



Australian
Competition &
Consumer
Commission

Australia Post's draft price notification

Issues paper

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Glossary

ABC	Activity Based Costing
ACCC	Australian Competition and Consumer Commission
Australia Post	Australian Postal Corporation
APCA	<i>Australian Postal Corporation Act 1989</i>
BPR	Basic Postage Rate, which refers to the price of carriage within Australia of a standard postal article by ordinary post. This will be the price of posting an 'ordinary' small letter according to Australia Post's new 'regular' timetable.
Capital costs	The sum of a return on capital commensurate with the risks faced by the business plus the depreciation of the regulatory capital base
CCA	<i>Competition and Consumer Act 2010</i>
CPI	Consumer Price Index
CSO	Community Service Obligation
Declaration	The current declaration applying to Australia Post's ordinary letters is <i>Price Notification Declaration (Australia Post Letter Services) 2015</i> , which declares certain services offered by Australia Post as notified services, and declares Australia Post to be a declared person in relation to these services.
Declared person	Under section 95X of the CCA, the Minister may declare a person to be, in relation to certain goods or services, a declared person for the purposes of part VIIA of the CCA. Australia Post is a declared person in relation to 'ordinary' letter services carried at the regular timetable.
Draft price notification	Under section 95ZB of the CCA, the applicable period for the ACCC's assessment of a price notification is 21 days. However, a declared person is able to submit to the ACCC a 'draft price notification', which allows the ACCC to conduct a preliminary assessment prior to the lodgement of a formal price notification.
MAR	Maximum allowable revenue—the amount of revenue a regulated firm should receive that recovers all efficient costs plus a reasonable return on its capital.
Notified services	Under section 95X of the CCA, the Minister may declare goods or services to be notified goods or services for the purposes of part VIIA of the CCA. The introduction of a new notified service, or a price increase for an existing notified service, is subject to the ACCC's assessment. For example, Australia Post's 'ordinary' letters carried at the regular timetable are notified services.
Ordinary letters	Ordinary letters refers to postal articles carried by Australia Post by ordinary post. The main component of ordinary letters is stamped letters.

	Small and large ordinary letters (weighing up to 250 grams), including the BPR, are notified services.
Operating costs	Non-capital costs
Performance standards	Australia Post's current performance standards, including minimum delivery standards, are set out in <i>Australian Postal Corporation (Performance Standards) Regulations 1998</i> .
Amended performance standards	<i>Australia Post Corporation (Performance Standards) Amendment (Speed of Mail Delivery) Regulation 2015</i> specifies Australia Post's minimum delivery standards for its new 'regular' and 'priority' letters.
PreSort letters (including Charity mail and Acquisition mail)	Australia Post's PreSort Letters service offers discounted postage rates for customers lodging more than 300 machine-addressed articles that are barcoded and sorted. The PreSort letter service also includes Charity mail which provides for delivery of small PreSort letters at lower prices for approved charitable organisations. Acquisition mail provides for delivery of non-personalised addressed mail pieces to households in specific postcodes, suburbs or Census Collection Districts. PreSort services are not notified services.
Price notification (locality notice)	A price notification refers to a 'locality notice' under section 95Z of the CCA. Where a declared person proposes to increase the price of a notified service, it is required under section 95Z of the CCA to give the ACCC written notice ('a locality notice').
Priority letters	Letters carried at the 'priority' timetable. The 'priority' letter service will be delivered at the same speed as the current ordinary letter timetable. Priority letters are not notified services.
PTRM	Post tax revenue model—this is the form of the financial model used by the ACCC to model the MAR of a regulated firm
Regular timetable	Australia Post proposes to deliver ordinary letters at a new 'regular' timetable from 4 January 2016. Under this timetable, letters will be delivered two business days slower than the current timetable.
Reserved services	Under section 29 of the APCA, Australia Post has exclusive rights over the provision of 'reserved services'. These services include the domestic carriage of letters weighing less than 250 grams and the issue of postage stamps.
Return of capital	Depreciation of fixed assets
Return on capital	The amount of revenue that an investor would require as compensation for the opportunity cost of funding its capital base, calculated by multiplying the WACC by the depreciated regulatory capital base.
WACC	Weighted average cost of capital, which is the rate of return on assets allowed, given the relative level of risk associated with the capital base, averaged across debt and equity funding.

1. Executive summary

On 20 August 2015 Australia Post provided the ACCC with a draft price notification regarding proposed price changes for its monopoly letter services. Australia Post is proposing to introduce a basic postage rate of \$1 for letters delivered at a new 'regular' timetable, which allows an extra 2 business days for delivery to occur compared to the current timetable. Postage stamps for letters delivered at the current timetable cost 70 cents. Australia Post's proposal also includes price increases for the delivery of large letters. The proposed prices are set out below and would apply from 4 January 2016.¹ Australia Post is not proposing to increase the prices of concession stamps or stamps for seasonal greeting cards.

In addition to the proposed price changes, Australia Post is introducing a new two-speed consumer letter service which will distinguish between letters delivered by Australia Post on a 'priority' and 'regular' timetable. The two-speed service will be provided under amended performance standards governing Australia Post's speed of mail delivery.² Australia Post has stated that its new 'regular' service will be delivered two business days slower than the current 'ordinary' letter timetable. However, the amended performance standards provide an additional third business day for Australia Post to deliver regular letters between states. The new priority letter service will be provided at the same speed as the current ordinary letter timetable. The ACCC is not assessing prices for letters delivered at the priority timetable.

Table 1 – Prices ordinary letters

Letter service	Current Price (current ordinary timetable)	Proposed Price (new regular slower timetable)
Small letter (BPR)	\$0.70	\$1.00
Large letter up to 125g	\$1.40	\$2.00
Large letter over 125g up to 250g	\$2.10	\$3.00

Australia Post's draft price notification outlines that a key objective of its new two-speed consumer letter service is to enable greater flexibility and efficiency in its letter processing and delivery operations. Australia Post submits that the changes to the delivery timetable and prices are also intended to support Australia Post's strategy of providing a more financially sustainable letter service. These initiatives are a response to the trend of declining letter volumes and letter business losses experienced by Australia Post in recent years.³

Australia Post's draft price notification provides a high-level summary of its proposed revenue forecasts for its statutory monopoly letters business (reserved services business), including the 2015-16 and 2016-17 financial years. Australia Post's submitted forecasts incorporate revenues from all reserved services such as ordinary letter services, and business mail which makes up the majority of Australia Post's letter volumes.

¹ Australia Post is proposing that the new 'prices would apply from 4 January 2016 until further notice.

² The amended performance standards governing Australia Post's speed of mail delivery, and the new Declaration governing the ACCC's role in relation to Australia Post were tabled in the House of Representatives and the Senate on 10 August 2015.

They are both disallowable instruments, which means that within 15 sitting days after tabling a senator or member of the House of Representatives may give notice of a motion to disallow the instrument (in whole or in part). If the motion is agreed to, the instrument is disallowed and ceases to have effect.

³ Australia Post's annual reports note domestic reserved letter service losses in each year since 2008.

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 submits that it has under-recovered its required revenues for reserved services (monopoly letter services) by \$269 million in 2014-15. Australia Post's submitted financial model, which the ACCC will be assessing, also indicates that if new prices are introduced in January 2016 as proposed by Australia Post, the under-recovery for reserved services is forecast to be \$70 million in 2015-16, while an over-recovery of \$84 million is forecast for 2016-17.⁴

The price increase is forecast to result in a turnaround in a relatively short period. 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. In considering whether a \$1 charge is warranted, the ACCC will be analysing Australia Post's forecasts of letter demand and revenue, and the cost savings expected from implementing a slower letter delivery timetable, among other things.

