



POAAL
Post Office Agents Association Limited

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A.C.N. 006 382 314

Mr Robert Wright
General Manager, Water and Wireline Markets
Australian Competition and Consumer Commission
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Dear Mr Wright,

Australia Post's draft price notification

Thank you for the opportunity to comment on Australia Post's draft price notification for an increase for a range of postal services.

POAAL supports Australia Post's proposal for price increases in its reserved postal service and the quantum for which it has applied.

Our detailed comments on the issues in the Commission's paper are attached.

Should the Commission wish to clarify any of our comments or to seek further information that may assist its deliberations, POAAL is available for that purpose.

Yours sincerely,

Bob Chizzoniti
Director





POAAL

Post Office Agents Association Limited

Submission to the

Australian Competition and Consumer
Commission

Australia Post Draft Price Notification
Ordinary Letter Service

Post Office Agents Association Limited



October 2015

Preliminary Comments

1. POAAL, the Post Office Agents Association Limited, supports the proposal by Australia Post for a price increase in its reserved postal service.
2. POAAL offers its view in its role as the trusted and experienced industry body which protects, preserves and promotes the business interests of its members.
3. The small business people that own and operate Licensed Post Offices and hold mail contracts provide an important front-line insight into the operations of the postal service in the diverse communities they serve. A substantial part of Post Office Licensees' payments for mail work are linked to the price of domestic base rate postage.
4. Australia Post continues to face significant challenges of delivering a universal postal service across a vast continent, especially so considering major structural changes occurring in the communications sector. These trends are reflected in postal and communications markets the world over, not just in Australia.
5. In the absence of volume growth it is difficult for Australia Post not to seek price increases to offset its growing costs.
6. Australia Post has recently shown its willingness to further automate its operations by investing in new sorting and sequencing equipment. Like postal operators the world over, Australia Post is seeking to squeeze out whatever technology-driven efficiencies are available.

Comments on Australia Post's Draft Price Notification

Access to the universal service

7. Australia Post has noted in its Draft Price Notification that the concession stamp would be frozen at 60 cents.¹
8. Customers eligible for a MyPost Concession card can buy up to 50 concession stamps per year. Australia Post has estimated that the average household sends 20-40 letters per year.
9. Australia Post has also noted that the seasonal greeting card rate will be frozen at 65 cents.²
10. This means that Australians on lower incomes will be protected from the proposed increase. Their postage costs are currently subsidised by Australia Post.
11. Licensees purchase stamps from Australia Post with a 13.2% discount. Licensees receive an Outward Mail Processing Fee (OMPF) based on the face value of stamps purchased. Currently, Australia Post pays Licensees an extra 15c per booklet of 10 concession stamps to compensate for the lower LPO margin and OMPF on concession stamps compared to standard stamps.
12. POAAL has written to Australia Post, seeking a commitment from Australia Post that it will increase the 15c payment if its application for a letters price increase is successful.
13. If Australia Post is successful in its application for a letters price increase but does not increase the 15c LPO payment per concession stamp booklet, then Licensees will in effect be subsidising concession stamps sold through their LPOs.
14. Some community groups have expressed concern that the push for electronic communications by governments and corporations will marginalise members of society who have limited or no access to technology. While outside the scope of the ACCC's investigation into the proposed stamp price increase, it is worth briefly noting how this issue has been handled in another jurisdiction.
15. In Austria, the Supreme Court has ruled that it is unlawful for telecommunication companies to switch customers from paper to electronic billing without the customers' explicit consent. Similarly, the Austrian Supreme Court ruled that it is illegal to charge customers for electing to receive paper invoices rather than electronic invoices.

¹ Australia Post, *Draft Price Notification Changes to Australia Post's Ordinary Letter Service*, p7

² *Ibid*, p7

16. Ensuring that Australians have fair and reasonable access to government services is a matter for policy makers. POAAL recommends that physical mail continue to be used for important government communications, and that Australians be allowed to opt for electronic communications rather than being forced to accept electronic communications.
17. The sending of electronic documents may present a business opportunity for Australia Post. While a growing number of people may be sending and receiving electronic documents, many do not have access to a printer at home. Australia Post could provide a local printing service at post offices for customers who need to sign a document that has been emailed to them, or print a hard copy for their records.

