



26 October 2015

Mr Robert Wright
General Manager – Water and Wireline Markets
Australian Competition and Consumer Commission
GPO Box 250
MELBOURNE VIC 3001
Australian Competition and Consumer Commission

postalservices@acc.gov.au

Dear Mr Wright,

Response to ACCC Issues Paper – Australia Post Draft Price Notification

Thank you for the opportunity to provide this submission in response to the Australian Competition and Consumer Commission (**ACCC**) Issues Paper (the **Paper**) regarding Australia Post's (**AP**'s) Draft Price Notification.

Introduction

The Association for Data-driven Marketing & Advertising (**ADMA**) is the principal industry body for data-driven marketing and advertising in Australia. Data-driven marketing and advertising includes any marketing communication which uses data-insights, including personal information, to engage with a consumer with a view to producing a tangible and measurable response. Data-driven marketing is platform neutral.

Over 500 member organisations from a broad spectrum of Australian industries belong to ADMA. Members range in size from SMEs to multinational corporations. More than 800 brands are represented, including banks and telecommunications companies, advertising agencies, specialist suppliers of marketing services, statutory corporations, retailers, specialist industries such as travel and automotive, charities (both large and small) and educational institutions.

The flow-on effects of the proposed increase in the Basic Postage Rate (**BPR**) to \$1 in an effort to address declining revenues has the potential to add significant costs for a large number of our members and industry partners.

Despite the onset of the digital age, integrated communications and an omni-channel approach to communications is essential. Direct mail (both transactional and promotional) remains an important part of the communications spectrum. The ongoing financial sustainability of this activity underpins a large proportion of Australia's economic activity, providing the equivalent of more than 130,000 full time jobs and more than 14 billion in revenue¹.

Context of the ACCC Issues Paper

The Paper details the draft price increase as follows:

“Australia Post has exclusive rights over the provision of ‘reserved services’, including the domestic carriage of letters weighing less than 250 grams and the issue of postage stamps. The reserved services covered by Australia Post’s draft price notification are ‘ordinary’ letters delivered at the ‘regular’ timetable. These services are subject to the ACCC’s assessment of prices.

Australia Post’s reserved ordinary letter services are currently provided at three price points:

- the uniform rate for a small letter (i.e. the basic postage rate (BPR))
- large letters up to 125g
- large letters from 125g to 250g.

Australia Post is proposing to increase the BPR from 70 cents to \$1 and increase the prices of large ordinary letters delivered at the regular timetable proportionately.”

The paper then goes on to list six specific questions to be addressed.

The draft increase should be viewed in the context of the broader regulatory reform introduced in 2015; this is explained by Australia Post as follows²:

“Introducing the regulatory reform detailed in the 3 March 2015 Federal Government announcement required the Australian Postal Corporation (Performance Standards) Regulations 1998 and the Price Notification Declaration (Australia Post Letter Services) (No.2) 2011 to be amended.

On 10 August 2015, the Australian Postal Corporation (Performance Standards) Amendment (Speed of Mail Delivery) Regulation 2015 was tabled. The purpose of the amending Regulation is to enable Australia Post to introduce a two-speed letter service for all consumers, comprising letters delivered according to either a Regular or Priority delivery timetable, as selected by the sender.

¹ See attachment 2 to this submission: *Economic Contribution of the Australian Mailing Industry*. 27 August 2015 (ACIL Allen Consulting)

² Supplementary Information 15 October 2015 (provided by Australia Post, available at <https://www.accc.gov.au/regulated-infrastructure/postal-services/australia-post-letter-pricing-2015/draft-price-notification>)

On 10 September 2015, Minister Billson made Price Notification Declaration (Australia Post Letter Services) (No.2) 2015.

The combined effect of these two documents is that once Australia Post introduces a two speed stamped offer:

- The ordinary letter service will be delivered to the Regular delivery timetable and subject to ACCC prices surveillance; and
- Stamped letters delivered to the Priority delivery timetable will not subject to ACCC prices surveillance unless Australia Post proposes to offer the service at a rate exceeding 150 percent of the equivalent regular (i.e. ordinary letter) rate.”

Support for submission by the Printing Industries Association of Australia (PIAA)

In making this submission ADMA has referenced as attachments the materials collated by our colleagues at the PIAA. The printing industry supplies many ADMA members and we support the PIAA submission. These attachments should be read carefully as they provide context regarding the extent to which the price increase may ultimately impact on the mailing sector (major mailers, mail houses, printing, and other related services) and offers some level of scrutiny in relation to the figures provided by Australia Post.

General comments regarding the Draft Price Notification

ADMA has a number of concerns regarding Draft Price Notification, specifically these relate to:

1. Sustainability of price increases to counter loss of revenue
2. Impact on industry, especially small business and charities
3. Scrutiny of supporting materials and AP's financial performance
4. AP's current operating model, proposed cost savings and efficiencies
5. Lack of consultation and collaboration
6. The speed at which Australia Post is seeking to introduce such a significant price increase
7. The use of unequal bargaining power to make deals in support of the BPR increase
8. Balancing performance of a government asset against the government's broader fiduciary obligations
9. The ACCC's role in balancing the deleterious effects of the statutory monopoly afforded to Australia Post's letter business
10. Application of the principles of efficient economic regulation

1. Sustainability of price increases to counter loss of revenue

Increasing revenue to counter falling volume is not sustainable. Volumes will decline further as businesses either fail or leave the mailing sector and turn to other communication channels.

Price increases cannot be seen as a sustainable solution; the econometric modeling commissioned by Australia post indicates that for every 10% increase in price there is an additional 2.5% decline in volume over and above any trend decline. This has apparently been factored into the volume modeling used in financial forecasting but ultimately there will come a point where sending letters is simply not viable.

We would also question whether a price increase of the size anticipated here was actually anticipated in the modeling. As it stands the BPR increase and flow on increases to business mail (in the order of 42%) makes mail an unviable communications channel. All major mailers have threatened to pull out of advertising mail completely – this would cost AP millions. Transactional mail is also likely to disappear for the same reason and this will drive a further downturn in revenue.

Put simply, the more prices go up the more letter revenue will continue to go down.

2. Impact on industry, especially small business and charities

Many small businesses who support the mailing sector or rely on it will struggle to continue in the face of rising mail costs. Charities will also be impacted as the cyclical nature of increasing costs and falling volume will ultimately have the effect of driving up the price of charity mail.

Where major mailers have the option to divert communications to another channel those in the mailing services sector may not have options for diversification. For many small businesses the proposed changes are likely to constitute a death knell – as these businesses close there will be a negative impact on supporting industries such as agencies, designers, printers, and paper suppliers.

The reality is that the mailing industry is responsible for over 14 billion dollars of Australia's economic revenue and more than 130,000 jobs - it is likely that much of this contribution will be eroded if the proposed Draft Price Notification is adopted as it stands.

Small businesses are lauded as the future of Australian economic growth; that future is at jeopardy if these businesses are put at a competitive disadvantage by being unable to communicate cost-effectively with their customer base.

Even charities are at risk. At present Australia Post have afforded the sector some protection; however the charity mail rate and the maintenance of the relativity of that price differential will not be sustainable if AP experiences additional decline in letter volume.

3. Scrutiny of supporting materials and AP's financial performance

Supplementary materials and Australia Post's Annual Report were both lodged on the day when public submissions closed. There was little if any time to undertake a meaningful assessment of AP's financial performance or the materials supplied by them in support of the Draft Price Notification.

We call on the ACCC to undertake a rigorous assessment of the submission and supporting materials put forward by Australia Post. The figures relied on by Australia Post must not be taken by the ACCC at face value. A robust examination of the figures used is needed to justify the increase in the BPR.

In addition, ADMA is concerned about AP's late lodgment of supplementary information and tabling of its Annual Report. Both occurred on 15 October, the day on which submissions regarding the Draft Price Notification closed. ADMA was not aware of that the supplementary information was coming but had already asked for an extension of time in which to lodge its submission so as to have at least a brief opportunity to consider AP's Annual Report in the face of an already brief consultation period.

4. AP's current operating model, proposed cost savings and efficiencies

The figures supplied by Australia Post are potentially misleading. Current losses and potential savings may be attributable to one-off transactions and do not necessarily represent Australia Posts' current or future financial position.

Australia Post has detailed cost savings measures as part of the Draft Price Increase Notification. The proposals cannot be taken at face value, they must be scrutinised by the ACCC and consideration should be given as to the efficacy of AP's current operational model. Are the savings enough and what was responsible for the losses in the first place, for example the introduction of digital mailboxes and the purchase of Star Track?

5. Lack of consultation and collaboration

Australia Post has failed to undertake any meaningful consultation with respect to the Draft Price Notification or the future of the mailing sector generally.

When the 2011 draft price notification was under consideration the then Chairman of the ACCC, Graeme Samuel said that "Beyond this price notification, the current approach to setting prices, including the allocation of costs, needs to be re-examined given the environment of declining demand for traditional letter services. The ACCC and Australia Post have agreed to re-examine the current approach before any future major price notifications." To what extent was the approach reconsidered given that we are now facing a very substantial price increase? Australia Post tell us that they have worked with the ACCC to review and update their cost allocation model however there seems to be little if any transparency around this process .

In addition, some four years ago Australia Post promised industry that they would introduce a more consultative approach moving forward. This promise has not come to fruition.

The Industry Forum convened by Australia Post had the potential to provide a platform for meaningful consultation. Instead we were told what Australia Post planned to do and this was presented as a *fete a complis*. Those present were asked to raise their main issues but the forum ended with a push to sign a letter in support of the Draft Price Notification in return for a conditional

retention of price relativities for an 18 month period. There was also a tenuous indication that the group, in some form would reconvene early in 2016. We are happy to be part of continued discussions but hope that it becomes a truly consultative process.

6. The speed at which Australia Post is seeking to introduce such a significant price increase

Australia Post is seeking to introduce a substantial price increase with very little notice.

Businesses who may have been prepared for some type of price increase were not anticipating an increase of this magnitude. While only the BPR is subject to the Draft price Notification there is a flow on effect to business as demonstrated in Attachment 3.

Businesses should be afforded the opportunity to prepare for any price increase and the length of time afforded should be commensurate with the size of the increase.

7. The use of unequal bargaining power to make deals in support of the BPR increase

Australia Post has leveraged their monopolistic advantage to broker deals with the LPOs, Unions and the Charity sector to garner their support for the BPR increase.

For businesses Australia Post had indicated that they hope to maintain or possibly increase the percentage discount available for business mail (including promo mail and charity mail). Maintenance of the current price relativities would have been for a period of 18 months however that was dependent on the BPR increase going through and it would have still meant that there was a major increase in cost to business when compared to current prices.

In addition, the proposal required industry to support any further BPR increases that are tabled within that 18 month period. This proposal is simply not acceptable as it leaves the potential for further increases on the table; however this leaves industry open to the erosion of current price differential relativities.

8. Balancing performance of a government asset against the government's broader fiduciary obligations

The government cannot prop-up Australia Post at the expense of consumers and business.

We appreciate that Australia Post is a government asset and that it should at least be cost neutral in its operations. However the government also has a fiduciary obligation to the people of Australia and the negative impact on business and the flow-on effect to individuals and the Australian economy is simply too big to ignore.

9. The ACCC's role in balancing the deleterious effects of the statutory monopoly afforded to Australia Post's letter business

ACCC needs to counter the monopolistic behaviour of Australia Post by representing the interests of consumers and business.

The ACCC should consider its recommendation through its broader regulatory lens which incorporates not just oversight of postal services but a broader statutory role with respect to both competition and consumer protection. Australia Post were given a statutory monopoly with respect to their letter business but there must still be boundaries and accountabilities that protect business aside from the protections afforded to consumers through the existing notification process that precedes increases in the BPR.

Only the ACCC is empowered to assist in addressing the balance between the need to protect Australia Post's letter services and the negative impact of monopolistic behaviour on business. This essentially is the essence of the ACCC's role – protection of consumers and business.

10. Application of the principles of efficient economic regulation

ADMA submits that the Draft Price Application and the flow-on effect for business mail should be consistent with the principles of efficient economic regulation.

Those principles being:

1. Economic regulation should be incentive based wherever possible
2. Necessary and efficient investment should be encouraged and the return on investment should balance predictability with the need to take into account changing market conditions; and
3. Economic regulation should be coupled with a strong consumer engagement framework.

Specific comments on the Issues Paper

The Paper identified six specific questions for discussion. Addressing each in turn:

Question 1

If a price increase is required for Australia Post to help meet the cost of providing the slower ordinary letter service, should the increase be implemented in one step or over time? Is a longer-term approach to setting Australia Post's ordinary letter prices, such as a price path, more appropriate?

Businesses need time to incorporate any increase, let alone such a significant one. In the long term a price path would be more appropriate.

At present the draft price increase would take effect from 4 January 2016. This presents no opportunity for business to accommodate the increase through re-forecasting. The interests of business would be better served to; have an opportunity to budget for the increase, minimise the level of any increase and to introduce an increase incrementally rather than in one step.

The increased costs faced by business are substantial but this must also be taken in the context of increases that have occurred in the last few years – Attachment 3 refers.

As a longer term approach the introduction of a price path would allow industry some capacity to plan with certainty. However there is a point at which mail will simply not be a viable communication channel. The feedback from many of our members is that the proposed increase will tip them past that point. For those who are committed to mail as a channel a number are now sending mail through New Zealand or looking at this as an alternative.

We also refer to our comments at 2 above under general comments.

Question 2

Australia Post's forecast savings in operational costs are largely dependent on around 80 per cent of addressed letter volumes being delivered at the slower timetable. Use of the slower timetable instead of the faster priority timetable would be encouraged by Australia Post through a price difference between these services. Would a price difference between the regular and priority ordinary mail services encourage use of the slower regular service? If so, what level of price difference would encourage significantly greater use of the slower service?

Forecast savings are contingent on unattainable volume targets.

We are concerned that Australia Post has indicated that forecast operational savings are contingent on achievement of an 80% target for addressed mail volumes being delivered at the slower timetable. We question whether this is achievable given that this system has been operating for 18 months for business mail with a volume rate of around 65%.

Use of the slower timetable service can be incentivised however there will always be a place for priority mail. Regulatory reform notionally establishes the priority rate at 150% of the BPR rate, ultimately though the elasticity of demand should inform the differential and this is a matter for the ACCC to investigate.

Question 3

What are your views on Australia Post's proposed method of cost allocation? Are there any other cost allocation issues that the ACCC should be considering?

80% of the AP's forecast operational savings result from the adoption of the new delivery model rather than true operational savings.

We understand that the reform package introduced to address the financial difficulties of Licensed Post Offices (LPO's) has played a part in the price increase. LPOs receive 13.2% of the cost of a stamp. We understand that Australia Post carries a significant loss with respect to stamped addressed mail. Our concern is the extent to which any internal subsidy exists between stamped and business mail given that this would impact on the increase to the BPR which in turn increases the cost of all reserved letter categories.

We are also concerned that 80% of planned efficiencies come from changes in service levels. More efficiencies should stem from day-to-day operational changes.

We note that the ACCC has engaged an external consultant, WIK Consult, to review Australia Post's cost allocation model. While we understand that WIK specialise in regulatory economics and has extensive international experience in postal regulation we are concerned that their review has primarily been based on a desktop review of Australia Post data and there has been no or only limited direct observation of their operations in Australia.

Question 4

Is Australia Post's forecast improvement in operating efficiency over the next three years comparable with that which would be expected in the transport / logistics sector? What rate of improvement in Australia Post's operating efficiency could reasonably be expected?

Improvements and efficiencies seem to stem largely from changes to AP's operational model and one-off costs savings. It is difficult to understand what operating efficiencies may be afforded given that AP is touting their future to be e-commerce.

ADMA is concerned that Australia Post has given no real consideration as to what the business sector can do to maintain volume or to minimise the costs of sorting and delivery. Some of our members have indicated that there they believe there is more that can be done with simply sorting mail more efficiently keep their labour costs down. This dialogue has never been opened by Australia Post. Further, we are informed that since the introduction of the barcoding project there has been no consultation with the mailing sector regarding further cost saving measures.

We believe that any price rise should be predicated on the achievement of all operational efficiencies.

Australia Post's Annual Report is also concerning. They clearly see their future as an e-commerce business yet at the recent industry forum this was not the focus of discussion. While e-commerce must play some role in AP's future it is also obliged to provide essential services of a more traditional nature yet it seems reluctant to engage in discussions on that point.

Question 5

Australia post's rate of decline in its letter volumes has been around 5 to 6 per cent in most years since 2009 however it is currently forecasting that the annual rate of decline will more than double (i.e. Up to 13.9 per cent) in the coming three years. Is such an increase in the forecast rate

decline of letter volumes realistic given the trend since 2009?

It is unlikely that AP's modelling anticipates the volume decline that is likely to result from the proposed BPR increase.

This is an area of particular concern and one that merits close scrutiny.

Modelling undertaken by Australia Post forecasts a 2.5% decline in volume (outside of any existing trends) for every 10% increase in price. We would have to question whether this would hold true for a quantum increase of the size anticipated currently.

On top of price increases already absorbed over the last few years (Attachment 3 refers) we believe that it is likely that the proposed increase will result in a substantial downturn in letter volume – well beyond that anticipated by Australia Post.

Question 6

Is the WACC proposed by Australia Post consistent with an efficient benchmark for its cost of capital?

The WACC should be consistent with the WACC allowed for other regulated businesses.

We refer to Attachment 1 – the ACIL Allen report addresses this issue and points out that the WACC should be consistent with that allowed for other regulated businesses, whether government or privately owned.

ADMA's Position

ADMA strenuously opposes the BPR increase on behalf of its members.

We would reconsider this position if Australia Post is able to offer a concrete and viable alternative that minimises the economic impact on industry and allows for some certainty and visibility over pricing going forward.

The reality is that there is likely to be an increase of some sort; ADMA will argue that any increase:

1. Should be delayed and/or staggered so as to give business the opportunity to prepare for it;
and
2. Should be much lower than the increase currently proposed.

Some say that the price increase is just going to be rubber-stamped, however current ACCC Chairman Rod Sims has been quoted in the media as saying the increase is "[not a done deal](#)".

Closing comments

As the preeminent association for data-driven marketing and advertising in Australia, ADMA would welcome the opportunity to play an active role in any further consultation regarding the Draft Price Notification.

We also encourage Australia Post to further pursue a meaningful and extended dialogue with the mailing sector (both mailing service providers and major mailers) to minimise the impact of digitalisation and to find a way forward that is ultimately beneficial to all.