The ACCC is seeking submissions on Australia Post's proposed prices, as set out above, for delivery of ordinary letters at the new regular timetable. Following public consultation on Australia Post's draft price notification, the ACCC expects to release its response to the proposed prices in November 2015. It is anticipated that Australia Post will then submit a formal price notification for these services after which the ACCC will have 21 days to release a final decision on the price notification.

The purpose of this issues paper is to outline key elements of Australia Post's draft price notification, provide background information and identify issues on which the ACCC is seeking stakeholder views.

As discussed in more detail in this paper, the ACCC will consider the extent to which the proposed price increases are required for the recovery of efficient costs for provision of letter services. The ACCC is seeking submissions on relevant issues such as Australia Post's:

- proposed prices
- forecasts of letter demand and revenues
- business reform and cost reduction program
- Australia Post's cost allocation methodology
- proposed return on assets (weighted average cost of capital or WACC).

Issues on which the ACCC is seeking stakeholder views are raised in this paper. Stakeholders are also invited to comment on any other matter relevant to the ACCC's assessment of Australia Post's draft price notification.

Submissions should be provided to the ACCC by **5pm, 15 October 2015**.

⁴ This is the difference between required revenue and proposed revenue as set out in Australia Post's draft price notification p. 53.

2. The ACCC's role

2.1. Assessment of Australia Post's draft price notification

Where Australia Post proposes to increase the price of a notified⁵ letter service or introduce a new notified letter service, the ACCC is responsible under the CCA for assessing the proposed price increase. The ACCC then makes a decision to either:

- not object to the price increase
- not object to a price that is less than that proposed, or
- object to the price increase.

The price of an ordinary letter, including the BPR, is subject to these notification and assessment requirements.

In addition to the ACCC's assessment, Australia Post must give written notice to the Minister for Communications of its intent to vary its rates of postage. Australia Post may increase the BPR only if the Minister does not disapprove the proposed increase within 30 days of receiving notification from Australia Post.

Australia Post's other services, such as letters delivered at the priority timetable, parcels, express post, bulk business letters⁶, concession stamps and seasonal greeting cards are not subject to the ACCC's assessment. Figure 1 provides a categorisation of Australia Post's products, showing the major business segments and the revenue generated by them in 2013-14. The ACCC will consider a building block model for Australia Post's total reserved services when assessing revenue required for ordinary letter services. Ordinary letter services are a subset of reserved services (as shown in Figure 1).

Regulatory arrangements applicable to Australia Post's letter services are summarised in Appendices B and C.

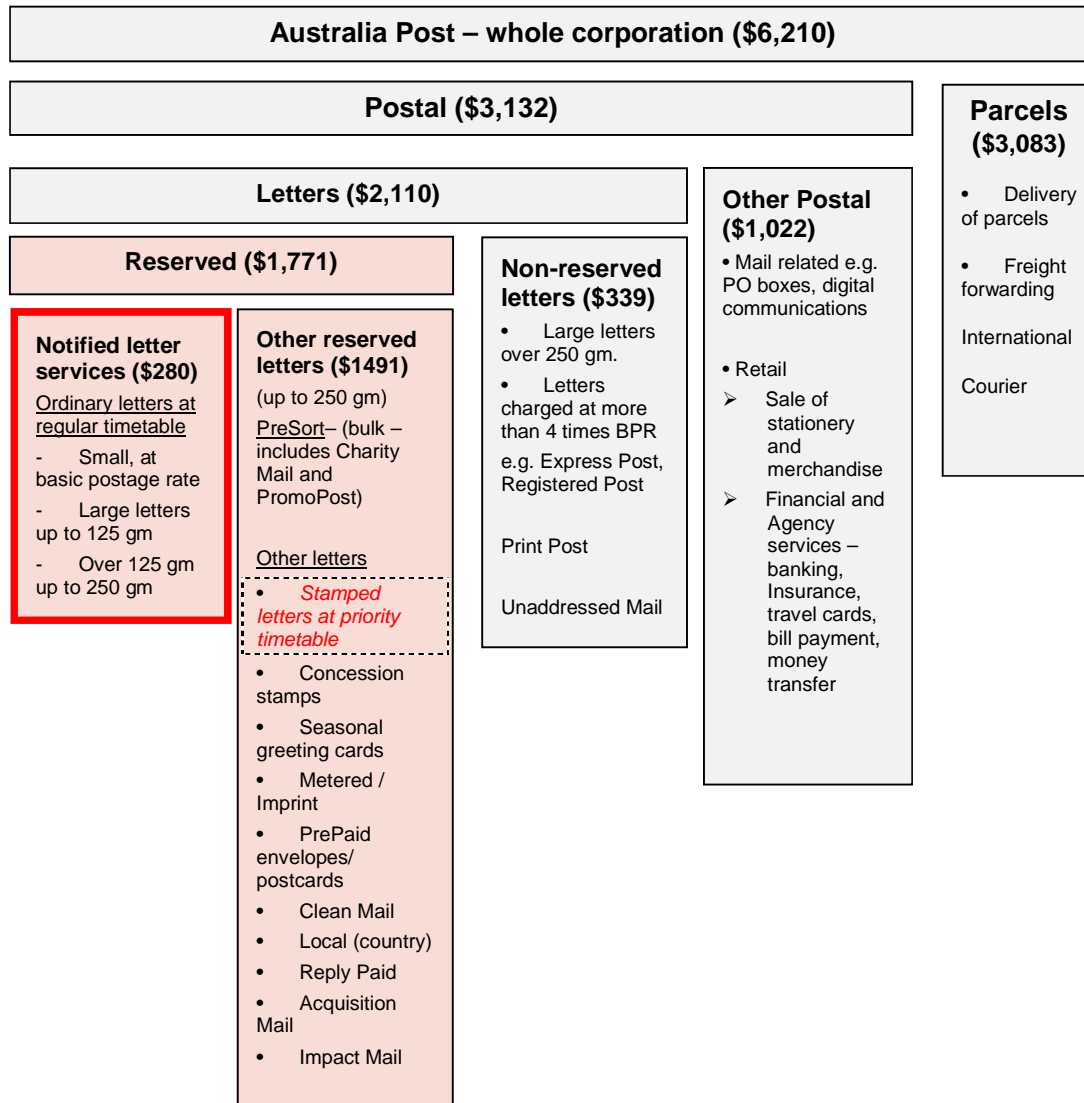
Although concession stamps and stamps for seasonal greeting cards fall outside the scope of the price notification declaration, Australia Post has advised that it will freeze the price of a concession stamp (60 cents for a small letter), and will not be increasing the seasonal greeting card rate from 65 cents.

⁵ Price Notification Declaration (Australia Post Letter Services) 2015, <https://www.comlaw.gov.au/Details/F2015L01180>.

⁶ Bulk business letter prices are lower than comparable consumer letter prices reflecting in part lower costs incurred by Australia Post as a result of pre-sorting and barcoding of letters by business letter users. The ACCC also has a role under Part 3 of the *Australian Postal Corporation Regulations 1996* (APCR) to inquire into disputes about the terms and conditions on which Australia Post provides or will provide a rate reduction for bulk interconnection services.

Figure 1: Categorisation of Australia Post product groups and revenues

Revenue in \$ millions, based on 2013-14



Key: Reserved letters Notified letters (part of Reserved)

Sources:

Australia Post draft price notification, August 2015, p. 41, 57-58.

Note: International inward letters and international inward parcels weighing less than 250grams are formally non-reserved services but are subject to UPU regulation.

Note: Ordinary letters at the priority timetable are a new service that was not provided in 2013-14.

The ACCC generally adopts a cost-based approach to assessing price notifications under Part VIIA of the CCA.⁷ Under this approach, prices should reflect:

- a cost base that is efficient
- incentives for efficient investment.

The ACCC typically applies a building block model to calculate efficient costs. The cost components of the building block model are:

- operating costs
- return of capital, representing depreciation costs
- return on capital, representing the required rate of return on the capital base.

