

## ASSESSMENT OF ITALIAN CROSS-BORDER TARIFFS, SINGLE-PIECE PARCELS, IN ACCORDANCE WITH REGULATION (EU) N. 2018/644 – YEAR 2023.

### 1. Introduction

Pursuant Article 6 of the EU Regulation n. 2018/644 (“the Regulation”), NRAs shall assess cross-border tariffs of single-piece items falling in the scope of USO in order to evaluate their affordability. To comply with the mentioned provision, AGCOM implemented a 2-steps analysis: firstly, it applied the EC pre-assessment filter mechanism to identify tariffs that are potentially high and need a further assessment (par. 2 of the document); secondly, it performed an assessment of those tariffs (par. 3), considering the other elements stated in Articles 6 (2), (3) of the Regulation (e.g., domestic and any other relevant tariffs of the comparable parcel delivery services, the application of uniform tariffs to two or more Member States (MS), the amount of bilateral volumes as well as specific transportation or handling costs, etc).

The assessment concluded that the identified cross-border tariffs cannot be considered unreasonably high. The evaluation found that volumes of outbound services are low and, at the same time, costs are remarkable: the Italian USP (Poste Italiane, PI), in fact, does not benefit from economies of scale since it is not a global integrator, thus it is not able to optimise the provision of cross-border delivery services. Overall, the outbound services assessed are a financial loss for PI: as tariffs for services within the US shall be cost oriented, a price reduction might averse the principles stated in Art. 12 of the Postal Services Directive (PSD).

### 2. Identification of tariffs for the assessment (Article 6 (1) of the Regulation)

Since last year, the tariffs collected in the EC PARCEL *website*, pursuant Art. 5 of the Regulation, have been classified according to the guidance provided by the ERGP Report<sup>1</sup> of December 2021 on the implementation of the Regulation, in particular on pagg. 29-32<sup>2</sup> and pagg. 34-38<sup>3</sup>.

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<sup>1</sup> Report on the Cross Border Regulation implementation ERGP PL II (21) 20:

<https://ec.europa.eu/docsroom/documents/48202>

<sup>2</sup> “Therefore, parcels with a track and trace functionality should be reported exclusively in the track and trace categories (i.e. categories, m, n and o). The standard parcel categories of the Annex (i.e. categories j, k and l) should contain only parcels without a track and trace functionality. This should in the same way apply to letter categories, i.e. to report track and trace letters exclusively in the track and trace letter categories (i.e. categories g, h and l). The standard letter category (i.e. categories a, b and c) should contain only letters without a track and trace (or registered) functionality.”

<sup>3</sup> “Therefore, in case a PDSP does not offer services with the weight limits for the lower weight categories, the respective fields should remain blank and not be filled in with other services having higher weight limits (e.g. 2 kg parcel instead of 1 kg parcel). In case the weight limits of a service do not match with those of the categories of the Annex, the PDSP should choose the highest applicable category (e.g. the 2 kg category if the service has a weight limit of 3 kg or the 5 kg category if the service has a weight limit of 8 kg). The same is applicable for letter categories. In case a PDSP offers also a service in a lower weight category, but the price

Based on those tariffs, AGCOM has performed an analysis through the EC pre-filter mechanism defined in the Guidelines<sup>4</sup>: the filter identifies the highest 25% tariffs for each of the categories listed in the Annex of the Regulation, corrected according to purchasing-power parities (PPP) as laid down from Eurostat. Through the application the EC pre-assessment filter on the Italian tariffs, the below products have been selected and, pursuant Article 6 (2), (3) of the Regulation, thus will be evaluated in this document, to identify if their prices are “unreasonably high”.

