



Australia Post's Response to Public Submissions

May 2008

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1. INTRODUCTION

This document has been prepared by Australia Post to provide the Australian Competition and Consumer Commission (ACCC) with responses to issues raised in public submissions to the ACCC Issues Paper. The focus of this document is on those responses that relate to the ACCC's consideration of Australia Post's Draft Notification.

The aim of this document is to assist the ACCC in its consideration of these issues by providing a combined response to the issues raised in the following eight public submissions:

- ABDAS Pty Ltd
- Australian Direct Marketing Association (ADMA)
- Communications Electrical & Plumbing Union (CEPU)
- Post Office Agents Association Limited (POAAL)
- Consumers' Association of Western Australia (Inc.) (CAWA)
- Fundraising Institute Australia (FIA)
- Major Mail Users Association (MMUA)
- Printing Industries Association of Australia (Printing Industries)

To make this document easier to read, issues raised in these submissions have been:

- grouped where similar; and
- summarised or posted as a direct quote from the original submission (typographical errors in the direct quotes have not been corrected).

This document provides individual responses by Australia Post to items raised or, where appropriate, a group response is provided.

2. AUSTRALIA POST PRODUCTIVITY / EFFICIENCY

2.1 Efficiency of the Postal Service

| | |
|----------------|---|
| CAWA (page 2) | "All consumers should have access to an efficient and well organised postal system." |
| ADMA (page 2) | Post has CSOs to provide goods and services to disadvantaged sectors of the community that may not be commercially viable |
| ADMA (page 5) | Encourages "... the ACCC to ensure that all monopolistic providers of products and services... are operating efficiently and effectively." |
| POAAL (page 6) | Post's service is distinguished from its competitors by "... resolving incorrectly addressed mail and handling returns." |
| CAWA (page 2) | Supports the consumers' right to a guaranteed delivery service standard for social mail |
| CAWA (page 2) | CAWA suggests that the importance of social mail to the community cannot be adequately depicted in studies such as Meyrick and Associates Report stating that this importance will not change and must be respected |

As noted in Australia Post's Draft Notification, February 2008 (Draft Notification), Australia Post, in 2006/07, continued to meet performance standards and provide an efficient and effective postal service to the Australian community.

2.2 Prior Productivity Improvements

| | |
|----------------|--|
| CEPU (point 4) | "Productivity improvements within Australia Post are amongst the highest in the nation." |
| POAAL (page 1) | The community benefits of Post's price restraints over the last 15 years have "... only been possible through initiatives that have released substantial productivity improvements over that time." |
| POAAL (page 1) | Asks the ACCC to recognise the realisation of productivity improvements is also attributable to increased effort at the " receipt and delivery ends of the service chain" by Australia Post's Licensees. |
| POAAL (page 2) | Recognises that Post's performance over the last few years demonstrates that it has realised the opportunities for productivity gains to the benefit of the shareholder and the consumer |
| POAAL (page 3) | Recognition of productivity gains and that future "cost reductions seem challenging." |

| | |
|----------------|---|
| POAAL (page 6) | The introduction of world class technology into mail centres has increased productivity – managing additional mail volumes with the same or slightly less labour. |
| POAAL (page 7) | Productivity appears to be slowing in recent times |
| POAAL (page 1) | POAAL states that a material amount of Licensees’ payments are directly linked to the price of postage and Licensees have ‘borne the brunt’ of real decreases in price and volume while having to take on additional costs/effort to support Post in achieving productivity efficiencies |
| POAAL (page 6) | Cost savings achieved through the conversion of corporate to LPO/Franchised outlets |
| POAAL (page 7) | The new franchising format does not perform as efficiently as an LPO |
| MMUA (page 7) | “...the development of the Process Improvement Program and the Bulk Mail Partner Program – a joint effort on the part of Australia Post and MMUA – there were many improvements – and productivity gains for Australia Post – in all areas of their mail lodgement, mail processing and mail delivery areas, none of which have been passed on to industry participants and no recognition of has been made by Australia Post in its Draft Notification”. |
| MMUA (page 24) | “Between the August 2004 launch and today there have been massive gains for AP in its productivity which have been achieved through the processes attached to the BMP Project.” |

Australia Post refers to the independently researched and prepared Meyrick Report (Australia Post’s Aggregate and Reserved Service Productivity Performance, November 2007) and the ongoing productivity targets contained within the Draft Notification.

While the main productivity enablers over the past five years are broadly in line with the outlook provided in Australia Post’s 2002 Notification, there has been a shift in the drivers of productivity growth, from a phase of major network and automation investment, to a phase of sustained process improvement that inevitably encounters “the law of diminishing returns”.

The period from 2001/02 marked a consolidation phase for productivity improvement in the letters network following the significant investment in the Future Post network restructure and automation of small letter processing (small letter phase completed 2000/01).

In recent years, (ie 2005/06 and 2006/07), efficiency improvements based around process standardisation and benchmarking have been the significant productivity enablers.

Australia Post’s record of total and partial productivity measures highlight that in the period to 2006/07, Australia Post has been able to sustain productivity growth while delivering high service performance and continuing to service the ongoing growth in delivery points.

Importantly, Australia Post has achieved these outcomes in an environment of low letter volume growth (an impediment to productivity growth with significant network fixed cost), while continuing to improve the quality of its service performance as well as its performance against a range of internal employee related key performance indicators (eg lost time injury frequency rate and attendance).

With regards to the conversion of corporate outlets to Licensed Post Office (LPO) and franchised outlets, this provides Australia Post with greater cost flexibility by moving labour and accommodation fixed costs to variable. The new franchised format retains the variable cost components of the licensed model.

The comments pertaining to the Bulk Mail Partner Program (BMP) require some background clarification. Three major elements included in BMP were established before BMP was created in 2004:

- Customer Barcode Quality Assurance (CBQA) – a tool made available to the industry since 2000 that allows Australia Post and customers to assess the accuracy of Delivery Point Identifier (DPID) assignment and barcode print quality (confirming eligibility for PreSort Letter prices);
- Process Improvement Program (PIP) – introduced in 2001 to improve the integrity of the volume reconciliation processes; and
- Electronic Lodgement of Mailing Statements (eLMS) – commissioned in 2001 to enhance the lodgement and billing process.

Linking these elements together under the umbrella of BMP has provided a consistent national process, which includes the common reporting of identified issues via the Lodgement Quality System (LQS) – a system commissioned by Australia Post to enable nationally consistent management of lodgement issues. While BMP did not include the introduction of new (or change to existing) product terms and conditions it has ensured a greater level of conformity to existing product conditions, for which Australia Post shares the operational savings achieved through lower prices (eg PreSort Letter prices).

Australia Post acknowledges the contribution that customers and licensees have made to Australia Post’s productivity and notes that this is reflected by the various pricing incentives and commissions offered by Australia Post to its customers and other stakeholders.

2.3 Customer Service

| | |
|-----------------|---|
| POAAL (page 6) | Australia Post’s initiatives to improve efficiency have contributed to the service experience of the client, however it is “...without extra reward for the Licensees and/or Mail Contractors who contribute to the service.” |
| CEPU (point 14) | suggests that Post’s ‘cheaper the better’ attitude is taking a toll on customer service |
| CEPU (point 8) | “...Australia Post has dropped the ball on customer service in their obsession with cost-cutting” |
| CEPU (point 3) | states that in return for the price increases customer service standards should be improved |
| CEPU (point 17) | requests that Post be mandated to increase customer service to avoid forcing people to choose other messaging methods |

| | |
|-----------------|--|
| CEPU (point 15) | concern that there is a shortage of SPBs in new housing estates and in convenient places for people commuting by car and that some SPBs are being cleared before 6pm |
| CAWA (page 2) | Suggests Post should appoint a consumer representative as a go-between in postal matters |
| MMUA (page 31) | "The failure to address over the years of BMP's operations the variance of results between BMP sites with Outstations and those without" |

Australia Post asserts its customer service standards are higher than ever. This is evidenced primarily through increasing delivery and service performance and customer satisfaction levels.

Australia Post's performance ranks amongst the best in the world despite Australia's highly dispersed population and size. Australia Post generally provides a higher standard of delivery than the countries it is often compared against. Table 1 below shows a comparison of Australia Post and four other overseas postal administrations.

Table 1 - Service Standards, Demographics and Mail Density

| | Australia | Canada | USA | UK | NZ |
|------------------------------|-------------------|-------------------|--------------------|-------------------|------------------|
| Closing time | 6pm | 5pm | 5pm | 5.30pm | 5-6pm |
| Intrastate delivery (days) | | | | | |
| - metro/metro | 1 | 2 | 1 | 1 | 1 |
| - country/metro | 2 | 3 | 2 | 2 | 2-3 |
| - country/country | 2 | 3 | 2 | 2 | 2-3 |
| Interstate delivery (days) | | | | | |
| - metro/metro | 2 | 4 | 2-3 | na | na |
| - country/metro | 3 | 4 | 3 | na | na |
| Population (m) | 21.0 ¹ | 33.2 ² | 303.6 ³ | 60.8 ⁴ | 4.2 ⁵ |
| Area (million sq kms) | 7.7 | 9.2 | 9.2 | .24 | .27 |
| Persons/sq km | 2.7 | 3.6 | 32.7 | 253.3 | 15.2 |
| Annual mail items per capita | 241 | 348 | 663 | 334 | unknown |

Source: Postal Service Terms and Conditions (Various), Note: na = not applicable

Customer satisfaction levels are reviewed annually on behalf of Australia Post by an independent market research agency, Sweeney & Associates. In 2006/07 the overall satisfaction for business and residential customers was 98% - up from 97% in 2005/06.