Yours sincerely

Jodie Sangster

**Chief Executive Officer
ADMA**

t: +61 2 9277 5416 m: +61 409 156 337

e: jodies.sangster@adma.com.au

Jeannette Scott

**Director - Legal & Regulatory Affairs
ADMA**

t: +61 2 9277 5417 m: +61 416 134 998

e: jeannette.scott@adma.com.au

Attachments:

1. *A summary of issues arising from Australia Posts' August 2015 Draft Price Notification to the ACCC: 26 October 2015 (ACIL Allen Consulting)*
2. *Economic Contribution of the Australian Mailing Industry: 27 August 2015 (ACIL Allen Consulting)*
3. *Auspost PreSort Letters price comparison 2013 – 2016 (The Document Institute)*

A REPORT TO
**AUSTRALIAN PRINTING INDUSTRIES ASSOCIATION
ASSOCIATION OF DATA DRIVEN MARKETING AND
ADVERTISING**

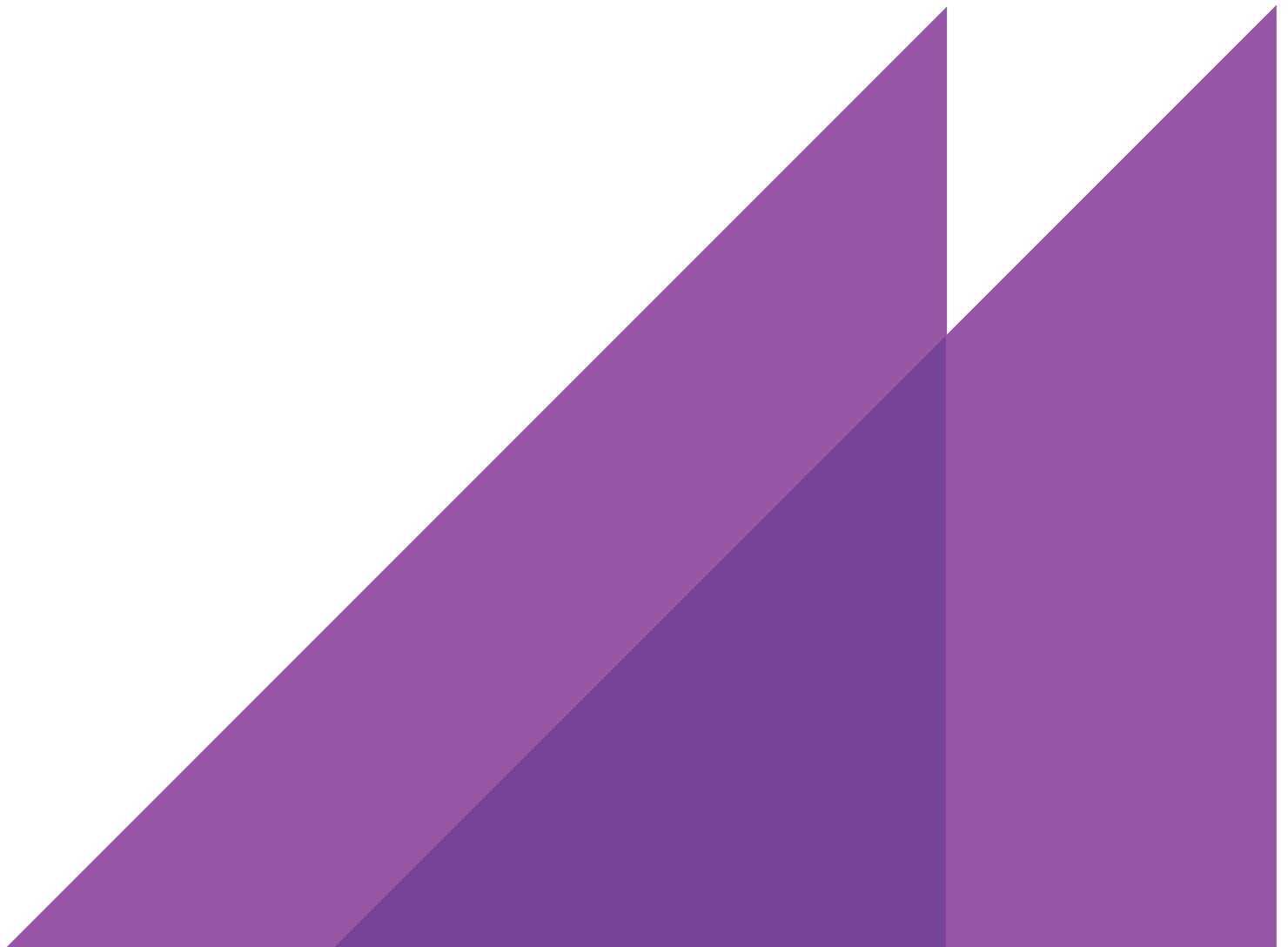
26 OCTOBER 2015

AUSTRALIA POST



DRAFT PRICE NOTIFICATION

**A SUMMARY OF ISSUES ARISING FROM AUSTRALIA
POST'S AUGUST 2015 DRAFT PRICE NOTIFICATION
TO THE ACCC**





ACIL ALLEN CONSULTING PTY LTD
ABN 68 102 652 148

61 WAKEFIELD STREET
ADELAIDE SA 5000
AUSTRALIA
T +61 (0)412 089 043

LEVEL FIFTEEN
127 CREEK STREET
BRISBANE QLD 4000
AUSTRALIA
T+61 7 3009 8700
F+61 7 3009 8799

LEVEL TWO
33 AINSLIE PLACE
CANBERRA ACT 2600
AUSTRALIA
T+61 2 6103 8200
F+61 2 6103 8233

LEVEL NINE
60 COLLINS STREET
MELBOURNE VIC 3000
AUSTRALIA
T+61 3 8650 6000
F+61 3 9654 6363

LEVEL ONE
50 PITT STREET
SYDNEY NSW 2000
AUSTRALIA
T+61 2 8272 5100
F+61 2 9247 2455

LEVEL TWELVE, BGC CENTRE
28 THE ESPLANADE
PERTH WA 6000
AUSTRALIA
T+61 8 9449 9600
F+61 8 9322 3955

ACILALLEN.COM.AU

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EXECUTIVE SUMMARY

BOX ES 1 KEY POINTS



A significant proportion of the mailing industry relies on services from Australia Post. Around 75 per cent of the mailing industries value add and employment exists outside Australia Post's activities.

Australia Post's notification of its intention to increase prices represents the first stage in an economic regulatory review process. It would seem logical that this regulatory review process should adopt best practice regulation as enunciated in recent policy issues from the Australian Economic Regulator. That is that economic regulation should be:

- incentive based
- designed to encourage necessary and efficient investment
- coupled with a strong consumer engagement framework.

These goals place a number of obligations on Regulator in reviewing Australia Post's notification. The following issues are identified:

- Australia Post's proposed expenditure should be scrutinised along with the examination of the cost attribution model to ensure that it is efficient
- the elasticity of demand may not be linear over a 40 per cent price rise and it is possible that demand would be more inelastic at the proposed higher price level than assumed by Australia Post
- the draft price allocation should be assessed on its own merits with regard to the efficient cost of supplying the relevant services
- the WACC parameters should be reviewed against what an efficient operator in a competitive market would expect:
 - in particular the assumption of a zero gamma should be reviewed in the light of contemporary regulatory practice
- there has been limited information on the underlying costs of reserved services made available to consumers
 - given the magnitude of the proposed price increase, consumers in the mailing industry would have advocated a slower smoother glide path to a new price level. There has been little opportunity for consultation on this matter.

The ACCC raised six questions in the issues paper. The submission from *Printing Industries* and related industry bodies might approach these questions by firstly outlining the key principles of better economic regulation, which are:

1. economic regulation should be incentive based wherever possible
2. necessary and efficient investment should be encouraged and the return on investment should balance predictability with the need to take into account changing market conditions
3. economic regulation should be coupled with a strong consumer engagement framework.

The submission should note that the direct activities of Australia Post represent only about 25 per cent of the total value added by the mailing industry and 25 per cent of the employment in the mailing industry. The impact of the proposed price changes needs to be carefully considered within these three principles.

With respect to the six questions posed in the issues paper, the submission would make the overriding point that the ACCC should examine the draft pricing proposal for the reserved letter services in a manner that is consistent with these principles. This will ensure that Australia Post is treated consistently with other regulated monopoly businesses, whether they are Government owned or privately owned. This also ensures that Australia Post's customers and other stakeholders can be assured that the prices they are paying are developed in line with best practice and are scrutinised appropriately. Scrutiny must be applied and must also be seen to be applied.

Broadly, this implies the application of a building blocks approach to establish a regulated revenue over a regulatory period based on sound forecasts, a rigorous assessment of the efficient capital and operating costs and a two way consultation process with consumers to ensure that the benefits to consumers of the regulatory process are realised. This is not explicitly required by the applicable legislation. However, it is entirely consistent with its intent, which is for the ACCC, as economic regulator, to apply regulatory pressure in lieu of competitive pressure.

More specific answers to the ACCC's six questions follow.

Question 1

If a price increase is required for Australia Post to help meet the cost of providing the slower ordinary letter service, should the increase be implemented in one step or over time? Is a longer-term approach to setting Australia Post's ordinary letter prices, such as a price path, more appropriate?

Before asking how price increases should be staged, the ACCC should satisfy itself that Australia Post's proposed expenditure is efficient. Therefore, the ACCC should consider how much an efficient prudent entity would spend in Australia Post's position and set Australia Post's expenditure allowances to this amount(s).

Consistent with this, a building blocks approach to estimation of an efficient revenue and hence price should be adopted based on the reserved services component of the business.

It is possible that some of the costs Australia Post will incur in the short term are transitional. Those costs may be incurred 'once off' and then not incurred again. Costs of this type should be recovered, but they should not cause prices to 'ratchet up' to higher levels in future after the transitional costs are gone. Even if the cost profile is 'jagged', the price profile need not be. It would be more efficient for their recovery to be 'smoothed' over time rather than for prices to go up sharply to recover them quickly and then to come back down in future. The ACCC should examine the extent to which Australia Post's immediate costs are once off, for example the extent to which they are staff separation costs, and apply this approach.

The ACCC has commissioned independent expert advice to review Australia Post's cost allocation model. The same scrutiny should be applied to its proposed expenditure.

Australia Post's demand forecasts are a key input to the price setting process and, as is the case in other regulated sectors, they should be subjected to close scrutiny and review.

The price elasticity assumptions in particular should be subjected to scrutiny. The draft price notification provides no justification for the values other than saying that Australia has elected to use different values than those estimated by Diversified Specifics.

The ACCC should also require Australia Post to enter into full consultation with users of the reserved mail services on the impact of any price increases on consumers with respect to both the magnitude of the increase and the timing of increases.

Question 2

Australia Post's forecast savings in operational costs are largely dependent on around 80 per cent of addressed letter volumes being delivered at the slower timetable. Use of the slower timetable instead of the faster priority timetable would be encouraged by Australia Post through a price difference between these services.

Would a price difference between the regular and priority ordinary mail services encourage use of the slower regular service? If so, what level of price difference would encourage significantly greater use of the slower service?

The key issue is the need for efficient incentive based regulation of the price of the slower timetable service. The appropriate price differential should be considered in the light of the ACCCs independent investigation of the elasticities of demand.

Question 3

What are your views on Australia Post's proposed method of cost allocation? Are there any other cost allocation issues that the ACCC should be considering?

Australia Post's expenditure proposal should be assessed on its own merits with regard to the efficient cost of providing those services. In assessing the expenditure proposal for letter services, the profitability of Australia Post's non-reserved businesses is not relevant. The guiding principles should be:

- efficiency - letter services should provide an efficient return to Australia post, but not more
- competitive neutrality – Australia Post's parcel business should not receive a competitive advantage by reason of its letter business.

The cost allocation model should be examined closely in the light of the proposed report to be commissioned by the ACCC on this matter. Costs to be allocated should include both capital and operating costs.

Question 4

Is Australia Post's forecast improvement in operating efficiency over the next three years comparable with that which would be expected in the transport / logistics sector? What rate of improvement in Australia Post's operating efficiency could reasonably be expected?

Benchmarking comparisons of relative rates of improvement over time may not necessarily be an indication of operating efficiency in Australia Post. The efficiency of capital and operating costs of the reserved letter services should be examined in the light of service delivery requirements as well as in light of comparisons with the transport and logistics sectors.

The question is not whether Australia Post *today* is more efficient than it was *yesterday*. Rather, the question is whether Australia Post's proposal for the future is as efficient as it could be.

Question 5

Australia post's rate of decline in its letter volumes has been around 5 to 6 per cent in most years since 2009 however it is currently forecasting that the annual rate of decline will more than double (i.e. Up to 13.9 per cent) in the coming three years. Is such an increase in the forecast rate decline of letter volumes realistic given the trend since 2009?

It is not clear that the assumptions on the factors that drive demand proposed by Australia Post in its pricing proposal reflect the current market situation particularly with respect to the assumption that the elasticities in the future are likely to reflect those in the past. Considerable substitution of electronic services has already occurred and it is possible that the remaining market is less price responsive. The ACCC's examination of price elasticities should explore this issue.

Question 6

Is the WACC proposed by Australia Post consistent with an efficient benchmark for its cost of capital?

The ACCC should closely scrutinise the proposed WACC and ensure that it is consistent with the WACC allowed for other regulated business, whether Government or privately owned. We note, in particular, that the proposed gamma does not appear to be consistent with contemporary regulatory practice.



1.1 Why is Australia post submitting a price notification

Australia Post is a substantial Government owned business. According to the issues paper released by the Australian Competition and Consumer Commission (ACCC) in relation to its draft price notification, Australia Post earned more than \$6 billion in revenue in 2013/14. Of this, slightly less than half was in the 'parcel' business, in which Australia Post competes with numerous other businesses¹ (ACCC, September 2015).

The remaining (just over) half of Australia's revenue came from its postal business. More than half of this, or about 28 per cent of Australia Post's revenue is in the 'reserved' services, which are essentially standard letters weighing no more than 250 grams.

Insofar as it is a provider of reserved services, Australia Post is a statutory monopoly. It has this segment of the market to itself. As a statutory monopoly, Australia post is subject to economic regulation.

Several forms of economic regulation are employed in Australia. In Australia Post's case the applicable regulation is set out in the provisions of what used to be the *Prices Surveillance Act*, but is now section 95Z, Part VIIA of the Competition and Consumer Act (2010) (CCA).

In very simple terms, the economic regulatory framework applying to Australia Post prohibits it from increasing the price of reserved services above their current level (as that may be from time to time) unless two conditions are met:

1. Australia Post has notified the ACCC of its intention to increase prices
2. ACCC has endorsed that notification.²

If the ACCC does not endorse Australia Post's proposed price increase, it must state a price to which it would not object.

Therefore, Australia Post's price notification is the first 'move' in an economic regulatory process. It has submitted a price notification so that it may be scrutinised by the ACCC to ensure that it meets the requirements of the CCA.

1.2 What are the requirements of the CCA?

The reason that Australia Post's pricing is subject to this process is set out in s.95E of the CCA. It is that, in this market, competitive pressure is not sufficient to deliver efficient prices and to protect consumers. The broader objective of the CCA is also relevant. This is to:³

¹ ACCC, Australia Post draft price notification – issues paper

² Another option is that the ACCC does not respond to the price notification. Clearly that is unlikely in this case.

³ CCA, s.2

Enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer protection.

Competition is not an end in itself. Competition is pursued in markets not for its own sake, but because when goods and services are supplied under competitive pressure they will tend to match consumer preferences more closely and be priced more efficiently than if there was no such pressure. As the degree of competition increases, market outcomes will tend to be more efficient.

It follows that the ACCC's role in its dealings with Australia Post is to ensure that Australia Post's prices are similar to those that would prevail if there was competitive pressure for reserved services. The ACCC's role is to apply *regulatory* pressure in lieu of *competitive* pressure to deliver efficient outcomes.

1.3 The principles of better regulation should apply to Australia Post

As noted above, Australia is not the only business in Australia with a monopoly. Nor is it the only business subject to economic regulation.

Economic regulation has been the subject of considerable development and attention in Australia. The most recent example was the Australian Energy Regulator's (AER) *Better Regulation Review*, which was conducted in 2013. The AER operates under the CCA and the principles it developed under this review are equally relevant to the ACCC's administration of economic regulation as to the AER's.

Following that review, the AER arrived at a set of three key principles for better economic regulation.⁴

The first principle is that economic regulation should be *incentive based wherever possible*. The incentives it creates should be designed to encourage regulated businesses to spend efficiently and should be supported by a robust approach to assessing expenditure forecasts.

The second principle is that "*necessary and efficient investment should be encouraged*" and that the rate at which regulated businesses earn a return on investment should "*balance predictability with the need to take into account changing market conditions*."

The third key principle is that economic regulation should be coupled with a *strong consumer engagement framework*. This will encourage greater involvement and communication between regulated businesses and their customers.

We note, of course, that the legal framework applying to Australia Post is different to that applying to the energy networks the AER regulates. However, the underlying objective and purpose of economic regulation is the same regardless of which legal avenue is used to apply it. In our view these three key principles are equally applicable to Australia Post as they are to energy networks and other regulated businesses.

Therefore, it is our view that the ACCC should allow these three key principles to guide its assessment of Australia Post's price notification, both now at the draft stage and, in due course, when it is submitted formally.

1.4 Structure of this report

Chapter 2 of this report provides background information in relation to the Australian Postal industry to place consideration of Australia Post's draft price notification into context. In summary, that section shows that the Australian Postal industry is substantial, contributing approximately

- \$14.1 billion to the Australian economy in 2013-14
- And employing at least 131,000 (FTE) Australians.

Around 25 per cent of this activity and contribution is made directly by Australia Post, with the remainder made by other businesses including the franchises. There is therefore a large number of other businesses as well as consumers that are affected by Australia Post's prices and a significant part of Australia's economic product depends on it. The ACCC's consideration of Australia Post's prices is important and should be given due consideration.

⁴ AER, Overview of the Better Regulation reform package, April 2014, p. 4, available from www.accc.gov.au, retrieved 30 September 2015.

Against that background we turn to the *Better Regulation* principles set out above. In the following three chapters we take the principles one at a time and apply them to Australia Post's draft price notification. Accordingly:

- Chapter 3 discusses the incentives that apply to Australia Post
- Chapter 4 considers whether the draft price notification encourages 'necessary and efficient investment' and whether the proposed rate of return strikes the appropriate balance
- Chapter 5 relates to consumer engagement.



Modelling and economic analysis that ACIL Allen conducted for *Printing Industries* in 2015 shows that Australia's mailing industry is substantial.⁵

It should be noted that there are activities that are undertaken, but which were omitted from this modelling and analysis. In large part this is because, like the tourism industry, the 'mailing industry' is not represented as a single sector in the traditional ABS national accounts. Therefore, while parts of the industry have been quantified, other parts are 'mixed' with other industries in the national accounts. The contribution of those 'other' parts of the mailing industry has not been quantified.

This omission makes the analysis presented here a conservative estimate of the contribution the mailing industry makes to Australia's economy. The true impact would be greater, though we cannot say confidently how much greater.

The mailing industry includes, but is not limited to, three groups of activities that were quantified, namely:

- direct mail services, which include postal and courier services
- mail management services in other businesses
- mail advertising services such as catalogues and other direct marketing material.

Between them, ACIL Allen estimates that, in 2013-14, these three groups made a total value add to the Australian economy of approximately \$14.1 billion. This represents 0.9% of Australia's Gross Domestic Product.

Further, the businesses in these groups employ a large number of Australians, including a large number in regional areas. Across the three groups we estimate that employment in the mailing industry is more than 131,000 FTE.

This accounts for approximately 1.4% of employment in Australia in 2013-14.

Of these 131,000 jobs, approximately:

- 75 per cent, or 98,000 FTE, were in direct mail services
- 17 per cent, or 23,000 FTE were in mail management services
- 8 per cent, or 10,000 FTE were in mail advertising services.

More detailed information in relation to the three identified groups of activities in the mailing industry is provided in the following sections.

⁵ ACIL Allen, *The economic contribution of the Australian Mailing Industry*, August 2015

The value added from Australia Post's direct activities in 2013-14 was \$3.5 billion which represents around 25 per cent of all mail industry activities. A substantial part of Australia's mailing industry (including the franchises) exists outside Australia Post. However, those parts of the industry are all reliant on, or influenced by, Australia Post's direct activities in some way. There is therefore a case for the ACCC to give careful consideration to the implications for the broader mailing industry of Australia Post's pricing as it considers its response to Australia Post's price notification.