Summed together these building blocks represent the revenue required to recover the efficient costs of providing letter services. In assessing Australia Post's draft price notification, the ACCC will consider whether the price increases proposed are required for Australia Post to recover its efficient costs.

The ACCC intends to assess the components of Australia Post's financial model including the forecasts of costs, revenue and demand, and other factors included in the model. Australia Post's submitted financial model is for the period to 2016-17. Australia Post has also provided the ACCC with detail on some expected cost savings out to 2017-18. The ACCC will consider a building block model for Australia Post's total reserved services when assessing revenue required for ordinary letter services. Ordinary letter services are a subset of reserved services.

The ACCC's assessment will also involve consideration of:

- the effect of the proposed price changes and demand forecasts on Australia Post's forecast revenue
- the impact of the two-speed letter service and other business reforms on Australia Post's costs
- Australia Post's proposed rate of return on capital (WACC)
- Australia Post's cost allocation model (CAM).

As noted above, the ACCC will consider a building block model for Australia Post's total reserved services when assessing revenue required for ordinary letter services. Australia Post's reserved (i.e. monopoly) and non-reserved (i.e. competitive) services utilise a range of sorting and delivery facilities and staff, some of which are shared between these services. Australia Post applies a CAM to allocate direct and shared costs across its business for reserved and non-reserved services and to derive prices for these services. Within reserved services the CAM is also applied to help derive prices for the various monopoly services.

As part of the assessment of Australia Post's proposed prices the ACCC has engaged an external consultant, WIK Consult, to review Australia Post's CAM. WIK specialises in regulatory economics and has extensive international experience in postal regulation. The ACCC intends to publish WIK's report when the ACCC's response to Australia Post's draft price notification is released in November 2015.

2.2. Review process

Under the CCA the ACCC has 21 days to assess a formal price notification.⁸ However, Australia Post has submitted a draft price notification which allows the ACCC to conduct an

⁷ The ACCC's approach to assessing price notifications is outlined in detail in its 'Statement of regulatory approach to assessing price notifications', which is available on the ACCC's website, <http://www.accc.gov.au/publications/regulatory-approach-to-price-notifications>.

⁸ section 95ZB(1).

assessment prior to the lodgement of a formal price notification. A confidential version of Australia Post's draft price notification was provided to the ACCC on 14 August 2015. The public version was lodged with the ACCC on 20 August 2015.

The ACCC's consultation arrangements for Australia Post's draft price notification are available on the ACCC's website. Depending on the level of public interest in Australia Post's draft price notification the ACCC may conduct public forums to receive feedback on the proposal. Stakeholders are also welcome to contact the ACCC to arrange a meeting with ACCC staff to discuss the proposal.

Following public consultation on Australia Post's draft price notification, the ACCC will release its response to the proposal in November 2015.

It is anticipated that Australia Post will then submit a formal price notification after which the ACCC will have 21 days to release a final decision on the price notification.

The ACCC's role in assessing price notifications is summarised at Appendix B of this paper. More detail on the ACCC's processes in assessing price notifications is contained in the ACCC's *Statement of Regulatory Approach to Assessing Price Notifications*, which is available on the ACCC's website.

Table 2 provides an indicative timetable for the ACCC's assessment.

Table 2 — Indicative timetable for assessment of Australia Post's price notification

Date	Process
28 August 2015	Australia Post's draft price notification and invitation for submissions released by the ACCC
7 September 2015	ACCC publishes issues paper
15 October 2015	Closing date for submissions on draft price notification
November 2015	ACCC publishes its response to the draft price notification
November 2015	Australia Post expected to submit formal price notification
December 2015	ACCC publishes Final Decision

2.3. Making a submission

The ACCC takes a consultative approach to assessing price notifications and is seeking the views of stakeholders on Australia Post's draft price notification.

The purpose of this issues paper is to outline important elements of Australia Post's draft price notification, provide background information and identify issues on which the ACCC is seeking stakeholder views. Stakeholders are invited to comment on any matter relevant to the ACCC's assessment. Public versions of Australia Post's draft price notification and supporting documents are available on the ACCC's website, <https://www.accc.gov.au/regulated-infrastructure/postal-services>.

To facilitate an informed, transparent and robust consultation process, the ACCC prefers that all submissions are publicly available. Accordingly, submissions will be treated as public documents and posted on the ACCC's website, unless prior arrangements are made with the ACCC to treat the submission, or portions of it, as confidential.

The ACCC will accept submissions by email or by post. However, it is preferred that submissions be made by email. If submissions are provided in PDF format, parties are asked, for accessibility reasons, to also provide a copy in Microsoft Word format.

Submissions should be addressed to:

Mr Robert Wright
General Manager—Water and Wireline Markets
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

By email to: postalservices@acc.gov.au.

Submissions should be provided by **5pm, 15 October 2015**.

If you have any questions about the process or about making a submission to the ACCC please contact the ACCC's Infocentre on 1300 502 302.

3. Australia Post’s proposal

The information in this section is based on information provided by Australia Post as part of its draft price notification. It sets out the proposed price increases and the new delivery timetable, followed by an outline of Australia Post’s reform programs and its forecasts of letter volumes, costs and revenue.

3.1. Proposed price increases

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

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

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

Australia Post is proposing to increase the BPR from 70 cents to \$1 and increase the prices of large ordinary letters delivered at the regular timetable proportionately. The proposed prices are set out below and would apply from 4 January 2016.

Table 3 – Prices for ordinary letters

	Current Price (current ordinary timetable)	Proposed Price (new regular slower timetable)
Small letter (BPR)	\$0.70	\$1.00
Large letter up to 125g	\$1.40	\$2.00
Large letter over 125g up to 250g	\$2.10	\$3.00

Australia Post’s draft price notification states that the proposed price increases will assist it to recover the efficient cost of providing these services.⁹ As discussed in more detail in this paper, Australia Post is expecting to generate additional revenue through the proposed price increases, and improve its operating efficiency by implementing the new two-speed letter service. The changes are therefore intended to support Australia Post’s strategy of providing a more financially sustainable letter service. These initiatives are a response to the trend of declining mail volumes and letter business losses experienced by Australia Post in recent years.¹⁰

Australia Post’s draft price notification provides a high-level summary of its proposed revenue forecasts for its reserved services business, including the 2015-16 and 2016-17 financial years. Australia Post’s submitted forecasts incorporate revenues from all reserved services such as ordinary letter services, and business mail which makes up the majority of Australia Post’s letter volumes.

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

⁹ Australia Post’s draft price notification, p. 8.

¹⁰ Australia Post’s annual reports note domestic reserved letter service losses in each year since 2008.

monopoly letter services (stamped and bulk business mail) are forecast to reverse their previous loss making state by 2016-17. Australia Post submits that it has under-recovered its required revenues for reserved services by \$269 million in 2014-15.¹¹ Australia Post's submitted financial model, which the ACCC will be assessing, also indicates that if new prices are introduced in January 2016 as proposed by Australia Post, the under-recovery for reserved services is forecast to be \$70 million in 2015-16, while an over-recovery of \$84 million is forecast for 2016-17.¹²

The price increase is forecast to result in a turnaround in a relatively short period. 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.

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 2016-17.¹³ 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?

3.2. Changes to delivery standards

Australia Post has obligations in relation to the delivery of letters detailed in its performance standards.¹⁴ The standards specify, among other things, the speed, frequency and accuracy of letter delivery.

The Australian Government recently approved changes to the minimum delivery standards for Australia Post's ordinary letter services, to allow for implementation of a two-speed letter service.¹⁵ Previously, Australia Post was required to deliver all 'ordinary' letters in accordance with the 'current timetable' set out below (for example, next business day delivery in the same metropolitan city). The amended performance standards will allow Australia Post to deliver ordinary letters over a longer period.