¹ ABS – as at December 2007

² Statistics Canada November 2007

³ US Census Bureau December 2007

⁴ CIA World Fact Book July 2007

⁵ Statistics New Zealand December 2007

Additionally, the percentage of residential customers agreeing that Australia Post;

- “respects and cares about its customers”;
- “provides good customer service”; and
- “has staff that go out of their way to help you”.

has either remained the same or increased on last year’s result.

Australia Post also has a number of key forums to gauge and respond to broad customer issues including the:

- Postal Services Consultative Council (PSCC) – comprising community and business representatives and as such covering a broad range of customer viewpoints; and
- Licensee Advisory Council (LAC) – comprising licensees from across Australia and Australia Post management. The LAC discusses key business opportunities including responding more effectively to customer needs.

Regarding the BMP / Outstations⁶ comment, in previous discussions Australia Post has had with the MMUA on this point, Australia Post has advised the MMUA that from its analysis there is no real justification for this claim; some mail houses without Outstations perform better than mail houses with Outstations. Mail house performance, as recorded in LQS, is associated with the internal production controls employed by each mail house.

2.4 Labour Productivity

| | |
|-----------------|--|
| CEPU (point 5) | Believes that the base level staff is working very efficiently |
| CEPU (point 6) | References that compared to 10 years ago there are fewer Australia Post employees now delivering more mail items, to more points and collecting mail from more SPBs |
| CEPU (point 8) | Belief that the paying of bonuses to management for meeting (what they believe are unrealistic) budgets leads to distorted business decisions |
| CEPU (point 13) | CEPU suggests that Post’s efforts to minimise costs (by rostering staff to shifts that do not attract a penalty payment) is leading to difficulties in attracting and retaining staff, leading to an increased workload for remaining staff. |
| POAAL (page 7) | The use of contract labour by Post in the areas of transport and delivery has been low |
| POAAL (page 6) | Post has resisted adjusting all but the most determined mail and parcel contractors contracts to allow for the increased cost of fuel – this cost is significant and is largely borne by the contractors |

⁶ Outstation is a term used by Australia Post to describe the arrangement that occurs in some locations whereby Australia Post acceptance staff will perform an “acceptance check process” of a mail lodgement at the mail house’s premises.

Despite a moderate growth in letter volumes and continued growth in delivery points, Australia Post has continued to reduce labour usage in the five years since 2001/02 and adjust the workforce composition to improve flexibility.

As detailed in Australia Post's Annual Reports over the relevant years, Australia Post's labour force has reduced from 36,877 in 2001/02 to 35,476 in 2006/07. In fact, Australia Post's workforce in 2006/07 was approximately 4,000 (12%) less than its level a decade earlier⁷.

Although addressed letter volume growth has been modest over the five years to 2006/07 (an average of 0.3% per annum) delivery points have increased from 9.2 million in 2001/02 to 10.3 million 2006/07 (an average of 2.2% p.a.). Additionally, the parcels, express, financial services and merchandise areas of the Australia Post experienced volume growth over this five year period, in some cases (parcels, express) at significant levels.

As not all of the labour gains are within the domestic reserved letter service, labour reductions affecting non-reserved items are also relevant to the ACCC, as they demonstrate that Australia Post has been pursuing and realising efficiency gains wherever they occur.

Table 2 below shows the labour usage trends / change in labour force mix in the five years to 2006/07. The increase in both part-time staff and casual employees demonstrates the increasing flexibility of the workforce and how Australia Post has better managed its labour cost through changes to its labour mix (ie greater use of part-time and casual staff to better match staff resources to demand).

Table 2 - Labour Numbers

| | Full-time | Part-time | Casual | Agency | Total | FTE Equivalent |
|--------------|-----------|-----------|--------|--------|---------------|----------------|
| 30 June 2002 | 26,950 | 8,812 | 98 | 1017 | 36,877 | 34,329 |
| 30 June 2003 | 26,394 | 9,033 | 76 | 1042 | 36,545 | 34,087 |
| 30 June 2004 | 26,019 | 9,030 | 293 | 811 | 36,153 | 33,753 |
| 30 June 2005 | 25,851 | 8,953 | 220 | 950 | 35,974 | 33,306 |
| 30 June 2006 | 25,387 | 9,196 | 259 | 771 | 35,613 | 33,075 |
| 30 June 2007 | 25,026 | 9,498 | 208 | 744 | 35,476 | 32,831 |

Australia Post uses contractors for transport and delivery services where contracting provides a more efficient, flexible, or more appropriate remuneration model, given the operational circumstances and risks involved; eg with variable or low mail volumes and wide mail dispersions.

2.5 Opportunity for Future Productivity

POAAL (page 7)

"The reform programs and productivity opportunities that Australia Post intends to pursue in the future, especially in the light of its future capital investment program are not clear"

⁷ This comparison includes part-time staff measured as 70% of a full-time equivalent (FTE)

| | |
|----------------|--|
| POAAL (page 7) | The ACCC should seek greater transparency on Post's future measures to achieve sustained profitability |
| CEPU (point 9) | Suggests Australia Post is not realising all the benefits of mechanisation/automation of the distribution networks by management frequently choosing to carry over or store mail to minimise costs |
| POAAL (page 7) | In Western Australia, most of the employment capacity has transferred to the mining industry, forcing innovative employment strategies by Post |
| MMUA (page 6) | "We are opposed to any increase in the price for Bulk PreSort Letters: there are still many improvements and changes that can readily be made to save costs, increase productivity and improve the mail service of this nation but Australia Post's current organisational structures are preventing that from happening." |
| MMUA (page 14) | "It has not taken up our proposals for ANI/ePLA made in March 2007 that would have given yet further productivity gains." |
| MMUA (page 20) | "We find it impossible to accept the basic premise of AP's approach to the issue of future productivity that the scope for it to realise future productivity gains are limited, and the associated claim that it "vigorously pursues" opportunities for productivity gains." |
| MMUA (page 29) | Is it not feasible that productivity could be improved in the states other than NSW to bring them to NSW levels and, if so, can it not be argued that there are indeed still some important productivity gains to be had from the BMP Program or, at least, by AP lifting its own operational game to provide a uniform and national approach? |
| MMUA (page 30) | "We contend that productivity is currently less than would be found in a competitive environment due to Australia Post not adequately addressing the quality of production inputs." |
| MMUA (page 31) | "The fact that elements of the 1996 forecasting of what was achievable in the (as it was being referred to then) Barcoding and Roundsorting Project have not yet been taken up;" |
| MMUA (page 31) | "The unwillingness to address seriously the desire of certain high volume Generators and their Mailing Houses for a changed approach to the scheduling of mail lodgements to provide commercial cost-saving advantages for all three parties;" |
| MMUA (page 33) | "MMUA submitted a suggestion AP on 2 March 2007... .for a phasing of lodgements... .to take advantage of production runs into periods after the standard 6pm closure time. AP dealt with this proposal on the portcullis policy basis and it has never been dealt with by AP in discussion with MMUA by those areas of operational interface shown at page 24 of the AP Draft Notification." |

| | |
|------------------------------|--|
| Printing Industries (page 2) | "In discussions ...with the Major Mail Users of Australia Limited (MMUA), we have formed the view that the latest proposed price increases for Bulk Pre-Sort Mail ...is unnecessary as there are still unrealised productivity gains to be derived from the Barcode Project as well the opportunity to realise strong productivity gains over the next four to five years arising out of the Bulk Mail Partner Program." |
| Printing Industries (page 2) | Believes Australia Post should be driven by a desire to "identify productivity improvements" |
| Printing Industries (page 2) | Suggests that Australia Post should invest in new technology to realise operational efficiency and productivity gains "...rather than opting for the easier option of raising prices of Bulk Pre-Sort Mail..." |

Detail on Australia Post's future productivity opportunities for the domestic reserved letter service is contained in the Draft Notification.

In relation to comments on past productivity, as noted in the Meyrick Report (copies of which were provided to the MMUA and ADMA in January 2008) Australia Post's domestic reserved letter service Total Factor Productivity;

"... outperformed the market sector MFP index over both the last 11 years and the last 5 years. Given that Australia Post's reserved service output has essentially been flat since 2001, being able to outperform the productivity performance of the economy as a whole has been an impressive achievement."⁸

Future productivity growth will continue to be a priority through limiting escalation in the cost base for the retail and letter networks. However, the big labour gains achieved through projects such as Future Post have been completed. With letter volume growth at low levels and expected to decline in the future, productivity growth is becoming more difficult, a point noted in the Meyrick Report.

