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# **Australia Post - letter pricing 2015**

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**Submission to the Australian  
Competition & Consumer  
Commission (ACCC)**

15 October 2015

Prepared by: The LPO Group Ltd



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## 1. Executive summary

Postal services and post offices are the life blood of many rural and remote communities throughout Australia.

Despite an increase in the use of digital technology, the letters service and post offices still play a very important role in binding the nation together, facilitating citizen inclusion, and enabling commercial and public activities.

Licensed Post Offices (LPOs) provide the majority (65%) of the Australia Post retail network. In 2014 there were 2,886 LPOs. Further, LPOs account for 64% of all outlets located in rural/remote areas.

LPOs have been in a precarious financial position for many years and have accumulated significant losses over time because on average more than 60% of Licensee income is linked to the stamp price (BPR) – currently 70c and the stamp price has not been maintained in-line with the cost of living as measured by the consumer price index (CPI) or maintained in-line with the increase in Award wages and conditions that a Licensee is legally required to pay an employee.

Unless the stamp price (BPR) is increased to at least \$1.00 many LPOs are vulnerable to closure and customers face the threat of a demise in the provision of postal services and access to banking services within their community.

A stamp price increase to at least \$1.00 will help maintain LPOs and ensure Australia Post can continue to provide the community service obligations (CSOs) imposed on them under the Australian Postal Corporation Act 1989 (the APC Act) – including a 5-day delivery service.

LPOG strongly believes the Government and ACCC has a duty to ensure that the CSOs imposed on Australia Post are made financially viable and postal services remain accessible to all through a network of Australia Post retail outlets - including financially viable LPOs.

Ensuring Australia Post CSOs are made financially viable and sustainable by allowing Australia Post to recover the CSO cost, will also remove the risk to taxpayers of an expensive bail out in future years.

LPOG strongly recommends that the ACCC not object to a stamp price (BPR) increase to at least \$1.00 and the necessary ACCC review process be completed in sufficient time to allow the new stamp price (BPR) to be made effective no later than 4 January 2016.

LPOG also recommends that the new stamp price (BPR) be allowed to increase in small regular predictable increments in-line with CPI (minimum) to avoid future price shock where possible.

## 2. Abbreviations & Acronyms

ACCC	Australian Competition and Consumer Commission	
APC Act	Australian Postal Corporation Act 1989	
BPR	Basic postage rate (i.e. stamp price, currently 70c)	
CAGR	Compound annual growth rate	
CAM	Cost allocation methodology	
CPA	Community Postal Agency	
CPI	Consumer Price Index	
CPO	Corporate Post Office	
CSOs	Community service obligations	
EPOS	Electronic point of sale	
GBE	Government Business Enterprise	
LPO	Licensed Post Office	
MMF	Mail management fee	
SG	Superannuation Guarantee	
UPU	Universal Postal Union	
WACC	Weighted average cost capital	

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### 3. About this submission

The LPOG Group (LPOG) is a group made up of Licensees of licensed post offices (LPOs) from all states across Australia, who have formed a Franchisees Association to ensure the viability of the licensed post office model.

The aim of the LPOG is to represent our member's interests in our ongoing relationship with Australia Post, and to provide support and resources to help build more successful outcomes for our members.

The LPOG is a registered company bound by a constitution and every Licensee member has the opportunity to join Committees and stand for elections.<sup>1</sup>

The LPOG is recognised by Australia Post as an 'association' representing the interests of Licensees.

This submission addresses two key issues:

- (i) the importance of maintaining Australia Post's community service obligations;
- (ii) how a stamp price increase from 70c to \$1.00 (minimum) will help to ensure LPOs remain open and continue to service communities across Australia and meet the needs of consumers and small businesses alike;

A brief overview of the basic legal and operational framework within which Australia Post and licensed post offices (LPOs) must operate has also been included to assist the reader in understanding the difficulties this framework presents to both Australia Post and the owners of LPOs.

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<sup>1</sup> LPOG was registered as a company on 8 August 2013, The groups Constitution can be viewed on the LPOG website [www.lpogroup.com.au](http://www.lpogroup.com.au)

## 4. About Australia Post

Australia Post is a Government Business Enterprise (GBE) and was corporatised in 1989. The Australian Government (the Government) is the sole shareholder thus Australia Post is owned by all Australian citizens.

Australia Post is governed by the *Australian Postal Corporation Act 1989* (the APC Act) and under this Act, Australia Post operates on a day to day basis at arms length from the Government. Further, under the APC Act, a collection of obligations is imposed onto Australia Post as shown in Table 1 below.

