

## Summary of submissions

In considering Australia Post's draft price notification the ACCC has carried out a public consultation process. The ACCC published an Issues Paper on 7 September 2015 and sought the views of stakeholders. The ACCC received a total of 235 submissions. Of these, 170 were from Licensed Post Offices (LPO) which generally supported the price increase. Of the others, 29 were from individual consumers, 15 from local councils, and 21 from businesses, industry groups, unions and charities, most of which opposed the increases.

The ACCC's View document published on 27 November 2015 considers the key issues raised in submissions. A summary of the issues raised is set out below, followed by a list of submitters.

### Impact on users

Consumers were generally opposed to the price increase, with some viewing it as an exploitation of Australia Post's monopoly power. Several argued that it would accelerate the demise of Australia Post's letter operations and that the problems would be better addressed by efficiencies and a reduction in the frequency of deliveries. The Supply Chain and Logistics Association of Australia submitted that Australia Post is making Australian businesses more uncompetitive by their uncontrolled and exorbitant price increases.

A key concern of business groups was the introduction of significant price increases which will affect bulk mail prices midway through the financial year, with insufficient time for users to prepare for such a large price increase. They also considered there had been an inadequate level of consultation by Australia Post. The business groups were concerned that the price increases proposed will have an adverse impact on future mail volumes and the bulk mail, philatelic equipment, marketing and printing industries. The Association for Data-driven Marketing & Advertising (ADMA) and some businesses specialising in mailing services considered that such businesses could be made unviable by the rise in postage costs.

Some councils, charities and businesses submitted that their postage costs would rise substantially as there were barriers to them moving to electronic communications. Cancer Council Queensland and Endeavour Foundation opposed the price increase of 13 per cent for charity mail, a bulk mail product. The Fundraising Institute of Australia noted the burden of higher prices on charity mail-outs, but accepted the need for structural change in Australia Post's operations and acknowledged that the price increase for charity mail was lower than for business mail.

The Printing Industries Association of Australia (PIAA) and a number of other submitters accepted the need for an increase in the BPR but submitted that it should be gradually implemented over three to five years. PIAA and ADMA opposed the increase flowing on to other business letter prices, including bulk mail.

Some councils were also concerned that Australia Post had not revealed the proposed price of its priority letter service in its draft price notification.

### Licensed Post Office remuneration

The ACCC received a large number of submissions from LPO operators, in addition to detailed submissions by the LPO Group and the Post Office Agents Association Limited (POAAL). The submissions expressed support for Australia Post's proposed increase in the Basic Postage Rate (BPR), noting that Australia Post's costs are increasing, and that the remuneration of LPO operators is linked to the level of the BPR. The LPO Group submitted

that between 1989 and 2014 the BPR had risen by 71 per cent while the CPI had risen 103 per cent. The LPOs submitted that granting an increase in the BPR and increasing the price of stamps by at least the CPI is necessary to allow the incomes of LPOs to keep pace with their increasing costs and to avoid price shocks in the future. They also submitted that their customers understand that the increase of the BPR has not kept pace with inflation and are therefore sympathetic with the proposed changes.

In contrast, the Communications Workers Union (CWU) submitted that between 2003 and 2014 the rise in the BPR exceeded the rise in the CPI by approximately 5 per cent. CWU also submitted that the payment system for LPOs needs to be rationalised, in particular the linking of parcel handling payments to other mail services.

The POAAL supported increasing the BPR to \$1 in one step in January 2016, saying that a series of smaller increases would increase the costs of manufacturing and managing stamps.

## **Australia Post's costs**

At a general level, a number of submitters noted that Australia Post did not operate efficiently, and that the declines in mail volumes should also decrease the costs of distributing mail, sorting mail and other costs.

PIAA considered that Australia Post's 2014-15 annual report showed no evidence of an aggressive costs-out strategy. ADMA submitted that 80 per cent of Australia Post's cost reductions came from the reduction in service level (i.e. delivery speed), and that more should come from day-to-day operational efficiencies. The Supply Chain and Logistics Association of Australia considered that Australia Post's retail outlets are not operating efficiently and this is placing pressure on the costs of Australia Post's letters and parcel business, resulting in letter and parcel price increases.

POAAL considered that Australia Post should reduce costs through efficiencies rather than using its bargaining power to drive down contract rates to unsustainable levels. POAAL and other submitters suggested potential efficiency measures such as:

- further out-sourcing mail carriage operations
- further combining of letter and parcel delivery
- rationalising the distribution of LPOs to meet shifting population and demand
- improving sorting efficiency, in consultation with business groups
- use of dedicated mailboxes for local mail.

POAAL noted that some of the measures would require further changes to performance standards, and considered that they would be insufficient to justify delaying the proposed price increase.

Some submitters expressed concerns that the price increases were being accompanied by a reduction in delivery standards, with some saying that delivery performance is already poor. Submitters noted that a large price increase is usually accompanied by a justification of improving service standards. Others submitted that Australia Post is providing services in excess of its community service obligations (CSOs) and that costs could be reduced by further reductions in performance standards, such as reducing the frequency of delivery to two deliveries per week.