The first of the three guiding principles for *Better Regulation* is that Australia Post should be subject to incentive based regulation to the extent that this is possible.

This chapter begins by describing incentive based regulation briefly. It then compares it with the alternative, ‘cost of service regulation’, which is widely accepted to be inferior.⁶

Then we discuss the application of incentive based regulation to Australia Post’s draft price notification. There are three key areas on which we encourage the ACCC to focus to ensure that Australia Post’s incentives are set appropriately.

3.1 What is incentive based regulation

Incentive based regulation is a form of regulation where the regulator ‘locks in’ expenditure allowances for a period of time at the beginning of a regulatory period. The regulator chooses those allowances by considering the amount of expenditure that the business would need to make to meet its (pre-defined) service targets. It is then up to the business to spend those allowances as it sees fit, subject to an obligation to meet those service targets.

The key difference between incentive based regulation and cost of service regulation is that the business will not be compensated if its *actual* expenditure exceeds its expenditure allowances. On the other hand, if the business spends less than its expenditure allowances, it will keep the additional revenue and earn additional profit for a time.

The advantage of incentive based regulation over the alternatives is that if the business has a profit based incentive to seek out and implement more efficient ways of providing its service. With cost of service regulation the incentive is greatly diminished because the business will earn the same profit whether it becomes more efficient or not.

In practice, incentive based regulation is implemented using the building blocks model. The regulator analyses calculates the total revenue that a business will require based on the three ‘blocks’, namely:

1. operating expenditure
2. return of investment (depreciation) and tax
3. return on investment.

When the regulator has determined the required *revenue* it determines the appropriate *price*. Broadly, this is done by dividing revenue by a forecast of the volume that will be sold.

The regulator may enhance this basic model by applying features such as an efficiency benefit sharing scheme or incentives to use non-traditional approaches to meeting service targets.

⁶ See, for example, AER, *Overview of the Better Regulation reform package*, April 2014. p. 5

A crucial feature of incentive based regulation is that allowances are *locked in*. When the regulator has determined the level of the building blocks, they are not reconsidered. If the business fails to meet the targets with the allowed levels of expenditure this is, simply put, bad luck. It is crucial that this is the case because, if it is not, the incentive to chase efficiencies is gone.

Further, incentive based regulation is a forward looking process. There is no place in incentive based regulation for a business to be compensated for losses made in the past.

3.2 Applying incentive based regulation to Australia Post

There are two aspects of Australia Post's draft price notification and the ACCC's issues paper that 'touch on' incentive based regulation, namely:

- Australia Post's proposed expenditure
- Australia Post's demand forecasts and, in particular, its estimates of price elasticity of demand.

These issues are discussed in turn below.

3.2.1 Proposed Expenditure

The information that has been published in support of Australia Post's draft price notification does not appear to set out proposed capital and operating expenditure allowances as such.⁷

There are numerous references to Australia Post's 'Reform our Letter Service' program (RoLS). From those references it certainly appears that the proposed operating expenditure is less than operating expenditure has been in recent years. It is possible, but we cannot say for sure, that Australia Post has submitted more detailed proposals to the ACCC in confidence.

Broadly, the ACCC should satisfy itself that Australia Post's proposed expenditure is efficient. Therefore, the ACCC should consider how much an efficient prudent entity would spend in Australia Post's position and set Australia Post's expenditure allowances to this amount(s).

Australia Post's argument that its expenditure is efficient appears to revolve around an efficiency benchmark study that was commissioned in 2008 and completed in 2009.⁸

While we have not reviewed the study itself, we note that Australia Post's reference to it in the draft price notification appears not to be on point. Australia Post quotes the study's conclusion that it has:

shown the most consistent improvement in total factor productivity (TFP) of the seven postal services reviewed. Importantly, Australia Post improved its ranking when formal, statistically based adjustments were made for differences in mail and customer density with its TFP level being ranked first or second after the adjustments were made.

In other words, between 2002 and 2009, Australia Post's productivity improved more quickly than postal services overseas.

It is no doubt laudable that Australia Post was able to increase its productivity faster than its overseas comparators. However, the issue for a regulator is whether the costs Australia Post proposes to incur are efficient. The fact that they have improved faster than others might indicate that they are efficient, or it might just mean that they were once much less efficient than others and they have caught up somewhat. We cannot say.

We note that the ACCC has commissioned independent expert advice to review Australia Post's cost allocation model. However, it is not clear that the same scrutiny is being applied to its proposed expenditure. In our view it would be appropriate, and consistent with the regulatory treatment of other similar businesses, for Australia Post's expenditure proposal to be scrutinised with a view to determining whether it is efficient.

⁷ There is financial information in chapter 7 of the Draft Price Notification. However, it is not clear whether this applies to the whole business or, as would be necessary, just to the reserved services function. The text surrounding those tables indicates that they relate to the entire business. Therefore, we have assumed that they are not the relevant figures.

⁸ Australia Post, Draft Price Notification, p.35

3.2.2 Demand forecasts

Demand forecasts are a key input to economic regulatory proposals. They are the 'denominator' that links revenue to price.

They are also a key input to the assessment of expenditure proposals, particularly capital expenditure.

In *Better Regulation*, the AER described a set of best practice principles for demand forecasting. According to these, demand forecasts should be:⁹

- accurate and unbiased
- transparent and repeatable
- based on key drivers
- produced from models that have been validated and tested
- based on the most recent information available
- reviewed regularly.

In the time available to us we have reviewed the demand forecasting methodology briefly. The forecasts were prepared using a Vector Error Correction Model, which is essentially a form of time series analysis based in which trends in postal volumes have been compared to trends in explanatory variables.

We raise several areas below where we feel that the demand forecasts should be considered further. Our key point, though, is that the demand forecasts are a key input to the price setting process and, as is the case in other regulated sectors, they should be subjected to close scrutiny and review. This is consistent with *Better Regulation*, in which the AER says that its review of capital expenditure proposals will include a "detailed consideration of the demand forecast and the timing, scope, scale and level of expenditure..."¹⁰

In this case, Australia Post has submitted a set of demand forecasts based on the work of an independent consultant, Diversified Specifics.¹¹ However, it has varied the forecasts to account for its own views of price elasticity and other factors.

In our view the price elasticity assumption in particular should be subjected to scrutiny. The draft price notification provides no justification for the values other than saying that Australia has elected to use different values. Aside from this, Australia Post refers to unspecified previous studies that have failed to produce a meaningful estimate of price elasticity at all.

It is clear that Australian letter volumes have declined rapidly in recent years. Presumably this is due to the rapid uptake of electronic, internet based alternatives to postal mail. In this context it is difficult to obtain a 'clean' estimate of price elasticity. In our view, it is at least arguable that price elasticity will now be very low, lower even than the -0.25 assumed by Australia post. This would be consistent with the view that a large portion of mail that can readily be converted from postal mail to electronic alternatives *has already been* converted. If this is so, the remaining 'sticky' mail may be much less price responsive than the mail that has already 'switched'.

We are also concerned that applying a simple linear elasticity may induce a spiral in the demand modelling where increasing prices induce falling demand, which induces increased prices etc.

As we say above, it is important that the ACCC considers these issues fully in its evaluation of the draft price notification. This may be underway, but it is not clear from the issue paper that this is the case.

In a separate issue, we note that a key driver of the future forecast decline in letter volumes is the projected uptake of broadband internet access.

⁹ There are other principles that are applicable to the electricity sector, which may not be applicable to post.

¹⁰ AER, *Better Regulation: Expenditure forecast assessment guideline*, p. 2, available from www.aer.gov.au

¹¹ Diversified Specifics, *Australia Post Domestic Letter Volume Demand Update*, August 2015, available from www.accc.gov.au

Conceptually, we accept that this is likely to be a key driver of declining letter volumes. However, we note from the Diversified Specifics report that Australia Post's volume forecasts are based on the assumption that broadband uptake in Australia will match that in the Asia Pacific region.¹²

Diversified Specifics argues that this is consistent with the view that uptake will follow infrastructure condition. This may be correct, but intuitively it is difficult to accept that Australia, where uptake of broadband and mobile technology has traditionally been high, will follow the same forward trajectory as other countries where it has been slower to date. In our view this is a matter which should be scrutinised further by the ACCC.

¹² See Diversified Specifics' report, page 25 "the wireless mobile substitution variable developed in this study is based on a combination of [ABS data] and the set of global mobile traffic projections pertaining to the Asia Pacific region...".



The second *Better Regulation* principle is that the regulatory regime should:

- encourage necessary and efficient investment, and, by corollary, discourage unnecessary and inefficient investment
 - ensure that the rate of return is an appropriate balance between market conditions and predictability.
- Two issues arise from our review of the draft price notification and the issues paper.

4.1 Cost allocation

The issues paper and the draft price notification both devote significant time to the question of allocating costs appropriately between Australia Post's two broad businesses, i.e. parcel and letter services.

In addition, the ACCC has dedicated significant effort in recent years to ensuring that Australia Post's parcel services are not cross subsidised by its regulated reserved services.

Cost allocation is an important issue for a business which is partly regulated. The key issue is that regulated businesses cannot be allowed to use their regulated status to gain a cost advantage over competitors in non-regulated sectors. In this context, Australia Post cannot be allowed to take advantage of its position as a statutory monopolist in respect of reserved services to compete unfairly in parcel services.

However, the reverse is true as well. In the draft price notification, Australia Post quotes work done by Boston Consulting Group in which it concludes that, without reform, Australia Post's losses from its letter business will soon exceed the profit of its parcel business. This may be true, but we do not see how it is relevant to the issue before the ACCC. That issue is the efficient level of revenue, and therefore price, for Australia Post's regulated letter business. The parcel business has previously been seen as an offset for letter losses, but this is no more than a happy coincidence.

Australia Post's draft price allocation should be assessed on its own merits, with regard had to the efficient cost of providing relevant services. The profitability of another of Australia Post's business units is simply not relevant.

We acknowledge, of course, that any shortfall Australia makes must be funded from somewhere. The implication in Australia Post's draft price notification is that if costs are not recovered from the parcel business they will become "a drain on the public purse": In our view this is not correct. Australia Post's letter business is just as much a drain on, or a contributor to, the public purse regardless of the performance of the parcel business. If the parcel business' profit is used to offset the losses made in the letter business, it is still unavailable to Australia Post's shareholder to use for other things.

4.2 Rate of return

The appropriate rate of return for a regulated business is a complex and controversial matter. A detailed discussion is beyond the scope of this paper.

However, we consider it important to note that Australia Post's rate of return is not being determined in a vacuum. On the contrary, the AER has recently completed an extensive process for determining the appropriate rate of return for energy networks. That process has made substantial changes to the way rate of return is set for those regulated businesses.

This process is not without controversy and, at the time of writing, the AER is in the midst of defending an appeal against its regulatory determination for the New South Wales electricity network businesses. A key part of that appeal pertains to the appropriate rate of return for those businesses.

Given that the rate of return is currently *sub judice* we have not conducted a thorough review of Australia Post's proposal. Nor have we attempted to parse the arguments in relation to each of the parameters - given its proximity to the AER, the ACCC will have far superior access to these issues than we could hope to have at this point.

As in other aspects of this paper, though, our point is that the way rate of return is determined for Australia Post should be consistent with the way it is determined for other regulated businesses.

It should be noted that consistency of approach will not necessarily lead to the same outcomes. For example, it is possible that Australia Post will be deemed to have a more risky business than electricity networks (for example) and that the parameters of the Weighted Average Cost of Capital (WACC) will differ to reflect this. This would be entirely possible in a model in which a given approach is applied consistently to different businesses.

In practical terms, we expect that Australia Post will be deemed to be more similar to a gas than an electricity distribution business. Therefore, in Table 4.1, we have compared Australia Post's proposed WACC parameters with the corresponding parameters determined by the AER for Jemena Gas Networks (in New South Wales).

TABLE 4.1 – WACC PARAMETERS, JEMENA GAS NETWORKS AND AUSTRALIA POST

	Date	Reg. period	Nominal risk free rate	Equity beta	MRP	Gearing ratio	Gamma	Nominal Vanilla WACC
Jemena Gas Networks	Jun-15	Applicable to 2015/16	2.53%	0.6	6.5	60%	0.4	5.41%
Australia Post	Aug-15	15/16 and 16/17	2.96%	0.8	7	30%	0	7.29%
Delta			0.43%	0.2	0.5	-30%	-0.4	1.88%

SOURCE: JGN – AER WEBSITE, JGN FINAL DETERMINATION
AUSTRALIA POST – DRAFT PRICE NOTIFICATION

Table 4.1 shows that there are differences in several of the WACC parameters, which may be due partly to timing and the process of estimating parameters. However, at least one difference is notable, namely the difference in the proposed 'Gamma' or the proportion of imputation credits that can be used by shareholders.

Gamma has a significant impact on the rate of return a regulated business is permitted to earn and, therefore, on Australia Post's revenue.

In the draft price notification, Australia Post proposes that Gamma should be zero. That is, it suggests that tax imputation credits are of no value to its shareholder. The reason is outlined in the supporting report from Value Advisers. To paraphrase, Value Advisers argues that:

1. the appropriate value of Gamma should reflect the individual circumstances of a company's shareholder(s)
2. Australia Post's shareholder is the Australian Government

3. the Australian Government does not pay tax
4. with no tax liability to offset, the Australian Government derives no value from tax credits, and therefore Gamma is zero.

Value advisers goes on to say that setting gamma to any value other than zero:

1. would threaten Australia Post's competitive position as it would not be able to enough revenue to cover tax payments
2. amounts to assuming that Australia Post's effective tax rate is less than 30%, which is not correct.

In our view, neither of these assertions is correct. The value of Gamma has no impact whatsoever on Australia Post's competitive position because it applies only to the parts of Australia Post's business where it is a statutory monopolist. In these parts of its business Australia has neither competitors nor a competitive position.

Contrary to Value Partner's assertion, setting gamma to a non-zero value does not amount to an assumption that Australia Post's effective tax rate is less than 30%. Rather, it amounts to an assumption that the *efficient* tax rate for a postal business is less than 30%. Value Partners may be right when it says that Australia Post's *actual* tax rate is 30%, but this is not relevant. As discussed above, in incentive based regulation the objective is to compensate *efficient* costs, not *actual* costs. This principle applies here as well.

The appropriate value of Gamma is a complex issue. We are aware of views in the literature that the appropriate value for Gamma is zero based on the notion that Gamma should be set for the *marginal* investor in the regulated business, rather than the *average* investor. There are also empirical studies which suggest that zero is the appropriate value.

Notwithstanding this, the ACCC has previously taken the view that the appropriate gamma for Australia Post should be the average gamma for Australian companies. Unsurprisingly, Value Partners rejects this view.

In contrast to Value Partner's argument, we note that the value of Gamma is an issue in the ongoing appeal in relation to New South Wales electricity distribution networks. In that appeal the debate is whether Gamma should be 0.25, as proposed by the businesses, or 0.4, as set by the AER. Neither party in that appeal has proposed that gamma should be zero, notwithstanding that the networks in question are Government owned.



The third *Better Regulation principle* is that economic regulation should be coupled with a strong consumer engagement framework. The objective of this is to better inform the business about customer preferences, which would be observed in a competitive market, but are more difficult to detect in a monopoly.

In this respect we note that Australia Post is conducting an “intensive stakeholder engagement program”, which has been intensified further since the proposed reforms were announced. We understand that some of the results of that program have been provided to the ACCC, though we have not seen them.

Based on the information in the draft price notification, the stakeholder engagement program appears to have been conducted mainly *after* Australia Post formed its views as to the prices it would propose. Part of the focus in the write up of the engagement program is on how the proposed changes will be implemented. Another part of the focus is on Australia Post *telling* stakeholders what it is doing, rather than *asking* what stakeholders would like it to do. Consider, for example, Australia Post's description of its engagement website “the National Conversation”, which is “a website dedicated to promoting community awareness about the future of the letter service.”

Australia Post also sent letters to around 10 million Australians between March and May 2015 explaining what it had decided to propose.

Consumer engagement of this type is fine, but it is not what the AER had in mind in *Better Regulation*. Rather than *telling* customers, the purpose of consumer engagement in *Better Regulation* is to *ask*. In *Better Regulation* (with emphasis added) “(c)onsumer engagement is about working openly and collaboratively with consumers and providing opportunities for their views and preferences to be heard **and to influence service providers' decisions.**”¹³

Our concern about the consumer engagement program Australia Post describes in its draft price notification is that it provided little or no opportunity for Stakeholders to influence its decisions. If it had, we understand that *Printing Industries* would have advocated for several differences from the current proposal.

One difference we understand that *Printing Industries* would have advocated for is a slower, smoother price path to transition to the new price levels. This would allow a balance between recovering revenue over time and allowing businesses time to adjust. The purpose of setting prices efficiently is to ensure that stakeholders make efficient choices. However, to a large extent choices have already been made so there is a need for time to adjust. The objective of efficiency will not be met if price changes are so rapid that they ‘shock’ downstream businesses too harshly.

¹³ AER, *Better Regulation: Consumer engagement guideline for network service providers*, August 2013, available from www.accc.gov.au

A smoothed price path is entirely consistent with economic regulation in other sectors.¹⁴ In fact a key principle of tariff setting in energy markets is the need for certainty and stability for customers.

Related to this, we note that Australia Post's proposal would see it over-recover revenue by a forecast \$80 million in 2016-17. It is not clear why this over-recovery is necessary or that it is efficient. However, it appears to be a good opportunity for price smoothing. Prices could be set lower in the immediate term so that the present value of Australia Post's revenue is at the target level. Essentially the 2016/17 'over' could be used to offset an 'under' in the immediate term.¹⁵

¹⁴ When price paths are smoothed the time value of money is brought into consideration to ensure that the regulated business does not lose as a result of the timing changes.

¹⁵ The practicality of this depends on when the new prices take effect. However, the concept can be applied regardless.

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ACIL ALLEN CONSULTING PTY LTD
ABN 68 102 652 148

61 WAKEFIELD STREET
ADELAIDE SA 5000
AUSTRALIA
T +61 (0)412 089 043

LEVEL FIFTEEN
127 CREEK STREET
BRISBANE QLD 4000
AUSTRALIA
T+61 7 3009 8700
F+61 7 3009 8799

LEVEL TWO
33 AINSLIE PLACE
CANBERRA ACT 2600
AUSTRALIA
T+61 2 6103 8200
F+61 2 6103 8233

LEVEL NINE
60 COLLINS STREET
MELBOURNE VIC 3000
AUSTRALIA
T+61 3 8650 6000
F+61 3 9654 6363

LEVEL ONE
50 PITT STREET
SYDNEY NSW 2000
AUSTRALIA
T+61 2 8272 5100
F+61 2 9247 2455

LEVEL TWELVE, BGC CENTRE
28 THE ESPLANADE
PERTH WA 6000
AUSTRALIA
T+61 8 9449 9600
F+61 8 9322 3955

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EXECUTIVE SUMMARY

Overview

Quantifying the full scope of the Australian mailing industry is complicated because, like the tourism industry, it is not represented by a single sector in the traditional ABS national accounts. This report draws on a variety of techniques and information to capture a number of key activities that comprise the Australian mailing industry. In particular, we have been able to estimate the size of the following three groups:

- Direct mail services which include postal and courier services (Group A)
- Mail management services within other businesses (Group B)
- Mail advertising services (Group C).