Type of Obligation	Description	Applies to Australia Post competitors?
1 Community service (CSOs)	<ul style="list-style-type: none"> <li>provide a letter service for both domestic and international letter traffic;</li> <li>provide a letter service at a single uniform rate within Australia for standard letters – sometimes also referred to as the Universal Service Obligation (USO)</li> <li>comply with performance standards that reasonably meet the social, industrial and commercial needs of the community including maintain, in Australia, at least 4,000 retail outlets at which persons can purchase Australia Post products and services with not fewer than 2,500 located in rural areas.</li> </ul>	<b>NO</b>
2 Regulatory	<ul style="list-style-type: none"> <li>comply with the Australian Postal Corporation Act 1989 (the APC Act) including notifications of general policies under Section 48 and directions under Section 49</li> <li>comply with The Public Governance, Performance and Accountability Act 2013.</li> <li>comply with Australia's obligations under any convention including international letter-post items<sup>2</sup> governed by the rules of the Universal Postal Union (UPU) of which Australia is a member.</li> </ul>	<b>NO</b>
3 Commercial	<ul style="list-style-type: none"> <li>comply with normal commercial obligations and practices required for a registered company including payment of all taxes and a dividend to shareholder(s).</li> </ul>	YES

In 1989, Australia Post was given a statutory monopoly so that revenue from its reserved services<sup>3</sup> and sale of postage stamps could fund the cost of meeting its community service obligations.<sup>4</sup> Today, Australia Post still has the sole responsibility for providing a letters service in Australia and receives no Government funding.

To ensure Australia Post remained efficient more of Australia Post services have been made open to competition by the Government narrowing the services reserved to Australia Post.<sup>5</sup> **Today, Australia Post earns more than 70% of its revenue from non-reserved products and services that are provided in a competitive environment<sup>6</sup> and pays (to the Government) a dividend equivalent to 75% of its profit after tax.<sup>7</sup>**

Australia Post remains one of the largest providers of employment across Australia. In 2014 there were 36,924 Australia Post employees and more than 10,000 persons employed in Australia Post non-corporate retail outlets (e.g. licensed post offices) and employed as an Australia Post mail or parcel contractor.

<sup>2</sup> Under UPU rules, letter-post items include small parcels up to 2kg

<sup>3</sup> Services reserved to Australia Post are detailed under the Australian Postal Corporation Act 1989, Section 29.

<sup>4</sup> The 1989 explanatory memorandum for the APC Act stated: 'The right to carry letters within Australian and between Australia and overseas is reserved to Australia Post in recognition of the CSOs imposed on Australia Post.' [http://www.austlii.edu.au/cgi-bin/download.cgi/cgi-bin/download/au/legis/cth/bill\\_em/apcb1989347.pdf](http://www.austlii.edu.au/cgi-bin/download.cgi/cgi-bin/download.cgi/download/au/legis/cth/bill_em/apcb1989347.pdf)

<sup>5</sup> Example, in 1989 letters up to 500 grams were reserved but today only letters up to 250 grams are still reserved

<sup>6</sup> Australia Post 2014 annual report.

<sup>7</sup> Final Report Environment and Communications Legislation Committee Performance, importance and role of Australia Post in Australian communities and its operations in relation to licensed post offices (Sep 2014), p6

## 5. Community Service Obligations (CSOs) & cost

The responsibility for setting a community service obligation (CSO) is the responsibility of Government albeit Federal or State.

For the Australian Government a CSO<sup>8</sup> arises when the Government specifically requires a Commonwealth organisation (e.g. Australia Post) to carry out activities which:

- the organisation would not elect to do on a commercial basis, or which it would only do at higher prices; and
- the Government does not require other organisations in the public or private sectors to generally undertake

CSOs provide a range of social benefits to meet Government policies. Further, CSOs can sometimes impact on other users of the services (through the use of cross-subsidies and barriers to competition) and on the financial performance of the GBE.

Australia Post CSOs are defined under the APC Act (refer Table 1) and Australia Post must fund the CSOs imposed upon them from the revenue it earns whereas some overseas postal agencies receive direct funding assistance from the Government.

EXAMPLE: The UK Government committed £1.34 billion of funding to their Post Office network over a four year period. Almost half (48%) of the funding was earmarked as ‘network subsidy’ to help maintain the size of the network (i.e. £196.8 million in 2011–12, £199.2 million in 2012–13 and £158.4 million in 2014–15).<sup>9</sup>

The Government also specifies the costing methodology to be used by Australia Post to determine CSO cost. Currently Australia Post must use the avoidable cost method - a method commonly adopted by Governments.

In 2014, Australia Post reported that the financial cost associated with meeting their CSOs was \$203.5 million, an increase of 17% on the previous year.<sup>10</sup> However, Australia Post has advised, if Australia Post operated wholly as a commercial business rather than a GBE and the CSO cost was determined using an alternative costing methodology (e.g. the fully distributed cost methodology), in 2014 the CSO cost to Australia Post would be closer to \$300 million i.e. roughly 50% higher than reported in the 2014 Australia Post annual report.<sup>11</sup>

**In 2014, Australia Post advised that the cost of delivering a letter exceeds the stamp price (BPR) by 43%<sup>12</sup> meaning the price of a stamp does not equal the cost of delivering a letter in Australia at a uniform rate as required under the APC Act.**

The difference between the real cost of delivering a letter and the stamp price (BPR) must be subsidised by other users of Australia Post via cross-subsidisation including profit earned within the Australia Post commercially operated parcels business.

