

4 July 2008

Mr Anthony Wing
General Manager – Transport and Prices Oversight
Australian Competition and Consumer Commission
Level 35 / 360 Elizabeth St
MELBOURNE VIC 3000

Dear Mr Wing

AUSTRALIA POST RESPONSE TO ACCC PRELIMINARY VIEW

The purpose of this letter is to respond to the Australian Competition and Consumer Commission's (ACCC) Preliminary View on the proposed changes to the domestic reserved letter service, as detailed in Australia Post's draft notification of 5 February 2008.

Firstly, as the ACCC's Preliminary View is not to object to the proposed price increases, it is Australia Post's intention to submit a formal price notification to the ACCC that contains the same proposed prices that were detailed / included in our draft notification (and were shown in Appendix A of the ACCC's Preliminary View).

In its Preliminary View the ACCC expressed some preferences in relation to any future price notifications that Australia Post may make. These preferences appear to be largely in response to the scope of the current notification, which models proposed prices over the 2008/09 year.

In that regard, it should be noted that it is not Australia Post's preference to always adopt one year price notifications (or annual price increases). Rather, Australia Post believes that it should avoid significant upfront price increases (that may have an adverse impact on demand) and instead consider options that allow smaller, manageable adjustments. Australia Post does not believe that this view is inconsistent with the comments that the ACCC has made. As such it looks forward to working with the ACCC (and where appropriate external stakeholders) to explore the ACCC's preferences and reach an agreed position that can be followed / observed in future price notifications submitted by Australia Post.

The ACCC also raised some comments in relation to the allocation of costs between reserved and non-reserved services. Australia Post would like to make the point that it has complied with all regulatory obligations and worked closely with the ACCC to adopt their preferred approach in respect to the operation of Record Keeping Rules. While Australia Post has concerns regarding some aspects of the Wik report it is our intention to work with the ACCC to address and resolve the matters raised. Our expectation is that this would include agreement on a suitable work plan or time frame.

The Preliminary View also includes some comments and observations from the ACCC in relation to productivity (TFP - Total Factor Productivity), both on past performance and future expectations. Australia Post does not necessarily agree with all the points made / conclusions drawn. While these issues are perhaps best discussed / addressed in the context of a future price notification, Australia Post would make the following points:

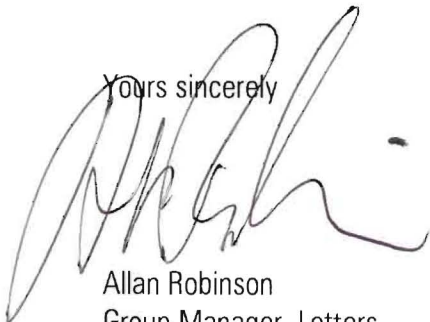
- As observed by the ACCC, the Meyrick & Associates (Meyrick) report notes that since the 2002 study, advances in Australia Post's information system has enabled significant improvements in the data used to construct TFP estimates. As such, comparisons between the Meyrick 2002 and 2007 study need to be carefully considered, especially when comparing a 2002 forecast with a 2007 actual result. In that context Australia Post would question whether it is appropriate to rebase the two TFP indexes to 2002 given that:
 - in the Meyrick 2002 report the TFP index for 2001/02 was an estimate, not actual, and was a high outlier. A trend drawn through the longer time series from 1997 to 2007 is below the 2002 estimate for 2001/02; and
 - the reserved service TFP results from Meyrick 2002 report are generally much more volatile than those from the Meyrick 2007 report. This reflects the fact that the reserved service TFP data were assembled for the first time during the course of the 2002 report. The improvements / advancements in Australia Post's information system/s have allowed a more accurate time series to be formed in the 2007 study.
- The 2002 Meyrick report forecast an average TFP growth rate (2002/03 to 2006/07) of 1.2% per annum. This compares to the 2007 Meyrick report that found that the average TFP growth rate (2001/02 to 2006/07) was 0.7%.
- The Meyrick 2007 report estimates a higher average annual TFP forecast for the period 2007-2011 than what was achieved in the period 2002-2007. Australia Post does not believe that this reflects an overly conservative estimate of productivity.
- As observed by the ACCC comparisons between the productivity performance of different postal operators is scarce and that this is likely to be attributable to the different product / service offers that are provided and a lack of consistency in publicly available data. Similarly benefits from the introduction of new sorting equipment will also vary from operator to operator. Therefore any analysis needs to consider a number of factors including the base level efficiencies of the pre-existing process (manual or automated).
- As noted in the ACCC's Preliminary View, Australia Post's network is often utilised (at varying degrees) for both reserved and non-reserved products. Australia Post's commitment to pursue productivity gains therefore provides a benefit of all products (reserved and non-reserved). Australia Post therefore does not agree that it could somehow choose to ignore productivity gains from reserved letters without damaging the competitive position of non-reserved products.

Once the process relating to Australia Post's current proposed change to domestic reserved letter prices is finalised, Australia Post would welcome the opportunity to work with the ACCC to address the above matters.

Australia Post will submit its formal price notification shortly, with a proposed date of effect in September 2008.

In the meantime if you wish to discuss Australia Post's price notification or any issue associated with this letter please contact Mark Pollock on 9204 7578.

Yours sincerely

A handwritten signature in black ink, appearing to read 'ARobinson', written over the typed name and title.

Allan Robinson
Group Manager, Letters