¹¹ Refer Australia Post's draft price notification p. 53.

¹² Refer Australia Post's draft price notification p. 53.

¹³ This is the difference between required revenue and proposed revenue as set out in Australia Post's draft price notification p. 53.

¹⁴ *Australian Postal Corporation (Performance Standards) Regulations 1998*.

¹⁵ Joint media release, Minister for Finance and Minister for Communications, 3 March 2015. The amended performance standards are specified in *Australia Post Corporation (Performance Standards) Amendment (Speed of Mail Delivery) Regulation 2015*.

Australia Post has stated that its new 'regular' service will be delivered two business days slower than the current 'ordinary' letter timetable. However, as set out below, the amended performance standards provide an additional third business day for Australia Post to deliver regular letters between states. The 'priority' letter service will be provided at the same speed as the current ordinary letter timetable.

Table 4 – Comparison of current ordinary letter timetable with new priority and regular delivery timetables

Letters delivered	Business days to deliver			
	Current timetable	New priority timetable	Australia Post's proposed new regular timetable ¹⁶	Australia Post's amended performance standards
Within same state				
Within same city, town or metro area	1	1	3	3
between metro and country areas	2	2	4	4
between country areas	2	2	4	4
Between States				
between capital cities	2	2	4	5
between capital cities and country areas	3	3	5	6
between country areas	4	4	6	7

Source: Regulatory impact statement for *Australian Postal Corporation (Performance Standards) Amendment (Speed of Mail Delivery) Regulation 2015*, p. 22;

Australia Post Corporation (Performance Standards) Amendment (Speed of Mail Delivery) Regulation 2015;

Australia Post Fact Sheet.

The changes to the performance standards for Australia Post's ordinary letter services are not subject to ACCC assessment. However, the ACCC will have regard to the impact of these changes on Australia Post's costs in assessing whether the prices proposed for ordinary letters delivered at the regular timetable are required for Australia Post to recover efficient costs.

3.3. Reform program

Australia Post is currently undertaking a business reform program to reduce its network costs in an environment of letter volume decline. The operational changes being implemented are discussed in Australia Post's draft price notification. A key objective of the program is to enable greater flexibility and efficiency in its letter processing and delivery operations.¹⁷ Australia Post expects the service and proposed price changes will:

- provide it more time and flexibility for letter processing (to maximise the volume of letters processed during the day rather than night)¹⁸

¹⁶ <http://auspost.com.au/media/documents/Reform-Fact-Sheet.pdf>

¹⁷ Australia Post's draft price notification, pp. 12, 72.

¹⁸ Australia Post's draft price notification, p. 38.

- increase the utilisation of current mail processing equipment, to increase the volume of sequenced mail in the short term and reduce manual work¹⁹
- enable new mail processing equipment to increase the level of automation²⁰
- implement a new delivery model (National Delivery Model), which will result in a reduction in full-time equivalent employee (FTE) numbers.²¹

Australia Post is expecting the reform program to deliver approximately \$158 million in efficiency savings for its reserved letter services over 2015-16 and 2016-17, and a further \$104 million savings in 2017-18.²²

Encouraging migration to the regular timetable

Australia Post submits that its forecasts of operational savings are largely dependent on the proportion of letters delivered at the regular and priority timetable following introduction of the two-speed letter service.

A key objective of implementing a two-speed letter service is to shift mail volumes to Australia Post's new regular timetable. Australia Post submits that its major operational savings from the reform program are dependent on achieving significant levels of migration of letter volumes to the slower timetable. Migration would be encouraged through a price differential between regular and priority services (Australia Post has provided a confidential assumption on the priority letter premium to the ACCC, which forms an input to its financial model). Australia Post submits that for the cost savings to be achieved, around 80 per cent of addressed letter volumes would need to be delivered at the regular timetable.²³

Australia Post already offers a two-speed service for most of its business letter products, which make up the vast majority of addressed letter volumes (i.e. around 95 per cent of domestic addressed letters are sent by business).²⁴ Currently, business customers are opting for the slower timetable about 70 per cent of the time.²⁵

Australia Post is expecting customer migration from the current 'ordinary' timetable to the new slower regular timetable to be high. For Australia Post to reach its target of 80 per cent of addressed letters being delivered at the regular timetable, the level of take-up of the slower letter service by businesses would need to increase from the current level.

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?

¹⁹ Australia Post's draft price notification, p. 12.

²⁰ Australia Post's draft price notification, p. 38.

²¹ Australia Post's draft price notification, p. 39.

²² Australia Post has provided the ACCC with detail on some expected cost savings out to 2017-18. However, Australia Post's submitted financial model (including revenue and cost forecasts) is for the period to 2016-17. Australia Post's draft price notification, p. 40.

²³ Australia Post's draft price notification, p. 39.

²⁴ Joint media release, Minister for Finance and Minister for Communications, 3 March 2015.

²⁵ Australia Post's draft price notification, p. 17.

3.4. Australia Post's cost allocation model

Australia Post applies a CAM to allocate shared costs across its business for reserved and non-reserved services and to derive prices for these services. Within reserved services the CAM is also applied to help derive prices for the various monopoly services.

Australia Post submits that its CAM is a fully absorbed costing model that allocates costs to products and services via the following main principles:

- All products and services are charged appropriately with the costs of the enterprise
- Activity based costing is used as the appropriate cost allocation methodology. Resources (cost inputs) perform activities (the doing things). Activities are used by products and services.
- Direct attribution of costs to products is conducted, wherever possible

Australia Post submits that its CAM is robust and relevant and that product volume is the dominant cost driver in the model. Australia Post submits that its CAM inherently increases the cost burden for products experiencing volume growth e.g. parcels and lessens the burden for products in decline e.g. letters.

As part of the assessment of Australia Post's proposed prices the ACCC has engaged an external consultant, WIK Consult, to review Australia Post's CAM. WIK specialises in regulatory economics and has extensive international experience in postal regulation.

The review will consider:

- how costs are allocated between reserved and non-reserved services, and within reserved letter services such as regular and priority mail
- the appropriateness of the CAM given the trend of declining letter volumes and increasing parcel volumes delivered by Australia Post
- the extent to which the CAM provides a reasonable model to derive efficient costs and prices for 'regular' and 'priority' letter services

The ACCC intends to publish WIK's report when the ACCC's response to Australia Post's draft notification is released in November 2015.

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?

3.5. Impact of proposed price increases on Australia Post's revenue and cost recovery

As illustrated in Figure 1, ordinary (stamped) letters are a subset of Australia Post's ordinary/other letter services, which together with PreSort (bulk mail) make up Australia Post's reserved services.