The ACCC received submissions in relation to Australia Post's executive remuneration levels, in particular, suggesting the remuneration of its CEO was excessive.

Some submissions expressed concern that one-off transactions such as provisions for staff redundancy costs have inflated Australia Post's losses, so that its financial results for 2014-15<sup>1</sup> do not represent its on-going financial position.

## Volume forecasts

Submissions contained a range of views about Australia Post's letter volume forecasts, with some suggesting that volumes could be higher than forecast and others making the case that forecast volumes should be lower.

The POAAL submitted that the volume forecasts were realistic, even optimistic, and that the recent trend of volume decline would continue.

A number of stakeholders including the CWU and ADMA commented that the price increase would have a more negative impact on demand for mail services than forecast by Australia Post because it would further accelerate substitution away from mail.

Consistent with this view, several local councils submitted that they would need to seek out alternative forms of communication due to the letter price increases. For example, the City of Salisbury noted that increasingly people are paying their bills online rather than over the counter or by mail.

On the other hand, ACIL Allen's report commissioned by the PIAA commented that Australia Post's assumed price elasticity (i.e. -0.25) should be lower in magnitude.

The CWU also submitted that the bulk of electronic substitution has already been realised.

ADMA questioned whether the 80 per cent take-up of regular delivery mail sought by Australia Post would be achieved, in the light of experience with two-speed business mail.

## Cost allocation

PIAA and ADMA identified concerns that the WIK review of Australia Post's cost allocation model would be a 'desktop' review with no or limited direct observations of Australia Post's operation in Australia.

Some submissions argued that the revenue from Australia Post's parcel business must be taken into consideration in determining if any price increase is justifiable. The POAAL, on the other hand, submitted that Australia Post should not be forced to increase parcel prices or cross-subsidise the letters service using profits from other competitive business streams such as parcels.

## WACC

The LPO Group submitted that the Weighted Average Cost of Capital (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.

ACIL Allen's report for PIAA noted that Australia Post's WACC parameters should be reviewed against what an efficient operator in a competitive market would expect. In particular, it noted that the assumption of a zero gamma should be reviewed in the light of contemporary regulatory practice.

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<sup>1</sup> Australia Post annual report 2014-15, p. 70.

The Australian Postage Meter Vendor Group submitted that Australia Post's WACC is difficult to compare in the absence of global benchmarks for regulated postal markets. It noted that Australia Post 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. However, it noted that in the case of Australia Post, the BPR is protected which brings the WACC into question if it were to materially affect business mail prices.

## List of public submissions to ACCC review of Australia Post's draft price notification

Organisation/person name	Submitter group
Adelaide Airport LPO	LPO
Adelong Community Enterprises	Council
ADMA	Industry association
Agnes Water LPO	LPO
Albury Legal Pty Ltd	Small business
Alderley Post office	LPO
AMWU	Union
Angela Cramp	LPO
Anne Dixon	Consumer
Anonymous	Consumer
20 Anonymous LPO submitters	LPO
Anthony Doyle	Consumer
Australian Book Review	Small business
Bannockburn LPO	LPO
Bargara Postal Agency	LPO
Barraba Post Office	LPO
Barry McDonald	Consumer
Baxter Post office	LPO
Bedford West LPO	LPO
Beresfield LPO	LPO
Bermagui Post Office	LPO
Berowra Heights LPO	LPO
Berridale LPO	LPO
Beverley LPO	LPO
Bexley North LPO	LPO
Bicheno LPO	LPO
Blackbutt Post office	LPO
Bonalbo Post office	LPO
Boran Rd LPO	LPO
Bourke Post office	LPO
Branxton LPO	LPO
Break O'Day Council	Council
Brian L Bolton	Consumer
Brighton Eventide LPO	LPO
Brighton LPO	LPO

Bruce Bebbington	Consumer
Bulahdelah LPO	LPO
Bundaberg West LPO	LPO
Bungaree LPO	LPO
Burleigh Town Post Office	LPO
C Elliot	Consumer
Cancer Council Queensland	Charity
Carey Park Newsagency	LPO
Cecil Plains LPO	LPO
Chidlow LPO	LPO
Circular Head Council	Council
City of Bayswater	Council
City of Salisbury	Council
Clarence Town Post office	LPO
Cleve LPO	LPO
Cohuna LPO	LPO
Communications Workers Union	Union
Concord West LPO	LPO
Condong LPO	LPO
Cooktown LPO	LPO
Cooranbong LPO	LPO
Coraki LPO	LPO
Coramba	LPO
Currumbin Post Office	LPO
Damien Matcham	Consumer
Darra LPO	LPO
David Sykes	Mailing business
Deakin Post Office	LPO
Dubbo West LPO	LPO
East Brisbane LPO	LPO
East Maitland LPO	LPO
East Orange LPO	LPO
Easy Gift	Small business
Edgeworth LPO	LPO
Edmonton LPO	LPO
Emu Plains Post Office	LPO
Endeavour Foundation	Charity
Epsom LPO	LPO