Cost recovery

18. One of the principles of the basic postal rate is that the service is self-funding and not reliant on any other financial support, either from the Government or via internal cross-subsidy. Australia Post notes that “the letters business ... needs to operate as a self-sustaining business.”³ As the ACCC is aware, Australia Post has in some instances been forced to rely on cost reductions rather than price increases to achieve financial sustainability in the letters business.
19. Under the principle of cost recovery, the BPR must be priced such that the costs of delivering the basic letter service are covered.
20. POAAL does not support the concept of introducing a stepped or “price path” approach to letters pricing at this point in time. Such an approach to setting letter prices would result in Australia Post continuing to suffer significant losses in the letters service.
21. Furthermore, a series of smaller price increases would increase Australia Post’s costs of manufacturing and distributing stamps. Licensees in turn would experience stock management issues. As it is, Licensees are careful not to order too many postage stamps as the cutover date for new letters pricing approaches. Making the price change more frequent would be confusing for customers and, at best, inconvenient for Licensees.
22. A longer-term “price path” approach to setting letter prices may have been more appropriate if introduced some years ago, however it is too late now. The artificial price freeze imposed by the Federal Government during the 1990s scuppered any chance of small, justified increases to the BPR over an extended period and has contributed to Australia Post’s current situation.

Cross-subsidy

23. There have been suggestions that Australia Post should use revenues from other parts of its operations (such as parcels) to subsidise the letters service. This would be unwise.

³ Australia Post, *Draft Price Notification Changes to Australia Post’s Ordinary Letter Service*, p8

24. While revenues from parcels have grown, the sector is subject to intense and growing competition on price.
25. Unlike many delivery companies, Australia Post delivers parcels to regional, rural and remote Australia. There is already an internal cross-subsidy between metro and remote parcel deliveries. If Australia Post were forced to increase parcel prices to fund the letter service, then this balance would be upset.
26. If Australia Post were forced to permanently cross-subsidise the letters service using profits from other business streams such as parcels, then over time the prices of those other services would be inflated and become uncompetitive. This would be to the detriment of rural customers in particular, living in areas where Australia Post is the only parcel carrier.
27. As noted in the ACCC's issues paper, the *Postal Services Legislation Amendment Act 2004* introduced measures that allow the ACCC to require Australia Post to keep records and to provide those records to the ACCC. The ACCC was granted these powers in response to complaints by some of Australia Post's competitors that it was cross-subsidising its competitive (non-reserved) services with revenues from its monopoly services.
28. The ACCC has never found evidence of cross-subsidy within Australia Post of the kind alleged by Australia Post's competitors.
29. In its most recent report, in April 2015, the ACCC noted that in 2013-14 Australia Post's monopoly letter service was unable to recover its costs, let alone cross-subsidise other parts of Australia Post's business.

Comparisons with other indices

30. In its submission, Australia Post compared its pricing to that of overseas postal operators. Australia Post also compared its pricing since 1975 to CPI over the same period – an odd choice of date, considering that the time of corporatisation would have been far more appropriate.
31. Nonetheless, such comparisons are interesting but ultimately irrelevant. Australia Post is not delivering domestic letters in competition with postal operators in Finland or the UK. Nor is the price of the stamp determined by or benchmarked against CPI. The most relevant information in assessing Australia Post's application is whether or not Australia Post will recover its costs of delivering the reserved service if the price of the basic stamp increases to \$1.

Impact on demand

32. Australia Post notes that e-substitution of letters has been occurring for some years, at the current price point and at previous price points. An increase in letter pricing may accelerate the pace of e-substitution, however the downward trend in letter volumes is clear.

33. The reduced speed of the regular letters service may contribute to an accelerated rate of e-substitution.
34. Australia Post has identified a number of factors outside of the proposed price increase that have resulted in and will continue to contribute to significant decreases in letter volumes, such as MyGov, consolidation of written communications, and rationalisation of written communications.
35. Ordinary stamped letter volumes have already been subject to considerable e-substitution pressures over the years.⁴ While the BPR was 60c (June 2010 to March 2014), ordinary small letter volumes were subject to “unprecedented year on year declines”.⁵
36. These substitution pressures often come from outside the postal sector. For example, the migration from payment by personal cheque to payment via EFT has resulted in fewer cheques being mailed by individuals. Another example, however trivial it might seem, is entry for promotions and competitions. Who enters a competition via post these days? Email and QR codes have largely replaced entries by post, and are even supplanting entry via SMS.
37. Digital is the first choice of communications channel for a growing number of Australians. Digital natives don’t choose to communicate digitally – they demand it.
38. As Diversified Specifics observes:
- Technological change alone is not the sole determinant of the amount of substitutive pressure applied to Australia Post’s letter segments. The behaviours of both senders and receivers and their willingness to accept alternative modes of correspondence also play a crucial role in determining the success of a particular channel.⁶
39. There are a number of conspiracy theories circulating that Australia Post management is trying to kill off the letters service by increasing the price and degrading the speed of service. While it may in theory suit Australia Post from a balance sheet perspective to no longer have a letters service and the costs that it incurs, Australia Post’s legislated Community Service Obligations remain in force.
40. The structural change that is affecting the letters service is the same that has affected other industries, including regulated industries. Consider the shrinking demand for fixed-line phones, while monthly line rental fees continue to climb. Another example is the climbing price of newspapers while circulations fall – this has in turn affected newsagents, who are striving to diversify their businesses. A death spiral has been forecast for the utilities market, where solar energy combined with improved energy storage systems are predicted to reach cost parity with electricity purchased off the grid. As more customers self-generate