**Table 1 – Italian cross-border tariffs indicated by the pre-filter mechanism (25% highest)**

Product	Tariff	Destination
2 kg track and trace letter	18 €	All MS
1 kg registered letter	19,35 €	All MS
2 kg registered letter	28,45 €	All MS
1 kg track and trace parcel	28 €	IS, NO
2 kg track and trace parcel	32 €	BG, CY
	34 €	IS, NO
5 kg track and trace parcel	37 €	BG, CY
	42 €	IS, NO

Source: data provided by PI according to Art.5 of the Regulation

### **3. Assessment of identified cross-border tariffs (Article 6 (2), (3) of the Regulation)**

#### **a) “the domestic and any relevant tariffs of the comparable parcel delivery services in the originating Member State and in the destination Member State”**

The tariffs selected by the pre-filter mechanism (see Table 1 above) need to be compared with other relevant tariffs. The EU Communication n. 838 of 2018 provides some comparison elements that can be used for the assessment (Section IV.2):

- a) as primary comparison, the sum of the domestic tariff of the USP in the originating MS and the domestic tariff of the USP in the destination MS;
- b) as secondary comparison, the sum of the domestic tariff of the USP in the originating MS and the domestic tariff of a competitor providing interchangeable services in the destination MS.

In Italy, PI is the only operator providing US products, and for competitors the PARCEL website presents tariffs on track-and-trace parcel products outside the US. AGCOM identified, as comparable

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*for a service with a higher weight category is less expensive than that of the lower weight category (i.e. because of different QoS parameters), then the PDSP should choose the cheapest possible service.”*

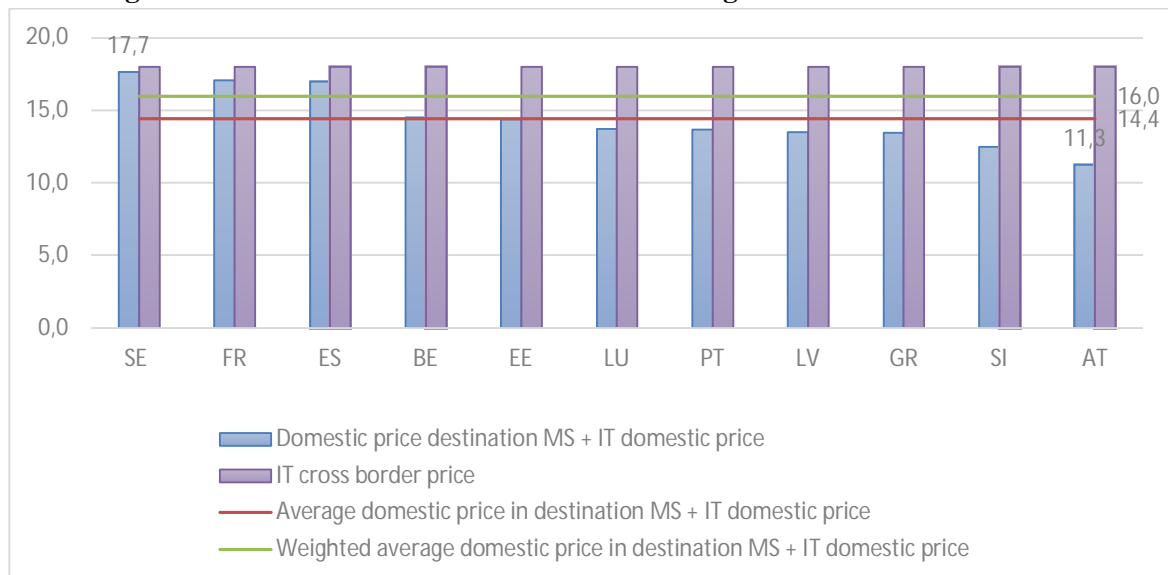
<sup>4</sup>(COM/2018/838 final) Communication from the Commission on guidelines to national regulatory authorities on the transparency and assessment of cross-border parcel tariffs pursuant to Regulation (EU) 2018/644 and Commission Implementing Regulation (EU) 2018/1263:

<https://eur-lex.europa.eu/legal-content/GA/TXT/?uri=CELEX:52018DC0838>

tariffs, the USP domestic tariffs in the originating MS and the USP/relevant competitor's domestic tariffs in the destination MS: as shown in the figures below, the number of MS considered is vary, as the analysis is hindered by a lack of information provided by parcel operators or else by the same data erroneously inserted in more products (like in the case of track and trace letter product).

For the 2 Kg track and trace letter product (see Figure 1), the cross-border tariff is slightly higher than the sum of domestic tariffs. By undertaking an average of the sum of the domestic tariffs, the gap between the cross-border and the sum of domestic tariffs seems limited, in particular when the weighted average is applied: in the latter case, the ratio between the weighted average of domestic and the cross-border prices is about 0,89, thus cross-border tariffs are comparable with the sum of domestic correspondent tariffs.