Productivity growth and cost efficiency will continue to be driven through day to day management of the retail and letter networks against defined cost and service targets supported by Australia Post's performance management reporting systems, including the Performance Management Appraisal process.

Productivity benefits are progressive and the financial projections for 2008/9 include an estimate of savings from these types of efficiency improvements. A number of programs are being implemented that reduce cost and contribute to other benefits (eg reduced cycle times). Key programs include⁹:

- Machine Sequencing of Small Letters; and
- Further Network Expansion.

⁸ Meyrick and Associates Report on "Australia Post's Aggregate and Reserved Service Productivity Performance – November 2007", page 29,

⁹ Further detail on these programs is contained within the Draft Notification; pages 42 - 44

In reference to the belief held by the MMUA (which is cited by Printing Industries) Australia Post's refers to the Meyrick Report, and the ongoing productivity targets contained within the Draft Notification. Additionally, Australia Post has met several times with the MMUA to dimension the MMUA's ANI / ePLA proposal. At the most recent technical meeting, December 2007, consistent with the MMUA's request, Australia Post detailed (and discussed) a range of questions / items that Australia Post required information on to enable it to undertake an evaluation of the MMUA's proposal. At this stage a response to these questions / items has not been received by Australia Post. As such Australia Post is unable to undertake an evaluation of their proposal. Australia Post will follow this matter up with the MMUA.

Australia Post notes the desire to improve lodgement quality and is constantly providing advice to customers through the operational acceptance staff and account managers. Australia Post has national procedures and processes that underpin lodgement acceptance for bulk mail.

Australia Post remains committed to working with customers and mail houses to explore scheduling options and strongly disagrees with the suggestion that it is unwilling to work on such requests. Further, there are many examples where Australia Post works with customers and mail houses on lodgement schedule planning to ensure that its processing capabilities (including delivery standards) are aligned with the customer's expectations. These arrangements may apply for mailings that are both regular and "one off" (eg mailing of Initial Public Offerings).

In regard to lodgements after 6pm (the cut off time for the purposes of service performance measurement), Australia Post already allows BMP mail houses (who are encouraged to lodge mail throughout the day) the ability to lodge mail after 6pm, up until 10.30pm. Mail lodged after 6pm (and before 10.30pm) is not considered to be lodged by 6pm that day for "service performance" measurement, however, if capacity exists it is included in that night's processing.

2.6 Delivery Performance

| | |
|-----------------|---|
| CEPU (point 7) | States that Australia Post is capable of delivering mail and parcels in a more accurate and timely manner |
| CEPU (point 10) | Believes that Post needs to provide fast and accurate service for bulk business mail as well as full-priced mail |
| CEPU (point 11) | Concerned that Post is adhering to delivery standards for outer suburban , regional and remote Australia rather than doing better |
| CEPU (point 13) | Suggests that Post is choosing to deliver mail later in the day to avoid paying staff penalty |
| MMUA (page 35) | "Through the commendable changes that have been over the past decade, AP has been able to meet its regulatory Performance Standard of 94 percent. The Bulk Mail Monitor, a requirement of the 1999 AP-MMUA Code of Practice, has now been operating for several years. Our contention is that it should be refocused on specific product areas – the first in our opinion should be Print Post which although not a reserved service nonetheless makes use of all the processes and equipment of the reserved service." |

Australia Post is providing an efficient domestic reserved letter service for both its private consumer and business customers.

Under section 28C of the Australian Postal Corporation Act, 1989 (APC Act), the regulations may prescribe performance standards that Australia Post is required to meet. The prescribed performance standards must relate to the:

- frequency, speed or accuracy of mail delivery; and
- availability or accessibility of mail lodgement points or Australia Post offices (or other places) from which Australia Post products and services can be purchased.

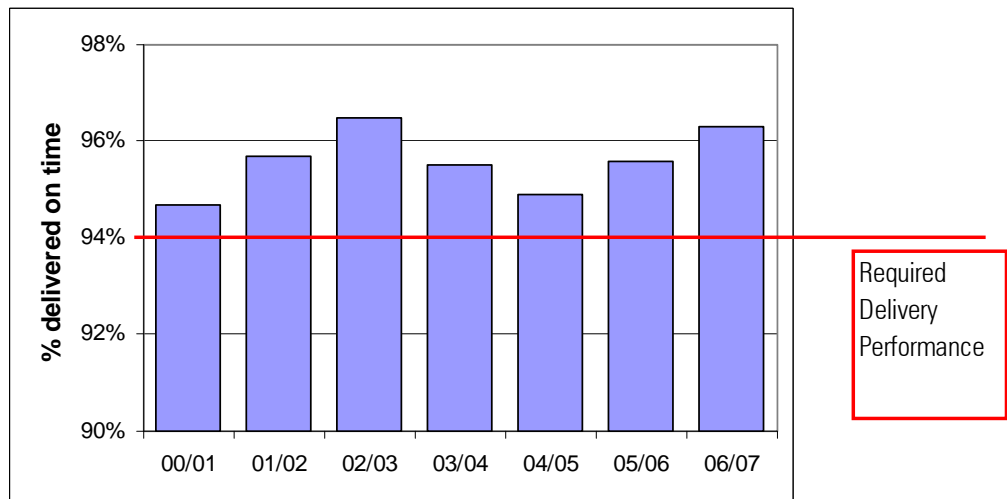
Performance against these standards is subject to independent audit by the Australian National Audit Office. As detailed below in Table 3, Australia Post continued to meet its regulated performance standards in 2006/07.

Table 3 - Performance Standards 2006/07

| Standard | Required Performance | Actual Performance |
|--|---|---|
| Number of Street Posting Boxes | 10,000 | 15,606 |
| Delivery Timetables | Maintained | Maintained |
| On time delivery of non Bulk Letters | 94% | 96.3% |
| Points to receive deliveries five days per week | 98% | 98.7% |
| Points to receive deliveries no less than twice a week | 99.7% | 99.9% |
| Retail Outlets | 4,000 (2,500 in rural and remote areas) | 4,449 (2,553 in rural and remote areas) |

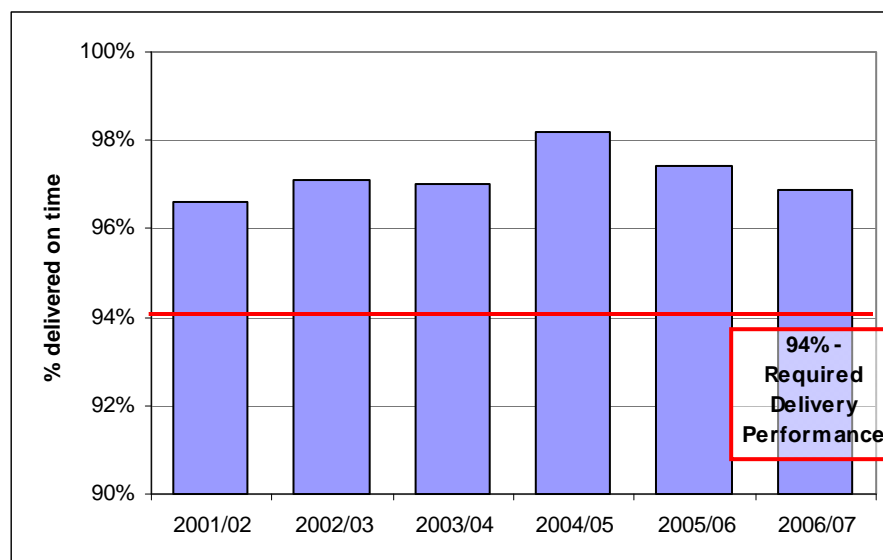
With regard to the delivery performance of non-bulk letters, Figure 1 below shows the delivery performance since 2000/01. In each year Australia Post has exceeded the required delivery performance standard.

Figure 1 Delivery Performance – Non-Bulk Letters 2000/01 to 2006/07



Australia Post monitors bulk mail performance, Figure 2 below shows the delivery performance since 2000/01. As with the performance of non-bulk letters, in each year Australia Post has exceeded the required delivery performance standard