Data submitted by Australia Post indicates that it is expecting increases to its ordinary/other letter prices will result in its ordinary/other revenue increasing by around \$47 million in 2015-16 and \$71 million in 2016-17, over 2014-15 levels.²⁶ Australia Post is expecting increases to its ordinary/other letter prices and bulk mail will result in its reserved services

²⁶ Australia Post's draft price notification, p. 58.

revenue increasing by around \$159 million in 2015-16 and \$204 million in 2016-17, over 2014-15 levels.²⁷

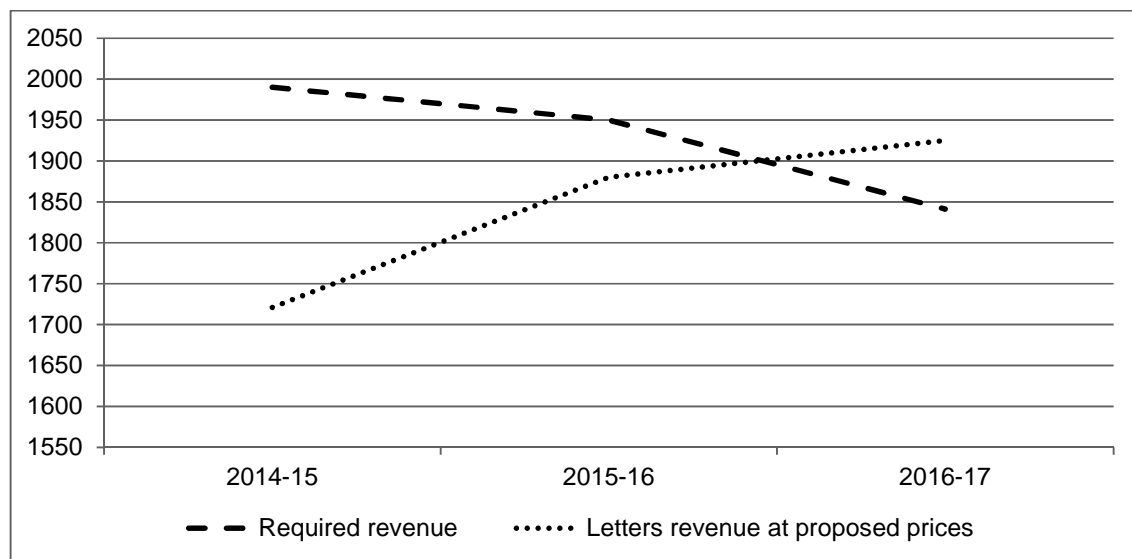
As illustrated below, Australia Post's submitted financial model indicates that if new prices are introduced in January 2016 its under-recovery for reserved services (stamped and bulk business mail) is forecast to be \$70 million in 2015-16, while an over-recovery of \$84 million is forecast for 2016-17. However, Australia Post forecasts that its ordinary (stamped) letter services are still not expected to recover their operating costs in 2015-16 and 2016-17.²⁸ 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.

Australia Post's forecasts of required revenue for its domestic reserved letter services are illustrated below. Required revenue is made up of:

- operating costs
- return of capital, representing depreciation costs
- return on capital, representing the required rate of return on the capital base.

Forecast revenue is based on Australia Post's submitted demand forecasts and proposed prices.

Figure 2: Domestic reserved letter service forecast revenue and costs (\$ million)



Source: Data based on Australia Post's draft price notification p. 53

3.6. Impact of reforms on costs

Australia Post notes that its domestic letter services costs have been impacted in recent years by one-off costs such as restructuring.²⁹ However, Australia Post is forecasting its total domestic letter costs to be around \$20 million and \$100 million lower in 2015-16 and

²⁷ Australia Post's draft price notification, p. 53.

²⁸ Australia Post's draft price notification, p. 58.

²⁹ Australia Post's 2013-14 annual report, p. 101.

2016-17 respectively compared to 2014-15. Australia Post's ordinary/other costs are forecast to be around \$20 million and \$70 million lower respectively over the same period.³⁰

Operational costs represent the majority of Australia Post's costs for provision of reserved letter services, around 90 per cent, with the balance being its capital costs³¹ (depreciation and return on assets) and tax expense. The bulk of Australia Post's operating costs are labour costs.

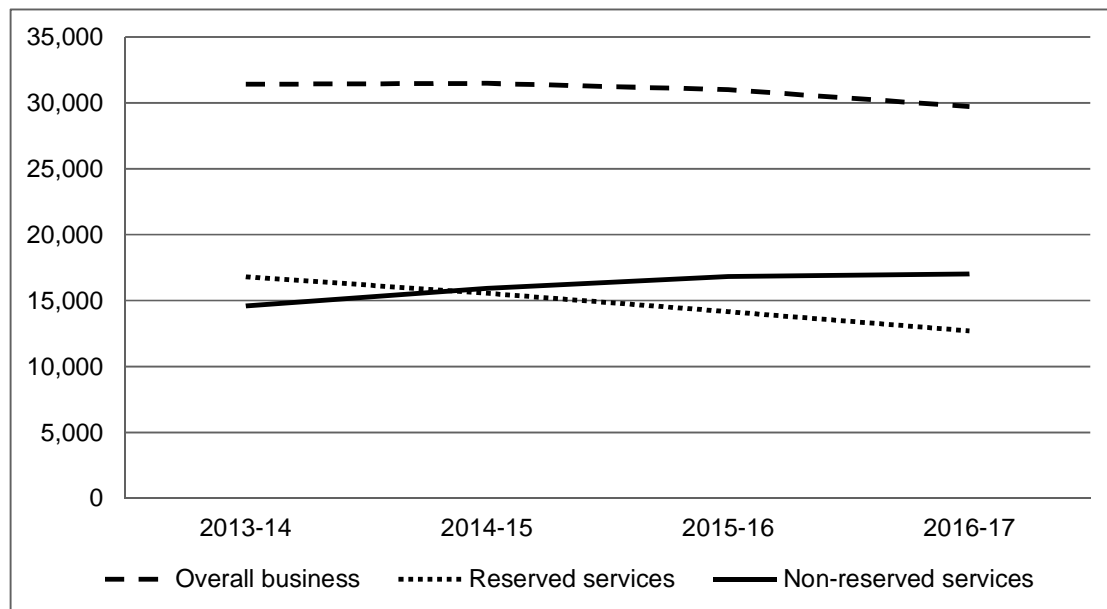
The number of FTEs required to provide mail services after Australia Post's operational reforms are implemented is therefore a major determinant of its future cost structure.

The operational changes being implemented by Australia Post and the introduction of a two-speed letter service will enable a reduction and reallocation of its labour force, as shown below. Over the two year period from 2014-15 to 2016-17:

- reserved services FTE levels are forecast to decrease by around 2850;
- non-reserved services FTE levels are forecast to increase by around 1090; and
- total business FTE levels are forecast to decrease by around 1760.³²

Overall, FTEs supporting reserved services are forecast to decrease by around 9 per cent per annum between 2013-14 and 2016-17. This is in part due to a higher proportion of staff time being allocated to non-reserved services (such as parcels processing and delivery) as letter volumes decline.

Figure 3 - FTE allocation between reserved and non-reserved services



Source: Australia Post's draft price notification, p. 42

Australia Post has also submitted a report by Economic Insights Pty Ltd³³ on the likely effects of declining mail volumes and increasing delivery points on Australia Post's future

³⁰ Australia Post's draft price notification, p. 58.

³¹ Like Australia Post's operating costs, Australia Post's capital costs are allocated to both its reserved and non-reserved services by its cost allocation methodology (CAM). Over time, the value of the reserved letter service fixed assets and intangibles (in absolute terms, and as a proportion of total fixed assets and intangibles) is declining. Australia Post notes in its draft price notification that the forecast capital expenditure for the reserved services is primarily for asset replacement (p. 46, 47).

³² Australia Post's draft price notification, p. 42

costs. The report finds that while Australia Post’s mail centre (i.e. processing costs) costs are to a large extent driven by declines in the number of letters, its delivery centre costs (i.e. delivery costs) are largely driven by the increasing number of delivery points.

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.³⁴

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?