⁴ Australia Post, *Draft Price Notification Changes to Australia Post’s Ordinary Letter Service*, p25

⁵ Diversified Specifics, *Domestic Letter Volume Demand Update*, p8

⁶ *Ibid*, p8

electricity, power companies will be forced to extract higher fees from a shrinking customer base.

Up-take of the priority service

41. POAAL notes the extraordinary statements by Australia Post that it intends to price the priority service such that customers are encouraged to only use the regular service.⁷ It appears that the priority service is being set up to fail.
42. It may be that Australia Post is hoping to increase its popular Express Post business, by encouraging those customers who previously relied on reliable, speedy intra-city standard letter delivery to migrate to Express Post.

Can Australia Post further reduce costs?

43. POAAL supports the principle of reducing costs in delivery by using automation where possible. There are continual advancements in letters and large letters sorting technology that can help postal operators squeeze efficiencies out of the letters service. These improvements are incremental.
44. Australia Post may yet be able to gain further efficiencies from greater use of deep sorting, but again, these savings will be incremental and insufficient to offset plummeting letter revenues.
45. The amendments to Australia Post's Performance Standards are likely to have a greater impact on its costs of performing the reserved services than improvements to sorting technology.
46. One of Australia Post's significant cost drivers is the growing number of delivery points. While the majority of delivery points are in urban areas, reflecting the population's move from regional areas to the more densely populated areas on the coast, there remain significant costs associated with regional and rural mail delivery. Road infrastructure problems and low population densities in these areas create an expensive service format. Customer density also has a material impact on productivity.
47. In principle it could be argued that none of an organisation's costs are fixed in the long term. Other postal operators, especially those subject to commercial demands, have explored means of more cost effective delivery.
48. Canada Post is now expanding its community mailbox concept to more urban communities. Over one third of all Canadian addresses were already served by community mailboxes prior to this latest expansion. Mail is delivered to a group of letterboxes at the end of the street rather than to every individual household. Canada is worthy of comparison with Australia due to its size and population density.

⁷ Australia Post, *Draft Price Notification Changes to Australia Post's Ordinary Letter Service*, pp20, 59 & 72

49. Other postal administrations have examined means of varying delivery schedules where mail volumes don't merit every day delivery either permanently or seasonally.
50. NZ Post now delivers three days per week (instead of five days per week) to some outer suburban areas. In these cases, letter and parcel delivery are combined, and performed by postal delivery officers who drive electric tricycles. These electric vehicles have a far greater load capacity than, for example, the petrol motorbikes used by Australia Post.
51. Implementation of such reforms is to some extent dependent on managing the community's current service expectations and the conservative attitudes of the community around changes to postal delivery and access to postal services. This is especially the case in regional and rural areas where Australia Post's service obligations are greatest and where changes driven by financial considerations alone would have the most deleterious affect.
52. Another option open to Australia Post is to further combine letters and parcels delivery, particularly in rural, regional and outer metropolitan areas. This can be achieved without any further reform to Performance Standards. Admittedly this measure on its own would only generate comparatively small savings for Australia Post, but it is a logical option that would be well-received by the public.
53. In its submission, the Supply Chain & Logistics Association of Australia proposes some improvements that could be made in Australia Post's corporate post office network to improve customer service and reduce cost.⁸ The SCLAA's suggestions primarily relate to processing of parcels in post offices, rather than acceptance, processing and delivery of letters. Some of the strategies suggested by the SCLAA are already in place. POAAL suggests that Australia Post may be able to drive efficiencies in its corporate network by converting corporate post offices to LPO operations – however these benefits would be reaped across the entire Australia Post range of products and services, with only relatively minor benefits accruing for the letters business.
54. There are opportunities for Australia Post to further outsource its mail carriage operations, including mail pickup, linehaul, and delivery. Australia Post has used Mail Contractors to perform delivery for decades. Mail Contractors are typically owner/drivers. In rural areas, many Licensees also hold the local mail contract. Contracts are awarded following a competitive tender process.
55. In rural and remote areas, it is common for the Contractor to gain only part of their income from Australia Post, effectively cross-subsidising Australia Post's CSOs by carrying newspapers, groceries, and other goods to rural customers.
56. It was recently announced that Linfox would be providing linehaul services for Australia Post's StarTrack business. The recent ruling by the Road Safety Remuneration Tribunal, which has been estimated to increase costs by 30-55%