CSOs require the provision of a minimum number of retail outlets in particular locations. It is important to note that not all Australia Post retail outlets can be expected to be commercially self sustaining – particularly where the outlet is located in a rural or remote area.<sup>13</sup>

<sup>8</sup> As defined by SCNPMGTE 1994. <http://www.pc.gov.au/research/completed/community-service-obligations/cso.pdf>

<sup>9</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31809/10-1260-securing-the-post-office-network.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31809/10-1260-securing-the-post-office-network.pdf)

<sup>10</sup> Australia Post 2014 annual report, p9

<sup>11</sup> HANSARD, Senate Estimates 27/05/2015, Australia Post CEO, Mr Fahour, p91

<sup>12</sup> If you add all the costs of the whole entity, and divide it through on a weighted sum by the volume that we produce, the cost today is about one dollar [HANSARD, Senate Estimates 20/11/2014, Australia Post CEO, Mr Fahour, p53]

<sup>13</sup> In the UK, the Chief Executive of Post Office Limited has stated that only 25% of their post offices are currently commercially viable and figures show that less than 23% of rural branches generate over £40,000 per annum in remuneration, compared to 69% of urban and 65% of urban deprived branches. [Postcomm, Tenth Annual Report on the Network of Post Offices in the UK, 2009-10. Table 8, p 24.]

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## 6. Impact of digital technology on postal services

Digital technology has had a significant impact on postal agencies globally. Today the public and businesses have a choice of communication methods (e.g. email, social networking services etc). However, on the flip side, global e-commerce has created significant opportunities for postal agencies through growth in the parcels part of their business.

Today email remains the most ubiquitous form of communication and has had a significant impact on the letters service. Email accounts are required for any form of online presence from signing on to social media sites, to shopping online, to access to online portals, and access to all forms of online communication. In 2015 there were roughly 2.6 billion email users worldwide and the total worldwide email traffic, including both Business and Consumer emails, was estimated to reach over 205 billion emails per day by year-end 2015.<sup>14</sup>

However according to latest data released by the ABS<sup>15</sup>:

- 40% of households with a household income of less than \$40,000 are not likely to have access to the internet at home, and
- the majority (56%) of older persons (persons aged 65 years or over) were not internet users

thus **Australia Post community service obligations (including the provision of a letters service) still plays a very important role in binding the nation together, facilitating citizen inclusion, and enabling commercial and public activities.**

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<sup>14</sup> Survey and research by The Radcati Group, Email Market 2015-2019 [http://www.radicati.com/wp/wp-content/uploads/2015/02/Email\\_Market\\_2015-2019\\_Executive\\_Summary.pdf](http://www.radicati.com/wp/wp-content/uploads/2015/02/Email_Market_2015-2019_Executive_Summary.pdf)

<sup>15</sup> ABS Cat No. 8146.0 - Household Use of Information Technology, Australia, 2012-13



## 7. Stamp prices (BPR) 1989 to 2015

The price of postage for items less than 250 grams (i.e. the letters service reserved to Australia Post) is known as the Basic Postage Rate (BPR).<sup>16</sup> Today, the BPR is currently 70c.

Since 1989, Australia Post has increased the BPR only six times from 41c to 70c. The last increase to the BPR was on 31 March 2014 from 60c to 70c. Refer Table 2 below.

Year price increased	BPR (i.e. stamp price) (Price to Public)	Price increase
1989	41c	BASE
1990	43c	4.9%
1992	45c	4.7%
2003	50c	11.1%
2008	55c	10.0%
2010	60c	9.1%
2014	70c	16.7%

NOTE: current stamp price is still 70c

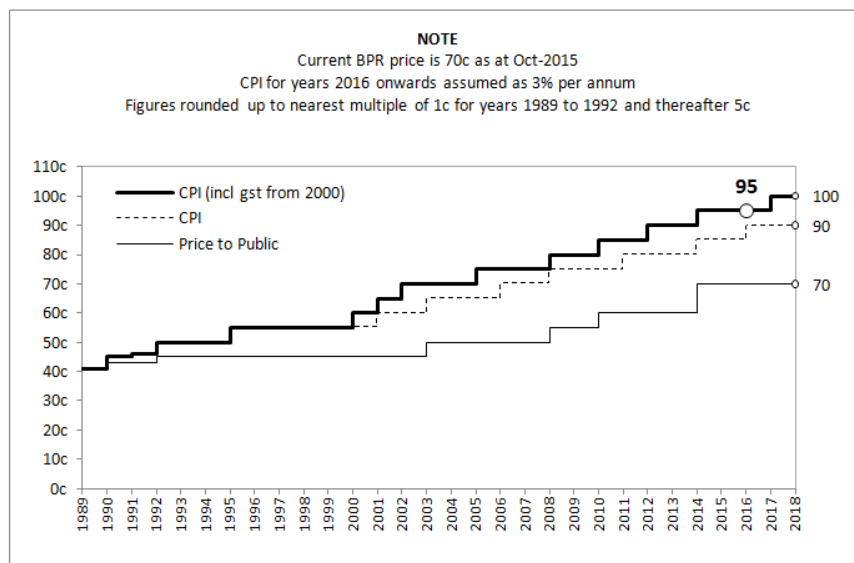
For the period 1989 to 2015 the BPR (price to public) has increased by only 71% but the CPI has increased by 103% thus the BPR has not been kept in-line CPI.