Figure 2 – Bulk Mail Delivery Performance



3. VOLUME DEMAND

3.1 Current Volume Demand

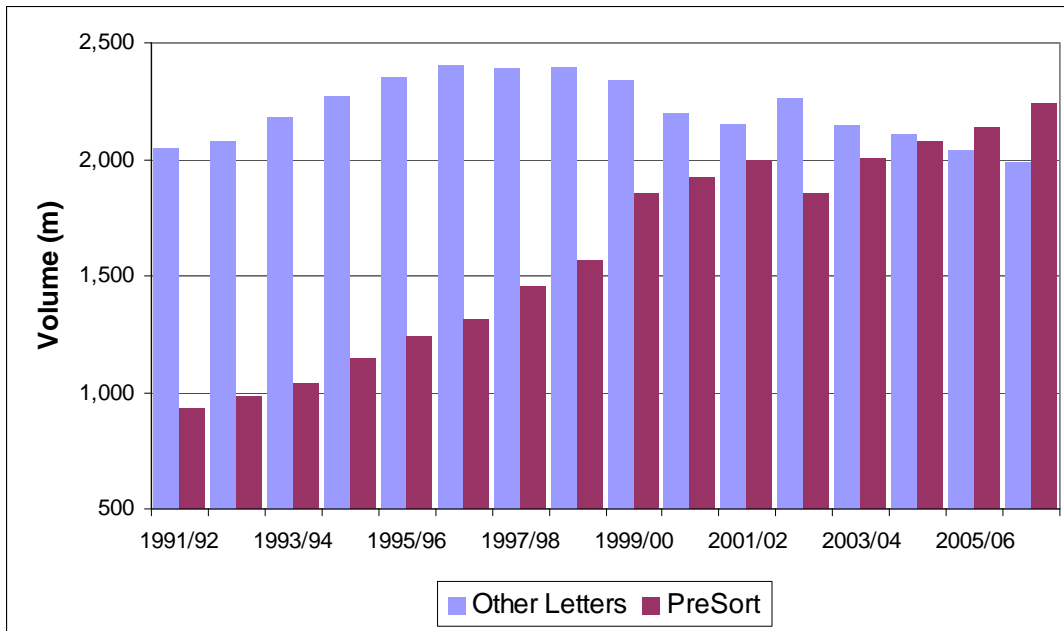
| | |
|------------------------|---|
| ABDAS Pty Ltd (page 2) | A centralisation of mailing services by larger regional institutions impacts significantly upon rural LPO incomes |
| ABDAS Pty Ltd (page 2) | Large institutions are increasingly using reply paid services which acts to reduce rural LPO income |

Letter volume growth rate has been in decline since the mid 1990s, with the exception of 1999/00 when a number of factors (introduction of the GST, a large number of public share offers and a federal referendum) drove extraordinary volume growth of 5.7%. Since 2002 letter volume growth has been low at an average of 0.3% p.a.

While there has been a decline in full rate mail, the rise in demand for PreSort mail, in part attributable to a change to minimum lodgement requirements in 1999 (from a minimum of 2,500 pieces to 300 pieces) has allowed more businesses to enjoy lower mailing costs for pre-sorted business mail.

A comparison of PreSort and Other (eg Ordinary) Letter volumes is shown in Figure 3 below.

Figure 3 – PreSort and Other Letter volumes – 1991/92 – 2006/07



3.2 Future Volume Forecasts

| | |
|------------------------------|---|
| CAWA (page 1) | Understands that with the increased communication choices available to consumers the social mail market (5% volume) is likely to continue to decline |
| POAAL (page 2) | "Letter mail growth is problematic with forecasts showing flat or negative growth after many decades of modest increases." |
| POAAL (page 3) | "In the absence of volume increases the only means left to achieve service profitability is a commitment to cost reduction and/or price increase." |
| MMUA (page 17) | "It seems to our members that the general approach taken in the forecasts and assumptions are reasonable. Individual member companies have different approaches to the future use of paper-based mail but all of them emphasize that a price increase will cause reflection on e.alternatives as a budgetary exercise." |
| Printing Industries (page 2) | "Any increases approved by the ACCC will subsequently prove detrimental to the paper-printing-mail house value chain and ...will result in product substitution with mail users switching to non-mail alternatives such as e-communications at the expense of the paper based communication mediums." |

The comments made in relation to future volume forecasts are noted. As mentioned in the Draft Notification, Australia Post believes that as new significant mail growth events are not expected into the future, and as electronic substitution and mail piece consolidation increase, the volume growth outlook in future years is flat with actual decline anticipated by 2010. Under these conditions, the volume related productivity gains experienced in the last decade will not, and can not, be expected to be repeated.

4. CROSS SUBSIDISATION

4.1 Cross-Subsidisation between Reserved and Non-Reserved Services

| | |
|----------------|---|
| POAAL (page 3) | References ACCC's April 08 Assessing Cross Subsidy in Australia Post' – The report "...broadly concluded that there was no cross subsidy of reserved services to non-reserved services." |
| MMUA (page 17) | That reserved services should not be used to cross-subsidise non-reserved services -in that respect we are satisfied (a) with the negotiated arrangements over the past years which have resulted in the Commission having powers under the Postal Services Legislation |

4.1.1 ACCC Annual Review of Cross-Subsidy

The ACCC issues reports assessing cross-subsidy in Australia Post on an annual basis.

In June 2004, the APC Act was amended to allow the ACCC to issue record-keeping rules (RKR) to its regulatory functions. The RKR provide guidelines on how accounting costs are mapped. Both the mapping tables and outputs of these tables are audited yearly on behalf of Australia Post by Ernst & Young.

Consistent with previous years, the ACCC found that the regulatory accounts for 2006/07 did not provide evidence of cross-subsidy from Australia Post's reserved services to non-reserved services – the revenue from the reserved services was greater than the fully distributed cost of providing them (by \$24m).

4.2 Cross-Subsidisation between Reserved Letter Services

| | |
|----------------|---|
| CAWA (page 2) | "Consumers, including the very young, elderly, disadvantaged, disabled, rural and isolated consumers, have many uses for personal mail that will never change despite modern technology and this must be respected." |
| MMUA (page 17) | There should be true transparency of the costing methodologies followed and all stakeholders should have the opportunity to comment on same – this is not the case at the moment; |
| MMUA (page 18) | Comment on the price difference between a PreSort Small Letter and an Ordinary Small Letter, stating that the Ordinary Small Letter requires a significant amount of work by Australia Post whereas the presentation of the PreSort letter provides "... cost savings in comparison to the former". |

Cross-subsidies within the reserved domestic letters service are a direct consequence of sections 27 (3) and 38(8) of the APC Act which cover the carriage of standard letters at a uniform rate and the cost of meeting the corporation's community service obligations (CSOs)

The requirements of these sections are reflected in Australia Post's Letter Pricing Principles (which are listed in the Draft Notification), some key elements of which are:

- the letters pricing structure will reflect Australia Post's commercial, social and governmental obligations;
- the primary social obligation is to supply a letter service that is accessible, available equitably and meets community needs;
- letter prices will be set to enable Australia Post to meet its statutory requirement to provide an adequate commercial return and to fund the CSO;
- the Basic Postage Rate (BPR) – the rate for the Ordinary Small Letter – is the keystone of the letter pricing structure;
- carriage of the Ordinary Small Letter at a uniform rate is central to the CSO. Pricing of the BPR reflects the need to maintain an affordable rate. Consequently, the BPR will not always fully recover the costs of providing the services and as such, prices for other letter services/categories will contain a cross-subsidy to the BPR; and
- subject to this need to cross-subsidise letter products, letter prices have been set to achieve an appropriate aggregate rate of return for the letters business as a whole;

The cross-subsidies can be summarised as follows;

- the inherent cross-subsidy in providing a letter service whose price does not change with distance or path-specific features such as mail density (ie a universal service at a uniform price); and
- funding the CSOs that arise in the requirement to provide a national letter service.

Key points associated with each are as follows.

Universal Service / Uniform Price

There is an in-built cross-subsidy within the universal service delivered at uniform price, ie the basic postage rate service. This is simply due to the fact that not all mail paths have same revenue / cost relationships. This cross-subsidy is a consequence of s27(3) of the APC Act.

Any other service / category also delivered at uniform price but different cost has an in-built cross-subsidy within that service / category. Services where prices do not vary with, say, locality or distance will have some internal cross-subsidy for normal commercial reasons; Ordinary Large Letters is an example with no distance-related charge element.

Cross-Subsidy between Different Letter Services

Australia Post also operates a further internal Letters business cross-subsidy due to the need to fund its CSOs.

Successive Governments have confirmed that the CSOs are to be funded by internal cross subsidy within the reserved letters service (rather than by budget appropriation)

Thus, in the second reading speech that accompanied the APC Act, the then Minister stated that:

"All Australians will continue to have reasonable access to a letter service, which will be provided at a uniform rate of postage across Australia and funded by a cross-subsidy on the letter service".

The second reading speech that accompanied a proposed legislative change in 1999 (subsequently withdrawn) reaffirmed this cross-subsidy:

"This will ensure that Australia Post continues to be able to fund the provision of its community service obligations from its reserved service revenue".

Ms. Jane Hanna of the Department of Communications, Information Technology and the Arts appearing before a Senate committee assessing the proposed legislation confirmed the widespread policy support for the CSO funding position adopted:

"Successive public inquiries have recommended that the CSO should continue to be funded the way it is".

Australia Post's Pricing Package

Notwithstanding the above, CSO costs are not the reason for seeking the proposed package of domestic reserved letter service price changes. The price changes are to restore profitability of the letters business.

However, the CSO issue does have a bearing on the structure of the proposed price package.

If each major part of the letters business was required to immediately meet the required rate of return for the letter business as a whole, the package would involve a significant rise for the BPR that would not be acceptable from a broader social perspective. This would also leave the responsibility of funding the CSO to a smaller user base (generally ad hoc / non structured mail from individuals and businesses).

The proposed package is designed to restore profitability to the letters business as a whole, with an internal cross-subsidy still remaining within the letters price structure.

However, the package involves a larger increase for the BPR and a lesser rise for PreSort Letters (barcoded mail from businesses), thus reducing the cross-subsidy below the level it would have reached otherwise.