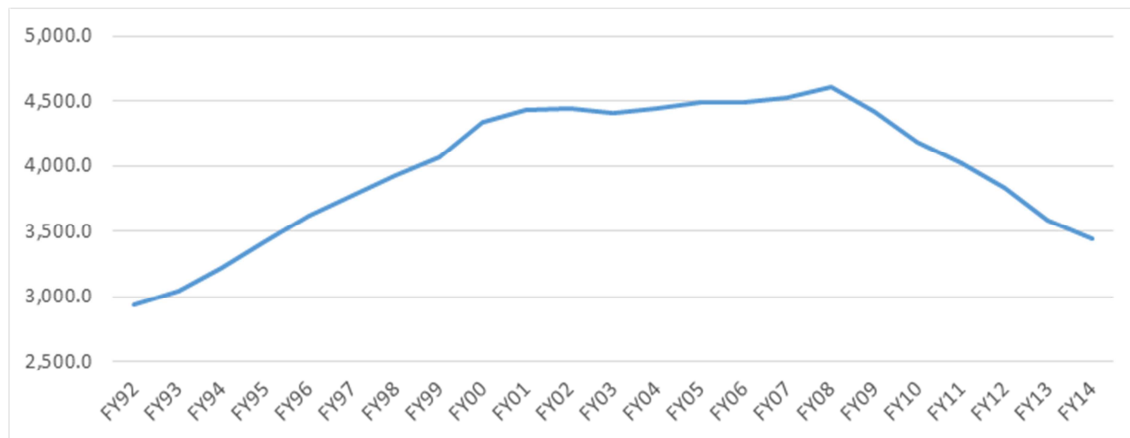
3.7. Forecast letter volumes

Australia Post’s draft price notification includes forecasts of letter volumes which are important in forecasting the revenue resulting from its proposed price increases. The volume forecasts are also relevant to the future costs of providing letter services.

Historical letter volumes

Australia Post’s domestic addressed letter volumes have fallen since reaching a peak in 2007-08 as shown below. Australia Post is forecasting that the rate of decline in letter volumes will accelerate in the future.³⁵

Figure 4 - Domestic addressed letter volumes (millions)



Source: Australia Post’s draft price notification, p. 23.

Australia Post has engaged Diversified Specifics to develop letter volume forecasts for each of its key letter segments (i.e. small pre-sort, large pre-sort, small ordinary/other, large ordinary/other) for the period to 2016-17. Australia Post submits that the short forecasting period reflects the uncertainty inherent in forecasting letter volumes over a longer period.

³³ *Economic Insights Updated Estimates of Australia Post’s Mail Centre and Delivery Centre Cost Elasticities* 14 May 2015, available at <https://www.accc.gov.au/regulated-infrastructure/postal-services/australia-post-letter-pricing-2015/draft-price-notification>.

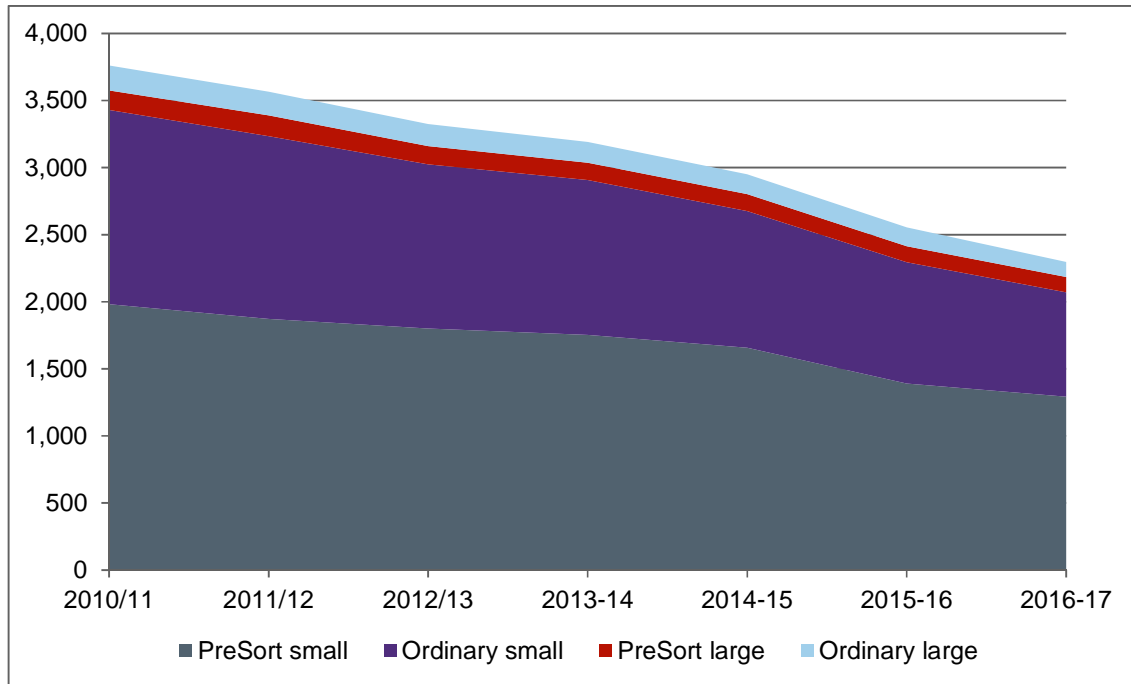
³⁴ These figures are in nominal terms. An average annual real cost reduction of 5.1 per cent is forecast if inflation at 2.5 per cent is assumed.

³⁵ Australia Post’s draft price notification, p. 23.

In general, Diversified Specifics' findings show that real price is a volume driver for each of the letter categories it has provided forecasts for except large pre-sort letters. However, Diversified Specifics found that the key driver of declining mail volumes is substitution by electronic communication (e.g. e-mail, SMS, web-based portals), which affects small ordinary and both small and large presort letters.³⁶

Diversified Specifics' volume forecasts are shown below. Largely due to expected increased levels of electronic substitution and increases in the real price of letters, Diversified Specifics' modelling predicts that letter volume declines will accelerate during the 2014-15 to 2016-17 period.³⁷

Figure 5 - Domestic reserved letter volume actuals and forecasts by Diversified Specifics (million letters)



Source: Diversified Specifics' 2015 report. (2010/2011 to 2014/15 actual volumes; 2015/16 to 2016/17 forecasts produced by Diversified Specifics' econometric models.)

Australia Post has provided the ACCC with updated volume forecasts for reserved services for the period to 2016-17. Australia Post's forecasts are based on the forecasts prepared by Diversified Specifics but also have regard to Australia Post's own internal and market-based intelligence.³⁸ Also, Australia Post has assumed that demand is less responsive to price increases (except for pre-sort large mail) than assumed by Diversified Specifics. Australia Post's draft price notification notes that it applies a price elasticity of demand of -0.25 for each of the four letter categories, whereas Diversified Specifics applies the price elasticities of -0.35 for pre-sort small mail; 0 for pre-sort large mail; -0.41 for ordinary small mail, and -0.78 for ordinary large mail.³⁹ Given the extent of price changes proposed by Australia Post,

³⁶ Diversified Specifics' findings of the key drivers affecting ordinary and pre-sort mail, and their respective elasticity estimates are included in its report, *Diversified Specifics report, Australia Post Domestic Letter Volume Demand Update*, August 2015, which is available on the ACCC's website, <http://acc.gov.au/regulated-infrastructure/postal-services/australia-post-letter-pricing-2015/draft-price-notification>.

³⁷ The average rate of decline in reserved services volumes over the three year period to 2013-14 was around 5.3 per cent per annum, whereas the econometric model predicts an average annual rate of decline of 10.4 per cent for the three year period to 2016-17.

³⁸ Details on Australia Post's augmentations are included in Appendix 7 of its draft price notification.

³⁹ Australia Post makes different assumptions to Diversified Specifics on the price elasticity of demand. Price elasticity of demand is a measure of the responsiveness or elasticity of the quantity demanded of a good or service to a change in its

the forecast response in demand to higher prices will be an important consideration in assessing Australia Post's demand forecasts.

Australia Post is forecasting that reserved services volumes will decline at a greater rate than forecast by Diversified Specifics. Australia Post's forecast of total reserved letter volumes is around 2–5 per cent less than Diversified Specifics' forecasts in each of the years. Australia Post's forecasts compared to the forecasts developed by Diversified Specifics are shown in the table below.