Further, for the period 1992 to 2002 the rise in CPI was 28% but the BPR remained held at 45c. Also when the Government introduced the goods and services tax (GST) on 1 July 2000 there was no increase in the BPR to the public but businesses registered for GST obtained a significant benefit because the stamp price was effectively reduced by 9.8% to only 41c.

LPOG estimates that had the stamp price been kept in-line with CPI from 1989 and GST included from 2000, the BPR would be 95c today. Refer Figure 1.<sup>17</sup>

However, under the APC Act, Australia Post must achieve sufficient total revenue to offset the cost of providing their CSOs and the BPR must be priced accordingly thus simply maintaining the BPR in-line with CPI when mail volumes are in decline may not be sufficient to achieve the necessary cost recovery for the service and the BPR may need to be adjusted by more than CPI and on a regular predictable basis e.g. annually.

**Figure 1 : Basic Postage Rate - Price to public v CPI**



<sup>16</sup> In 2013, letters less than 250 grams accounted for 99% of total letter volume (Department of Finance Submission, Inquiry into Performance, importance and role of Australia Post in Australian communities and its operations in relation to licensed post offices (Nov 2013,) p.3)

<sup>17</sup> Figures rounded up in multiple of 1c for years 1989 to 1992 and thereafter by 5c

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## 8. Protecting vulnerable customers

A key concern about any significant stamp price increase is the effect it could have on vulnerable groups. As a GBE, Australia Post has a duty to consider the needs of vulnerable consumers and their ability to pay when assessing a stamp price increase.

On 31 March 2014, when the BPR was last increased from 60c to 70c (16.7%), Australia Post also introduced a concession rate stamp for 5.7 million eligible Australians so that access to the original 60c postage remained in place until at least 2017.<sup>18</sup> Therefore a stamp price increase to \$1.00 will not impact on vulnerable consumers.

However, if the BPR or concession stamp price rises to a point that gives rise to affordability concern, particularly for vulnerable consumers, then clearly there would be a need for the Government to intervene and possibly initiate a further relaxing of Australia Post CSOs e.g. a reduction in delivery frequency from 5-days down to 3-days per week.

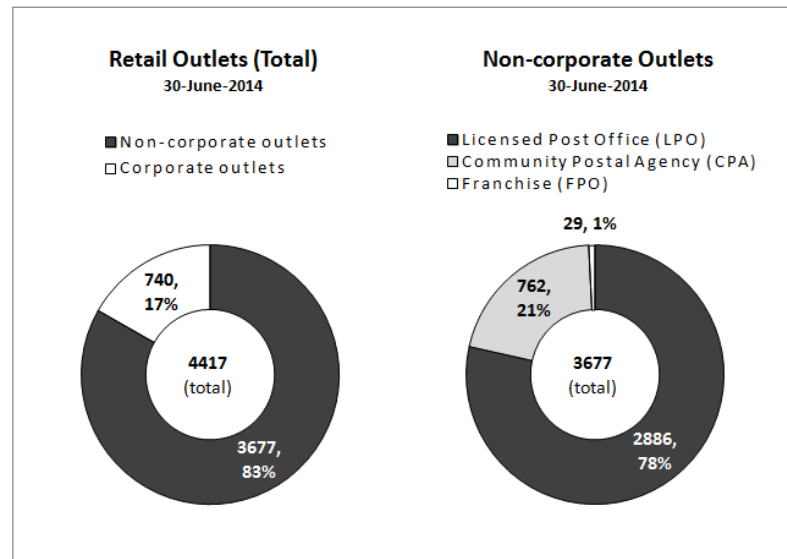
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<sup>18</sup> Australia Post media release 30/01/2014 <https://auspost.newsroom.com.au/Content/Default/01-News-Releases/Article/Proposed-increase-to-basic-postage-rate-but-with-new-concession-rate-stamp/-3/27/2779>

## 9. Why Licensed Post Offices (LPOs) are so important

The majority (83%) of the Australia Post retail network is provided by *non-corporate outlets* meaning they are privately owned and/or operated businesses in the form of either a licensed post office (LPO), franchise post office (FPO) or community postal agency (CPA). The remaining outlets (17%) are currently still owned by Australia Post and operated by Australia Post employees. Refer Figure 2 below.