We also identified a number of other mailing industry activities that directly support the industry but we have not been able to quantify these activities in economic or employment terms because of lack of available data. These include:

- printers focussed on producing mail-related products
- marketing and advertising services focussed on producing mail-related products
- production of catalogues inserted into addressed mail
- equipment providers and other service businesses who play a key role in supporting mail-related operations.

The total value added by those groups that could be quantified (direct mail, mail management services and mail advertising services) was found to be \$14.1 billion in 2013-14 which represented 0.9 per cent of Australia's GDP

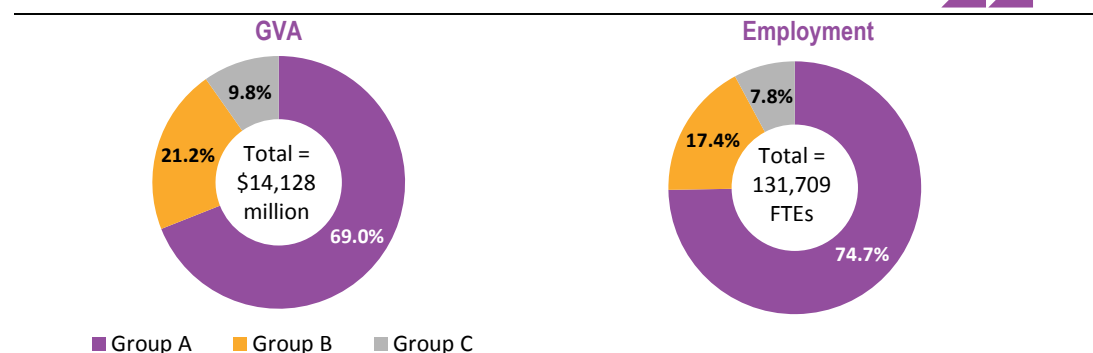
- 69 per cent of GVA (\$9.8 billion) was attributable to direct mail services (Group A)
- 21 per cent of GVA (\$3.0 billion) was attributable to mail management services (Group B)
- 10 per cent of GVA (\$1.4 billion) was attributable to mail advertising services (Group C).

Total employment in these groups was estimated to be 131,709 FTE which represented about 1.4 per cent of total full time equivalent employment (FTE) in Australia:

- 75 per cent (98,429 FTE) was attributable to direct mail services (Group A)
- 17 per cent (22,960 FTE) was attributable to mail management services (Group B)
- 8 per cent (10,320 FTE) was attributable to mail advertising services (Group C).

The share of direct and indirect contribution (GVA and employment) of Group A, B and C at the national level is shown in Figure ES 1.

FIGURE ES 1 – ECONOMIC CONTRIBUTION OF THE AUSTRALIAN MAILING INDUSTRY TO AUSTRALIA, 2013-14 (\$ MILLION AND PER CENT OF TOTAL)



NOTE: GVA = GROSS VALUE ADDED. FTE = FULL TIME EQUIVALENT.

SOURCE: ACIL ALLEN CONSULTING, 2015.

The distribution of GVA and employment across the states/territories is proportional to size reflecting the fact that demand for postal services is proportionate to population and that the supply is closely linked to the people the industry is servicing. For example, the largest economic contribution arises in NSW at \$4.0 billion followed by Victoria at \$3.4 billion.

The same applies to employment. The largest employment occurred in NSW and Victoria at 37,767 and 34,445 FTEs respectively.

TABLE ES 1 – ECONOMIC CONTRIBUTION AND EMPLOYMENT BY STATE (2013-14)

	GVA	Employment
	\$Am	FTE jobs
New South Wales	3,972	37,767
Victoria	3,358	34,445
Queensland	2,182	22,336
Western Australia	1,803	13,701
South Australia	913	8,763
Tasmania	226	2,204
Australian Capital Territory	208	1,416
Northern Territory	84	757
Australia	14,128	131,709

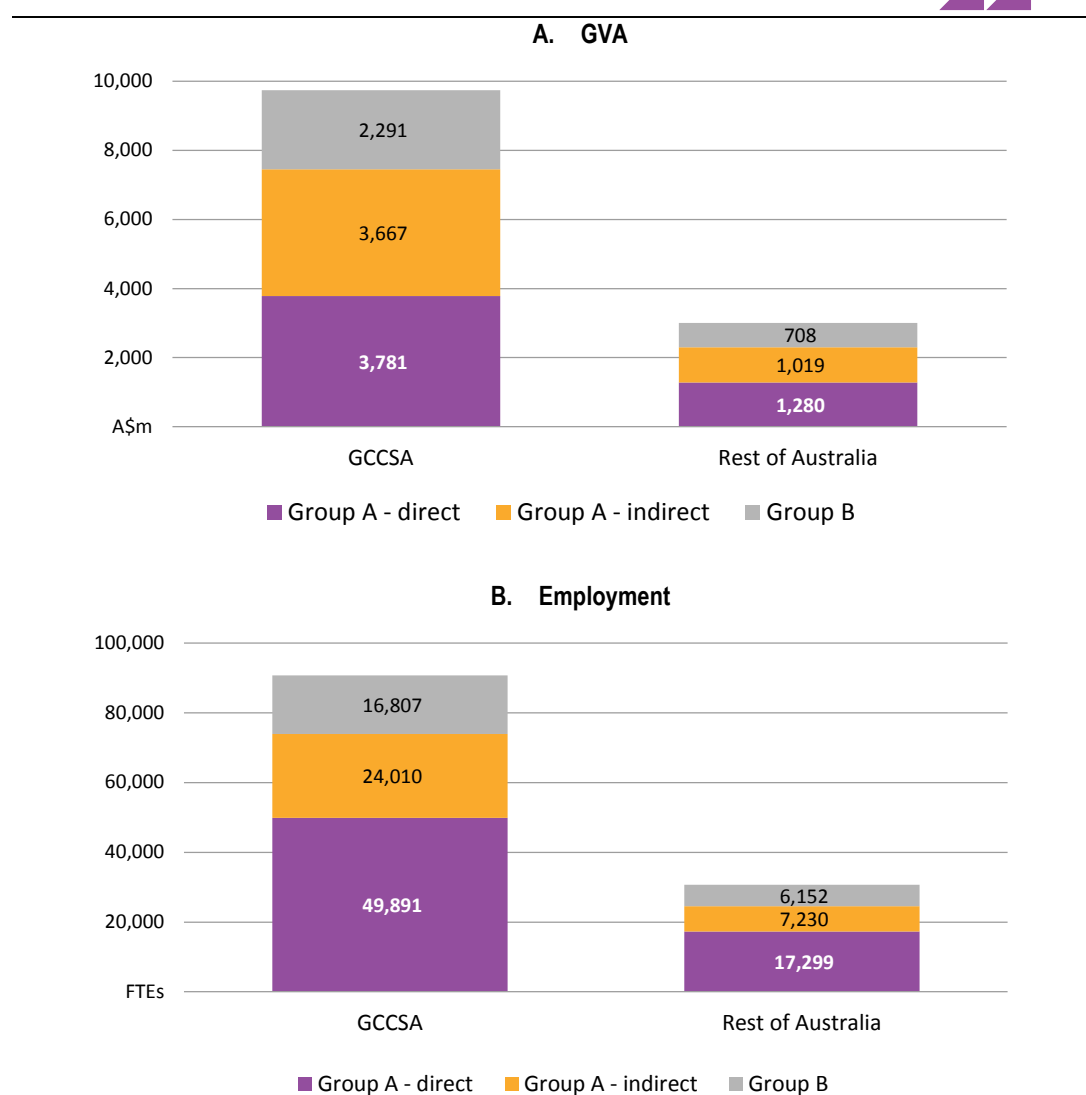
SOURCE: ACIL ALLEN CONSULTING

While the economic contribution in the Greater Capital City Statistical Areas (GCCSAs) is around three times that of the regional areas, postal services generate significant economic and employment activity in regional areas.

The economic contribution for Groups A and B was \$9.8 billion in the GCCSAs compared to \$3.0 billion in the regional areas in 2013-14.

Employment in Group A and B mail industries was 90,708 for the GCCSAs and 30,681 for regional areas in 2013-14.

FIGURE ES 2 – ECONOMIC CONTRIBUTION OF GROUP A & B FOR GCCSA AND REST OF AUSTRALIA, 2013-14 (\$ MILLION AND FTES)



Note: 1. The GCCSA figures here are the sum of all eight GCCSAs in Australia. Rest of Australia figures are the difference between the Australian national wide figure and the GCCSA figures.

2. Group C is reported only at national level; it cannot be further broken down into states due to the lack of data. Group C contributes \$1,381 million to the Australian GVA and 10,320 FTEs to employment (in addition to the figures reported in the chart above).

SOURCE: ACIL ALLEN CONSULTING, 2015

Direct mail services (Group A)

Direct mail services include postal services and courier services. Australia Post dominates postal services but competes with other services providers in the courier services market. Direct mail services generate significant indirect economic activity.

The total contribution of Group A was \$9.8 billion in 2013-14 comprising:

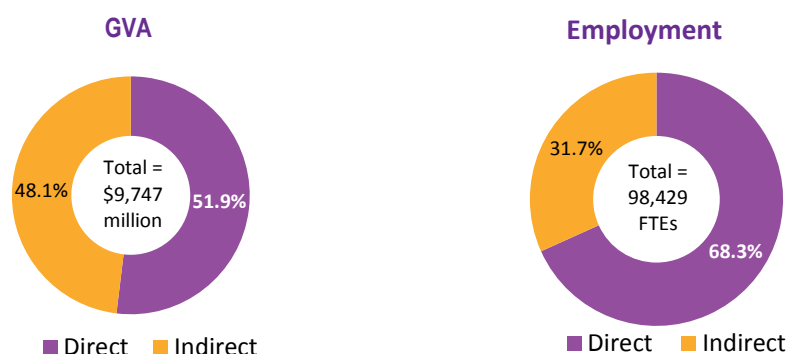
- \$5.1 billion from direct economic activity
- \$4.7 billion from indirect economic activity.

Total employment was 94,429 FTEs which was made up of:

- 67,190 FTEs in direct economic activity

— 31,239 FTEs in indirect economic activity.

FIGURE ES 3 – ECONOMIC CONTRIBUTION OF GROUP A AT NATIONAL LEVEL, 2013-14 (\$ MILLION AND PER CENT OF TOTAL)



NOTE: GVA = GROSS VALUE ADDED. FTE = FULL TIME EQUIVALENT.

SOURCE: ACIL ALLEN CONSULTING, 2015.

Value added by Australia Post was \$3.5 billion in 2013-14 which represents around 36 per cent of GVA of Group A and 25 per cent of total mail industry activities (Groups A, B and C) in that year.

Total employment in Australia Post was around 31,600 FTE employees in 2013-14 (Australia Post, 2014). This represents 32 per cent of Group A activities and 24 per cent of employment in total mail industry activities.

Mail management services (Group B)

Group B captures the activities of managing mail within businesses/industries outside of Group A. In particular, Group B captures the activities by employees, who are predominantly employed for the purposes of management of physical mail in mail rooms or delivery services (for businesses that are not part of Group A).

It is estimated that, in 2013-14, Group B contributed \$3 billion in terms of gross value added to the national economy and created employment for 22,960 FTEs. These were direct impacts as it was not deemed credible to estimate indirect impacts for Group B based on the information available.

Around a quarter of total GVA and employment for Group B arose in regional areas. It was estimated that the total GVA for the GCCSAs was \$2.29 billion in 2013-14 and \$0.71 billion in regional areas. Total employment was in GCCSA areas was 16,807 FTEs in 2013-14 and 6,157 in regional areas (Figure ES 4).

FIGURE ES 4 – ECONOMIC CONTRIBUTION OF GROUP B FOR GCCSA AND REST OF AUSTRALIA, 2013-14 (\$ MILLION AND FTES)



Note: The GCCSA figures here are the sum of all eight GCCSAs in Australia. Rest of Australia figures are the difference between the Australian national wide figure and the GCCSA figures.

SOURCE: ACIL ALLEN CONSULTING, 2015.

Mail advertising services (Group C)

Group C comprises industries that are associated with producing printed advertising or other material and distributed through the mail; such as the catalogue industry that prints and distributes printed advertising material to promote marketing activities.

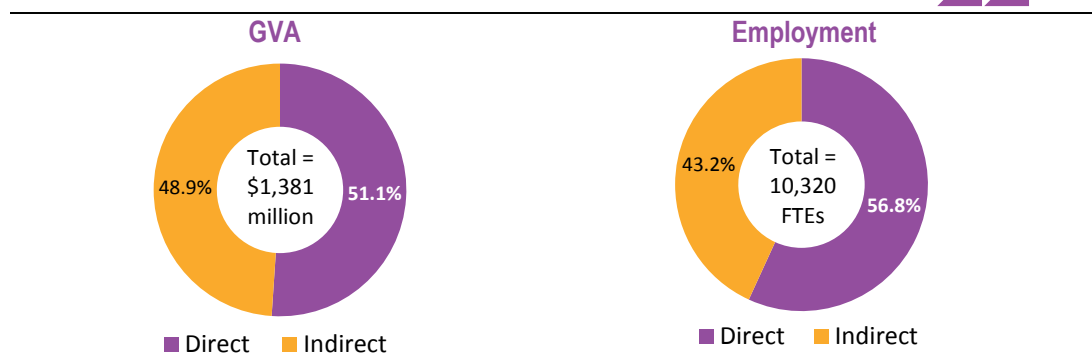
The total contribution of Group C was \$1.4 billion in 2013-14 comprising:

- \$705 million from direct economic activity
- \$676 million from indirect economic activity

Total employment was 10,320 FTEs which was made up of:

- 5,866 FTEs in direct economic activity
- 4,454 FTEs in indirect economic activity.

FIGURE ES 5 – ECONOMIC CONTRIBUTION OF GROUP C AT NATIONAL LEVEL, 2013-14 (\$ MILLION AND PER CENT OF TOTAL)



NOTE: GVA = GROSS VALUE ADDED. FTE = FULL TIME EQUIVALENT.

SOURCE: ACIL ALLEN CONSULTING, 2015.

Due to the lack of data, the direct and indirect economic contribution by Group C is not broken down further into more granular geographic divisions such as GCCSA and state.

Other unquantified mailing industry activities

In addition to the activities of the industry which ACIL Allen has been able to quantify, there are a range of other activities that directly support the industry but have not been able to be quantified based on the available information. Such activities are also likely to be affected by regulatory or other changes in the nature of the industry. These include:

- printers focussed on producing mail-related products
- marketing and advertising services focussed on producing mail-related products
- production of catalogues inserted into addressed mail
- equipment providers and other service businesses who play a key role in supporting mail-related operations.

Key points

The mailing industry contributed around \$14.3 billion to Australia's GDP in 2013-14.

Direct mailing services accounted for 69 per cent of the GVA in 2013-14. The remaining 31 per cent was accounted for by mail management services in other organisations and mail advertising services.

The value added from Australia Post in 2013-14 was \$3.5 billion which represents around 25 per cent of all mail industry activities.

Employment in the industry in 2013-14 was 131,709 FTE employees.

Direct mailing services accounted for 75 per cent of these employees in 2013-14. The remaining 25 per cent were employed in mail management and mail advertising services.

Australia Post directly employed approximately 31,600 FTE in 2013-14. This represented around 24 per cent of total employment (FTE) in the mailing industry.



1.1 Background

This report was prepared for the Printing Industries Association of Australia. The report presents the economic footprint of the Australian postal (or mail) industry. It describes the full production chain from the suppliers of the of the mail industry (e.g., paper producers) to managers (e.g., in-house mail management embedded in the Australian Taxation Office whose activities generate large volume of mail) and carriers of mail (e.g., mail distribution and delivery).

This study looks at not only the economic contribution generated by the industries solely or predominantly concerned with the production, distribution and/or handling of physical mail, but also the economic contribution generated by the mail related services provided by other businesses or industries whose activities generate large volume of mail (e.g., the catalogue industry).

This study does not consider any potential social costs or benefits nor does it consider any indirect implications on other industries beyond the direct value chain.

1.2 Defining the postal industry

The Australian postal industry can be estimated by looking at three separate groups:

- Group A (direct mail services): Those industries that are solely or predominantly concerned with the production, distribution and/or handling of physical mail. Group A includes what is typically thought of as postal businesses such as Australia Post or courier service providers. Group A comprises two sub-groups, namely postal services and courier pick-up and delivery services (courier services). The key distinction between the two is that postal services begin with centralised collection and ends at the recipient, while courier services provide door-to-door services.
- Group B (mail management): Management of mail within other businesses, particularly where people are predominantly employed for the purposes of management of physical mail. Group B captures people working in mail rooms or delivery services for businesses that are not part of Group A. An example of Group B would be the employees of the Australian Taxation Office responsible for managing the mail related to tax records to tax payers.
- Group C (mail advertising services): Direct marketing services especially such activity associated with the sales of products or catalogues delivered through the mail. The catalogue industry produces large volume of advertising material and a significant share of these is delivered through mail.

Details of the definition and categorisation of the postal related industries are provided in Table 1.1.

TABLE 1.1 – DEFINITION AND CATEGORISATION OF THE POSTAL RELATED INDUSTRY

Group	Name of sub-sector	Industry definition	Key activities
Group A (1) – ANZSIC code 5101 (postal services)	Direct mail services	Organisations in the industry pick up and deliver letters, documents and parcels, which usually weigh less than 30 kilograms. Pick-up is from predetermined collection points such as post offices and postal agencies, and excludes the activities of couriers. Organisations that operate the collection points are also included in the industry, as are bulk mail houses.	<ul style="list-style-type: none"> – Mail services (reserved & unregulated mail services) – Postal agency operations – Post office operations (most of which have a franchisor-like relationship with Australia Post) – Bulk mail services (delivery of bulk issued letters, such as monthly billing records from banks) – Mailbox rental services – Parcel delivery – Retail (within post offices)
Group A (2) – ANZSIC code 5102 (courier pick-up and delivery services)	Direct mail services	<p>Businesses in the Courier Pick-up and Delivery Services industry engage in door-to-door pick-up (i.e. from residences or places of business), transport and delivery of letters, documents, parcels and other items weighing less than 30 kilograms. Industry services are provided within Australia, with the destination or origin of goods both international and domestic.</p> <p>Key distinction of the two sub-sectors: Postal Services begin with centralised collection and ends at the recipient, while Courier Pick-up and Delivery Services industry provides door-to-door services.</p>	<ul style="list-style-type: none"> – Customised express pick-up and delivery services – Other pick-up and delivery services. <p>It needs to be noted that the ABS original classification for ANZSIC 5102 also includes activities such as:</p> <ul style="list-style-type: none"> – Grocery delivery service – Home delivery service – Messenger service. <p>However, this study does not include these three categories as they are considered less relevant for the purpose of this study.</p>
Group B (ANZSCO code below): – 142115 Post Office Manager; – 561211 Courier; – 561212 Postal Delivery Officer; – 561200 Couriers and Postal Deliverers, not further defined; – 561411 Mail Clerk; – 561412 Postal Sorting Officer; – 561400 Mail Sorters, not further defined; – 899915 Leaflet or Newspaper Deliverer.	Mail management	<p>Management of mail within other businesses, particularly where people are predominantly employed for the purposes of management of physical mail. Group B captures people working in mail rooms or delivery services for businesses that are not part of Group A.</p> <p>The businesses involving mail management are typically those whose activities generate large volumes of mail, such as the utilities, financial and insurance industries, as well as government agencies such as Centrelink or the Australian Tax Office.</p>	<p>Key activities may vary across business in this category, but may include one or more of the following:</p> <ul style="list-style-type: none"> – mail sorting; – mail delivery; – managing other mail related matters (e.g., staffing and work-flow coordination).