**Figure 1 – Domestic and cross-border tariffs – 2 kg track and trace letter**

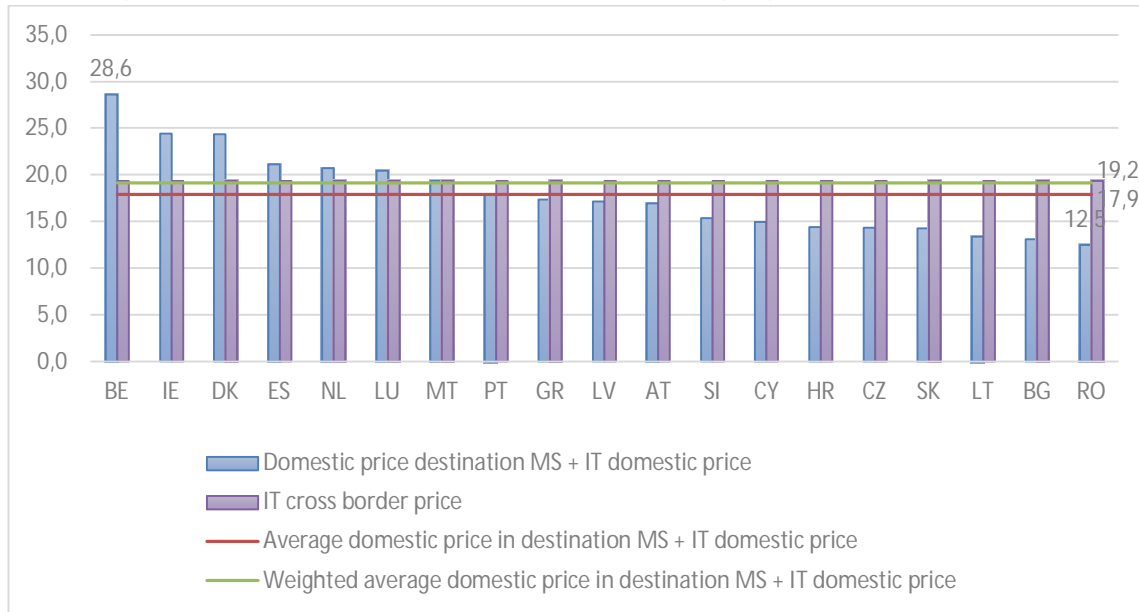


Source: AGCOM elaboration of data collected in [https://single-market-economy.ec.europa.eu/sectors/postal-services/parcel-delivery-eu/find-best-price-your-eu-parcel-delivery\\_en](https://single-market-economy.ec.europa.eu/sectors/postal-services/parcel-delivery-eu/find-best-price-your-eu-parcel-delivery_en)

For the 1 Kg and 2 Kg registered letter product (Figure 2 and 3), the cross-border tariff is in some cases higher than the sum of domestic tariffs. Also in these cases, by undertaking an average of the sum of the domestic tariffs, the gap between the cross-border and the sum of domestic tariffs seems limited, in particular when the weighted average is applied: the ratio between the weighted average of domestic and the cross-border prices is 0,99 (for the 1 Kg product) and 0,74 (for the 2 Kg product), thus cross-border tariffs are comparable with the sum of domestic correspondent tariffs.



**Figure 2 – Domestic and cross-border tariffs – 1 kg registered letter**



Source: AGCOM elaboration of data collected in [https://single-market-economy.ec.europa.eu/sectors/postal-services/parcel-delivery-eu/find-best-price-your-eu-parcel-delivery\\_en](https://single-market-economy.ec.europa.eu/sectors/postal-services/parcel-delivery-eu/find-best-price-your-eu-parcel-delivery_en)

**Figure 3 – Domestic and cross-border tariffs – 2 kg registered letter**



Source: AGCOM elaboration of data collected in [https://single-market-economy.ec.europa.eu/sectors/postal-services/parcel-delivery-eu/find-best-price-your-eu-parcel-delivery\\_en](https://single-market-economy.ec.europa.eu/sectors/postal-services/parcel-delivery-eu/find-best-price-your-eu-parcel-delivery_en)