Figure 2 : Australia Post retail network



**LPOs provide the majority (65%) of the Australia Post retail network. In 2014 there were 2,886 LPOs<sup>19</sup>. Further, LPOs account for 64% of all outlets located in rural/remote areas.<sup>20</sup>**

Under the APC Act, Australia Post is required to maintain in Australia, at least 4,000 retail outlets with not less than 2,500 located in rural areas. Outlets are also required to be located to provide reasonable access to all Australians.<sup>21</sup>

The Australia Post retail network is probably the most extensive retail and financial services network in Australia. To provide some comparison, in 2014 there were only 1,150 Commonwealth Bank branches<sup>22</sup> and 931 Woolworths supermarkets operating in Australia.<sup>23</sup>

**Australia Post retail outlets not only provide fair and equitable access to postal services for all persons and businesses in Australia but access to financial services including basic banking services (i.e. ability to deposit and withdraw from a bank account).**

Today, Australia Post provides banking services on behalf of more than 70 banks and financial institutions<sup>24</sup> at over 3,200<sup>25</sup> post offices across the country. LPOs provide the majority (76%) of these (face-to-face) banking service points.<sup>26</sup> Refer Figure 3 & 4.

**LPOs (and contract mail delivery personnel), provide the most cost effective means for Australia Post to continue to deliver their CSOs<sup>27</sup>**

<sup>19</sup> Australia Post 2014 annual report

<sup>20</sup> Australia Post Submission - Inquiry into Performance, importance and role of Australia Post in Australian communities and its operations in relation to licensed post offices, Sep 2014 (sub08) p21

<sup>21</sup> Under the Australian Postal Corporation (Performance Standards) Regulations 1998, a retail outlet must be so located that (a) in a metropolitan area at least 90% of residences in the area are located within 2.5 kilometres of a retail outlet; and (b) in the area comprising the non-metropolitan zones at least 85% of residences in the area are located within 7.5 kilometres of a retail outlet.

<sup>22</sup> Commonwealth Bank of Australia 2014 annual report, p67

<sup>23</sup> Woolworths Ltd 2014 annual report, p12

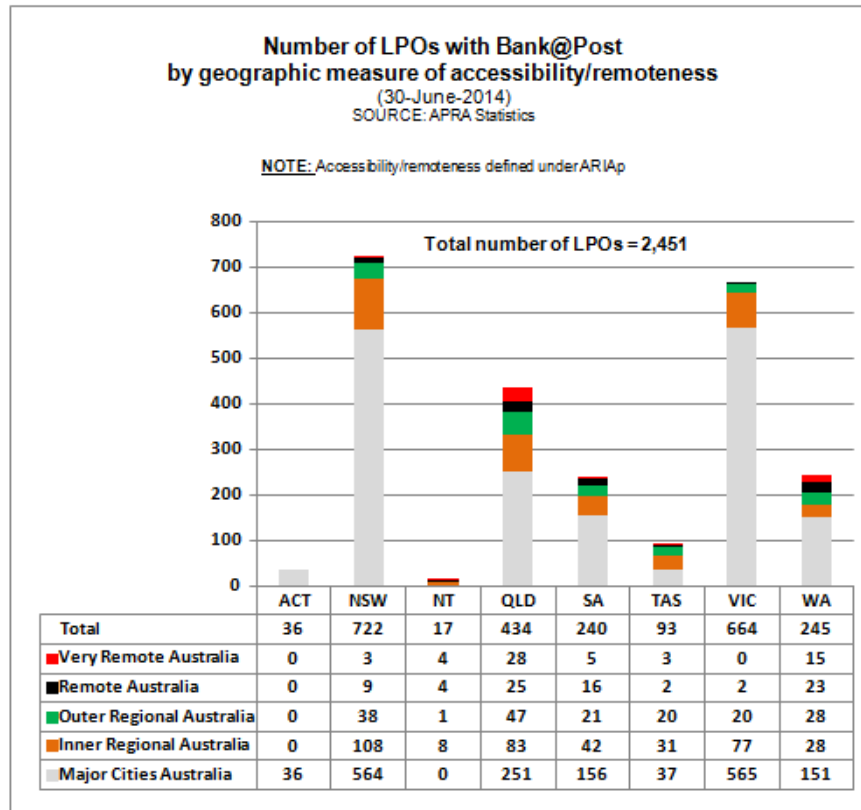
<sup>24</sup> Australia Post website <http://auspost.com.au/money-insurance/bank-at-post.html#participatingbanks> (accessed 13/10/2015)

<sup>25</sup> APRA ADI Points of Presence workbook June 2014

<sup>26</sup> LPOG estimate based on APRA ADI Points of Presence workbook June 2014

