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Assessment of cross-border parcel tariffs on parcels originating in Finland

As specified in Article 6 of the Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services, the Finnish national regulatory authority Finnish Transport and Communications Agency Traficom review in this document its assessment of cross-border single-piece parcel tariffs originating in Finland.

Purpose and background of the assessment

Regulation (EU) 2018/644 lays down specific provisions to foster better cross-border parcel delivery services, in addition to those laid down in Directive 97/67/EC, concerning:

- (a) regulatory oversight related to parcel delivery services;
- (b) transparency of tariffs, and assessment of tariffs for certain cross-border parcel delivery services for the purpose of identifying those that are unreasonably high;
- (c) information for consumers made available by traders concerning cross-border parcel delivery services.

One of the objectives of this regulation is the improvement of cross-border parcel delivery services, including affordability for small and medium-sized enterprises and individuals.

Generally, the tariff principles of the universal service are laid down in Article 12 of the Postal Service Directive. Tariffs for products of the postal universal service are regulated by National Regulatory Authorities (NRA) to ensure that they fulfill the following principles:

- Affordability
- Cost-orientation and efficient universal service provision
- Transparency and non-discrimination
- Allowance for the possibility to apply a uniform tariff as well as individual agreements

In accordance with article 6 of the Regulation, only cross-border tariffs of parcel delivery service providers that are subject to a USO and that the NRA objectively considers necessary to assess shall be assessed. This concerns each of the single-piece postal items listed in the Annex of the Regulation, insofar as they are offered by the provider.

Assessment by Traficom

Posti Ltd. is the designated universal service provider in Finland. The company has submitted prices of those products listed in the annex of the Regulation that belongs to the service portfolio of the company. Total amount of the submitted products and thus tariffs under estimation is nine. The rest six products described in the Annex don't have counterpart in the service portfolio either due to different size criteria in specified category or there is not any cross-border standard parcels, but solely track and trace parcels.

Traficom has accurately followed the instructions concerning price assessment process in order to achieve the object of the Regulation. The assessment of those cross-border tariffs originating in Finland have been conducted taking into account the tariffs obtained in accordance with Article 5 of the Regulation, using a two-step procedure. The first step described in Article 6.1 is the identification of tariffs that the NRA objectively considers necessary to assess, i.e. that the NRA considers to be potentially unreasonably high.

According to recital 25 of the Regulation, NRAs can, when identifying which cross-border tariffs they deem necessary to assess, base their identification on an objective pre-assessment filter

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mechanism in order to reduce the administrative burden on the NRA and on parcel delivery service providers subject to the universal service obligation. The second step is a thorough assessment of the tariffs identified in the first step, in accordance with the principles in Article 12 of Directive 97/67/EC, in particular with the help of the elements provided by Article 6.2 and 6.3 of the Regulation.

The objective of the pre-assessment filter mechanism proposed by the Commission is to rank the tariffs covered by the universal service by destination for each category of postal items. The Commission states that, in order for the pre-assessment comparison to be true and fair, the nominal reported tariffs should be adjusted according to purchasing-power parities in accordance with the procedure established by Eurostat.³

If a tariff falls within the 15 per cent highest of reported tariffs to a particular destination, the tariff is considered to possibly be unreasonably high by the prefilter mechanism and is therefore eligible for further assessment.

Traficom's comparison of all purchased-power adjusted prices of Posti Ltd. products suggests that six products in total fall within the category of 15 per cent highest of reported tariffs. Products are a 500 g (domestic and intra Union) standard letter, a 1 kg (domestic and intra Union) standard letter, a 2 kg (domestic and intra Union) standard letter, a 500 g (domestic and intra Union) registered letter, a 1 kg (domestic and intra Union) registered letter, a 2 kg (domestic and intra Union) registered letter.

Once above-mentioned tariffs have been identified to be potentially unreasonably high, a thorough assessment have been conducted according to Article 6.2 and 6.3. Article 6.2 defines elements that shall be taken into account by the NRA, while the elements of Article 6.3 may be taken into account. As the elements are minimum requirements according to Article 3, the NRAs may also take into account other elements.

According to article 6.2 one assessment element is price comparison, the domestic and any other relevant tariffs of the comparable parcel delivery services in the originating Member State and in the destination Member State.

A main task is to define the extent to which products are actually comparable, as the prices of products and services usually depend to a large extent on service quality and other product characteristics. Thus the products/services used for the assessment of tariffs should be as similar as possible. The starting point is the product category listed in the Annex of the Regulation. Therefore, the first and most important task of the NRA is to determine the relevant and comparable tariffs that it considers necessary to use in its national context.

Also bilateral volumes, specific transportation or handling costs, other relevant costs and service quality standards are subjects to be reviewed according to Article 6.2. This criterion focuses on the influence that volumes, costs and service quality standards may have on prices of conveying cross-border parcels from the originating Member State to each of the destination Member State. The aim is to examine whether there are objective reasons, for an identified potentially high tariff. The initial and major source of the relevant information should be the cost accounting system of the USP, providing, for example, information on volumes and costs per product.

Transportation costs will be dependent on means of transportation. For example, the cost associated with air transportation is likely to be higher than for road transportation. The use of a specific means of transportation may impact the service quality standard, and therefore this should be taken into account. Moreover, road transport costs between close and well-connected Member State (e.g. road transportation within Central Europe) would be lower than the costs from a location in the periphery.

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Summary and conclusions of the assessment

Traficom has investigated prices of above-mentioned six products that Posti Ltd offers. Because of the Finnish geographical location, comparison with the products of competing companies originating in Finland is valid method for an evaluation. Shipment volumes from other EU countries to Finland is obviously higher than equivalent volumes to opposite direction mainly due to the e-commerce trade volumes being asymmetric. Thus comparison with products originating abroad to Finland is not practical method in this connection. Reviewing the alternative services offered by competing companies suggest clearly that prices of the Posti Ltd. products are significantly lower. It is also notable that the highlighted services with possibly high prices are letters which can be substituted in some cases by lower price parcels.

The product prices that pre-assessment filter mechanism highlighted to possibly be unreasonably high have certain features on service quality and other product characteristics that should be taking into account when assessing prices. Objective reason for higher prices in European context relates to service quality and transportation costs as Posti Ltd. utilizes air transportation more commonly compared to the companies situated in Central Europe because of the geographical location of Finland. Also the road transport commonly need to be complemented by ferry resulting higher costs comparing to well-connected Member State.

After going through carefully price assessment process according to the Article 6 principles, Traficom is able to end up in to conclusion that none of the prices Posti Ltd. has submitted for this assessment cannot be interpreted to be unreasonably high. Tariffs are also uniform and accessible from across the country.