For the track and trace parcel products, considering only the destination MS identified in Table 1 (Bulgaria, Cyprus, Iceland, Norway) it is necessary to proceed differently: the PARCEL dataset does not show tariffs for products originating from both Iceland and Norway, thus for the two MS it is not possible to perform an analysis on tariffs. In the case of Bulgaria, there are no USP data on track and trace parcels, and those of competitors seems to have different service characteristics (like speed). Only for Cyprus, specifically, the domestic tariff of the USP for the track and trace parcel products

(4,18 euro for the 1kg product, 4,48 euro for the 2kg product and 5,38 euro for the 5kg product) and the cross-border price to Italy are both available. By the primary comparison mechanism, the results are 13,6 euro for the 1kg product, 13,9 euro for the 2kg product and 16,3 euro for the 5kg one.

Given the lack of information for the track and trace parcel product, even if it is not mentioned in the EU Communication mentioned above, to have a full view of the circumstances, competitors' prices were considered too. Comparing track and trace tariffs of the Italian USP with the competitors' price, the result is that in most of the cases, prices of competitors are higher than the one of the USP: it is important to stress that, for Iceland, some operators do not provide the service; furthermore, service characteristics are not fully comparable too, as competitors' products are not in the US and have an *end-to-end* tracking due to their affiliation to global networks.

Even if, through the information analysed there is no a wide gap between cross border and (the sum of) domestic prices, the comparative analysis undertaken above shows a few limits: first, most of the tariffs are not available (as an example, for all products considered, domestic tariffs are not available for Finland, Germany, Poland); second, whenever prices are available, it is necessary to assess products with similar characteristics (and it might not always be possible); third, the price evaluation does not consider any cost element.

***b) “any application of a uniform tariff to two or more Member States” and “bilateral volumes”***

Regarding the application of a uniform tariff to two or more MS, the analysis of cross-border tariffs collected according to Article 5 of the Regulation shows that the Italian USP has:

- for the letter products (registered and track and trace), ad uniform tariff across EU countries;
- for each track and trace parcel product, 3 different prices/clusters: Iceland and Norway, Bulgaria and Cyprus, and all the other EU MS.

**Figure 4 – Percentage, based on volumes, of 2 kg track and trace letter items.**

[*omissis*]

Source: data provided by PI according to Art. 6(5) of the Regulation

As in previous assessments, the USP's cost-accounting system does not distinguish costs according neither to the weight of the products nor for each specific destination, thus it is not possible to proceed with an analysis considering those characteristics. Anyway, volumes of outbound US letter and parcel items for both products and weights considered in this analysis are minimal, implying a higher cost per item for the provision of the service. Moreover, considering volumes per single destination, 60% of letter and parcel items within the US considered in the assessment are addressed towards 3 EU MS ([*omissis*]). As cross-border tariffs are uniform across MS while outbound volumes are polarized towards a few destinations MS, for letter products under assessment there is an asymmetric proportion between (cost oriented) tariffs and outbound volumes: given the presence of most destinations with a negligible level of volumes (and, as consequence, higher costs per item for the

delivery), it might be justified a uniform tariff set to a level that compensate the costs of such condition.

**Figure 5 – Percentage, based on volumes, of 1kg and 2kg registered letter items.**

[omissis]

Source: data provided by PI according to Art. 6(5) of the Regulation

Regarding track and trace parcels, instead, as tariffs identified in Table 1 are related only to Iceland, Norway, Bulgaria and Cyprus, it must be noted that volumes under assessment to the destination MS are around 2% of the total (see Figure 5, below), reinforcing further the arguments already mentioned for letter products. Different prices for IS, NO, BG and CY are then motivated by the specific low level of deliveries towards these countries.

**Figure 6 – Percentage, based on volumes, of 1kg, 2 kg and 5 kg track and trace parcel items.**

[omissis]

Source: data provided by PI according to Art. 6(5) of the Regulation

**c) “Specific transportation or handling costs, other relevant costs and service quality standards”**

By the analysis of the information gathered by the USP, costs have a sensible impact on cross-border tariffs: as already mentioned, in its cost-accounting system, the USP is not able to distinguish costs according to the weight or destination, thus the analysis will be undertaken considering each product in its entirety during the year 2022 (the last available one).