Group	Name of sub-sector	Industry definition	Key activities
Group C	Mail advertising services	<p>Industries that are associated with producing printed advertising or other material and distributed through the mail; such as the catalogue industry that prints and distributes printed advertising material to promote marketing activities. The catalogue industry is a major player in the mail advertising services industry.</p> <p>The mail advertising services industry (e.g., catalogue industry) usually acts as the media on behalf of the industries/businesses that advertise their own products. The top client for the catalogue industry is the retail industry. The top market segments within retail (that uses services by the catalogue industry) include: fast moving consumer Goods (e.g., grocery and liquor), electronic, pharmacy, auto, fashion and takeaways.</p>	<ul style="list-style-type: none"> – Catalogue production (designing and manufacturing); – Catalogue sorting and distribution; – Catalogue delivery.

SOURCE: ABS ANZSIC 2006 AND IBIS WORLD INDUSTRY REPORT.

The determination of the above definition/grouping was based on international literature/practice as well as consultation with the Printing Industries Association of Australia (PIAA). This definition aims to capture a full picture of the activities of the postal industry and thus a better understanding of its economic contribution.

The scope for this analysis includes the three sub-sectors – Groups A, B and C. This approach intentionally extends beyond the traditional and narrower definition of the postal industry that comprises Group A. Groups B and C contribute to a reasonable portion of the total mail related employment and volume in Australia. Accordingly, ignoring Group B and C would lead to under-estimation of the true contribution of the mail industry to the Australian economy.



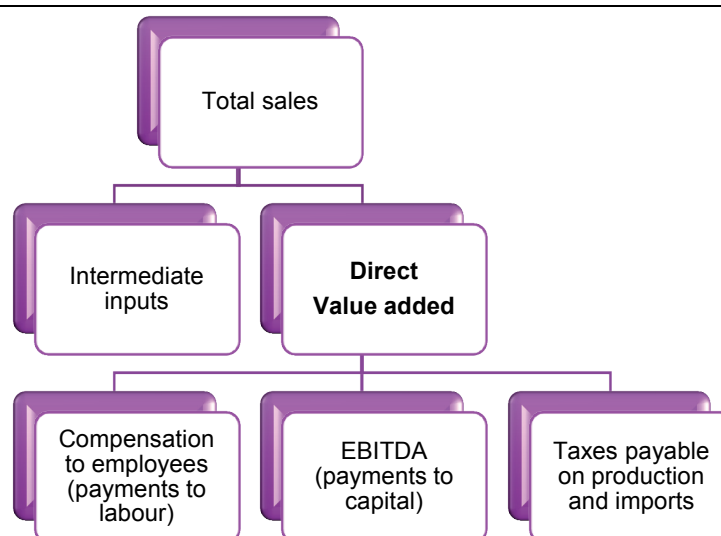
This section of the report presents the methodology used to measure the economic contribution of the Australian postal industry to the economy. The methodology adopted estimates the direct and indirect economic contribution of the postal industry to the economy. This provides a more realistic picture of the scale and scope of the mailing industry in the economy.

2.1 Direct economic contribution

The standard measure of economic contribution is the extent to which it increases the value of goods and services generated by the economy as a whole – in other words, the extent to which it increases economic activity as measured by gross domestic product (GDP). An economy has a range of factors of production (including labour and capital stock) and access to various intermediate inputs. By using the factors of production appropriately, industries are able to add value to intermediate inputs, transforming them into a range of final goods and services purchased by consumers or other industries. An industry or business' contribution to GDP measures the total value added generated and is defined as the income that an industry or business generates, less the cost of the inputs that it uses to generate that income, plus certain taxes paid.

The direct contribution of an industry or a company to the Australian economy can be estimated by determining their payments to the factors of production plus the taxes (less subsidies) payable on production and imports. This is shown graphically Figure 2.1.

FIGURE 2.1 – CALCULATION OF DIRECT VALUE ADD



NOTE: EBITDA IS EQUIVALENT TO THE STATISTICS AUSTRALIAN SYSTEM OF NATIONAL ACCOUNTS DEFINITION OF GROSS OPERATING SURPLUS
SOURCE: ACIL ALLEN CONSULTING

2.2 Indirect economic contribution

The intermediate inputs used by an industry (the machines used to print catalogues, for example) can be sourced either from within the Australian economy or from a foreign economy. If purchased from within the Australian economy, the portion of value added embodied in the intermediate input is indirectly associated with the activity of the purchaser. The calculation of the indirect contribution quickly becomes difficult as one considers that value-added embodied in the intermediate inputs of the intermediate input. For example, consider the trees used in the production of paper, the paper used to make the catalogues, and so on. In a global context, the value-added chain can simply be measured by the value of the final goods and services consumed.

In a national context, input-output tables produced by the Australian Bureau of Statistics and associated 'input-output multipliers' can be used to estimate the indirect economic contributions. Input-output multipliers are summary measures generated from input-output tables that can be used for predicting the total impact on all industries of changes in demand for the output of one industry. The tables and multipliers can also be used to measure the relative importance of the supply chain linkages within the economy.

It should be noted that some of the assumptions underpinning input-output multipliers do not account for all resource constraints or specific circumstances. Understanding the limitations of these assumptions is necessary to prevent the inappropriate application of input-output multipliers – for example in situations where resource constraints are present or when the profile of a business or project differs substantially from the industry average. Further information on input-output tables and the calculation of multipliers can be found in ABS Catalogue number 5246.0.

In this report we have estimated the likely indirect economic contribution of the production activities of the Australian mailing industry. The indirect economic contribution, derived from the simple multipliers, captures the value added and employment associated with the supply chain (see Appendix A for details). Consequently, they provide an estimate of the indirect economic contribution of intermediate inputs. The difference between these estimates and the direct economic contribution are commonly referred to as the indirect contribution. When calculated properly, the embodied economic contribution of alternative production chains are additive and should sum to the national accounts estimates of gross state product and gross domestic product.

2.3 Geographic breakdown

The economic impacts have been broken down into 4 categories as follows:

- Australia national wide.
- State/territory level
- Greater Capital City Statistical Area (GCCSA¹) for each of the eight state/territories in Australia;
- rest of the state (except the GCCSA) for each of the eight states in Australia;
- state level (for each of the eight state/territory jurisdictions in Australia);

Group C is examined at the national level only given the lack of statistical data available to subdivide it.

¹ The definition of GCCSA used in this study is as defined by the ABS:
<http://www.abs.gov.au/ausstats/abs@.nsf/0/89DE0953464EE050CA257801000C651B?opendocument>

ECONOMIC CONTRIBUTION OF THE AUSTRALIAN POSTAL INDUSTRY

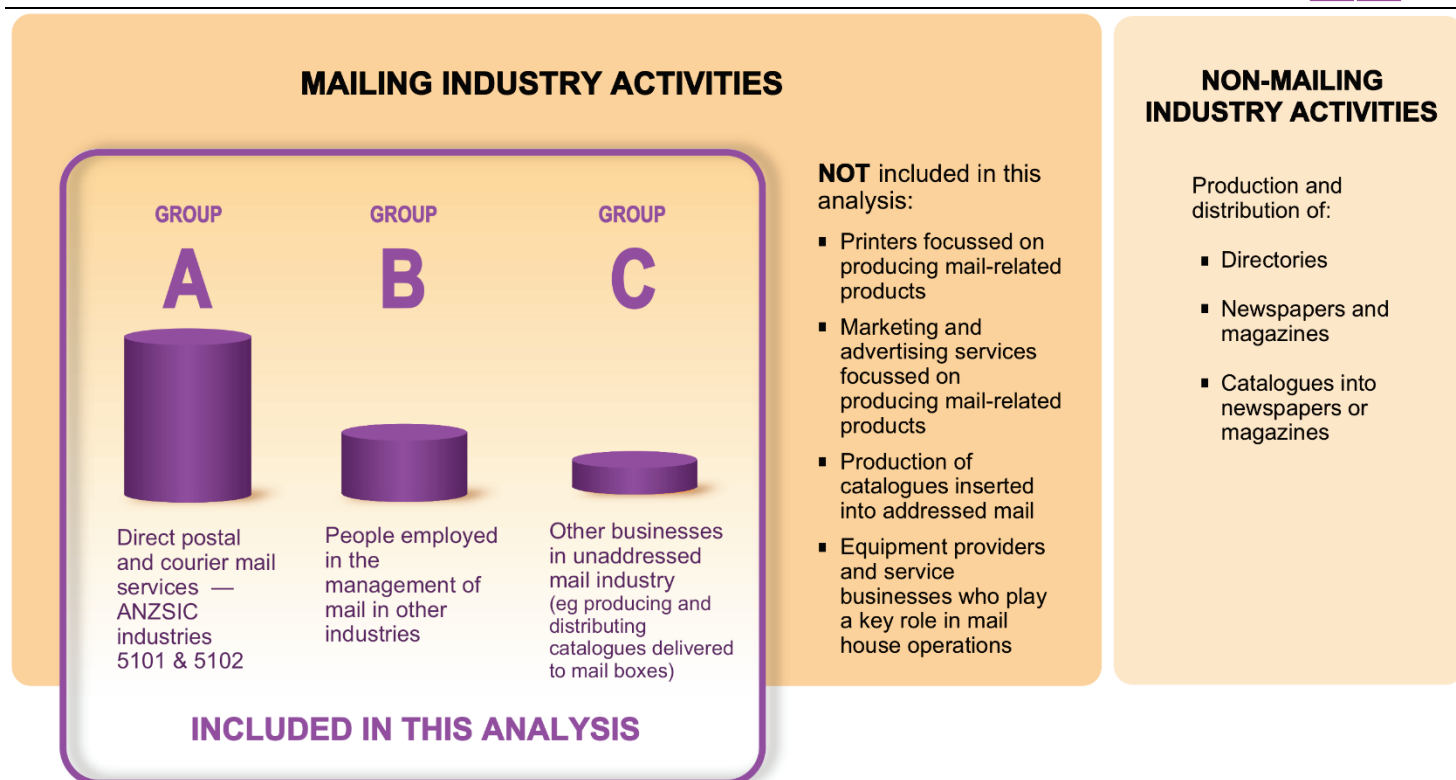
3

3.1 Introduction

This chapter of the report estimates the economic contribution of the Australian postal industry to the national economy. It commences by presenting the total economic contribution of the postal industry (sum of Group A, B and C), followed by individual sub-chapters discussing each component of the postal industry (by Group A, B and C). The chapter then describes the characteristics of Groups A and B.

The scope of the postal industry that has been included and not included in this analysis is summarised in Figure 3.1.

FIGURE 3.1 – SCOPE OF THIS ANALYSIS



SOURCE: ACIL ALLEN CONSULTING

3.2 National contribution

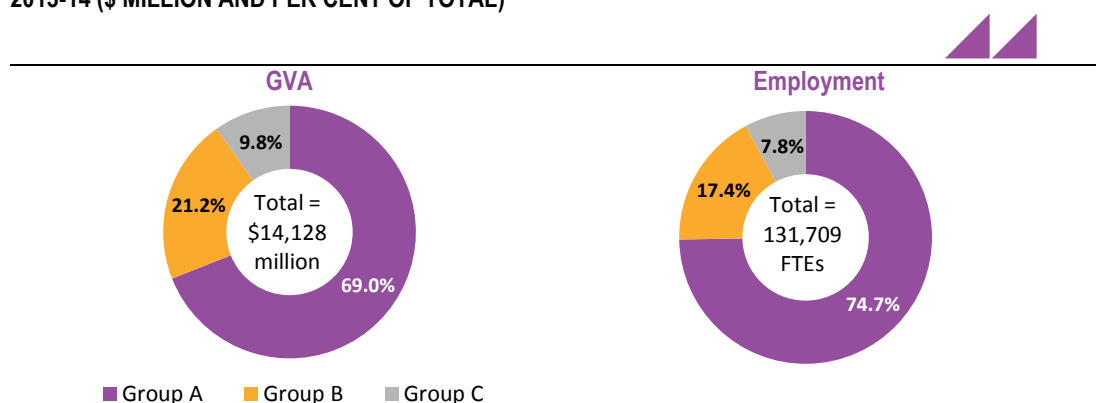
Economic contribution

In 2013-14, it is estimated that the postal industry contributed a total of \$14.12 billion in GVA to the national economy which accounted for 0.9 per cent of GDP.

Total employment in the industry was 131,709 full time equivalent (FTE) which represented 1.4 per cent of total FTE in Australia.

The share of direct and indirect contribution (GVA and employment) of Group A, B and C at national level is shown in Figure 3.2.

FIGURE 3.2 – ECONOMIC CONTRIBUTION OF THE AUSTRALIAN MAILING INDUSTRY TO AUSTRALIA, 2013-14 (\$ MILLION AND PER CENT OF TOTAL)



NOTE: GVA = GROSS VALUE ADDED. FTE = FULL TIME EQUIVALENT.

SOURCE: ACIL ALLEN CONSULTING, 2015.

Key points are:

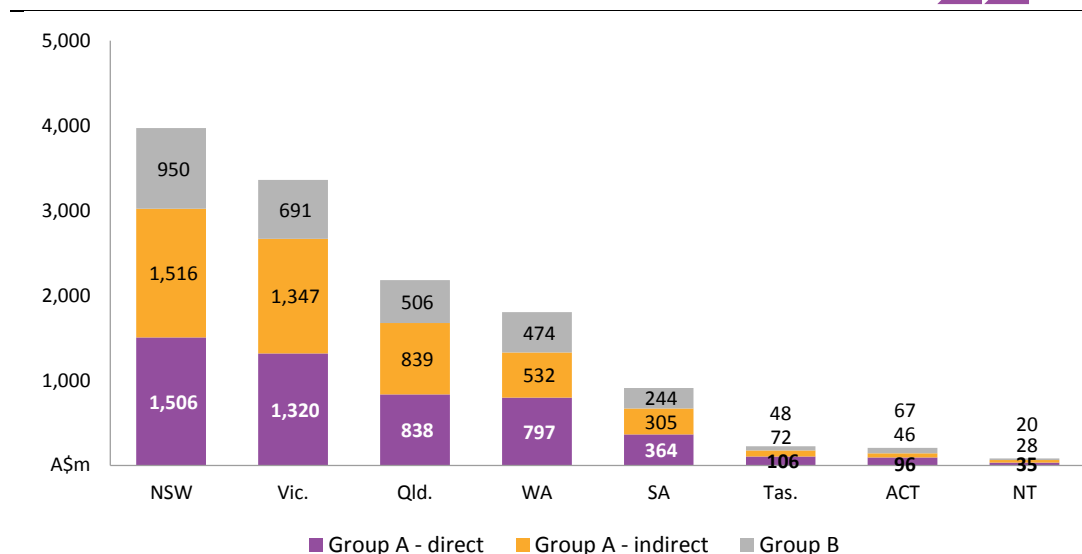
- the employment share of the postal industry (to the national economy) is greater compared to its GVA share, reflecting the labour intensive nature of the postal industry in conjunction with the cost of the community service obligations by Australia Post
- Group A accounts for approximately 69 per cent of the economic contribution by the postal industry, followed by Group B (approximately 21 per cent), and Group C is the smallest (approximately 10 per cent).

State and territory breakdown

The breakdown of the economic contribution of the total of Group A and B across the states is shown in Figure 3.3. The state/territory breakdown of Group C was not possible because of lack of data. The tables behind these histograms are provided in Attachment B.

The breakdown by state shows that NSW has the highest contribution at nearly \$4 billion and the Northern Territory the lowest. The chart shows that economic contribution is driven by population. This makes sense due to the nature of the industry.

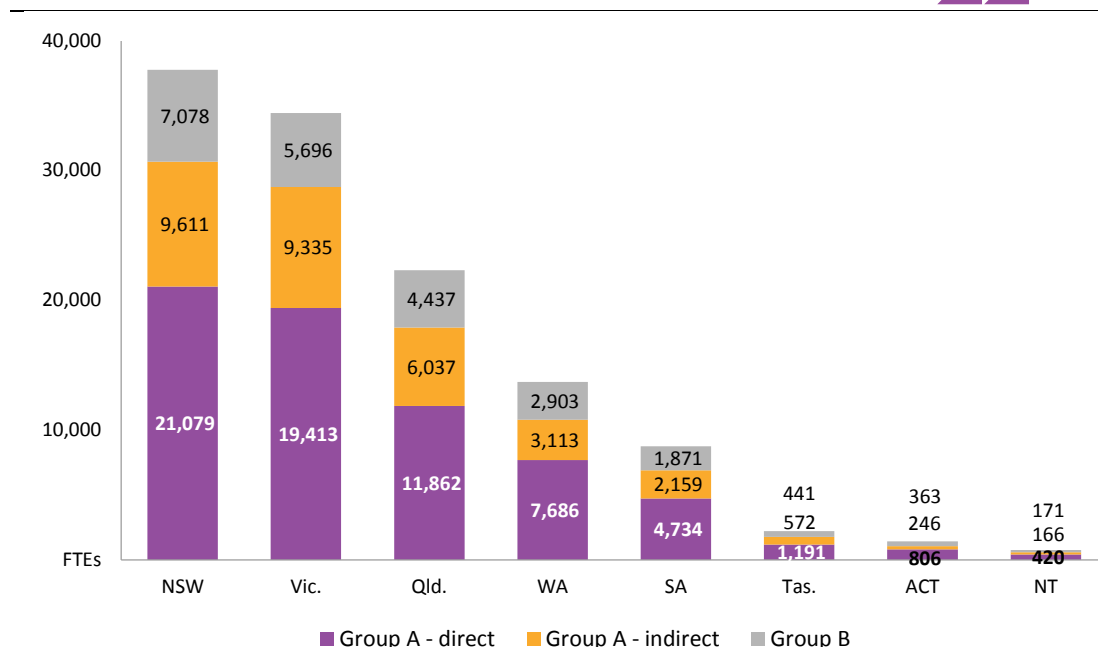
FIGURE 3.3 – DIRECT AND INDIRECT GVA CONTRIBUTION OF GROUP A & B BY STATE, 2013-14 (\$ MILLION)



NOTE: GROUP C IS REPORTED AT THE NATIONAL LEVEL- IT CONTRIBUTES \$1,381 MILLION TO THE AUSTRALIAN ECONOMY. GROUP C CANNOT BE FURTHER DISAGGREGATED INTO STATE LEVEL DUE TO THE LACK OF INFORMATION FOR APPROPRIATE STATE LEVEL BREAKDOWNS.
SOURCE: ACIL ALLEN CONSULTING, 2015.

The breakdown of employment for Groups A and B by state is shown by State in Figure 3.7. The figure shows that the highest population states deliver the highest employment numbers with NSW and Victoria employing 37,767 FTE and 34,445 FTEs respectively.

FIGURE 3.4 – DIRECT AND INDIRECT EMPLOYMENT CONTRIBUTION OF GROUP A & B BY STATE, 2013-14 (FTES)



NOTE: GROUP C IS REPORTED AT THE NATIONAL LEVEL- IT CONTRIBUTES 10,320 FTES TO THE AUSTRALIAN ECONOMY. GROUP C CANNOT BE FURTHER DISAGGREGATED INTO STATE LEVEL DUE TO THE LACK OF INFORMATION FOR APPROPRIATE STATE LEVEL BREAKDOWNS.
SOURCE: ACIL ALLEN CONSULTING, 2015.