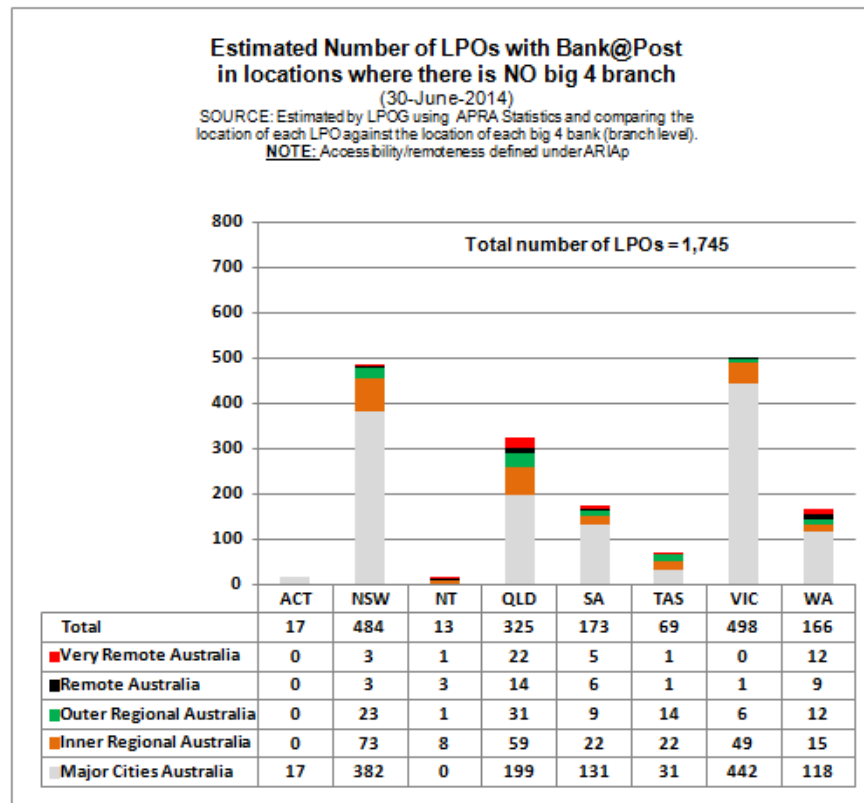
<sup>27</sup> A full-time Australia Post employee paid under the Australia Post EBA is paid \$62,437/yr (Senior PSO Gr2) and a full-time LPO employee paid under the General Retail Award is paid \$45,906/yr (Level 8) i.e.26% less (approx)

Figure 3 : LPOs with Bank@Post by geographic location



SOURCE: LPOG (Based on APRA ADI Points of Presence workbook June 2014)

Figure 4 : Estimated number of LPOs in location where there is NO big 4 bank



SOURCE: LPOG (Based on APRA ADI Points of Presence workbook June 2014)

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## 10. How Licensed Post Offices (LPOs) operate & earn their income

A licensed post office (LPO) is a privately owned business that operates under a license (LPO Agreement) granted by Australia Post.

The LPO Agreement was first introduced in 1993 and remained unchanged for more than twenty years until 26 June 2015 when the LPO Group Limited was officially named within the LPO Agreement as an alternative industry body with whom Australia Post must consult.

Today, an LPO is also legally a franchise<sup>28</sup> and subject to the Franchising Code of Conduct<sup>29</sup>, which is a mandatory industry code that applies to the parties to a franchise agreement and with respect to LPOs, the parties being Australia Post and the Licensee.

The license granted by Australia Post to a Licensee to operate an LPO is perpetual meaning, there is no expiration date for the license and the license can be sold by the Licensee.

The majority of Licensees have purchased their Australia Post license from a previous Licensee at a value roughly three to five times the LPOs net profit. For a large LPO located in a busy metro or large regional area, the license purchase cost can represent a significant initial investment in excess of one million dollars.<sup>30</sup> Many Licensees have borrowed funds to purchase their LPO business thus to service this debt, the LPO must be remain viable.

The Licensee is responsible for all operating and running costs associated with their LPO including shop lease costs, shop fit-out; security; maintenance and employee uniforms, wages and superannuation. The Licensee also pays a point-of-sale technology fee to Australia Post.

A Licensee earns their revenue from fees and commissions paid by Australia Post for the work performed on behalf of Australia Post including mail acceptance and processing, sale of postage stamps, bill payment transaction, banking transactions, identity services, processing of passport applications, provision of a post office box service etc etc. Australia Post also offers their products to the Licensee at a discount.

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<sup>28</sup> Bryan Belling. Bryan Belling is on the advisory board of the Franchisee's Association of Australia, Inc. He is a partner of K&L Gates: Lawyers and acts for the LPOG.

<sup>29</sup> <http://www.accc.gov.au/business/industry-codes/franchising-code-of-conduct>

<sup>30</sup> Terry A. Ashcroft, Business Broker email 13/10/2015

## 11. Why a stamp price (BPR) increase is critical to Licensed Post Offices (LPOs)

**An increase in the stamp price (BPR) to at least \$1.00 will help maintain LPOs and enable Licensees to properly staff their business and recover labour cost.**