Comparing overall revenues and costs of postal products under assessment, outbound services are at loss for the Italian USP and the trend is deteriorating: compared to the previous year (2021), volumes and revenues of outbound services are slightly declining; instead, costs associated to the provision of outbound services have increased ([omissis]).

Tackling each product separately, for the year 2022 it is possible to perceive a fall in the profitability of outbound services: track and trace letters register an operating loss of [omissis]; registered letters show an operating profit of [omissis], while track and trace parcels exhibit an operating loss of [omissis].

Transportation costs continue to register an increase due to the rise of fuel prices. Considering the means of transport, which impact on the costs of service provisions, in 2022, the countries reached only by road transportation for the delivery of the products under assessment are one for the letters (as in the Table 2 below, the volumes delivered by road are around 1%), and three ([omissis]) for

track and trace parcels. Regarding the parcel product, the destinations highlighted in the pre-filter mechanism (Bulgaria, Cyprus, Iceland and Norway) are all reached by airplane, with an impact over the cost of delivery. Regarding the letter and parcel products under assessment, as in Table 2 below, most of destinations are reached through a transit in a third EU country, which increased the unit cost of service provision: for the parcel product, in the case of the destinations in the pre-filter mechanism (Bulgaria, Cyprus, Iceland and Norway), they are all reached by a transit.

**Table 2 – Means of transportation/ Transit routes**

[omissis]

Source: data provided by PI according to Art. 6(5) of the Regulation.

Taking into consideration, instead, costs' allocation for the outbound service under investigation (see Figure 6), the proportion of those related to both transportation and external costs (terminal dues) is, according to the product considered, [omissis], which is significant and difficult to decrease due to the existing conditions. As already mentioned, in fact, transportation costs have risen due to the increase of fuel price. Other costs are not fully dependant to the volumes of services provided and, therefore, cannot be reduced. Regarding terminal dues, instead, it is also important to stress out that the Italian USP is a net recipient of postal items (it receives more cross-border items than it sends) and, for this reason, the UPU remuneration system fails to ensure the recovery of these costs.

**Figure 6 – PI cost allocation (in %) for the outbound service under assessment**

[omissis]

Source: data provided by PI according to Art. 6(5) of the Regulation.

**d) “Whether tariffs are subject to a specific price regulation under national legislation”**

Italian tariffs of US postal products shall be cost-oriented, according to Article 12 of the PSD and Article 13 of the Italian decree n. 261/99.

AGCOM has been regulating US postal products since 2013<sup>5</sup>. With the decision n. 171/22/CONS, AGCOM has allowed the last revision of US tariffs, but prices of postal products (USO) under assessment (1Kg track and trace letter; 1kg and 2 kg registered letter; 1kg, 2kg, and 5kg track and trace parcel) have not been impacted, therefore tariffs applicable were the same as those of previous years. Prices of the track and trace letter as well as of registered letter have been stable since 2018, while prices of the track and trace parcel have not been changed since 2017.

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<sup>5</sup> Decision n. 728/13/CONS

Furthermore, it shall be noted that prices of the letter products under examination, highlighted by the EC pre-filter mechanism in 2023, are not changed respect to the 2022 previous assessment and in that exercise were not marked for further evaluations.

#### **4. Conclusions**

The above analysis has considered the affordability of tariffs of US cross-border parcel services, that have been identified by the EC pre-assessment filter mechanism (see par. 2) as “potentially high”.

Based on the elements stated in Article 6 (2), (3) of the Regulation n.644/2018, the identified tariffs cannot be considered unreasonably high for the following reasons:

- even if the price comparative analysis might result hampered by the lack of data or the limited comparability of postal services, it did not show any large gap between outbound tariffs and the sum of domestic ones;
- the assessment performed undertook bilateral volumes as well as the costs for the provision of such services. The amount of outbound volumes is negligible and polarized to a few EU MS; furthermore, as the Italian USP is not a “global integrator”, it has higher cost for item for the provision of cross-border services;
- transportation costs have risen, the letter and parcel products considered are mostly delivered by air, and through a transit in another MS. Overall, outbound cross-border products under assessment generates financial losses;
- prices for the products under analysis have been stable since 2018.

For these reasons, as prices for USO services shall be cost oriented, it is likely that a reduction might averse principles stated in Article 12 of the PSD.