Eudunda LPO	LPO
Felicia Core	Consumer
Fitzroy Boulting	Consumer
Fulham Gardens Post office	LPO
Fundraising Institute of Australia	Industry association
Gateshead LPO	LPO
Gerry Vallianos	Consumer
Gethin Hill	Consumer
Glen Warner	Consumer
Goodwood LPO	LPO
Goonellabah LPO	LPO
Gordon LPO	LPO
Graceville East LPO	LPO
Greenhills Post Office	LPO
Gulgong Post Office	LPO
Gulnara Vallianos	Consumer
Gunalda LPO	LPO
Harden Post office	LPO
Harold A Ashcroft Real Estate & Business Agents	Small business
Hassan and Peter	Consumer
Health Pride Pty Ltd	Mail order business
Helensburgh LPO	LPO
Helidon LPO	LPO
Hilton LPO	LPO
Holroyd City Council	Council
Hunter Water	Business
Hurstbridge LPO	LPO
Ian Naylor	Consumer
IJ & SM Crawford	LPO
Irena Christie (LPO)	LPO
Jack Steel	Consumer
John Mabb	Consumer
Kairi LPO	LPO
Kalbar LPO	LPO
Kalibah LPO	LPO
Karoondra LPO	LPO
Keith McPherson	Consumer
Keith O'Brian	Consumer

Kenwick Village news	LPO
Khancoban LPO	LPO
Kim Hopkins	Consumer
Kincumber Post office	LPO
Kings Langley Postal services	LPO
Kyogle LPO	LPO
Langwarrin LPO	LPO
Lanyon Post Office	LPO
Leichhardt Municipal Council	Council
Leonie Barnes	Consumer
Leppington LPO	LPO
Lightning Ridge LPO	LPO
Llandilo LPO	LPO
Local Government NSW	Industry association
LPO Group	Industry association
Manildra LPO	LPO
Margaret Ryan	Consumer
Margate Beach LPO	LPO
Meadowbank LPO	LPO
Mildura Rural City Council	Council
Missenden Road LPO	LPO
Montmorency LPO	LPO
Mooloolah Post office	LPO
Moonta Licensed Post Office	LPO
Moorabool Shire Council	Council
Moranbah LPO	LPO
Mt Austin LPO	LPO
Mulgoa LPO	LPO
Nambour West LPO	LPO
Narre Warren South LPO	LPO
North Nowra LPO	LPO
Nurrabundah LPO	LPO
Oberon LPO	LPO
Old Coins	Small business
Olinda LPO	LPO
Oxley LPO	LPO
Park Avenue post office	LPO
Park Holme LPO	LPO



Pat Lowe	Consumer
Peter Boardman	Consumer
PIAA	Industry association
Pitney Bowes, Australian Postage Meter Vendor Group	Industry association
Port Douglas LPO	LPO
Port Kembla LPO	LPO
Portland Post Office (LPO)	LPO
Post Office Agents Association Limited	Industry association
Quairading LPO	LPO
Rangeview Post & Lotto	LPO
Redfern Post Office	LPO
Reservoir LPO	LPO
Richard Faure-Field	Consumer
Richard Kottek	Consumer
RNSH LPO	LPO
Rosewood Post office	LPO
Rural City of Murray Bridge	Council
Sanctuary Cove News and Post	LPO
Scenic Rim Regional	Council
Sendle	Business
Shire of Donnybrook Balingup	Council
Shire of Murray	Council
Shire of Upper Gascoyne	Council
Silkwood LPO	LPO
Sorrento News & Books	LPO
South Tamworth LPO	LPO
Spearwood LPO	LPO
Stanley LPO	LPO
Steven Wilkinson	Consumer
Strathfield South LPO	LPO
Stroud LPO	LPO
Stuarts Point LPO	LPO
Suncorp	Business
Supply Chain & Logistics Association of Australia	Industry association
Tamarama LPO	LPO
Telopea LPO	LPO
Terry Hills Post Office	LPO
The Menangle Store	LPO

Town of Walkerville	Council
Tracy Pearson	Consumer
Triabunna LPO	LPO
Tumbarumba LPO	LPO
Tuncurry LPO	LPO
Tweed Shire Council	Council
Unanderra Post Office	LPO
Varsity Lakes Post office	LPO
Walgett & Manilla LPO	LPO
Warialda LPO	LPO
Warrandyte LPO	LPO
Waterford Post Office	LPO
Wee Waa LPO	LPO
Wembley LPO	LPO
Wendouree Village LPO	LPO
Westbury LPO	LPO
Wheelers Hill LPO	LPO
Winston Hills LPO	LPO
Winthrop Post Office	LPO
Wonona East LPO	LPO
Woodgate LPO	LPO
Woonana LPO	LPO
Yackandandah GPO	LPO
Yarloop LPO	LPO
Yungaburra LPO	LPO