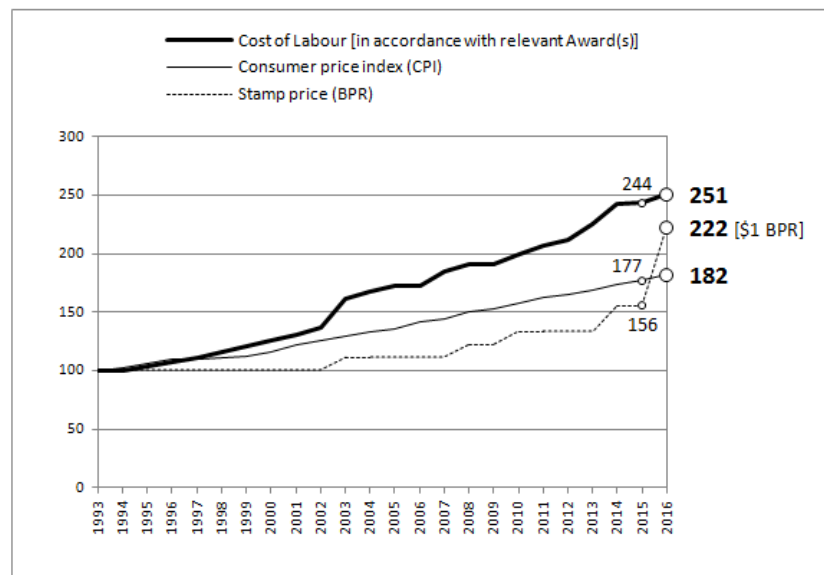
The work performed by a Licensee is labour intensive thus any increase in labour cost can have a significant impact on the bottom line of a LPO business. For example, to provide the post office box service, roughly 78% of Licensee total cost to provide the service is attributable to labour cost.<sup>31</sup>

**In 2013, 62% of LPO revenue was still linked to the stamp price (BPR).<sup>32</sup>**

However, Licensee payments linked to the stamp price (BPR) have not kept pace with the actual cost of labour. For the period 1993 to 2015 the cost of labour has increased by 144% but the stamp price (BPR) increased by only 56%. Refer Figure 5.

**A stamp price (BPR) increase to \$1.00 will not re-align BPR linked payments in-line with cost of labour. To achieve this, a \$1.15 stamp price (BPR) is needed.**

Figure 5 : LPO labour cost



NOTE:

Based on a casual employee working at least 3 hours per day (i.e. the minimum daily engagement hours now required under the current General Retail Industry Award 2010); minimum Superannuation Guarantee Charge for the particular year and 20% loading for 1993 to 2013 and thereafter 25% (as per General Retail Industry Award 2010). Figures for CPI and cost of labour have been extrapolated using a calculated CAGR for 1993 to 2015.

Another significant impact on LPO labour cost was the recent change in the Award. Under the new Award (a modern award), the minimum daily engagement hours for an employee has been increased from no specific time to a minimum of 3 hours and the casual loading also increased from 20% to 25%. Following the introduction of the new Award, many Licensees had no choice but to reduce employee numbers, in some instances down to zero employees for small LPOs.

The Superannuation Guarantee (SG) rate that an employer must pay on behalf of an employee also increased for the period 1993 to 2015 from 3% to 9.5% and is projected to increase to 12% by 1 July 2025.

<sup>31</sup> PIP Report, Independent Review of Licensed Post Office (LPO) Network, 12 May 2015, p37

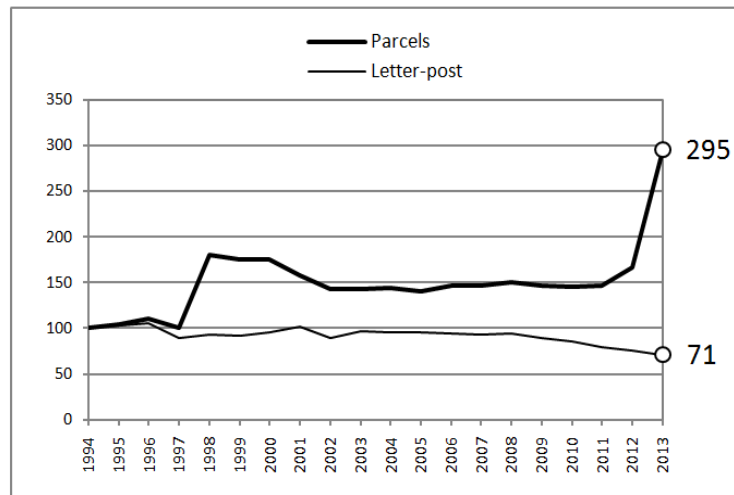
<sup>32</sup> Total for all LPOs in Australia post retail network. Australia Post Submission, Inquiry into Performance, importance and role of Australia Post in Australian communities and its operations in relation to licensed post offices, Sep 2014 (sub08) p36

The third significant impact on the majority (if not all) LPOs has been the growth in parcels driven by digital technology.

According to postal statistics published by the Universal Postal Union (UPU)<sup>33</sup>, in Australia over the period 1994 to 2013 the growth (or decline) in average number of articles *delivered* per delivery point was as follows (also refer to Figure 6).