Regional breakdown

The regional breakdown of economic contribution and employment for Groups A and B is shown in Figure 3.5.

The figure shows that the GVA for the GCCSAs was \$9.8 billion compared to \$3.0 billion for regional areas in 2013-14.

Employment in Group A and B mail industries was 90,708 for the GCCSAs and 30,681 for regional areas in 2013-14.

FIGURE 3.5 – ECONOMIC CONTRIBUTION OF GROUP A & B FOR GCCSA AND REST OF AUSTRALIA, 2013-14 (\$ MILLION AND FTES)



Note: 1. The GCCSA figures here are the sum of all eight GCCSAs in Australia. Rest of Australia figures are the difference between the Australian national wide figure and the GCCSA figures.

2. Group C is reported only at national level; it cannot be further broken down into states due to the lack of data. Group C contributes \$1,381 million to the Australian GVA and 10,320 FTEs to employment (in addition to the figures reported in the chart above).

SOURCE: ACIL ALLEN CONSULTING, 2015.

These results show that both economic contribution and employment are correlated to the size of the jurisdiction. This is because demand for postal services appears to be driven by population and the supply of such services is closely linked to the people the industry is servicing.

3.3 Economic contribution of direct mail services – Group A

This section discusses the economic contribution of Group A of the postal industry, which includes postal services and courier services (defined in the chapter above). The key distinction between the

two is that postal services involve centralised collection points whereas courier services are door-to-door.

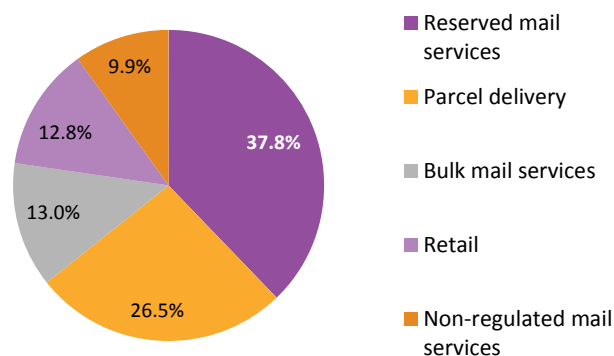
3.3.1 Overview of Group A

Australia Post dominates postal services due to its reserved (or regulated) mail service but competes with other service providers in the courier services market.

Postal services revenues have been falling since 2010 while courier services revenues have been growing at approximately 3 per cent per year over the past 5 years.

The market segmentation for postal services is shown in Figure 3.6.

FIGURE 3.6 – POSTAL SERVICES BUSINESS SEGMENTATION (PERCENTAGE OF INDUSTRY REVENUE, 2014-2015)

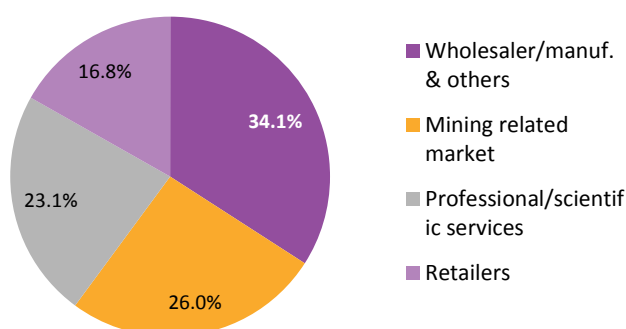


SOURCE: IBIS WORLD, 2015 AND ACIL ALLEN CONSULTING, 2015.

Reserved mail services accounts for 37.8 per cent of the postal services revenue. This segment of the service is highly dependent on regulation around reserved mail services and any potential deregulation (or privatisation) of this service currently provided by Australia Post could result in changes in this share.

The market segmentation for courier services is shown in Figure 3.7.

FIGURE 3.7 – COURIER SERVICES BUSINESS SEGMENTATION (PERCENTAGE OF INDUSTRY REVENUE, 2014-2015)



SOURCE: IBIS WORLD, 2015 AND ACIL ALLEN CONSULTING, 2015.

Despite the growth of the courier services as a result of increasing online shopping, the industry is still dominated by industrial related activities (e.g., wholesale, mining and professional services) with retail services accounting for only 16.8 per cent of the courier services revenue.

3.3.2 Economic contribution of Group A

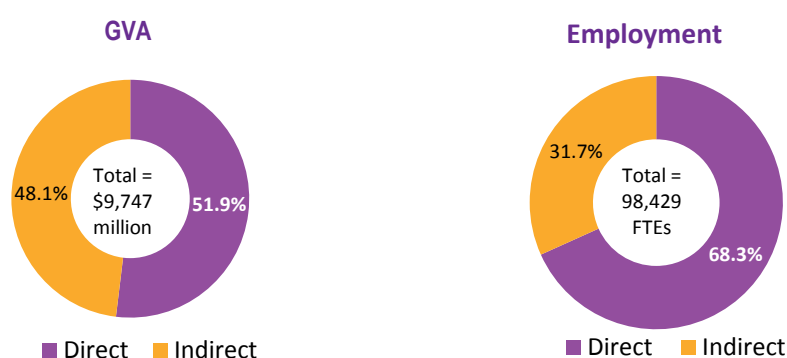
Economic and employment contribution

The modelling results using Input Output analysis are presented below. Postal services and courier services were modelled as a whole because individual data was not available.

The total contribution of Group A was \$9.74 billion in 2013-14 and total employment was 98,429 FTEs.

The share of direct and indirect contribution (GVA and employment) of Group A at national level is presented in Figure 3.8.

FIGURE 3.8 – ECONOMIC CONTRIBUTION OF GROUP A AT NATIONAL LEVEL, 2013-14 (\$ MILLION AND PER CENT OF TOTAL)



NOTE: GVA = GROSS VALUE ADDED. FTE = FULL TIME EQUIVALENT.

SOURCE: ACIL ALLEN CONSULTING, 2015.

Direct economic contribution for Group A represented 51.9 per cent of total GVA while the direct employment represented 69 per cent of total employment in Group A.

Value added by Australia Post was \$3.5 billion in 2013-14 which represents around 36 per cent of GVA of Group A and 25 per cent of total mail industry activities in that year.

Total employment in Australia Post was around 31,600 FTE employees in 2013-14 (Australia Post, 2014). This represents 32 per cent of the estimated employment in Group A activities and 24 per cent of total postal related activities (Groups A, B and C).

For both GVA and employment, the direct contribution by Group A itself accounts for a larger proportion of the total contribution compared to indirect contribution (as a result of supply chain impact, such as activities in other industries arise due to the postal industry). This is because the postal industry has a relatively simple supply chain and does not heavily rely on other supplier industries (e.g. sources for intermediates/inputs).

Another observation is that the direct employment contribution accounts for a larger proportion compared to the direct GVA contribution. This is due to two factors:

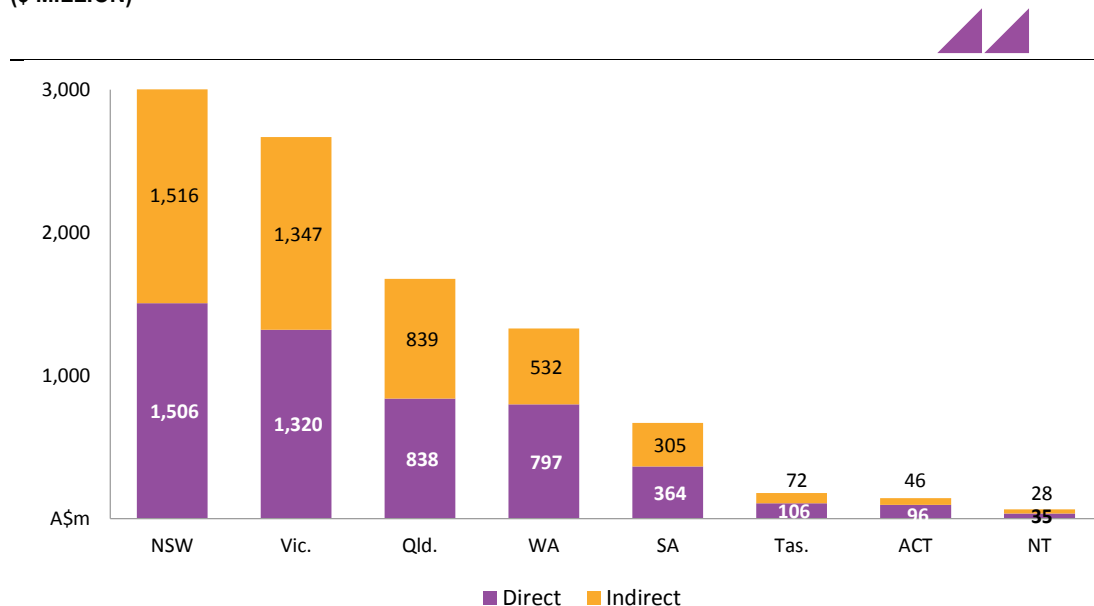
1. the postal industry is more labour intensive (compared to the other industries along its supply chain)
2. Australia Post is a significant portion of the industry and its community service obligations result in a significant loss to its postal services division (estimated to be \$203.5 million in 2014²).

Contribution by state

The direct and indirect GVA contribution of Group A by state is presented in Figure 3.9.

² Australia Post Annual Report 2014, p.9.

FIGURE 3.9 – DIRECT AND INDIRECT GVA CONTRIBUTION OF GROUP A BY STATE, 2013-14 (\$ MILLION)

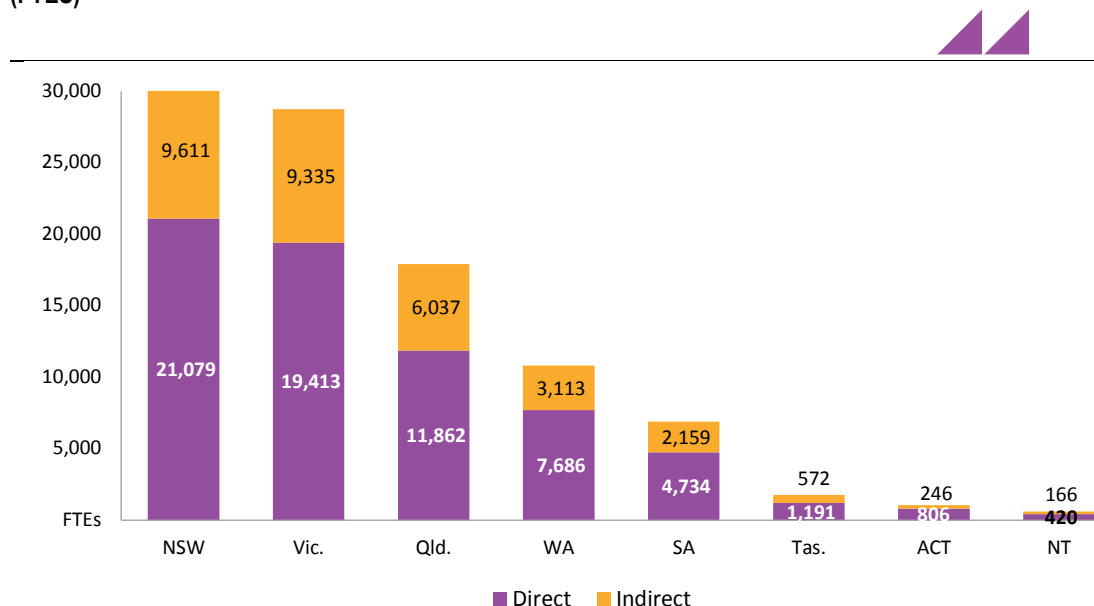


SOURCE: ACIL ALLEN CONSULTING, 2015.

NSW has the highest GVA contribution at \$3,022 million while the Northern Territory (NT) has the least at \$64 million. The GVA contribution correlates with the size of the state; this is reasonable because postal service demand is driven by the size of the population.

The direct and indirect employment contribution of Group A by state is presented in Figure 3.10.

FIGURE 3.10 – DIRECT AND INDIRECT EMPLOYMENT CONTRIBUTION OF GROUP A BY STATE, 2013-14 (FTES)



SOURCE: ACIL ALLEN CONSULTING, 2015.

Consistent with the GVA contribution, the employment contribution also shows larger states such as NSW and Queensland (Qld.) share the largest proportion of the total contribution with smaller states Australia Capital Territory (ACT) and NT have the smallest.

In addition to estimating the economic contribution of the postal industry by state, this study also looks at the distribution across metropolitan/regional versus outer regional/remote areas to see if the economic contribution by the postal industry differs across these geographic categories.

Contribution by region

The GVA and employment contribution of Group A for the Australia GCCSAs and the rest of Australia are shown in Figure 3.11. The GCCSA figure is the sum of all eight GCCSAs in Australia whereas the rest of Australia is the economic contribution at the national level minus the GCCSA figure.

The contribution to GVA from Group A in the GCCSA regions in 2013-14 was \$7.45 billion and \$2.30 billion in regional areas.

Employment generated by Group A was 73,901 in GCCSA regions in 2013-14 and 24,458 in regional Australia.

FIGURE 3.11 – ECONOMIC CONTRIBUTION OF GROUP A FOR GCCSA AND REST OF AUSTRALIA, 2013-14 (\$ MILLION AND FTES)



Note: The GCCSA figures here are the sum of all eight GCCSAs in Australia. Rest of Australia figures are the difference between the Australian national wide figure and the GCCSA figures.

SOURCE: ACIL ALLEN CONSULTING, 2015.

Similar to the pattern observed at the state level, the highly populated GCCSA areas account for a greater share of the total economic contribution by the postal industry. Again, this reflects that population is one of the key drivers for the demand and presence of postal services.

Detailed estimates of the GVA and employment contribution of Group A for each individual GCCSAs and non-GCCSA regions for each state are presented in Appendix B.

3.4 Economic contribution of Group B – mail management

3.4.1 Overview

Group B captures the activities of managing mail within businesses/industries outside of Group A. In particular, Group B captures the activities by employees, who are predominantly employed for the

purposes of management of physical mail in mail rooms or delivery services (for businesses that are not part of Group A).

To estimate the size of Group B, ACIL Allen identified the following occupation codes (using the ANZSCO 6-digit specifications as used by the ABS) which is the main purpose of employment for these employees:

- 142115 Post Office Manager;
- 561211 Courier;
- 561212 Postal Delivery Officer;
- 561200 Couriers and Postal Deliverers, not further defined;
- 561411 Mail Clerk;
- 561412 Postal Sorting Officer;
- 561400 Mail Sorters, not further defined;
- 899915 Leaflet or Newspaper Deliverer.

This detailed information is not publically available and was obtained through a customised data request by ACIL Allen Consulting to the Australia Bureau of Statistic (ABS).

Analysis for Group B only focuses on direct economic contribution due to the lack of data and reliable information to derive indirect contribution. However, ACIL Allen Consulting does not believe the omission of indirect contribution would have a significant impact on the overall estimate, because:

- Group B focuses on the in-house mail management for businesses; some of these mail's delivery is commission to external mail handlers, which would be captured in Group A
- a subset of the indirect contribution of Group B that are not captured by either Group A and C (e.g., business that have their own mail delivery functions/facilities) could lead to minor underestimation of the economic contribution by Group B.

3.4.2 Economic contribution - Group B

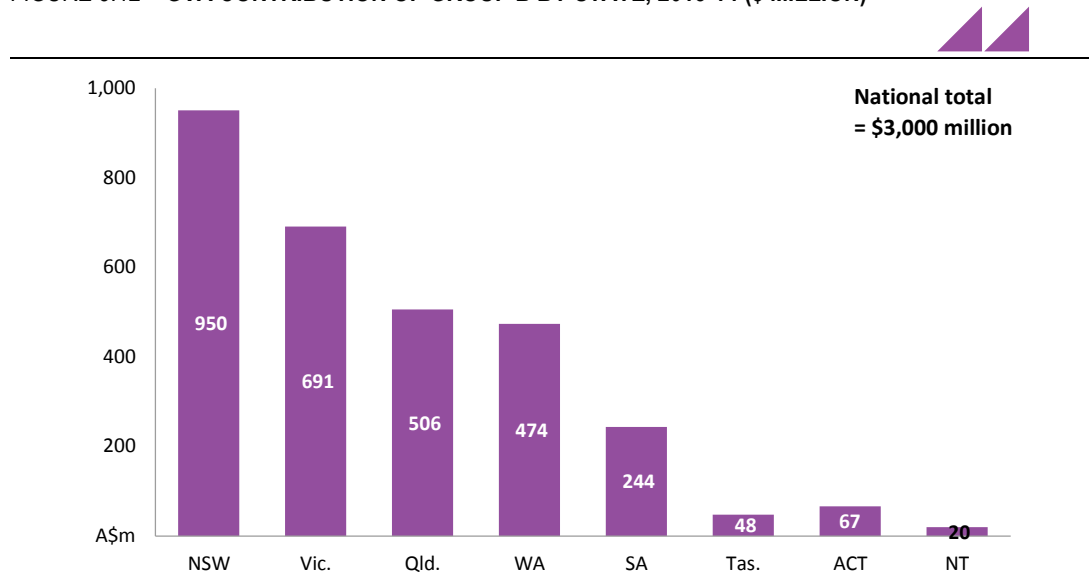
National

Combining the employment information from the ABS data request with the IO tables, it is estimated that, in 2013-14, Group B contributed \$3 billion in terms of gross value added to the national economy and created employment for 22,960 FTEs. These were direct impacts as it was not deemed credible to estimate indirect impacts for Group B based purely on the information available.

State

Figure 3.12 presents the GVA contribution by Group B by state/territory.

FIGURE 3.12 – GVA CONTRIBUTION OF GROUP B BY STATE, 2013-14 (\$ MILLION)

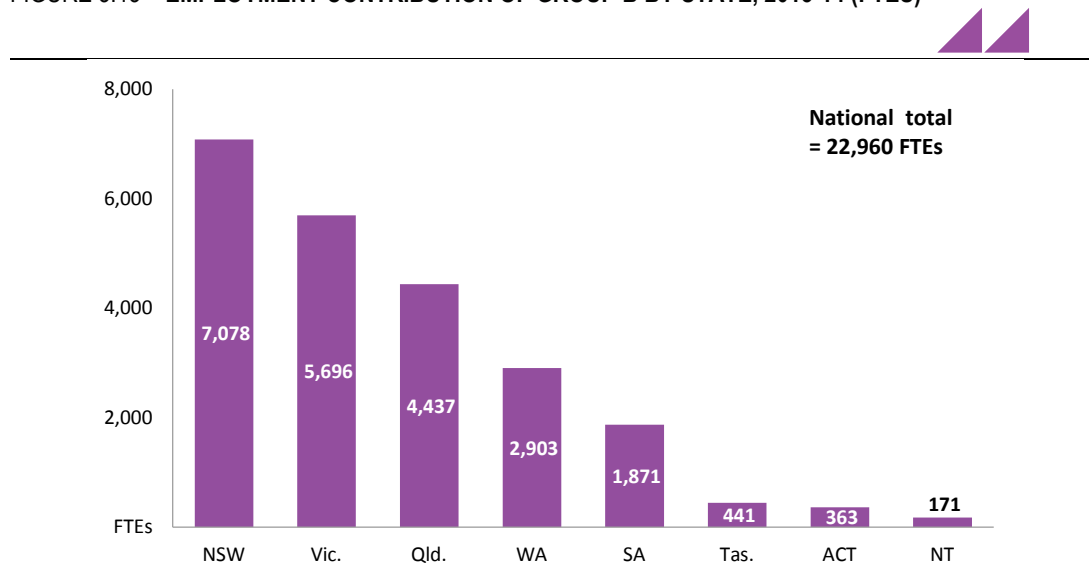


SOURCE: ACIL ALLEN CONSULTING, 2015.

