**Response to the ACCC on:**

**Australia Post’s Draft Price Notification Issues Paper**

**Submitted by: The Australian Postage Meter Vendor Group**

**For the attention of:**

**Mr Robert Wright**

**General Manager—Water and Wireless Markets**

**Australian Competition and Consumer Commission**

**15 October 2015**

**Executive Summary**

The postal meter and mailing technology industry of Australia, which predominantly consists of Neopost, Francotyp, Frama and Pitney Bowes (collectively, the “**Australian Postage Meter Vendor Group**”), welcomes the opportunity to respond to the ACCC issues paper on the Australia Post draft price notification.

As Neopost, Francotyp, Frama and Pitney Bowes are in the same industry, they have common concerns regarding Australia Post’s draft price notification, and therefore for efficiency and practicality purposes they are jointly submitting this response to the ACCC’s issues paper.

Neopost, Francotyp, Frama and Pitney Bowes partner with mailers of all sizes, and with Australia Post, to ensure that mail and parcels are efficiently produced, sorted and ultimately delivered. Collectively employing over 500 people and serving around 17,000 customers nationwide, the Australian Postage Meter Vendor Group’s technology helps organisations of all sizes to efficiently manage their business-critical communications and distribution needs, and allows them to effectively integrate their physical, data and payment processes with those of Australia Post for the benefit of both. Australia’s meter companies have supported and invested in the Australian postal market for more than 80 years.

We understand the challenges facing Australia Post in the context of declining letter volumes and continued household growth, and we welcome any efficiency measures that Australia Post can make in existing service levels. Small and medium businesses (**SMB**) depend on a sustainable postal service which is reliable, high quality, and supplied at a reasonable cost, as generally provided by Australia Post.

While we accept that changes to pricing and service levels may be needed we would emphasise that these cannot be at the expense of the overall imperative of efficiency improvements on the part of Australia Post, including the alignment of customers to the most efficient payment channel. Certainly, there are examples from overseas where easy and uncritical recourse to price increases can undermine the internal focus on driving efficiency and innovation within the postal operator, which is not in the long-term interests of a sustainable postal universal service obligation.

Subject to the specific responses to the ACCC issues paper questions outlined in the following pages, overall we are in agreement with the $1 rate for the Basic Postal Rate (**BPR**), however with business mail representing 84.5% of total letter mail volume we object to the proposed price increase for business mail in Australia and therefore our customers (IBISWorld, 2013-14, cited by ACCC, 2015).

The proposed business mail rates inseparably linked to the BPR we deem not to reflect the actual costs Australia Post bears to serve the business segment, especially via the metering channel.

Via postage meters SMBs connect digitally to Australia Post for access to, and payment for, postal services. They are the fastest growing segment of the Australian economy, representing in excess of 97 per cent of all businesses and around one-third of GDP.

Therefore a key concern is the predicted decline in SMB mail consumption due to involuntary electronic substitution and the associated diminished value equation for metering.

Our position overall can be summarised as follows:

* That the move to a AUS$1 tariff is confined to the stamp channel;
* That the price of metered mail is set at a level which recognises the significant costs-avoided for Australia Post.
* That a detailed, independent study of Australia Post’s cost accounting and allocation rules is undertaken to ensure that there is no unfair cross-subsidy between the letter mail business and the retail operation; and
* That Australia Post’s own efficiency targets are secured and that future significant price hikes are constrained.

The following represents our specific contribution to the questions posed in the issues paper:

**Question 1**

The question itself asks should the proposed increase be a staged implementation.

We submit to the ACCC that the information provided by Australia Post in the draft notification is insufficiently multi-dimensional to account for the need to increase price to the extent purported, therefore by default we are not in agreement with a staged increase.

In saying this, it should be noted that our industry is not anti-price-increase for stamped mail and also acknowledge that price is a justifiable strategy for Australia Post to consider.

**Question 2**

Yes. A lower price point would plausibly attract business mailers to a Regular service and it has to our understanding attracted 70% of business mail since introduction. We support Australia Post in considering initiatives such as Regular delivery to stem costs.

The question in the issues paper is arguably obsolete as it has already been made into law that mail under the BPR shall be treated as Regular delivery.

The question also appears to assume, without any evidence to the contrary, that businesses of Australia agree with the notion of a slower service level.

It could be argued that businesses are being forced to conform to proposed postal rates and conditions that are being expediently carried through the approval process.

We will however state that Regular mail as a value-added option for businesses is something we support, but not at the expense of artificially creating value by inflating price.

**Question 3**

In response to this question, we do hold concerns about Australia Post’s cost allocation methodologies.

The broad concept of adjusting service levels to eliminate fixed costs associated with round the clock operations is understood and fundamentally agreed. What was not formally discussed until April 2015 was the notion of the increase of the BPR to $1 and more recently, the corresponding rate increase to business mail.

Our metering technology provides an exclusive platform dedicated to Australia Post’s services and links SMBs physical, data and payment processes to Australia Post’s infrastructure. In so doing, the meter channel efficiently collects large quantities of relatively low nominal postage sums from thousands of highly dispersed SMBs across Australia. The meter is, if you like, a “digital gateway” between Australia Post and SMBs, bringing convenience to mailers and a low cost, secure, customer management platform for the universal service provider.