- **Parcels:** number of parcels increased by roughly 200% (6.6 to 19.5)
- **Letter-post items**<sup>34</sup>: number of items decreased by roughly 30% (554 to 395)

**Figure 6: Average number of letter-post items & parcels delivered per delivery point (Domestic & International)**



SOURCE: LPOG (Based on UPU postal statistics)

Results from a recent LPOG survey also indicate the number of parcels delivered through LPOs varies greatly across the LPO network as shown in Table 3 below.

Item	Rural LPO	Metro LPO
Maximum number	78.9	29.0
Minimum number	0.0	4.9
<b>Average</b>	<b>27.6</b>	<b>17.1</b>

Of the total number of LPOs sampled, 36% of rural LPOs delivered more than 27.6 parcels per post office box and 50% of metro LPOs delivered more than 17.1.

For LPOs that provide both a post office box service and a counter mail delivery service (i.e. no street delivery is provided by Australia Post) the impact of parcels has been a huge burden not only on labour cost but also the cost(s) associated with the provision of sufficient work space to receive and sort mail and space to store parcels until collected by the customer.

<sup>33</sup> <http://www.upu.int/en/resources/postal-statistics/about-postal-statistics.html>

<sup>34</sup> Under the UPU rules for international mail exchange, letter-post items include small packets up to 2kg

## 12. Response to specific ACCC questions

### Response Question 1

#### Question 1

Based on Australia Post's proposal a \$1 basic postage rate will significantly reduce the losses on Australia Post's stamped letter services by 2016-17. Further, Australia Post's monopoly letter services (stamped and bulk business mail) are forecast to reverse their previous loss making state by 2016-17.

Australia Post is proposing to increase prices for ordinary letters (delivered at the new regular slower timetable) by 43 per cent in one step in January 2016 which will see a forecast under-recovery for reserved services of \$70 million in 2015-16 move to a forecast over-recovery of \$84 million in 2016-17.<sup>13</sup> However, stamped letter services would continue to face losses and there is uncertainty around the longer-term rate of decline in letter volumes and a risk Australia Post's overall monopoly letter services could return to net losses.

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?

LPOG strongly recommends the stamp price increase be implemented in ONE STEP i.e. from 70c to at least \$1.00 (preferably \$1.15).

LPOs have been in a precarious financial position for many years and have accumulated significant losses over time because on average more than 60% of Licensee income is linked to the stamp price (BPR) – currently 70c and the stamp price has not been maintained in-line with the cost of living as measured by the consumer price index (CPI) or maintained in-line with the increase in Award wages and conditions that a Licensee is legally required to pay an employee.

Unless the stamp price (BPR) is increased to at least \$1.00 many LPOs are vulnerable to closure and customers face the threat of a demise in the provision of postal services and access to banking services within their community.

A stamp price increase to at least \$1.00 will help maintain LPOs and ensure Australia Post can continue to provide the community service obligations (CSOs) imposed on them under the Australian Postal Corporation Act 1989 (the APC Act) – including a 5-day delivery service.

LPOG strongly believes the Government and ACCC has a duty to ensure that the CSOs imposed on Australia Post are made financially viable and postal services remain accessible to all through a network of Australia Post retail outlets - including financially viable LPOs.

Ensuring Australia Post CSOs are made financially viable and sustainable by allowing Australia Post to recover the CSO cost, will also remove the risk to taxpayers of an expensive bail out in future years.



## Response Question 2

### 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?

LPOG is of the opinion a price difference **WOULD** encourage use of the slower regular service for 'ordinary' mail provided the price difference was made sufficient to 'encourage' such use.

## Response Question 3

### 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?

LPOG is of the opinion Australia Post's method of cost allocation should be regularly reviewed and developed by an independent consultant to ensure the CSO cost is determined as accurately as possible.

## Response Question 4

### Question 4

Australia Post has forecast that it will be able to reduce its operating costs to provide its domestic letter services by around 2.8 per cent on average each year from 2014-15 to 2016-17 resulting in a cost reduction of \$197 million over the three years.

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?

LPOG is of the opinion that given Australia Post has CSOs and regulatory obligations imposed on them, Australia Post cannot be compared to other transport/logistics companies.

Today, Australia Post earns more than 70% of its revenue from non-reserved products and services that are provided in a competitive environment thus Australia Post must clearly operate as efficiently as possible to remain competitive and maintain market share.

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## Response Question 5

### 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?

A report presented to the Government by the Boston Consulting Group in mid 2014 estimated letter volumes will decline by 8 to 11% per annum to FY19/20. LPOG is of the opinion an extra 3% decline in mail volume could be possible.

## Response Question 6

### Question 6

Australia Post is proposing a nominal post-tax vanilla weighted average cost of capital (WACC) of 7.29 per cent (incorporating a market risk premium of 7 per cent) and has provided a separate report by Value Adviser Associates in support of its WACC parameters.

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

There are many variables to be taken into consideration in the calculation of the WACC and LPOG is of the opinion the WACC must be sufficiently high enough to allow Australia Post to recover the CSO cost, remove the risk to taxpayers of an expensive bail out in future years and ensure LPOs are made financially viable and sustainable.