

Mr Anthony Wing
General Manager-Prices Oversight
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Also via email: anthony.wing@accc.gov.au

Dear Mr Wing

The Australian Direct Marketing Association (ADMA) welcomes the opportunity to make this submission in response to the ACCC's *Australia Post's draft price notification Preliminary view Public version June 2008*.

As stated in our earlier submission dated the 4th of April 2008, ADMA is the peak body of the Australian direct marketing industry and represents over 500 member organisations including major financial institutions, telecommunication companies, energy providers, travel service companies, major charities, statutory corporations and specialist suppliers of direct marketing services.

Given that ADMA's membership also uniquely includes organisations that represent the entire mail marketing supply chain from paper manufacturers and suppliers to creative agencies, printers, mail houses, fulfillment companies, major users of mail marketing and postal service providers including Australia Post itself, we believe we can assist the ACCC by providing a balanced view.

ADMA's Response to the ACCC's Preliminary View

ADMA notes that the ACCC has assessed Australia Post's:

- demand forecasts;
- potential for future productivity gains;
- financial modeling; and
- cost allocation methodology between reserved and non-reserved letter services.

We note that this econometric analysis has been detailed. We note the attendant qualifications that the ACCC has made, and we do not dispute the Commission's findings.

ADMA also notes:

“The ACCC’s preliminary view is to not object to the price increases for reserved services proposed by Australia Post. As such, the ACCC does not object to the proposed increases in the prices of reserved services in Attachment A.

However, the ACCC requires that any future price notifications to be supported by a forward looking proposal that provides more certainty to customers about prices for a reasonable period of time.

Therefore any future price notifications submitted by Australia Post should provide:

- *a disaggregated financial model over at least a three year period;*
- *information on how prices for Australia Post’s reserved services will change over this period; and*
- *information on the revenues and costs of those non-reserved services that share the same costs as reserved services over this period.”*

In regard to the two key issues the ACCC considers need to be addressed before forming a final view on the proposed price increases, namely:

- the frequency of the ACCC’s assessment of proposed price increases; and
- the level of disaggregation in the supporting financial modelling.

ADMA acknowledges that there is merit in Australia Post’s contention that high up front price increases may have an ‘elasticity effect’ in impacting on future demand for letter services and ADMA also acknowledges the merit in the statement that generating average returns requires increases of a larger magnitude at the beginning of longer pricing intervals.

However, ADMA believes there is also merit in the ACCC’s arguments that: *“incentives for Australia Post to improve its productivity may be lost under a model where prices are frequently determined”* and we restate our view that a multiple year timeframe is appropriate for industry planning purposes and to provide certainty for organisations undertaking significant capital and business investment.

Given those reasons, ADMA supports the Commission’s following suggestion.

“... three years seems more appropriate in the case of Australia Post given ... concerns about forecasting costs and revenues into the future, and the timing of its corporate plan to the Government.

Under such an approach, the ACCC could conduct an initial detailed assessment on the proposed price increases to apply into the future. If the ACCC’s assessment required additional price changes during this period, the ACCC could conduct a reduced assessment in light of its previous assessment of the proposed price change.”

In regard to level of disaggregation in the supporting financial modeling, ADMA makes no comment.

Restatement of Concerns

ADMA notes that the ACCC has précised our earlier submission by stating:

“While the ADMA does not object to the proposal for modest price increases, it acknowledges that these increases will raise the cost bases of mail users — by many hundreds of thousands of dollars in some cases. The ADMA believes that Australia Post’s proposal for price increases being effective on 1 July 2008 is unacceptable given the adjustment time required by businesses.”

As far as it goes, this distillation adequately represents ADMA’s primary concerns, however, we note that the Commission has not made reference in its Preliminary View of the timing of any price rises.

We note that the Commission states: *“The ACCC aims to release a final decision in late July 2008”*, however, this does not address the fact that many of ADMA’s member companies and not-for-profit organisations have established their marketing and other budgets for the 2008/09 financial year.

Again, we strongly urge the Commission to postpone any price rises until the 1st of July 2009.

In conclusion, ADMA again thanks the ACCC for the opportunity to make this submission and we would be pleased to discuss any aspect of it in more detail.

Yours sincerely



Rob Edwards
Chief Executive Officer