As indicated above, Australia Post has put forward the proposed package to be taken as a whole. It:

- reflects the need to restore the letters business to commercial profitability consistent with the Corporation's obligation under section 26 of the APC Act;
- reflects the judgement of what is commercially, socially and politically sustainable ; and
- should be assessed in the context of the letters business as a whole.

5. LETTERS PRICING

5.1 Support for increases to the Basic Postage Rate

| | |
|------------------------|--|
| CEPU (point 2) | "We support the price changes proposed by Australia Post" |
| CEPU (point 17) | "In summary, we would agree with the price rises as outlined by Australia Post but we would ask that they be mandated to improve customer service standards..." |
| CAWA (page 1) | "The continued lower price for seasonal greetings is appreciated" |
| POAAL (covering page) | "POAAL supports the proposal by Australia Post for the price increases and the quantum sought" |
| POAAL (page 1) | "A price increase at this time is warranted and supported by the Post Office Agents Association" |
| ABDAS Pty Ltd (page 1) | "LPOs receive income from stamp sales ... apart from a rise in the price of the domestic letter stamp price since 2002... there has not been a price rise since 1992... in effect LPO income from stamp sales has not risen since 1992 – 16 years!" |
| ABDAS Pty Ltd (page 3) | "There is certainly a case to be made for postal price increases to recompense LPOs fairly for their work and investment, particularly in rural Australia" |
| MMUA (page 7) | "We have no objection to offer to the proposed change of the Domestic Mail rate from 0.50 cents to 0.55 cents other than to say that a price increase in this area should not be seen as triggering an automatic flow-on to Bulk PreSort Mail pricing arrangements." |

These comments have been noted by Australia Post.

5.2 Support for Other Elements of the Pricing Proposal

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|----------------|---|
| POAAL (page 4) | "The package of changes...has merit. It achieves a balance...should help minimise the impact of the price changes to the major sources of mail" |
| ADMA (page 2) | A high quality, low cost postal system is essential to the growth of the Australia economy – accordingly, "...ADMA, in principle, is not opposed to modest price increases in Australia Post's reserved mail products and services providing that they are both fair and reasonable." |
| ADMA (page 6) | "Any balanced view would conclude that Australia Post's proposal to implement modest price rises for letters for the first time in five years would not appear unreasonable or unfair, however, this is a matter, rightly for the ACCC to determine." |
| POAAL (page 1) | Increasing prices will help sustain small business operators who are crucial in ensuring postal services are available across the Australian community |
| CAWA (page 2) | Notes the obvious choice of a 5c increase and wonders whether 5c pieces will be phased out |
| ABDAS Pty Ltd | " who else in Australian society has experienced an income/wages freeze" for 16 years |

Australia Post notes the comments of support for the proposed price changes.

As detailed in the Draft Notification, Australia Post is of the definite view that future price increases for the domestic reserved letter service should be modest and more frequent as opposed to larger and less frequent increases.

5.3 Opposition to Price Increases

| | |
|------------------------------|---|
| ADMA (page 5) | Differing rates of price increases. . .disproportionately disadvantage direct marketers. . .the proposed price for larger mail pieces is disproportionately higher than for small letters” |
| ADMA (page 6) | The proposed prices will impact significantly on ADMA member companies, particularly large mail users |
| ADMA (page 6) | ADMA has not provided details of price impacts on member companies, however, “we would be happy to arrange discussion between these organisations and the ACCC. . .” |
| FIA (page 2) | “FIA does not support the proposed price rises because of the impact the proposed price rises will have on the delivery of charitable services” |
| FIA (page 2) | FIA states that “. . .direct mail services are central to the work of many non profit organisations. . .” and price rises will impact “. . .donor acquisition, information channels, and most importantly, vital fundraising income streams. |
| MMUA (page 22) | “We do not agree with there being any price increase in the Bulk PreSort Mail rates for reasons which are covered in this submission principally because AP has achieved great productivity gains through the work of Generators and MHs throughout the 5-Year Freeze period and our BMP MHs has shown the way forward with ANI/ePLA for yet further gains, a proposal which AP has chosen not to treat seriously to date.” |
| Printing Industries (page 1) | “. . .any action or proposal that has the effect of raising postage prices is fundamentally opposed unless a well advocated case justifying the proposed price increases is presented.” |
| Printing Industries (page 2) | Claim by the Printing Industries that they oppose a price increase to PreSort Letters on their assumption that “the opportunities to realise significant productivity gains have not yet been exhausted”. |

The proposed prices represent the increase to Ordinary Letters (including the BPR) since January 2003 and first general increase to PreSort services since 1992. Overall, the prices represent an average variation on 2003 prices of 8.1% (and include a 10% increase to the BPR). Furthermore, considering the Consumer Price Index will have increased by 15.1% over the period (January 2003 to June 2008), the proposed prices represent a real reduction of around 6% on the 2003 prices.

In addition to the justification above, prices have been modelled in an environment where:

- addressed letter volume growth is declining with a compound average growth of only 0.3% since 2002 (see Draft Notification, section 8);
- there is reduced potential for ongoing productivity improvement (see Draft Notification, section 10); and
- Australia Post is required to continue to fund CSOs (see Draft Notification, section 7.6).

In relation to comments on past and future productivity opportunities Australia Post responses are covered in section 2.

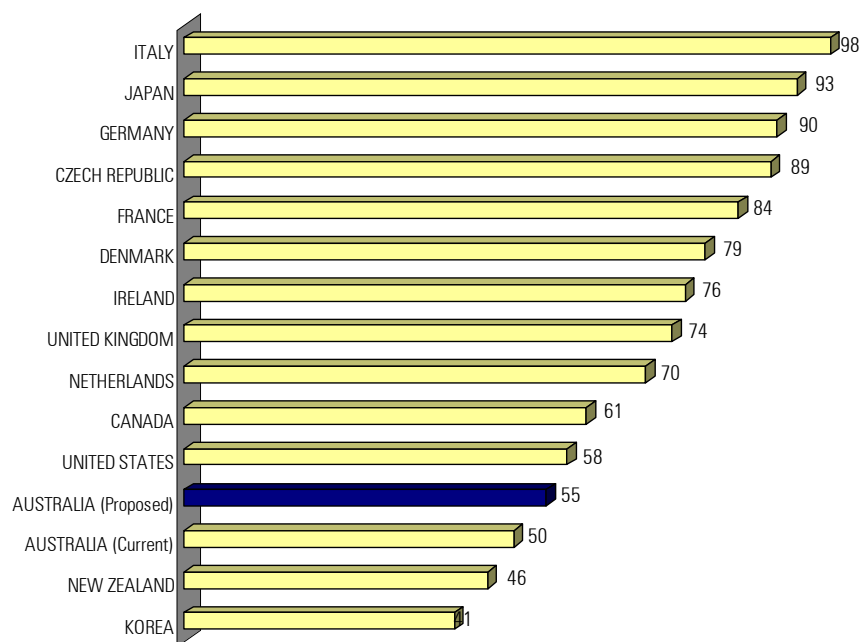
Australia Post believes the prices better reflect the differences in costs within, and between, Ordinary Letters and Bulk Letters and, as far as practicable, simplify Ordinary Letter prices for customer convenience by selecting prices in multiples of five cents and in multiples of the BPR for relevant products.

As noted in the Draft Notification, the additional revenue achieved as a result of the proposed price increases is not above that identified by the Post Tax Revenue Model (PTRM) as being “required”.

Australia Post’s letter prices compare favourably with letter prices in other OECD (Organisation for Economic Co-operation and Development) countries. At 55 cents, Australia Post’s proposed BPR would still be the third lowest in the developed world as illustrated in Figure 4.

Many European countries do not apply their VAT (Valued Added Tax) to domestic postage. When comparisons between Australia’s BPR and overseas rates are made on a like-with-like basis, the reasonableness of the proposed BPR is even more evident (See Draft Notification, Appendix 3)

Figure 4 – Standard Letter Price Comparison (Purchasing Power Parity¹⁰)



¹⁰ Source OECD 2007 and Australia Post – Prices in other countries as at December 2007

5.4 Disagreement with Proposed Timing

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|---------------|--|
| ADMA (page 6) | Strongest objection is the proposed timing. "...timeframe is simply unacceptable." "ADMA would urge the ACCC to postpone any price rises until 1 st of July 2009" |
|---------------|--|

As noted in Australia Post's Draft Notification, the proposed prices are necessary to ensure that Australia Post generates a reasonable rate of return – this requirement is noted in ADMA's submission. Further, as stated in the Draft Notification the proposed prices will not generate revenue in excess of the required revenue as based on efficient costs and a reasonable rate of return.

Australia Post considers it unrealistic that the proposed prices be deferred until July 2009. The requirement for an increase in domestic reserved letter prices was highlighted in the release of Australia Post's 2006/07 Annual Report and was also widely communicated in February 2008 with the announcement of the Draft Notification being lodged with the ACCC. Australia Post believes that this has provided a reasonable period of notice.