NSW and Victoria 54.7 per cent of the total Group B contribution (\$950 million or 31.7 per cent for NSW and \$691 million or 23.0 per cent for Victoria). For comparison with Group A, the rank of the bars in the above chart was intentionally kept in the same order (rather than ranked from the highest to lowest) as the state level GVA contribution chart for Group A (in the above chapter). Compared to the rank of the states for Group A, ACT accounts for larger proportion in Group B. This is reasonable because Group B is dominated by the concentration of businesses that generate a large volume of mail (e.g., financial sector and government administration) whereas Group A is primarily driven by population. ACT has large presence of these mail generating organisations (e.g., government).

Figure 3.13 presents the employment contribution by Group B by state/territory.

FIGURE 3.13 – EMPLOYMENT CONTRIBUTION OF GROUP B BY STATE, 2013-14 (FTEs)



SOURCE: ACIL ALLEN CONSULTING, 2015.

Employment contribution of Group B shows similar patterns observed above for its GVA contribution; NSW and Victoria account for the largest share of employment (30.8 and 24.8 per cent respectively) while NT has the smallest employment contribution (0.7 per cent).

Region

The GVA and employment contribution of Group B for the Australia GCCSAs and the rest of Australia are shown in Figure 3.14.

It was estimated that the total GVA for the GCCSA areas was \$2.29 billion in 2013-14 and \$0.71 billion in regional areas. Total employment was in GCCSA areas was 16,807 FTEs in 2013-14 and 6,157 in regional areas.

FIGURE 3.14 – ECONOMIC CONTRIBUTION OF GROUP B FOR GCCSA AND REST OF AUSTRALIA, 2013-14 (\$ MILLION AND FTES)



Note: The GCCSA figures here are the sum of all eight GCCSAs in Australia. Rest of Australia figures are the difference between the Australian national wide figure and the GCCSA figures.

SOURCE: ACIL ALLEN CONSULTING, 2015.

As expected, metropolitan areas with greater presence of mail generating businesses contribute more to the economy – GCCSA is approximately three times of the rest of Australia for GVA contribution and two and half times for employment contribution.

Detailed estimates of Group B's economic contribution by industry (key industries that has in-house mail management functions) are presented in Appendix B.

3.5 Economic contribution of Group C – mail advertising services

Group C comprises industries that are associated with producing printed advertising or other material and distributed through the mail; such as the catalogue industry that prints and distributes printed advertising material to promote marketing activities.

The catalogue industry is a major player in the mail advertising services industry; this study will primarily focus on the catalogue industry as a representation of the mail advertising industry given its high market share. Other types of mail advertising services (e.g., inserts in the newspapers) are of relatively small volume and analysis for these minor groups was not possible due to the lack of reliable data. The key data used for deriving the economic contribution of Group C (represented by the catalogue industry) comes from the Australian Catalogue Association (ACA)'s publicly available Industry Report 2014³.

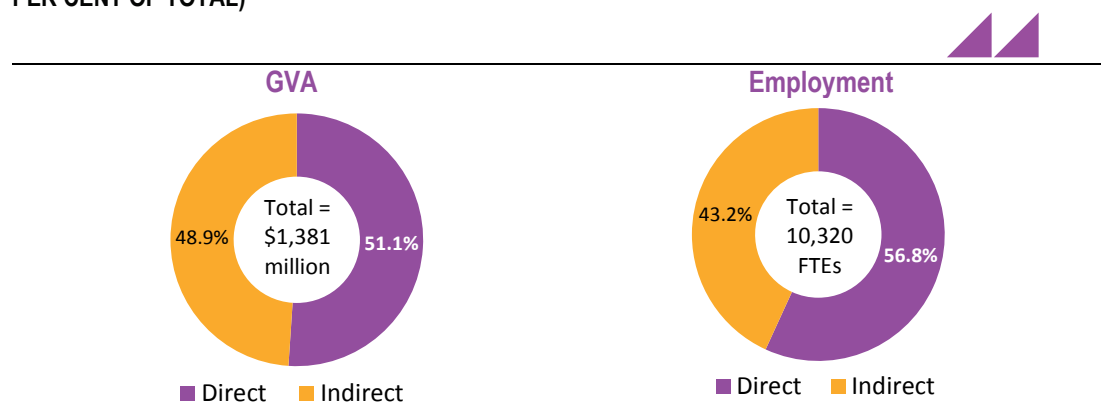
³ The 2014 Industry Report was the latest published Industry Report by ACA at the time this report was written.

The catalogue industry usually acts as the media on behalf of the industries and businesses that advertise their products by direct mail. The catalogue industry was the fourth largest player in the Australian advertising market according to the ACA 2014 Industry Report (after the Internet, Free-to-Air Television and newspapers). The catalogue volume has been growing at a steady pace in the past few years (0.3 per cent in the 2014 fiscal year) and reached a volume of approximately 8 billion in 2014. The catalogue industry is a key contributor to the mail volume and is an important component for the purpose of estimating the contribution of the postal industry.

The top client for the catalogue industry is the retail industry. The top market segments within retail (that uses services by the catalogue industry) include: Fast Moving Consumer Goods (e.g., grocery and liquor), electronic, pharmacy, auto, fashion and takeaways.

The share of direct and indirect contribution (GVA and employment) of Group C at national level is presented in Figure 3.15.

FIGURE 3.15 – ECONOMIC CONTRIBUTION OF GROUP C AT NATIONAL LEVEL, 2013-14 (\$ MILLION AND PER CENT OF TOTAL)



NOTE: GVA = GROSS VALUE ADDED. FTE = FULL TIME EQUIVALENT.

SOURCE: ACIL ALLEN CONSULTING, 2015.

Due to the lack of data, the direct and indirect economic contribution by Group C is not broken down further into more granular geographic divisions such as GCCSA and state. The direct versus indirect share of GVA contribution is approximately equal whereas direct share of employment contribution outweighs the indirect of employment contribution.

This indicates that Group C is more labour intensive compared to the other industries along its supply chain (e.g., media industry).



4.1 Overview

Quantifying the full scope of the Australian mailing industry is complicated because, like the tourism industry, it is not comprised of a single sector in the traditional ABS national accounts. In this report we have used a variety of techniques and information to capture a range of key activities that comprise the Australian mailing industry. In particular, we have been able to estimate the size of the following three groups:

- Direct mail services which includes postal and courier services (Group A)
- Mail management services within other businesses (Group B)
- Mail advertising services (Group C).

The total value added by these groups was found to be \$14.1 billion in 2013-14 which represented 0.9 per cent of Australia's GDP

- 69 per cent of GVA (\$9.8 billion) was attributable to direct mail services (Group A)
- 21 per cent of GVA (\$3.0 billion) was attributable to mail management services (Group B)
- 10 per cent of GVA (\$1.4 billion) was attributable to mail advertising services (Group C).

Total employment in these groups was estimated to be 131,709 FTE which represented about 1.4 per cent of total full time equivalent employment in Australia:

- 75 per cent (98,429 FTE) was attributable to direct mail services (Group A)
- 17 per cent (22,960 FTE) was attributable to mail management services (Group B)
- 8 per cent (10,320 FTE) was attributable to mail advertising services (Group C).

The distribution of GVA and employment across the states/territories is proportional to size reflecting the fact that demand for postal services is proportionate to population and that the supply is closely linked to the people the industry is servicing. For example, the largest economic contribution arises in NSW at \$4.0 billion followed by Victoria at \$3.4 billion.

The same applies to employment. The largest employment occurred in NSW and Victoria at 37,767 and 34,445 FTEs respectively.

TABLE 4.1 – ECONOMIC CONTRIBUTION AND EMPLOYMENT BY STATE (2013-14)

	GVA	Employment
	\$Am	FTE jobs
New South Wales	3,972	37,767
Victoria	3,358	34,445
Queensland	2,182	22,336
Western Australia	1,803	13,701
South Australia	913	8,763
Tasmania	226	2,204
Australian Capital Territory	208	1,416
Norther Territory	84	757
Australia	14,128	131,709

SOURCE: ACIL ALLEN CONSULTING

While the economic contribution in the Greater Capital City Statistical Areas (GCCSAs) is around three times that of the regional areas, postal services generate significant economic and employment activity in regional areas.

The economic contribution for Groups A and B was \$9.8 billion in the GCCSAs compared to \$3.0 billion in the regional areas in 2013-14.

Employment in Group A and B mail industries was 90,708 for the GCCSAs and 30,681 for regional areas in 2013-14.

4.2 Direct mail services (Group A)

Direct mail services include postal services and courier services. Australia Post dominates postal services but competes with other services providers in the courier services market. Direct mail services generate significant indirect economic activity.

The total contribution of Group A was \$9.8 billion in 2013-14 comprising:

- \$5.1 billion from direct economic activity
- \$4.7 billion from indirect economic activity.

Total employment was 94,429 FTEs which was made up of:

- 67,190 FTEs in direct economic activity
- 31,239 FTEs in indirect economic activity.

4.3 Mail management services (Group B)

Group B captures the activities of managing mail within businesses/industries outside of Group A. In particular, Group B captures the activities by employees, who are predominantly employed for the purposes of management of physical mail in mail rooms or delivery services (for businesses that are not part of Group A).

It is estimated that, in 2013-14, Group B contributed \$3 billion in terms of gross value added to the national economy and created employment for 22,960 FTEs. These were direct impacts as it was not deemed credible to estimate indirect impacts for Group B based purely on the information available.

4.4 Mail advertising services (Group C)

Group C comprises industries that are associated with producing printed advertising or other material and distributed through the mail; such as the catalogue industry that prints and distributes printed advertising material to promote marketing activities.

The total contribution of Group C was \$1.4 billion in 2013-14 comprising:

- \$705 million from direct economic activity
- \$676 million from indirect economic activity

Total employment was 10,320 FTEs which was made up of:

- 5,866 FTEs in direct economic activity
- 4,454 FTEs in indirect economic activity.

4.5 Other unquantified mailing industry activities

In addition to the activities of the industry which ACIL Allen has been able to quantify, there are a range of other activities that directly support the industry but have not been able to be quantified based on the available information. Such activities are also likely to be affected by regulatory or other changes in the nature of the industry. These include:

- printers focussed on producing mail-related products
- marketing and advertising services focussed on producing mail-related products
- production of catalogues inserted into addressed mail
- equipment providers and other service businesses who play a key role in supporting mail-related operations.

4.6 In summary

The mailing industry contributed around \$14.1 billion to Australia's GDP in 2013-14.

Direct mailing services accounted for 69 per cent of the GVA in 2013-14. The remaining 31 per cent was accounted for by mail management services in other organisations and mail advertising services.

The value added from Australia Post in 2013-14 was \$3.5 billion which represents around 25 per cent of all mail industry activities.

Employment in the industry in 2013-14 was 131,709 FTE.

Direct mailing services accounted for 75 per cent of these employees in 2013-14. The remaining 25 per cent were employed in mail management and mail advertising services.

Australia Post directly employed approximately 31,600 FTE employees in 2013-14. This represented around 24 per cent of total employment in the Australian mailing industry.



A.1 Overview

Input-output tables provide a snapshot of an economy at a particular time. The tables used in this analysis were for the 2013-14 financial year.

The 2013-14 input-output tables provide a picture of the region's economy in the 2013-14 financial year. Input-output tables can be used to derive input-output multipliers. These multipliers show how changes to a given part of an economy impact on the economy as a whole. A full set of input-output multipliers for each region were estimated for the purpose of this analysis.

The input-output multipliers allow rigorous and credible analysis of the economic footprint of a particular facility, industry or event for the region of interest. Although input-output multipliers may also be suitable tools for analysing the impact of various types of economic change, caution needs to be adopted in their application for this purpose. Misuse of input-output multipliers for the purpose of impact analysis has led to scepticism of their general use in favour of other tools such as computable general equilibrium (CGE) modelling. Notwithstanding this, they are still eminently suitable for understanding the economic linkages between a given facility or industry to gain an appreciation of the wider interactions of the industry beyond its direct contribution.

A.2 Multiplier types

Input-output multipliers estimate the economic impact on a region's economy from a one dollar change in the final demand for the output of one of the region's industries. Generally, four types of multipliers are used:

1. Output – measures the impact on the output of all industries in the economy
2. Income – measures the effect on the wages and salaries paid to workers within the economy
3. Employment – measures the jobs creation impact, and
4. Value-added – measures the impact on wages and salaries, profits and indirect taxes.

The sum of wages and salaries, profits and indirect taxes for a given industry provides a measure of its contribution to the size of the local economy – its contribution to gross regional product (GRP). The value added multiplier can therefore also be considered to be the GRP multiplier.

Input-output multipliers are a flexible tool for economic analysis. Their flexibility stems from the different forms of each multiplier type. For each region, multipliers were estimated in the following forms:

1. initial effects
2. first round effects

3. industrial support effects
4. production induced effects (supply chain effects)
5. consumption induced effects
6. simple multipliers
7. total multipliers
8. type 1A multipliers
9. type 1B multipliers
10. type 2A multipliers
11. type 2B multipliers.

The above multiplier types are defined in full in Johnson (2004) for output, income, employment and value-added multipliers; however, a brief overview of the different types of output multipliers is presented below.

A.2.1 Multiplier effects

When additional sales to final demand are made, for example through increased exports or sales to the public, production increases to meet the increased demand, and this is the initial effect. Since production increases to exactly match the increased final demand, the increase is always equal to one (noting that the multipliers are defined in terms of a one dollar increase in final demand).

The industry producing the additional output makes purchases to enable itself to increase production, these new purchases are met by production increases in other industries and these constitute the first round effect. These first round production increases cause other industries to also increase their purchases, and these purchases cause other industries to increase their production, and so on. These 'flow-on' effects eventually diminish, but when 'added together constitute the industrial support effect.

The industrial support effect added to the first round effect is known as the production induced effect (supply chain effect). So far this chain of events has ignored one important factor, the effect on labour and its consumption. When output increases, employment increases, and increased employment translates to increased earnings and consumption by workers, and this translates to increased output to meet the increased consumption. This is the consumption effect.

A.2.2 Multipliers

The simple and total multipliers are derived by summing the effects. The simple multiplier is the sum of the initial and production induced effects (supply chain effect). The total multiplier is larger, because it also adds in the consumption effect. So far all the effects and multipliers listed have had one thing in common, they all measure the impact on the economy of the initial increase in final demand.

The remaining multipliers take a different point of view, they are ratios of the above multiplier types to the initial effect. The type 1A multiplier is calculated as the ratio of the initial and first round effects to the initial effect, while the type 1B multiplier is the ratio of the simple multiplier to the initial effect. The type 2A multiplier is the ratio of the total multiplier to the initial effect, while the type 2B multiplier is the ratio of the total multiplier less the initial effect to the initial effect.

Given the large number of multiplier types to choose from, output, income, employment and value added multipliers, and each with numerous variations (simple, total, type 2A, etc) it is important that the analysis uses the most appropriate multipliers. Usually, the multipliers that include consumption effects (i.e. the added impact that comes from wage and salaries earners spending their income) are used. These are the total and type 2A multipliers. The total and type 2A multipliers will generally provide the biggest projected impact. Simple or type 1B (which omit the consumption effect) may be used to provide a more conservative result.

For this analysis, given that we were kindly provided with access to the key and detailed expenditure items for major Australian producers, the Simple and Total multipliers were used to calculate the lower and upper estimates of the total contribution the mailing industry make to their respective economies.

A.3 Limitations of input-output analysis

Although input-output analysis is valid for understanding the contribution a sector makes to the economy, when used for analysing the potential impacts of a change in production of a particular sector, input-output analysis is not without its limitations. Input-output tables are a snapshot of an economy in a given period, the multipliers derived from these tables are therefore based on the structure of the economy at that time, a structure that it is assumed remains fixed over time. When multipliers are applied, the following is assumed:

- prices remain constant;
- technology is fixed in all industries;
- import shares are fixed.

Therefore, the changes predicted by input-output multipliers proceed along a path consistent with the structure of the economy described by the input-output table. This precludes economies of scale. That is, no efficiency is gained by industries getting larger – rather they continue to consume resources (including labour and capital) at the rate described by the input-output table. Thus, if output doubles, the use of all inputs doubles as well.

One other assumption underpinning input-output analysis which is worth considering is that there are assumed to be unlimited supplies of all resources, including labour and capital. With input-output analysis, resource constraints are not a factor. It is thus assumed that no matter how large a development, all required resources are available, and that there is no competition between industries for these resources.

It is important to understand the limitations of input-output analysis, and to remember that the analysis provides an estimate of economic contribution of a facility or industry, not a measurement of economic impact if the facility or industry shut down or did not exist.



