameters.

3.5.3. Decision 3 - Foreign Outbound Parcels

Following the review undertaken and in line with the conclusions described in Section 3.2.3 above, in the proposed decision, the MCA concluded that the proposed tariffs are reflective of cost and considers the requests from MaltaPost to increase the tariffs for foreign outbound parcels to France, Germany, Italy, Netherlands, Spain and the United Kingdom as justified.

In its response, MaltaPost agreed with the MCA's proposed decision to approve the new tariffs as proposed by MaltaPost.

This proposed decision was also conditional on the responses to Consultation Issue no.1 discussed under Section 4.3 of the consultation document. Given that no reaction to the contrary was received from interested stakeholders or the general public, the MCA upholds its proposed decision and approves the new tariffs requested by MaltaPost.

Decision 3

The MCA concluded that the proposed new tariffs are justified and it therefore authorises the requests from MaltaPost to increase the tariffs for foreign outbound parcels to France, Germany, Italy, Netherlands, Spain and the United Kingdom as outlined in Section 3.2.3 above.

3.5.4. Other miscellaneous consultation feedback received from Maltapost.

In its response, MaltaPost made also reference to the changes expected in the UPU inter-operator charging system, also known as terminal dues, as from 1 January 2012. It stated that these changes will impact the Company significantly and that it expected the MCA to present a new tariff structure reflecting these developments by the end of the calendar year.

As the USP, services offered by MaltaPost and falling within the universal postal service are subject to ex-ante tariff regulatory provisions. Under an ex-ante price control, a request for a modification to the price of an existing service must be submitted by the USP together with sufficient information as to why the proposed price modification is required and supported by cost data and any other information that may be requested by the MCA. The onus to come up with tariff proposals is on MaltaPost and the expectation on its part that the MCA should present a new tariff structure is inappropriate. Decision No. 3 of the MCA's decision titled, "Regulatory Direction on Specific Aspect of the Universal Postal Service – Decision Notice" and published by the MCA in March 2011 provides a more detailed insight on the regulation of USP's tariffs.

As stated in the consultation document, in arriving at its decisions on tariffs, the MCA took consideration of the overall profits within the Universal Service after taking into account any predictable or expected future changes in cost and revenues faced by MaltaPost. The MCA was aware that the expected changes in the UPU terminal dues system will have an effect on the results of MaltaPost. In fact, in September 2010, it requested MaltaPost to provide it with information specific to this area and which was

required to understand better the overall effect that these changes will have on MaltaPost.

The information requested was received in full by the MCA in April 2011 and the MCA used it to feed in an Impact Analysis Tool specifically provided by the UPU for this purpose. In May 2010, the MCA suggested MaltaPost to do the same exercise independently and inform the MCA of its views on the outcomes. In this way, the MCA sought to make sure that there is a common understanding on this area. No feedback was received from MaltaPost until publication of this document.

The results emanating from the UPU tool and the decisions on tariffs presented in this document were taken into consideration by the MCA when assessing the USO overall profits. The simulation results indicate that MaltaPost is still expected to earn healthy profits in the USO area.

4. Effective Date

The increases approved by the MCA in Decision 1, 2 and 3 above shall come into effect from Friday 29 July 2011.

These Decisions shall for all intents and purposes of Regulation 4 of the Maltapost plc Licence (Modification) Regulations constitute a directive issued by the Authority in accordance with Article 21 of the Postal Services Act Article and 76A(2)(d).

5. Way Forward

Following the conclusion of the tariff evaluation exercise, the MCA will continue with its work on the price control framework with the aim of consulting on the major characteristics and technical parameters underlying the mechanism.

Work is also ongoing on the "Redirection of Mail" service. On finalisation of the updated Redirection of Mail Scheme by MaltaPost, the MCA will review the new tariffs to be proposed by MaltaPost for the service.