⁸ Supply Chain & Logistics Association of Australia, *Submission*, p2

for some major transport companies,⁹ could impact on any savings that might be made from outsourcing freight and linehaul services.

57. There are a number of other cost reduction strategies open to Australia Post, but again, these would result in relatively small savings compared to the mounting losses in letters. This is not to say that small cost-saving measures should be ignored, rather that they would be insufficient to justify the delaying or diminution of the quantum of Australia Post's proposed letter pricing.

Licensed Post Offices

58. There has been much discussion in the Licensee community about what effect the price rise might have on stamp sales at LPOs. LPO income is not necessarily considered by the ACCC when evaluating a price notification from Australia Post, however it is worth mentioning that a substantial part of Licensees' mail payments are linked to the price of the postage stamp.

59. Unless there is an unprecedented fall in stamp sales at LPOs, overall incomes at LPOs will increase thanks to the proposed price rise.

60. The continuing fall in addressed letter volumes means that Australia Post must find new income streams for its post office network without delay.

Access to postal services vs usage of postal services

61. Australian communities must demonstrate their commitment to their local post office and local postal services now, rather than allowing Australia Post to wither on the vine. If a community visits the post office less frequently or sends and receives less mail, then it is inevitable that postal services in that community will be reduced. Protests after the fact will be hollow.

Network planning

62. In order to have a sustainable postal service, Australia Post needs to have a delivery and post office network that meets the needs of its customers. Some parts of Australia are under-served by Australia Post, while others have a higher and unsustainable density of post offices.

63. Australia Post is a Government Business Enterprise, supposed to run along commercial lines while meeting its Community Service Obligations. It should, in theory, be free from political interference and meddling.¹⁰

64. Nevertheless, some Federal and State politicians have tended to view the provision of postal services as a political football. On many occasions, politicians have intervened when Australia Post has attempted to reconfigure its network of street posting boxes, or rebalance the post office network.

⁹ "Ruling 'to drive truck costs up': Toll", *The Australian*, 30 September 2015

¹⁰ *Australian Postal Corporation Act 1989*, section 50

65. More pressing is the need for Australia Post to implement a clear strategy for the future of the postal network – a strategy focused on creating a sustainable postal network.
66. POAAL has repeatedly raised the issue of network planning with current senior Australia Post representatives for over five years. There is no clear strategy for growth or for balancing the post office network.
67. POAAL has written to Australia Post, urging it to start making serious plans for the future of the post office network. As populations shift, the complexion of the post office network must also change to meet demand.
68. The structure and reach of the Australia Post postal network (including delivery and post offices) will affect Australia Post's costs of delivering its Community Service Obligations, and will in turn influence future applications by Australia Post for increases to the basic rate of postage.

Mail Contractor payments

69. Australia Post has been aggressively cutting payments to Contractors. Much of this has come under the guise of "negotiation", however Australia Post uses its stronger bargaining position to drive contract rates down to levels that Contractors consider to be unsustainable.
70. Australia Post is now reaping what it has sowed. Recent high-profile examples of Contractors cutting corners – in particular regarding hiring and payment of delivery staff – are indicative of Australia Post's short-sighted cost-cutting approach. Cost-cutting (as opposed to seeking efficiencies) degrades quality of service, which in turn encourages customers to seek electronic alternatives to the post.
71. POAAL expects that with this increase in postage Australia Post will cease such aggressive and predatory behaviour, and instead work with Contractors to implement fair and reasonable contract rates that allow for Contractors to meet their compliance obligations and provide a first-class delivery service to all Australians.

Forecast letter volume declines

72. Australia Post's forecast rate of letter volume decline is realistic, perhaps even optimistic given trends in overseas postal markets.
73. Letter volumes in Denmark have been subject to steep drops in recent years. As noted by Australia Post, the letter decline in Denmark is in large part attributable to the government-led charge towards e-government.¹¹ Recently, Post Danmark announced that domestic postage rates will increase on 1 January 2016. Denmark has a two-speed letters service. A-mail letter prices will increase from DKK10 to DKK19 (about \$4), while economy B-mail letters will go up from DKK7

¹¹ Australia Post, *Draft Price Notification Changes to Australia Post's Ordinary Letter Service*, p29

to DKK8 (about \$1.70). The price rises are in response to declining letter volumes. According to Post Danmark, the decline in volume had been most noticeable in the faster, more expensive A-mail class, as individuals and business will use electronic alternatives when they need to communicate quickly.