5.5 Frequency and Duration of Future Price Increases

| | |
|-----------------------|--|
| CAWA (page 1) | Requests a definite time be announced for timing and duration of the current proposed price increase |
| CAWA (page 1) | CAWA states that consumers would be inconvenienced by price changes occurring too frequently |
| POAAL (covering note) | "...POAAL agrees that the price of these services now needs to be reviewed on a more regular basis than the five-year cycle set for the last increase" |
| POAAL (covering note) | POAAL recognises that long periods with set prices are not consistent with the pace/dynamics of the communications industry |
| POAAL (page 2) | Supports price increases for the reserved services on a more frequent basis" |
| POAAL (page 2) | Feedback POAAL has received from small to medium businesses is that "...regular and modest increases enables better planning than large periodic increases" |
| POAAL (page 2) | Suggests that if regular price increases are sought by Post then there needs to be process which is more expeditious than the current process which is designed for price notifications with a duration of several years |
| POAAL (page 4) | Small to medium business customers prefer a two month lead time |
| POAAL (page 4) | To assist with budgeting, medium sized businesses prefer notification before the end of the financial year |

| | |
|---------------------------------|---|
| ADMA (page 4) | Agrees with the following ACCC statement and has the view that a five year timeframe is appropriate for industry planning: <i>“The appropriate regulatory period is a balance between competing demands. A short period, such as one year, generates excessive costs for frequent notifications and regulatory inquiries, and perhaps administrative costs for adjustment of prices”</i> |
| MMUA (page 9) | We are opposed to any proposal that Reserved Services pricing changes should be outside of the processes of ACCC-related review that apply today. |
| MMUA (page 10) | We consider that a 3-year period for price stability is a reasonable approach” |
| MMUA (page 11) | “For AP to use, without shame apparently, the example of Print Post “annual price increase practice to support its proposal to move out of the public scrutiny for Reserved Services increases.” |
| Printing Industries (page 2 &3) | “Our opposition to the price increases also means that Printing Industries does not support the introduction of an annual change for postage pricing.” |
| Printing Industries (page 3) | “Our preference is for the ACCC to continue to have the power and jurisdiction to review all price increase proposals...” “...and before approving...gives full and proper consideration to the likely economic impact...” |

Australia Post has a history of pricing restraint - this is the first Ordinary Letter price increase since 2003 and the first general increase to PreSort prices since 1992. Moreover, as noted in the Draft Notification, Australia Post is continuing to seek productivity gains, however, the big labour gains, through projects such as Future Post, have been completed.

Australia Post in the future proposes modest price increases over more frequent periods, as opposed to larger price increases over longer periods.

Supporting this view is a number of arguments:

- while a five year price period was appropriate in 2002 to achieve a satisfactory rate of return on the domestic reserved letter service, a longer period is not required to achieve a satisfactory rate of return;
- to achieve above average returns over a number of forward years would require a large upfront price increase. Australia Post believes large upfront price increases should be avoided as evidenced by users of non-reserved letter products (ie Print Post and Unaddressed Mail), whose preference is for modest increases at more frequent intervals;
- the letters market is in a ‘mature’ stage of growth with many competing substitutes. A large price rise could be a catalyst towards customers using alternative communication mediums. This point is noted in the MMUA’s submission who state that some generators (customers) will review electronic communication options; and

- application of a large upfront price increase could generate inadequate profit for the domestic reserved letter service in forward years due to changing market conditions and circumstances out of Australia Post’s control; and
- several overseas postal operators have moved to annual price increases.

During the forthcoming price year, Australia Post will explore with the ACCC pricing models and formulae to enable small, manageable price adjustments.

The MMUA and Printing Industries have misunderstood both Australia Post’s proposal and the ACCC’s question on this matter. Australia Post has not proposed any lessening of the role of the ACCC and nor has the ACCC in its Issues Paper. Additionally, Australia Post has not proposed that increases be based on an annual basis. Australia Post is mindful of, and has expressed concern, that a large upfront price increase to achieve acceptable average returns over a number of years may be detrimental to demand and should be avoided. The intent of modest and more frequent price changes, accompanied by an agreed, manageable process is to avoid such demand shocks that may result from larger infrequent price rises.

5.6 Price Discounts

| | |
|------------------------|--|
| FIA (page 4) | "Whilst Australia does offer a discounted rate of approximately 10%, it is not yet in line with international practice of supporting charities, in order to ensure that they can make a difference to our society and environment" |
| ABDAS Pty Ltd (page 2) | Post is offering discounted rates to "our customers." "We don't have the right to negotiate with these customers." |
| MMUA (page 34) | At first glance this is indeed interesting and AP does indeed come out as low man on the totem pole but we question whether the list compares "apples with apples". (see tables on page 34 & 35 of MMUA submission) |

Australia Post has a formal determination of prices for domestic reserved letters (including PreSort letter prices) as published in its "Post Charges" rates booklet. These prices for domestic reserved letters apply for all customers, which recognises the need for;

- equal treatment of customers in a regulated market; and
- transparency, certainty and fairness to all Australian businesses, which requires strict adherence to published price schedule.

The proposed prices for Charity Mail provide for a 5.5c (for Regular) and 6.0c (for Off Peak) reduction off the (non-charity) PreSort Small Letter barcode prices; providing a discount of up to 15%. In addition to the provision of Charity Mail, Australia Post would point to the section in our 2006/07 Annual Report on Corporate Sustainability – Community¹¹ which summarises Australia Post's support of community and charity groups.

In regard to whether a comparison of "standard letter" prices provides a true comparison, Australia Post would note that it is a standard practice for each countries postal operator to offer a "standard letter" service that provides a universal service at universal rate (ie a single rate for the carriage of a letter to / from anywhere in particular country). Comparing the postage price of each countries standard letter service therefore provides the most consistent measure. The use of Purchasing Power Parity to compare rates also assists in providing a balanced comparison, avoiding distortions that can occur through straight exchange rate conversions.

Further, as Australia Post noted in the Draft Notification some countries standard letter rates are excluded from Value Added Tax (VAT) charges. The additional data provided in Appendix 3 of the Draft Notification provide a comparison of the standard letter rate including (where applicable) the rate that would apply if that countries VAT exemptions were removed.

¹¹ Page 35 of the Australia Post Annual Report 2006/07

Comparison of other letter services (eg Bulk Letter services) within each country is extremely difficult (if not problematic) given the high degree of variability in what is being offered within each country. This is in part visible in the comparisons in the MMUA’s response where it can be seen that;

- different weight steps apply (In Australia PreSort small letter has a single weight step up to 125g; based on the MMUA information the price in other countries varies at 30g and 60g);
- price changes between different weights are at inconsistent levels; and
- different minimum volumes apply.

5.7 Other Price Questions Raised

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|----------------|--|
| CAWA (page 1) | Unsure of the pricing of postcards |
| CAWA (page 1) | There is confusion where the standard postal rate varies with size or weight |
| MMUA (page 10) | “If new arrangements are to be made then the ACCC – not Australia Post itself – should liaise with all appropriate stakeholders such as MMUA and the trade union movement before any decision is taken “ |

Pricing does not alter for enveloped and non-enveloped (ie postcards) products.

Standard postal rate (or the Ordinary Small Letter) pricing (currently price 50c and proposed price 55c) applies to letters weighing no heavier than 250g and having dimensions no larger than 130mm x 240mm and no thicker than 5mm.

Ordinary Letters that are larger than the Ordinary Small Letter dimension are priced into three weight steps; up to 125 grams; over 125 grams up to 250 grams; and over 250 grams up to 500 grams.

As mentioned in 5.5, it appears that the MMUA has misunderstood Australia Post’s proposal to seek modest price increases more frequently as opposed to large upfront increases over a longer time period.

5.8 Acquisition Mail

| | |
|------------------------|---|
| POAAL (page 9) | Difficult to forecast volume of Acquisition Mail – may cannibalise existing services |
| POAAL (page 9) | Acquisition Mail responds to a need not currently catered for – POAAL commends this type of product development |
| POAAL (page 9) | The discount against the existing small letter clean mail compared with the proposed prices of Acquisition Mail is extensive |
| POAAL (page 9) | More substantial discounts are available in the ‘small plus’ category of mail |
| POAAL (page 9) | Pricing seems to have been made on the basis of marginal costs associated with the additional service – this needs to be monitored as volume become known |
| ADMA (page 6) | Acquisition Mail is a specialist product, is priced accordingly and is unlikely to have a significant impact on the other types of promotional mail |
| ABDAS Pty Ltd (page 3) | LPOs can only trust that the introduction of Acquisition Mail does not impact LPO income |
| MMUA (page 22) | “ Our members cannot see the value of the Acquisition Mail service in the context of their focus on Bulk PreSort mail and have declined to offer any comments.” |

After extensive customer consultation, Acquisition Mail was developed as a new category to provide a geographically targeted non-personalised (no name) bulk (saturation) mail delivery service.

Acquisition Mail is designed for specific circumstances and is not expected to become a significant category in its own right.

The major user of Acquisition Mail will be businesses who want to acquire customers and have:

- a communication message linked to a geographic target;
- sensitivity associated with communicating with existing customers and a need to exclude existing customers;
- brand value association requiring addressed rather than unaddressed communication; and
- a communication message targeted at non-customers.