In addition, there is strong economic evidence that the meter brings significant efficiency benefits to postal operators, particularly those with universal service obligations (Walsh, 2014). By accessing Australia Post’s services through the meter channel, rather than via stamps, the costs-avoided for Australia Post include:

* The costs associated with stamp production, their secure transport around the country, retailing and accounting costs;
* Costs relating to revenue collection and protection, including as non-cancellation of stamps; misuse of parcel satchels; and permit mail verification costs;
* Upstream operational cost savings (collection/sortation) between the stamp and meter channel. For example, it has been shown that US Postal Service (**USPS**) collection costs were nine per cent greater for stamps than for meters (Haldi and Schmidt, 2000);
* Avoidable and otherwise recurring transaction costsassociated with cost of sales; account set-up and management (Pintsov, et al 1999; Postcomm, 2010);

Thus, the UK postal regulator had identified that the stamp and meter cost differential for Royal Mail was equivalent to 25% of public tariff (Postcomm, 2004); and a study for the Irish postal regulator demonstrated that the meter/stamped differential for An Post was 21 cents or 38% of the retail price (Frontier Economics, 2012a; 2012b). And so, when other postal operators have sought to increase tariffs to counter the twin realities of continued letter mail volume decline and delivery point growth they have done so conscious of the differences between the costs associated with the stamp and meter payment channels.

**Question 4**

Operational efficiency is an area we agree the ACCC needs to take into account with Australia Post’s draft notification of proposed percentage price increase.

We feel it is difficult to accurately know whether to allow a price increase of this magnitude until the issues pertaining to operational efficiency are known.

With respect to Question 4, there is also a link to Question 3 in that costs allocated to service provision for letters need to be accurately determined in order to calculate efficiency.

Efficiencies pertaining to Australia Post’s significant investment in new sorting technology are also predicted to rein in losses. Whilst this investment is timely for cost reduction and we support Australia Post in this initiative, it should be considered in the mix of contributory factors and linked to the proposed price for business mail that generates the vast majority of volume. Therefore again business mail, through its economies of scale contributes more to operational efficiency but is expected to shoulder an equivalent price increase.

Thus, while the meter technology companies of Australia recognise the need for a balanced programme of change, including to pricing, service standards and Australia Post’s own efficiency, it is our strong view that the tariff proposals as they currently stand are unbalanced. A financially viable and self-sustaining postal service requires a more nuanced or segmented approach to pricing – one that recognises the costs-avoided for the postal operator by the manner in which mailers prepare, access and pay for services.

**Question 5**

The response to this question is adequately addressed earlier in this submission.

However, for the avoidance of doubt, any organisation that publicly states its own product being in “terminal and structural decline” and then proposes a price increase to levels that make it more difficult for its largest segment of customers (business mail) to realistically justify, the rate of decline potentially becomes a foregone conclusion in terms of market response.

Being uniquely tethered to Australia Post by virtue of the technology we offer which provides access to postal services, we are acutely aware of market fluctuations in demand for physical mail.

As an industry we have felt the impact of progressive price and service changes to the metered mail rate from being $0.58 per metered small letter two years ago to $0.67 where it is today for Regular mail. We predict the proposed increase to $0.95 per article for Regular metered small letters will impact further.

**Question 6**

Australia Post’s WACC is difficult to compare in the absence of global benchmarks for regulated postal markets.

The question of a post-tax vanilla WACC, whilst having the potential to impact price, is possibly a further contributing factor rather than the main issue at hand, which is the resultant proposed price increase to business mail.

Australia Post indeed derives the majority of its profit from contestable services, therefore on this basis Australia Post’s risk premium is aligned with other such commercial comparisons.

If Australia was a liberalised postal market a nominal risk premium of 7.0% would be a reasonable level to ensure stakeholders were adequately compensated for investment choices.

But in the case of Australia Post, the BPR is protected hence brings the WACC into question if it were to materially affect business mail prices.

**References**

Comreg (2006). Accounting Direction to An Post, December 8th.

Frontier Economics, (2012a). Review and Assessment of An Post’s Application for Changes To The Charges for Postal Services Within The Scope of the Universal Postal Service, ComReg Document, 12/109a, September.

Frontier Economics, (2012b). Update To Review and Assessment of An Post’s Application for Changes To The Charges for Postal Services Within The Scope of the Universal Postal Service, September 2012, ComReg Document 12/138a;

Haldi, John and Schmidt, John T. (2000). Controlling Postal Retail Transaction Costs and Improving Customer Access to Postal Products, in Crew, M. and Kleindorfer, P. Current Directions in Postal Reform, Boston, MA Kluwer Academic Publishers.

IBISWorld. Australian postal market segmentation (2013-14) in the Australia Competition and Consumer Commission issues paper on the Australia Post draft price notification, Commonwealth of Australia (2015).

Pintsov, L. Johsi, S. and Biasi, T. (1999). Transaction Cost Economics of Postage Payment and Mailer-Post Interface, in Crew, Michael, A. and Kleindorfer, Paul, R. in Emerging Competition in Postal and Delivery Services, Boston, MA: Kluwer Academic Publishers.

Postcomm, (2004). Royal Mail’s Intention To Introduce Different Prices for Public Tariff Customers Depending on Payment Channel, 4th November, London.

Postcomm, (2010). Laying The Foundations For A Sustainable Postal Service, Annex 3 Cost Transparency and Accounting Separation, May. London.

Walsh, T. J. (2014). The Costs, Functions and Pricing of Postal Payment Channels, in Crew, M.A. and Brennan, T. J. (eds). The Role of Postal Services in a Digital Age, Edward Elgar Publishing, London.