74. It has been the experience of POAAL, and the Commission has previously noted, that the delivery efficiency of hard copy mail is a significant determining factor in exercising choice about the use of alternatives. Electronic substitutes, for example, are exponentially less expensive than the postal service.
75. Some customers have expressed concern regarding the longer delivery times under Australia Post's revised Performance Standards. This could be perceived as a programmed degradation in service quality, and as a result may contribute to future erosion of letter volumes.
76. Australians demand reliability from their postal service. They need to be able to accurately anticipate how long it will take for their letters to reach their recipients. This is especially the case for companies using the letters service for marketing purposes, which may wish to time marketing campaigns via other media (such as radio, television or email) with the arrival of mail marketing pieces. A reliable postal service, that can be depended on to deliver the mail accurately and on time, will help maintain faith in the letter as a reliable communications medium.
77. For further comments on e-substitution and the price increase's impact on demand, please refer to points 32 to 35 above.

Sorting costs in the LPO network

78. As part of its planned transformation of the letters service into a two-speed letters service, Australia Post may be attempting to gain some efficiencies and cost savings by expecting Licensees to sort mail for no payment.
79. Under the LPO Payment Scheme, Licensees are paid an Outward Mail Processing Fee (OMPF). This is a payment for processing any mail items, including letters and parcels lodged at the LPO. "Processing" may include postmarking and sorting mail items.
80. Under their agreements with Australia Post, most Licensees are not required to do any sorting of outward mail. Only some Licensees in rural Australia are required to sort outward mail, and they are paid accordingly. Nevertheless, Australia Post's delivery arm regularly issues instructions to all Licensees for the sorting of outward mail, expecting those Licensees that are not paid for the sorting of outward mail to do this work for no payment.
81. Under the LPO Payment Scheme, those Licensees who are not required to sort outward mail will not be paid to separate "regular" and "priority" letters that may be lodged over the counter at LPOs.

82. Australia Post notes that one of the goals of its “Reform our Letters Service” programme is “less manual handling”.¹² In the absence of any payment to Licensees for sorting letters, Licensees will have no incentive to manually sort regular and priority letters.

Performance Standards

83. Australia Post has stated that the recent changes to its Performance Standards will help reduce the costs of delivering the basic letters service.

84. POAAL has no doubt that delivering letters two days slower than the current timetable will allow Australia Post to reduce its letter processing costs. However, its last mile costs will not be affected by moving to a two-speed letters service.

¹² Australia Post, *Draft Price Notification Changes to Australia Post’s Ordinary Letter Service*, p37

Conclusion

85. POAAL supports Australia Post's proposal for a price increase in its reserved postal service.
86. The letters service must be self-funding, and not subsidised by revenues from other parts of Australia Post's business.
87. Australia Post may be able to generate further efficiencies in its delivery network, but most of these will be incremental or relatively minor, and in any case insufficient to be used as a basis for arguing against the proposed price increase.
88. The changes to Australia Post's Performance Standards may save letter processing costs but will not deliver any savings to its last mile delivery costs.
89. An increase in price may accelerate the pace of e-substitution, however the downward trend in letter volumes is clear, pre-dates Australia Post's current price notification, and will continue regardless of any increase to letter prices.
90. Australia Post must review its postal network with a view to implementing a sustainable delivery and post office network prior to any future applications for letters price increases.
91. Australia Post must not force manual sorting work arising from the move to a two-speed letters service onto its LPO network without payment to Licensees.
92. Australia Post must not engage in unfair dealings with its Delivery Contractors (including Mail, Parcel and Star Track Courier Contractors), particularly if those dealings result in Contractors being underpaid.
93. Electronic substitution of letters will continue regardless of the size of any price increase. A stepped approach to pricing will not serve any purpose at this stage other than to increase Australia Post's losses and increase public confusion about letter pricing.
94. Governments and businesses must not discriminate against people who do not have access to technology. Some regions of Australia suffer from poor internet connectivity. Some people, due to age, disability, or other factors, are unable to use or access information technology. POAAL recommends that physical mail continue to be used for important government communications, and that Australians be allowed to opt for electronic communications rather than being forced to communicate electronically.