By providing for semi-addressed geographic targeting and the ability to exclude existing customers the service provides the opportunity for business to increase their mail communication effectiveness and customer reach.

Trial results indicate that as Acquisition Mail is addressed it is more likely to be opened than unaddressed mail, which means it has a better chance of being read.

By only mailing prospects in a target area, print volumes are reduced and ROI increased. Customers have the option to exclude address points in the 'Do Not Mail' file, available from the Australian Direct Marketing Association.

5.9 Ad Post

| | |
|---------------|--|
| ADMA (page 3) | Requests that the proposed price increases "...be read in context with the importance of price increases that specifically affected mail marketing between 1999 and 2003...product called AdPost" |
| ADMA (page 3) | <p>Ad Post commenced in 1976. In 1999 Post lodged a notification to reduce the AD Post discount – this came into effect April 2000. In December 2001 Post lodged a notification to eliminate Ad Post for all customers except charities – this increased the cost to direct marketers by 19% (in two phases – July 02 10% increase and January 03 9% increase).</p> <p>ADMA stresses that these prices had "...a significant impact on the cost base of organisations using mail marketing and the direct marketing industry..."</p> |
| MMUA (page 8) | We hold our position of previous years that special pricing should be provided to encourage industries related to those that took advantage of the former AdPost product by the restitution of that category |

Australia Post notes the comments on the phased withdrawal of the AdPost discount through a two step process of price increase in July 2002 followed by the withdrawal of the discount in January 2003. Further, the changes in 1999 related to the introduction of PreSort barcoded prices, which included replacing the two Ad Post discounts of 20.0% and 26.5% with a single set of specific prices in April 2000.

In relation to the MMUA comment, Australia Post did not believe that the presence of a discount in itself was providing an incentive to use, or promote, mail as an advertising medium – when a "discount" has been in place for some time it becomes the price and not an incentive.

As outlined in 6.3, Australia Post has adopted alternative methods/programs to promote mail as an advertising medium.

6. IMPACT OF PRICE CHANGES

6.1 Introduction of Metered / Imprint Category

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|------------------------|--|
| ABDAS Pty Ltd (page 3) | LPOs can only trust that the introduction of Imprint/Metered mail does not impact LPO income |
|------------------------|--|

Introduction of a metered / imprint category addresses business concerns regarding the lack of any recognition for work that is undertaken to simplify the lodgement process (eg correctly assessing postage charges, correct addressing, use of return address, lodging mail across a post office counter in mail trays ready for processing, etc.).

Impact on LPO income from the introduction of the metered / imprint category is expected to be minimal.

6.2 Price Impact / Elasticity

| | |
|----------------|--|
| CAWA (page 1) | Suggests that an increase of 10% on larger items will have a substantial negative impact on the overall cost of online purchases |
| CAWA (page 2) | Suggests that an increase in postage rates will lead to a decrease in unsolicited promotional mail |
| POAAL (page 3) | Expects that while substitution may increase initially, the effect will not be material on the long term use of the mail service |
| POAAL (page 3) | As hard copy mail cannot be compared on price to electronic substitutes, pricing is only one factor an organisation would consider around a cost benefit decision |
| POAAL (page 4) | While volumes tend to increase prior to a price rise and decrease for a short period after a price increase within a short time "volumes are back to normal and businesses have accommodated the change in their costs and charges" |
| ADMA (page 4) | Suspects that increased prices will lead to a reduction across all three letter segments and is concerned that this volume reduction will form the basis of future increased postal prices |
| ADMA (page 5) | Does not hold empirical evidence re price elasticity "however, strong anecdotal evidence of billing and payment communications migrating to online environment... would suggest that business and ... consumers are ... increasingly choosing which communication channels they prefer..." |
| ADMA (page 5) | "...believes that higher mail prices may increasingly correlate with reduced letter volumes across all segments" |
| ADMA (page 6) | "Mail marketing ... is a very effective way of generating sales and economic activity throughout the national economy... usually lead to the creation of transactional letters. "... reduction in promotional letter volume due to the imposition of higher prices may have a negative impact on volumes..." |

| | |
|----------------|---|
| FIA (page 3) | "The proposed pricing structure could add up to 16.7% (depending on the type of mail) to the cost of fundraising." |
| MMUA (page 12) | "For those with limited ability to increase their postage budget allocation, the postage spend will be fairly much the same but with a lesser of mailings to ensure the bottom line figure remains as budgeted;" |
| MMUA (page 12) | "All members indicated that another price increase in the costings of a mailpiece, whether justified or overdue or simply granted – the reason for the increase is irrelevant, only the fact of higher price is – will hurry the search for e.alternative means of communicating, marketing, collecting payments, with a lessening of paper-based mailings" |
| MMUA (page 17) | "The comments we have made throughout this document answer these points. In essence our belief is that any increase in postal price will hasten the move to seek e.alternatives to paper-based mail." |

Within Australia, letter demand has historically been price inelastic for small price changes. Australia Post recently commissioned Diversified Specifics to review price elasticity within Australia. A full version of the Diversified Specifics Report (Domestic Small Letter Segment Volume Demand, December 2007) which analyses letter demand within Australia, has been provided to the ACCC, with the key findings from the report provided at Appendix 8 of the Draft Notification.

The findings of the report indicate that, while letter volumes overall appear to have been inelastic to the low levels of price change experienced in the past decade or two, the elasticity does vary by the type of mail. Typically, social and transactional mail have a lower level of elasticity, whereas for promotional mail elasticity is higher.

This is consistent with behaviour overseas, as identified in a recent report by Direct Communications Group¹², which observed as follows:

- from a review of 45 studies that presented price elasticity estimates for postal operators in six countries only one estimated a price elasticity of greater than -1 (and that relates to a mail category that is unique to the US market); and
- price elasticity measures for postal products ranged between -0.2 and -0.8, with the price elasticity for promotional mail being higher than transactional mail.

Although the modelling by its nature cannot demonstrate this at present, Australia Post believes that with large upfront price increases over longer periods (as opposed to modest changes more frequently) the elasticity effect would become more visible and pronounced as customer react to the large increase by adopting an increased use of alternative communication channels / media.

The comment made by the MMUA pertaining to the hastening of transition to "e.alternatives" is noted. As mentioned above, Australia Post's concern on this matter is a major reason why it believes that large upfront price increases over longer period should be avoided.

¹² A Review of Price Elasticity Models for Postal Products, Direct Communications Group, 2007

6.3 Australia Post's Promotion of Letter Mail / Direct Mail

| | |
|-----------------|--|
| CEPU (point 16) | CEPU states that Post is not doing enough to market its communications channel to future generations |
| CEPU (point 12) | CEPU states that there are "... many studies that show that the community appreciates and prefers paper-based messaging." |
| POAAL (page 3) | Supports paper based communications "It is the experience of POAAL members that the reaction of consumers to personalised hard copy mail is still stronger than similar communications sent via email" |
| MMUA (page 13) | "In 2003 – with MMUA as a referee – AP won the Customer Service section. In 2004 – again with MMUA as a referee – AP won the Transformation" |

Australia Post continues to promote and encourage the use of paper-based communications through a number of programs and initiatives, some of the more notable initiatives are:

- the results of an academic study undertaken by Professor Danaher (University of Auckland) demonstrated the importance of physical mail in communications and these findings have been promoted and communicated across the direct mail industry;
- the creation of ourcommunity.com, a marketing and media hub to assist charities and community groups with tools and resources to increase their use of Direct Mail;
- the introduction and promotion of a number of new mail products (ie Impact Mail, Scent Mail and Acquisition Mail) to increase Direct Mail effectiveness;
- many workshops held with key stakeholders including the MMUA, advertising agencies and major customers in how to increase the up-take in Direct Mail.

A number of initiatives are complete / in progress:

- consulting capability developed for major customers most at risk of moving part of their transactional mail requirements to electronic;
- research was undertaken into how the emergence of email and direct debit payments impacted paper-based bill payments. The outcomes of which demonstrated the continued strong preference for mail above all channels;
- development of cases studies on a number of customers using transpromotional mail (mail that combines both transactional and promotional information);
- increase awareness of Direct Mail – articles have appeared in Marketing Magazine and a published article on the strength of Direct Mail in the digital era at the 2007 ADMA forum;

- internal Mail Marketing consultants working with large and high potential customers to increase use of mail;
- provide SMEs with the tools and resources to support increased usage of Direct Mail;
- promote social mail through a number of initiatives including the highly recognised and award winning ‘Letter Hug’ campaign and improvements to the Post Greeting website;
- drive letters innovation via the in-house innovation program, Eureka!; and
- redevelopment of the Mail Marketing website.

More recently, in May this year Australia Post was announced as the winner of the “Growth” category in the World Mail Awards for its “Promotional Mail Market Growth Challenge”

7. TERMS AND CONDITIONS

7.1 Product Restrictions

MMUA (page 28)

"If the Bulk PreSort Mail service is "uniform and national" – which we contend it is not due to AP's lack of control cum supervision cum internal education cum organisational/functional structuring – then why are there such disparities of results in the states?"

Australia Post rejects this comment made by the MMUA. As noted in 2.2, the introduction of the BMP program has provided a consistent national process, which includes the common reporting of identified issues via LQS.