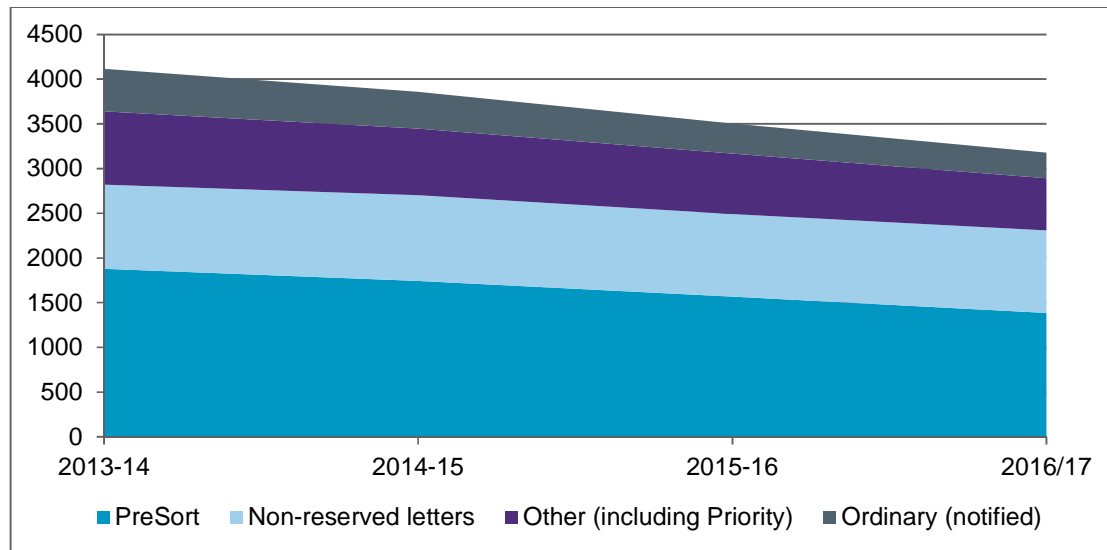
Table 5 – Forecast rates of change in letter volumes: comparison between Diversified Specifics and Australia Post

	PreSort Diversified Specifics	PreSort Australia Post	Ordinary Other Diversified Specifics	Ordinary Other Australia Post	Domestic Reserved Diversified Specifics	Domestic reserved Australia Post
2014-15	(5.3%)	(7.1%)	(10.8%)	(10.9%)	(7.6%)	(8.6%)
2015-16	(8.9%)	(10.1%)	(8.3%)	(12.5%)	(8.6%)	(11.1%)
2016-17	(8.4%)	(11.5%)	(17.8%)	(13.9%)	(12.1%)	(12.5%)

Source: Data based on Australia Post's forecasts in its draft price notification p. 58, and Diversified Specifics report.

Australia Post's volume forecasts for its ordinary (stamped) letters, other letters and presort letters are illustrated below.

Figure 6 – Australia Post's volume forecasts for its letter categories



Source: Data based on Australia Post's forecasts in its draft price notification p. 58.

price. In general, the demand for a good is said to be inelastic when the price elasticity of demand is less than one (in absolute value) and changes in price have a less than proportional effect on the quantity of a good demanded.

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?

3.8. Weighted average cost of capital

In assessing Australia Post's proposed price increases, the ACCC has regard to whether the revenue generated is required to recover the efficient costs of providing its reserved services, including a return on capital. Generally, a return on capital should reflect the opportunity cost to investors of choosing to finance a firm's operations.

The return on capital typically provided for is a weighted average of the opportunity cost of debt and equity, known as a weighted average cost of capital (WACC).

A detailed outline of the parameters used to generate Australia Post's return on capital is contained in Appendix 14 of Australia Post's draft price notification. Australia Post has provided a report from Value Adviser Associates in support of its WACC parameters, recommending WACC parameters for its overall business and its regulated reserved services business.⁴⁰ These parameters are set out below.

Table 6 - Australia Post's proposed WACC parameters for its reserved services

WACC Parameter	Proposed WACC for reserved services
Risk free rate (nominal)	2.96%
Market risk premium	7.0%
Asset beta (β_a)	0.60
Debt beta (β_d)	0.15
Gearing (debt percentage)	30%
Proportion of value of imputation credits utilised (γ)	0.0
Tax rate	30%
Equity beta (β_e)	0.80
Cost of debt	4.35%
Nominal Post-tax vanilla WACC	7.29%

⁴⁰ Value Adviser Associates, *Assessment of WACC Parameters for Australia Post and its Reserved Letters Business as at 23 July 2015*, 1 August 2015, available at <https://www.accc.gov.au/regulated-infrastructure/postal-services/australia-post-letter-pricing-2015/draft-price-notification>.

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?

Appendix A: Australia Post’s amended performance standards and proposed prices

*Amended performance standards*⁴¹

Table 7 – New priority and regular delivery timetables

Time for delivery of reserved services letters			
Item	Column 1 Address for delivery of letter	Column 2 Delivery time for priority letters	Column 3 Delivery time for regular letters
Part 1—Delivery within a State			
1	Address within: (a) if the letter is lodged in the capital city of a State—that city; or (b) if the letter is lodged in another city, or a town, in a State—that city or town, or an adjacent city or town in the same State	Next business day after day of posting	3 business days after day of posting
2	If item 1 does not apply—address within the State in which the letter is lodged	2 business days after day of posting	4 business days after day of posting
Part 2—Delivery between States			
3	If the letter is lodged in the capital city of a State—address within the capital city of another State	2 business days after day of posting	5 business days after day of posting
4	If the letter is lodged outside the capital city of a State—address within the capital city of another State	3 business days after day of posting	6 business days after day of posting
5	If the letter is lodged in the capital city of a State—address outside the capital city of another State	3 business days after day of posting	6 business days after day of posting
6	If the letter is lodged outside the capital city of a State—address outside the capital city of another State	4 business days after day of posting	7 business days after day of posting

Proposed prices for notified services

	Current Price	Proposed Price
Ordinary small letter (BPR)	\$0.70	\$1.00
Ordinary large letter up to 125g	\$1.40	\$2.00
Over 125g up to 250g	\$2.10	\$3.00

⁴¹ Australia Post Corporation (Performance Standards) Amendment (Speed of Mail Delivery) Regulation 2015.

Appendix B: The ACCC's role in the regulation of postal services

The ACCC has three specific responsibilities in the regulation of postal services. These are:

- assessing proposed price increases for notified letter services provided by Australia Post (assessing price notifications)
- monitoring for the presence of cross subsidies between Australia Post's reserved and non-reserved services
- inquiring into certain disputes regarding the terms and conditions under which Australia Post supplies bulk mail services.⁴²

Assessing Australia Post's price notifications

Australia Post's draft price notification details its proposal to increase the prices of its reserved ordinary letters that are delivered under the 'regular' timetable.

Australia Post's notified letter services are subject to the price notification provisions of Part VIIA of the CCA. The introduction of a new notified letter service, or a price increase for an existing notified letter service, is subject to the ACCC's assessment. Where Australia Post proposes to increase the price of a notified letter service, the ACCC is responsible for assessing the proposed price increase and taking action in accordance with Part VIIA, which ordinarily includes a decision to:

- not object to the price increase,
- not object to a price that is less than that proposed, or
- object to the price increase.

Only those letter services that are 'notified' are subject to the price notification provisions in the CCA.⁴³ Ordinary small and large letters which will be delivered according to the regular timetable, including the BPR, are notified under the current Declaration, and will need to be assessed by the ACCC before being introduced. The prices of Australia Post's parcels, express post, bulk business letters, letters delivered at the priority timetable, concession stamps and seasonal greeting cards are currently not notified and therefore not subject to price notification provisions in part VIIA of the CCA.