B.1 Detailed estimates for Group A

TABLE B.1 – SUMMARY OF REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP A

	Direct contribution – GVA	Direct contribution – employment	Indirect contribution – GVA	Indirect contribution – employment	Total contribution – GVA	Total contribution – employment
	A\$m	FTEs	A\$m	FTEs	A\$m	FTEs
New South Wales						
Sydney GCCSA	1,075	15,055	1,172	7,249	2,247	22,304
Rest of NSW	430	6,023	344	2,362	774	8,386
Total	1,506	21,079	1,516	9,611	3,022	30,690
Victoria						
Melbourne GCCSA	1,086	15,981	1,162	7,975	2,248	23,956
Rest of Victoria	233	3,432	186	1,361	419	4,793
Total	1,320	19,413	1,347	9,335	2,667	28,748
Queensland						
Brisbane GCCSA	489	6,933	509	3,615	998	10,547
Rest of Queensland	348	4,929	330	2,422	678	7,351
Total	838	11,862	839	6,037	1,676	17,899
South Australia						
Adelaide GCCSA	301	3,915	265	1,864	566	5,779
Rest of SA	63	819	40	295	103	1,114
Total	364	4,734	305	2,159	669	6,893
Western Australia						
Perth GCCSA	659	6,351	457	2,664	1,116	9,015
Rest of WA	138	1,335	75	449	214	1,783
Total	797	7,686	532	3,113	1,329	10,799
Tasmania						
Hobart GCCSA	49	548	34	270	83	819

	Direct contribution – GVA	Direct contribution – employment	Indirect contribution – GVA	Indirect contribution – employment	Total contribution – GVA	Total contribution – employment
Rest of Tas.	57	643	38	301	95	944
Total	106	1,191	72	572	178	1,763
Northern Territory						
Darwin GCCSA	26	302	22	126	48	428
Rest of NT	10	118	6	40	16	158
Total	35	420	28	166	64	586
Australian Capital Territory						
ACT	96	806	46	246	142	1,052
Australia national level						
All Australian GCCSAs	3,781	49,891	3,667	24,010	7,448	73,901
Rest of Australia	1,280	17,299	1,019	7,230	2,299	24,529
Australian total	5,061	67,190	4,686	31,239	9,747	98,429

Note: GCCSA - Greater Capital City Statistical Area

Source: ACIL Allen Consulting

B.2 Detailed estimates for Group B

B.2.1 Detailed estimates for Group B by industry – Australia

TABLE B.2 –ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY – AUSTRALIA

	GVA contribution (\$million)	Employment contribution (FTEs)
	Total Australia	Total Australia
Agriculture, Forestry and Fishing	4	40
Mining	27	48
Manufacturing	70	635
Electricity, Gas, Water and Waste Services	11	53
Construction	25	156
Wholesale Trade	127	730
Retail Trade	117	1,509
Accommodation and Food Services	7	91
Transport, Postal and Warehousing (Excluding Postal)	1,196	11,061
Information Media and Telecommunications	290	1,494
Financial and Insurance Services	112	394
Rental, Hiring and Real Estate Services	136	210
Professional, Scientific and Technical Services	164	1,387
Administrative and Support Services	392	1,770
Public Administration and Safety	56	454
Education and Training	24	160
Health Care and Social Assistance	220	2,462
Arts and Recreation Services	4	48
Other Services	18	260
Industry total	3,000	22,960

Source: ACIL Allen Consulting

B.2.2 Detailed estimates for Group B by industry — NSW

TABLE B.3 – REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY — NSW

	GVA contribution (\$million)			Employment contribution (FTEs)		
	Sydney GCCSA	Rest of NSW	Total NSW	Sydney GCCSA	Rest of NSW	Total NSW
Agriculture, Forestry and Fishing	0	1	1	0	12	12
Mining	0	2	2	0	6	6
Manufacturing	21	4	25	169	32	201
Electricity, Gas, Water and Waste Services	2	0	2	9	0	9
Construction	4	1	6	36	10	46
Wholesale Trade	29	8	37	173	48	222
Retail Trade	23	14	37	290	174	465
Accommodation and Food Services	1	2	3	12	22	34
Transport, Postal and Warehousing (Excluding Postal)	240	100	340	2,255	1,105	3,359
Information Media and Telecommunications	111	29	140	513	142	655
Financial and Insurance Services	44	8	51	148	20	168
Rental, Hiring and Real Estate Services	52	7	59	79	7	86
Professional, Scientific and Technical Services	36	11	47	284	89	373
Administrative and Support Services	75	29	104	296	110	406
Public Administration and Safety	11	5	16	91	35	126
Education and Training	4	2	7	29	15	45
Health Care and Social Assistance	42	24	66	488	281	770
Arts and Recreation Services	1	1	2	8	8	16
Other Services	5	1	6	65	14	79
Industry total	701	250	950	4,947	2,131	7,078

Source: ACIL Allen Consulting

B.2.3 Detailed estimates for Group B by industry – Victoria

TABLE B.4 – REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY – VICTORIA

	GVA contribution (\$million)			Employment contribution (FTEs)		
	Melbourne GCCSA	Rest of Vic.	Total Vic.	Melbourne GCCSA	Rest of Vic.	Total Vic.
Agriculture, Forestry and Fishing	0	2	2	0	21	21
Mining	3	3	6	3	2	5
Manufacturing	17	2	19	183	19	201
Electricity, Gas, Water and Waste Services	2	2	5	12	14	26
Construction	4	0	5	27	2	29
Wholesale Trade	33	4	37	210	23	233
Retail Trade	23	12	35	284	153	437
Accommodation and Food Services	1	1	2	11	12	23
Transport, Postal and Warehousing (Excluding Postal)	209	47	255	2,046	535	2,582
Information Media and Telecommunications	21	16	37	107	85	192
Financial and Insurance Services	31	3	34	123	5	128
Rental, Hiring and Real Estate Services	26	8	34	60	4	64
Professional, Scientific and Technical Services	45	8	53	383	71	454
Administrative and Support Services	78	15	93	405	78	483
Public Administration and Safety	8	1	9	75	8	83
Education and Training	8	1	9	51	8	59
Health Care and Social Assistance	40	13	52	461	148	609
Arts and Recreation Services	1	0	1	10	0	10
Other Services	4	0	4	55	3	58
Industry total	553	138	691	4,505	1,191	5,696

Source: ACIL Allen Consulting

B.2.4 Detailed estimates for Group B by industry – Queensland

TABLE B.5 – REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY – QUEENSLAND

	GVA contribution (\$million)			Employment contribution (FTEs)		
	Brisbane GCCSA	Rest of Qld.	Total Qld.	Brisbane GCCSA	Rest of Qld.	Total Qld.
Agriculture, Forestry and Fishing	0	0	0	0	3	3
Mining	2	3	5	6	6	12
Manufacturing	6	5	11	55	48	102
Electricity, Gas, Water and Waste Services	2	0	2	8	0	8
Construction	5	1	6	16	11	26
Wholesale Trade	13	6	18	60	26	86
Retail Trade	10	9	19	141	140	281
Accommodation and Food Services	0	1	1	4	8	13
Transport, Postal and Warehousing (Excluding Postal)	119	89	208	1,179	987	2,166
Information Media and Telecommunications	28	12	40	184	78	263
Financial and Insurance Services	7	4	12	33	10	43
Rental, Hiring and Real Estate Services	15	8	23	22	7	29
Professional, Scientific and Technical Services	18	15	32	166	141	307
Administrative and Support Services	44	24	67	257	145	402
Public Administration and Safety	6	5	11	54	44	99
Education and Training	2	1	3	15	9	24
Health Care and Social Assistance	28	13	41	335	157	492
Arts and Recreation Services	1	0	1	8	9	16
Other Services	2	2	4	33	31	64
Industry total	308	198	506	2,578	1,859	4,437

Source: ACIL Allen Consulting

B.2.5 Detailed estimates for Group B by industry – SA

TABLE B.6 – REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY – SA

	GVA contribution (\$million)			Employment contribution (FTEs)		
	Adelaide GCCSA	Rest of SA	Total SA	Adelaide GCCSA	Rest of SA	Total SA
Agriculture, Forestry and Fishing	0	0	0	0	4	4
Mining	0	0	0	0	0	0
Manufacturing	3	1	4	35	9	45
Electricity, Gas, Water and Waste Services	1	0	1	3	0	3
Construction	2	0	2	23	3	27
Wholesale Trade	11	0	11	64	0	64
Retail Trade	5	3	8	74	35	109
Accommodation and Food Services	0	0	0	5	0	5
Transport, Postal and Warehousing (Excluding Postal)	86	16	102	779	162	942
Information Media and Telecommunications	18	1	19	96	6	103
Financial and Insurance Services	5	1	7	18	4	22
Rental, Hiring and Real Estate Services	6	3	9	8	2	9
Professional, Scientific and Technical Services	9	1	10	77	7	84
Administrative and Support Services	38	6	44	169	24	193
Public Administration and Safety	3	0	3	29	0	29
Education and Training	1	0	1	6	0	6
Health Care and Social Assistance	19	1	20	197	12	209
Arts and Recreation Services	0	0	0	0	0	0
Other Services	1	0	1	14	3	17
Industry total	210	34	244	1,599	271	1,871

Source: ACIL Allen Consulting

B.2.6 Detailed estimates for Group B by industry – WA

TABLE B.7 – REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY – WA

	GVA contribution (\$million)			Employment contribution (FTEs)		
	Perth GCCSA	Rest of WA	Total WA	Perth GCCSA	Rest of WA	Total WA
Agriculture, Forestry and Fishing	0	0	0	0	0	0
Mining	14	0	14	18	0	18
Manufacturing	7	2	9	54	8	63
Electricity, Gas, Water and Waste Services	1	0	1	7	0	7
Construction	5	2	7	16	9	25
Wholesale Trade	20	1	21	104	7	110
Retail Trade	9	3	12	110	40	149
Accommodation and Food Services	1	0	1	8	4	12
Transport, Postal and Warehousing (Excluding Postal)	193	38	231	1,297	290	1,587
Information Media and Telecommunications	44	5	48	216	23	240
Financial and Insurance Services	7	0	7	26	0	26
Rental, Hiring and Real Estate Services	1	0	1	8	0	8
Professional, Scientific and Technical Services	15	1	16	111	8	119
Administrative and Support Services	68	4	72	194	11	205
Public Administration and Safety	2	0	2	26	0	26
Education and Training	3	0	3	19	0	19
Health Care and Social Assistance	24	2	26	225	23	248
Arts and Recreation Services	0	0	0	6	0	6
Other Services	2	0	2	33	2	35
Industry total	416	58	474	2,478	425	2,903

Source: ACIL Allen Consulting

B.2.7 Detailed estimates for Group B by industry – TAS

TABLE B.8 – REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY – TAS

	GVA contribution (\$million)			Employment contribution (FTEs)		
	Hobart GCCSA	Rest of Tas.	Total Tas.	Hobart GCCSA	Rest of Tas.	Total Tas.
Agriculture, Forestry and Fishing	0	0	0	0	0	0
Mining	0	0	0	0	0	0
Manufacturing	0	1	1	0	11	11
Electricity, Gas, Water and Waste Services	0	0	0	0	0	0
Construction	0	0	0	3	0	3
Wholesale Trade	0	0	0	4	0	4
Retail Trade	1	2	3	11	29	40
Accommodation and Food Services	0	0	0	4	0	4
Transport, Postal and Warehousing (Excluding Postal)	12	12	25	105	110	215
Information Media and Telecommunications	1	2	3	6	17	23
Financial and Insurance Services	0	1	1	0	3	3
Rental, Hiring and Real Estate Services	0	0	0	0	0	0
Professional, Scientific and Technical Services	1	1	2	18	14	31
Administrative and Support Services	3	3	6	26	22	47
Public Administration and Safety	1	1	2	9	5	14
Education and Training	0	0	0	0	3	3
Health Care and Social Assistance	3	1	4	30	14	44
Arts and Recreation Services	0	0	0	0	0	0
Other Services	0	0	0	0	0	0
Industry total	23	24	48	214	227	441

Source: ACIL Allen Consulting

B.2.8 Detailed estimates for Group B by industry – NT

TABLE B.9 – REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY – NT

	GVA contribution (\$million)			Employment contribution (FTEs)		
	Darwin GCCSA	Rest of NT	Total NT	Darwin GCCSA	Rest of NT	Total NT
Agriculture, Forestry and Fishing	0	0	0	0	0	0
Mining	0	0	0	6	0	6
Manufacturing	0	0	0	0	2	2
Electricity, Gas, Water and Waste Services	0	0	0	0	0	0
Construction	0	0	0	0	0	0
Wholesale Trade	1	1	1	5	5	9
Retail Trade	0	0	0	4	0	4
Accommodation and Food Services	0	0	0	0	0	0
Transport, Postal and Warehousing (Excluding Postal)	8	3	11	67	24	91
Information Media and Telecommunications	0	0	0	0	2	2
Financial and Insurance Services	0	0	0	0	0	0
Rental, Hiring and Real Estate Services	0	0	0	0	0	0
Professional, Scientific and Technical Services	1	0	1	12	0	12
Administrative and Support Services	2	0	2	9	2	11
Public Administration and Safety	1	0	1	7	4	11
Education and Training	0	0	0	0	0	0
Health Care and Social Assistance	1	1	2	10	8	18
Arts and Recreation Services	0	0	0	0	0	0
Other Services	0	0	0	4	0	4
Industry total	14	6	20	123	48	171

Source: ACIL Allen Consulting

B.2.9 Detailed estimates for Group B by industry – ACT

TABLE B.10 – REGIONAL LEVEL ECONOMIC CONTRIBUTION OF GROUP B BY INDUSTRY – ACT

	GVA contribution (\$million)	Employment contribution (FTEs)
	Total ACT	Total ACT
Agriculture, Forestry and Fishing	0	0
Mining	0	0
Manufacturing	1	10
Electricity, Gas, Water and Waste Services	0	0
Construction	0	0
Wholesale Trade	1	3
Retail Trade	2	25
Accommodation and Food Services	0	0
Transport, Postal and Warehousing (Excluding Postal)	24	119
Information Media and Telecommunications	2	16
Financial and Insurance Services	1	2
Rental, Hiring and Real Estate Services	10	13
Professional, Scientific and Technical Services	1	6
Administrative and Support Services	4	22
Public Administration and Safety	11	66
Education and Training	0	5
Health Care and Social Assistance	9	73
Arts and Recreation Services	0	0
Other Services	0	3
Industry total	67	363

Source: ACIL Allen Consulting



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PreSort Letter Service price comparison table - 8 April 2013 to 4 January 2016 (proposed)

Priority delivery timetable (same state metro next day) - Previously called Peak, then Regular

Size	Weight		Barcoded direct tray															
	over	up to	Same state							Other state								
valid from date			8 Apr 2013	31 Mar 2014	2 Mar 2015	Oct 2015	proposed Jan 2016	increase fr Mar 2015	increase fr Mar 2014	increase fr Apr 2013	8 Apr 2013	31 Mar 2014	2 Mar 2015	Oct 2015	proposed Jan 2016	increase fr Mar 2015	increase fr Mar 2014	increase fr Apr 2013
Small	0	125g	0.486	0.590	0.630	0.648	0.960	52.38%	62.71%	97.53%	0.504	0.612	0.652	0.670	0.995	52.61%	62.58%	97.42%
Small Plus	0	125g	0.624	0.760	0.820	0.843	1.275	55.49%	67.76%	104.33%	0.651	0.793	0.855	0.879	1.330	55.56%	67.72%	104.30%
Large	0	125g	0.921	1.057	1.120	1.255	1.740	55.36%	64.62%	88.93%	0.965	1.106	1.175	1.315	1.845	57.02%	66.82%	91.19%
	125g	250g	1.273	1.442	1.528	1.710	2.350	53.80%	62.97%	84.60%	1.361	1.541	1.637	1.835	2.505	53.02%	62.56%	84.06%
	250g	500g	1.713	1.904	2.030	2.280	2.880	41.87%	51.26%	68.13%	1.850	2.080	2.220	2.485	3.080	38.74%	48.08%	66.49%

Size	Weight		Barcoded Residue							Unbarcoded Residue								
	over	up to	8 Apr 2013	31 Mar 2014	2 Mar 2015	Oct 2015	proposed Jan 2016	increase fr Mar 2015	increase fr Mar 2014	increase fr Apr 2013	8 Apr 2013	31 Mar 2014	2 Mar 2015	Oct 2015	proposed Jan 2016	increase fr Mar 2015	increase fr Mar 2014	increase fr Apr 2013
Small	0	125g	0.541	0.634	0.670	0.685	1.080	61.19%	70.35%	99.63%	0.565	0.660	0.675	0.690	1.125	66.67%	70.45%	99.12%
Small Plus	0	125g	0.745	0.892	0.950	0.977	1.473	55.05%	65.13%	97.72%	0.900	1.050	1.120	1.152	1.734	54.82%	65.14%	92.67%
Large	0	125g	1.097	1.244	1.305	1.380	2.125	62.84%	70.82%	93.71%	1.130	1.277	1.370	1.385	2.244	63.80%	75.72%	98.58%
	125g	250g	1.515	1.717	1.801	2.018	2.700	49.92%	57.25%	78.22%	1.603	1.794	1.925	2.080	2.850	48.05%	58.86%	77.79%
	250g	500g	1.955	2.234	2.370	2.660	3.390	43.04%	51.75%	73.40%	2.153	2.399	2.570	2.880	3.700	43.97%	54.23%	71.85%

Regular delivery timetable (same state metro 2-3 days) - Previously called Off Peak, then Surface

Size	Weight		Barcoded direct tray															
	over	up to	Same state							Other state								
valid from date			8 Apr 2013	31 Mar 2014	2 Mar 2015	Oct 2015	proposed Jan 2016	increase fr Mar 2015	increase fr Mar 2014	increase fr Apr 2013	8 Apr 2013	31 Mar 2014	2 Mar 2015	Oct 2015	proposed Jan 2016	increase fr Mar 2015	increase fr Mar 2014	increase fr Apr 2013
Small	0	125g	0.444	0.520	0.558	0.578	0.795	42.47%	52.88%	79.05%	0.457	0.538	0.576	0.596	0.820	42.36%	52.42%	79.43%
Small Plus	0	125g	0.582	0.657	0.705	0.730	1.000	41.84%	52.21%	71.82%	0.606	0.684	0.735	0.761	1.048	42.59%	53.22%	72.94%
Medium (now obsolete)	0	125g	0.752	0.877	0.980*	1.080*	1.390*	41.84%	58.49%	84.84%	0.791	0.927	1.030*	1.135*	1.470*	42.72%	58.58%	85.84%
	125g	250g	0.994	1.146	1.300*	1.430*	1.850*	42.31%	61.43%	86.12%	1.060	1.229	1.410*	1.555*	2.010*	42.55%	63.55%	89.62%
Large	0	125g	0.846	0.943	0.980	1.080	1.390	41.84%	47.40%	64.30%	0.884	0.987	1.030	1.135	1.470	42.72%	48.94%	66.29%
	125g	250g	1.154	1.262	1.300	1.430	1.850	42.31%	46.59%	60.31%	1.225	1.350	1.410	1.555	2.010	42.55%	48.89%	64.08%
	250g	500g	1.418	1.559	1.670	1.840	2.380	42.51%	52.66%	67.84%	1.517	1.691	1.810	1.995	2.580	42.54%	52.57%	70.07%

Size	Weight		Barcoded Residue							Unbarcoded Residue								
	over	up to	8 Apr 2013	31 Mar 2014	2 Mar 2015	Oct 2015	proposed Jan 2016	increase fr Mar 2015	increase fr Mar 2014	increase fr Apr 2013	8 Apr 2013	31 Mar 2014	2 Mar 2015	Oct 2015	proposed Jan 2016	increase fr Mar 2015	increase fr Mar 2014	increase fr Apr 2013
Small	0	125g	0.541	0.564	0.600	0.630	0.855	42.50%	51.60%	58.04%	0.565	0.600	0.630	0.660	0.900	42.86%	50.00%	59.29%
Small Plus	0	125g	0.745	0.858	0.910	0.943	1.300	42.86%	51.52%	74.50%	0.900	0.950	1.010	1.046	1.420	40.59%	49.47%	57.78%
Medium (now obsolete)	0	125g	0.965	1.100	1.230*	1.330*	1.730*	40.65%	57.27%	79.27%	1.108	1.221	1.320*	1.335*	1.880*	42.42%	53.97%	69.68%
	125g	250g	1.295	1.436	1.600*	1.760*	2.280*	42.50%	58.77%	76.06%	1.432	1.639	1.700*	1.875*	2.420*	42.35%	47.65%	68.99%
Large	0	125g	1.097	1.166	1.230	1.330	1.730	40.65%	48.37%	57.70%	1.130	1.221	1.320	1.335	1.880	42.42%	53.97%	66.37%
	125g	250g	1.515	1.551	1.600	1.760	2.280	42.50%	47.00%	50.50%	1.603	1.639	1.700	1.875	2.420	42.35%	47.65%	50.97%
	250g	500g	1.955	1.903	2.030	2.225	2.900	42.86%	52.39%	48.34%	2.153	2.156	2.280	2.500	3.200	40.35%	48.42%	48.63%

Article size and weight

	Small	Small Plus	Medium*	Large
Maximum weight	125g	125g	125g or 250g	125g, 250g or 500g
Minimum size	88 x 138mm	88 x 138mm	—	—
Maximum size	130 x 240mm	162 x 240mm	180 x 260mm	260 x 360mm
Maximum thickness	5mm	5mm	20mm	20mm
Common examples	DL, C6	C5	B5	C4, B4

* with the removal of Medium, the above figures are based on the relevant Large sized letter which is now applicable

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