LQS records identified lodgement issues made by the customer / mail house. The reports referred to record substantiated lodgement issues. These are issues detected when the preparation or presentation of the lodgement does not observe the published terms and conditions for the letter service that the letters have been prepared for. Such issues generally result in rework or corrective action being undertaken by the customer / mail house prior to the lodgement being accepted. The most common issues that require correction are declared volumes and category of mail (eg letter size).

8. RATE OF RETURN

8.1 Rate of Return issues

| | |
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| POAAL (page 9) | As the effective tax rate is not known until the end of the financial year, "... it would seem reasonable to use to follow earlier reviews... that used the statutory tax rate." |
| POAAL (page 8) | "POAAL is aware that funds on hand are extensive. It would be reasonable that this number be included in measures of the weighted average cost of capital... these funds are not able to be invested and should be considered as part of the asset base against which a 'reasonable rate of return' is calculated." |
| POAAL (page 9) | The equity beta represents the lower market risk of Australia Post |
| MMUA (page 18) | There remains no transparency on the part of AP in relation to the cost and margins associated with the various categories of the reserved services. How can any price increase be justified, particularly where varying percentage levels are concerned, without reference to the real cost of delivering that particular category of the service? |

POAAL comments are noted. In relation to MMUA comments, the ACCC has been provided with information on the contribution of each category, however, as noted in section 4.2 the proposed letter prices have been set in accordance with our Letter Pricing Principles (which were listed in the Draft Notification) and the proposed prices should be assessed as a whole and not on an individual level.

9. OTHER ISSUES

9.1 Advance Network Integration / electronic Pre-Lodgement Advice (ANI / ePLA)

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| MMUA (page 3) | <p>“BMP MH members put proposals to Australia Post on 1 March 2007 for our proposed Advanced Network Integration (ANI) system – with its real-time Electronic PreLodgement Advice (ePLA) system allowing AP access to the MH’s forward planning and actual production run information. ANI is available for very early introduction.</p> <p>Those proposals have not been discussed by AP with MMUA at an operation level (that is to say, by the two Divisions (Commercial and M&ND) stated by AP at page 39 of their Draft Notification as being responsible for operations)</p> |
| MMUA (page 13) | <p>“Generators are aware... . . . of the proposed PIP2 advancement of the barcode project. However, unlike the practice followed in the Barcode Project, AP has not produced any statement and/or technical working papers for consideration of the industry.”</p> |
| MMUA (page 32) | <p>“When AP was asked at the AP-MMUA BMP meeting on 14 September 2006 whether there were plans afoot to take BMP into other areas our BMP Principal Contact Persons in attendance found that there were none. They therefore decided to move themselves and on 1 March 2007 presented AP with a proposal that we have called ANI”</p> |
| MMUA (page 33) | <p>“Instead of working through the proposal in the manner adopted during the development of the Barcoding Project and the BMP Project, a new generation of AP personnel has not been able or prepared to move it into the “operational interface” levels of AP. MMUA has a group of BMP MHs (providing more than two-thirds of AP’s daily Bulk PreSort Mail product) wanting to see ANI commence, ready to work with AP to do so as quickly as possible, and the portcullis defence of AP is blocking the proposal with a bureaucratic, non-operational approach to dealing with it.”</p> |
| MMUA (page 35) | <p>“The real time options provided in ANI’s ePLA are far superior for AP advance warning and logistics planning purposes than that provided in the recently announced Advanced Warning System – a process within the Lodgement Quality System process that has been developed after MMUA provided the details of its ePLA (electronic PreLodgement Advice) which itself has long been used by at least one BMP member company with Print Post lodgements for one of Australia’s users of that product. . . .”</p> |

The comments from the MMUA in regard to discussions between Australia Post and the MMUA on the MMUA’s ANI proposal require clarification. There are also several claims made by the MMUA that Australia Post rejects:

- Australia Post executives from both the Commercial and Mail & Networks Division (M&ND) were present at the initial MMUA ANI presentation on 1 March 2007 and at subsequent meetings (or though not necessarily all); and

- Australia Post is interested in assessing the merits of the MMUA’s ANI proposal and is willing to include such proposals in its feasibility assessment of options undertaken in the PIP II project. However, as Australia Post has advised the MMUA (most recently at a meeting Dec 2007) that for Australia Post to assess this proposal there is certain information required to enable Australia Post to estimate the financial and quality benefits (if any). Australia Post has not yet received this information from the MMUA, but will follow this up with the MMUA this month.

Australia Post believes it is appropriate that it applies proper diligence to the consideration of any proposal (irrespective of whether it is initiated from an internal or external source) to ensure that the cost and benefit is properly understood. In relation to proposals that alter / change the lodgement / acceptance process, or interface, Australia Post also needs to consider the broader industry acceptance and adoption of any proposal. Initial indications that Australia Post has received from the MMUA (which are subject to confirmation) suggests that not all of the MMUA’s BMP mail house members have committed to adopting the MMUA’s ANI / ePLA proposal. Additionally, of the 38 individual mail houses that are participating in the BMP program 22 are not MMUA members.

Australia Post would welcome a detailed and consistently agreed representation and explanation of ANI / ePLA and how this proposal would be implemented (including by who), what the outputs of the program would be, to determine the application and benefit within Australia Post and across the Letter Value Chain. Until this is provided, it is difficult to determine the commercial viability and hence benefits (including productivity gains) to any party.

9.2 Consultation

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| MMUA (page 4) | “Our Working Party members felt that that change of approach which included the deliberate delaying of release of the Meyrick and Diversified Specific reports until after the pre-arranged first meeting, showed that there was no sense on AP’s part of a business partnership in the way that Australian business does business today, and they therefore decided that it was not worth the effort to continue with the process preferring to do their own work in preparation for this submission and further elaboration in due course as the opportunity presents itself.” |
| MMUA (page 9) | “In this current round of review AP has seen fit not only to walk away from the detail of the agreed consultative protocols of 2001, designed to lead in to lodgement of the draft notification with the ACCC, but also to run the consultative process during the month of January, Australia’s long established annual holiday season and to provide only part of the documentation in time for the face-to-face meeting that was held.” |
| MMUA (page 20) | “As previously stated, AP withheld release of the Meyrick Report from MMUA until after the pre-arranged consultation on 22 January 2008, thus avoiding a face-to-face discussion of these matters. Our working party therefore decided to take the approach outlined in Section Three of this submission to deals with the above questions of the Issues Paper.” |

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| MMUA (page 21) | As previously stated, AP withheld release of the Bishop & Officer Report from MMUA until after the pre-arranged consultation on 22 January 2008, thus avoiding a face-to-face discussion of these matters. Our working party in subsequent consideration of the Report decided that informed comment on these matters lay outside the areas of expertise held by those present and we have decided not to comment on them. |
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During the course of the price consultation meeting on 22 January 2008, the Meyrick and Diversified Specific reports were referenced. The MMUA requested a copy of the referenced reports and they were promptly provided.

Australia Post strongly rejects the notion that there was delay in the provision of these reports or other additional information and that Australia Post has avoided discussing these reports. After providing the reports, and responses to queries that the MMUA provided following the 22 January 2008 meeting, Australia Post made several offers to the MMUA to arrange additional meetings to discuss any aspects that they required further information or clarification on. The MMUA declined these offers.

Australia Post notes the second comment. Australia Post and the MMUA, upon signing the Code of Practice, had agreed to review it bi-annually. Australia Post will make contact with the MMUA to suggest that a review of the Code of Practice may be an appropriate agenda item at the next scheduled Mail Industry Advisory Committee which includes senior executives from across Australia Post and the CEO of the MMUA.

9.3 PIP II

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| MMUA (page 14) | “AP’s work on the PIP2 Project – which will bring costs to Generators and MHs alike – but with no public details as yet...” |
| MMUA (page 15) | “The point to be made, of course, is that before the portcullis policy came into play, AP found it beneficial to work openly, constructively and positively with its customers (whether Generators or MHs!) and out of that came excellent productivity gains and any application for this current postage price increase needs to be considered against the experience of previous times.” |
| MMUA (page 33) | As for AP’s alternative to ANI – PIP2 – there has been no published green paper, white paper or detailed proposal similar to those that were made available for both the Barcoding Project and the BMP Project at their respective stages of development. ANI is ready for implementation. ANI will produce further productivity benefits for all three parties: Generators, BMP MHs and AP and until it is dealt with properly there should be no further postage price increase approved. |

The PIP II project mentioned is, at this stage, an internal Australia Post project that is evaluating several alternatives / options to enhance Australia Post's current lodgement acceptance and verification processes. It is therefore too early to make assessments or claims as to what impact (if any) this may have on customers or mail houses.

The MMUA was provided an initial presentation on PIP II on 1 March 2007, which advised under PIP II an alternative acceptance / verification process was at a very early stage of feasibility assessment and this included an investigation to determine the capability of Australia Post's existing equipment to accept hardware or software upgrades.

Since that meeting Australia Post has continued to keep the MMUA informed of the progress into the feasibility of options being considered / evaluated as part of PIP II.