In 1992, Australia Post's reserved services⁴⁴ were declared by the Minister (Treasurer) to be notified services and Australia Post to be a declared person in relation to those notified services pursuant to section 95X of the *Prices Surveillance Act 1983*. The effect of the current declaration, under the CCA, is to restrict notified services to only reserved 'ordinary' letters carried under the regular timetable.⁴⁵

A detailed outline of the operation of the legislative framework is contained in the ACCC's *Statement of Regulatory Approach to Assessing Price Notifications*, June 2009, which is

⁴² The ACCC has released a guide on its approach to inquiring into bulk mail services disputes. It is available on the ACCC's website, at <http://acc.gov.au/regulated-infrastructure/postal-services/inquiries-into-disputes-about-bulk-mail-services>.

⁴³ Since November 2011, prices surveillance has been limited to the BPR and certain reserved ordinary letter services. Prior to 2011, all Australia Post's monopoly reserved services were subject to prices surveillance. The current declaration that applies to Australia Post is *Price Notification Declaration (Australia Post Letter Services) 2015*, available at <https://www.comlaw.gov.au/Details/F2015L01180>.

⁴⁴ Australia Post's reserved services statutory monopoly extends to:

- the collection, within Australia, of letters for delivery within Australia
- the delivery of letters within Australia.

There are a number of exceptions to Australia Post's reserved services, including letters weighing over 250g and letters that are carried for a charge more than four times the BPR (refer section 29 and 30 of the APCA).

⁴⁵ Price Notification Declaration (Australia Post Letter Services) 2015, available at <https://www.comlaw.gov.au/Details/F2015L01180>.

available on the ACCC's website (refer <http://www.accc.gov.au/publications/regulatory-approach-to-price-notifications>).

The Minister for Communications has the power, under section 33 of the APCA, to disapprove increases to the BPR within 30 days after receiving formal notice from Australia Post.

Monitoring for the presence of cross subsidies between Australia Post's reserved and non-reserved services

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.

One of the purposes of introducing the record keeping rule powers was to address allegations raised by some competitors of Australia Post that it is unfairly competing by using revenue from its reserved services to cross-subsidise the services it provides in competition with other businesses.

Each year the ACCC issues a report of its analysis of Australia Post's regulatory accounts for the preceding year, to determine whether Australia Post has used revenue from its reserved services (services for which Australia Post has a statutory monopoly) to cross-subsidise its non-reserved services (services provided in competition with other businesses).⁴⁶

Disputes regarding the terms and conditions under which Australia Post supplies bulk mail services

The ACCC has a role under Part 3 of the *Australian Postal Corporation Regulations 1996* (APCR) to inquire into disputes about the terms and conditions on which Australia Post provides or will provide a rate reduction for bulk interconnection services. The intention of these provisions is to ensure that Australia Post does not set unreasonable terms and conditions for its bulk letter service.⁴⁷

If the ACCC undertakes an inquiry into a bulk interconnection service dispute, it is required to report to the Minister for Communications with recommendations about the terms and conditions on which a service is or will be provided to that person.

The ACCC considers Australia Post's PreSort Letters service, Charity Mail service and Acquisition Mail service meet the definition of a 'bulk interconnection service' under section 32A.⁴⁸ The majority of bulk interconnection services offered by Australia Post are its PreSort letter services.

⁴⁶ These reports are available on the ACCC website at <http://www.accc.gov.au/regulated-infrastructure/postal-services/postal-services-publications>

⁴⁷ Explanatory Memorandum *Postal Services Legislation Amendment Bill 2003*

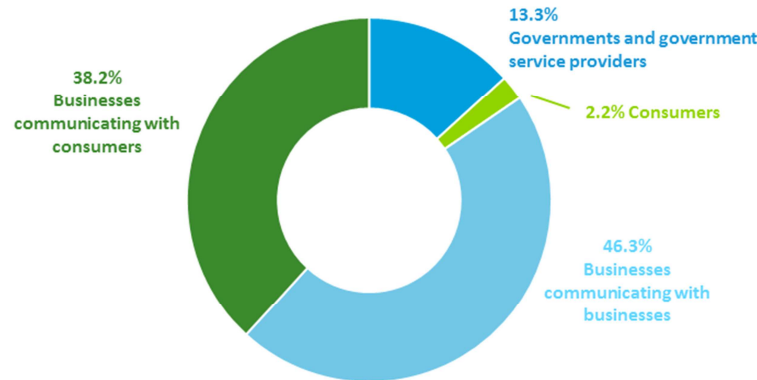
⁴⁸ Australia Post's PreSort Letters service offers discounted postage rates for customers lodging more than 300 machine-addressed articles that are barcoded and sorted. The PreSort letter service also includes Charity mail which provides for delivery of small PreSort letters at lower prices for approved charitable organisations. Acquisition mail provides for delivery of non-personalised addressed mail pieces to households in specific postcodes, suburbs or Census Collection Districts. Further information on these Australia Post mail services is available on the Australia Post's website.

Appendix C: Postal market in Australia

Postal market

The majority of mail in Australia is sent by businesses and the three levels of government, with only around 2-3 per cent of mail being social mail (i.e. consumer to consumer). Around 74 per cent of mail is transactional (e.g. bills), while the remaining 23 per cent is promotional mail.⁴⁹ A breakdown of the postal market by sender and recipient is shown below.

Figure 7 - Australian postal market segmentation (2013–14)



Source: IBISWorld

Australia Post

Australia Post currently employs about 31,000 staff (full time equivalent) and provides employment for some 10,000 licensees, franchisees and contractors.⁵⁰

Australia Post operates under the *Australian Postal Corporation Act 1989* (APCA) with dual policy objectives to:

- provide a universal letter service that is reasonably accessible by all Australians; and
- operate in a manner consistent with sound commercial practice to provide a financial return to its shareholders (the Minister for Communications and the Minister for Finance).

Australia Post's reserved letter services

Australia Post has the exclusive right to issue postage stamps and collect, carry and deliver letters within Australia that (subject to exceptions) weigh not more than 250 grams. These are Australia Post's 'reserved services'.⁵¹ Australia Post was given this statutory monopoly so that revenue from its reserved services could fund the cost of meeting its Community Service Obligations (CSOs)⁵². The CSOs require Australia Post to supply a letter service that

⁴⁹ Boston Consulting Group, *Australian and International Postal Services Overview*, https://www.communications.gov.au/sites/g/files/net301/f/BCG_Postal_Services_Background_Report.pdf, p. 8.

⁵⁰ This figure excludes StarTrack employees. Australia Post and StarTrack together employed nearly 37,000 staff in 2013-14 (Australia Post's 2013-14 Annual Report).

⁵¹ Division 2 of Part 3 of the APCA.

⁵² 1989 explanatory memorandum for the APCA.

is 'reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business'.⁵³

In addition to ordinary letters, Australia Post provides other letter services, including bulk mail, used mainly by businesses, government agencies and not-for-profit organisations. These letter services generally cost less than the equivalent ordinary letter services.

Australia Post's commercial obligations

As a Government Business Enterprise (GBE), a principal objective for Australia Post is to earn at least a commercial rate of return. Australia Post is required to, as far as practicable, perform its functions in a manner consistent with sound commercial practice.

This includes fully recovering the costs of resources employed, including capital, and working towards a financial target and a dividend policy agreed with shareholder ministers. Australia Post has paid a dividend to the Government every year since corporatisation in 1989.⁵⁴

Within the Australian Government, the Minister for Communications has portfolio responsibility for Australia Post. Under a dual shareholder model, overall responsibility for Australia Post is shared with the Minister for Finance. The Minister for Communications has the power to disapprove increases to the BPR within 30 days after receiving notice from Australia Post.⁵⁵

⁵³ See Division 1 of Part 3 of the APCA at www.comlaw.gov.au/Details/C2011C00685.

⁵⁴ However, given that it is expected that Australia Post will report a full-year loss in 2014-15, it is not expected that Australia Post will pay a dividend in 2014-15.

⁵⁵ APCA s. 33.