



**Submission to ACCC regarding Australia Post's draft
price notification**

(Non-Confidential Version)

28 September 2023

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BACKGROUND

1. On 4 September 2023, Australia Post (**AP**) provided the Australian Competition and Consumer Commission (**ACCC**) with a draft price notification (**notification**). The notification proposes to increase the price of reserved ordinary letters delivered at the regular timetable by 25%.
2. Pursuant to Part VII of the *Competition and Consumer Act 2010* (Cth), on 5 September 2023, the ACCC published the notification seeking the views of interested parties.
3. This submission provides Are Media's views on the notification.

EXECUTIVE SUMMARY

4. The proposed price increases in the notification are significant and excessive. They reflect AP's monopoly position in the market to set prices rather than engage in reasonable commercial behaviour.
5. The proposed price increases will have a substantial detrimental impact on the supply of magazines to Australian consumers. They will significantly increase Are Media's costs [REDACTED] [REDACTED] on average for print post services covering magazine lodgement) with little notice or ability for Are Media to absorb those increases, resulting in further quick and serious declines in volume and revenue.
6. For the reasons above, Are Media objects to the proposed price increases as currently stipulated in the notification.
7. However, Are Media understands the need for investment in postal services through price increases. To this end, Are Media considers that either:
 - a. The Federal Government should provide financial support to AP as other countries have done with their postal services; or
 - b. The price increases proposed should take effect on an incremental basis capped at a 5% increase per year over a period of 5 years rather than a one-off increase in January 2024.
8. Either of these approaches would be reasonable and fair. They would not amount to AP taking advantage of its market power to set prices and would enable Are Media to continue publishing magazines for the benefit of Australian consumers.

ARE MEDIA

9. Are Media Group is a leading multi-channel magazine publisher that supplies high quality magazine publications to consumers across Australia and New Zealand (**NZ**), and includes its

publishing business Are Media and its subsidiary Are Direct which distributes magazines across Australia and New Zealand.

10. Are Media operates over 34 magazine brands in Australia and offers broad and engaging content in categories such as entertainment and lifestyle, fashion and beauty, homes, health, food and parenting.
11. Examples of well-known titles that Are Media produces include Women's Weekly, Woman's Day, New Idea, Take 5, That's Life, Wheels, Better Homes and Gardens and Marie Claire.
12. Are Media distributes publications produced by over 400 small independent publishers across Australia, including through its online e-Commerce shop, 'Magshop', which offers customers the opportunity to access exclusive magazine subscription deals on Are Media's magazine titles as well as on over 300 popular titles from Australia's leading publishers.
13. A large proportion of Are Media's readership consists of people aged 55+ from lower socio-economic backgrounds who live in regional areas, many of whom prefer to read a magazine in hard copy, do not have online access and/or who may not have convenient access to a local store, such that they rely on direct mailing of magazines to their postal address. While there has been increasing uptake of electronic publications and digital connectivity has improved in recent years, there remains large sections of the Australian community (some old and vulnerable) who are not sufficiently digitally literate to access Are Media's electronic publications or otherwise prefer hard copy publications.
14. Many of our more vulnerable readers regularly engage and complete puzzles and competitions and use the mail service to post in their entries. Accordingly, the 25% price increase for regular letters will significantly impact this cohort of people and result in a decrease in competition entries.
15. As the ACCC is aware, magazine publishers like Are Media have suffered significant and progressive circulation and revenue decline in the last decade, which has resulted in significantly less investment in content.¹

SERVICES ACQUIRED FROM AUSTRALIA POST

16. Are Media distributes approximately 4 million subscription magazines per year via Print Post and Print Post Linehaul services provided by AP.

¹ Refer to ACCC's competition analysis in Bauer Media's proposed acquisition of Pacific Magazines Pty Ltd (26 March 2020): <https://www.accc.gov.au/public-registers/mergers-registers/public-informal-merger-reviews/bauer-media-pty-limited-pacific-magazines-pty-ltd>.

17. Are Media also acquires other services from AP to send out regular renewal of subscription letters to its customers, such as Promo Post (which is used for subscription renewal reminder letters) and PreSort Letters.
18. Are Media's customers need to acquire AP's services to enter competitions that are advertised in Are Media's magazines.
19. AP is the only provider of relevant services to Are Media. This can be contrasted with other countries such as NZ where Are Media has been able to rely on other postal operators to respond to and mitigate significant price hikes proposed by NZ Post (with NZ Post's most recent proposed price increase being in the order of 30%).

AUSTRALIA POST'S MONOPOLY POWER TO SET EXCESSIVE PRICES

20. The table below sets out the services that Are Media acquires from AP and the anticipated range of AP's price increase across sizes/weights for each respective service category.²

No	AP Letter Service	Range of AP price increase across sizes/weights
1	Promo Post	3.4% - 22.3%
2	PreSort Letters	21.4% - 22.7%
3	Reply Paid	21.4% - 25.0%
4	Print Post	14.2% - 26.4%
5	Print Post Linehaul	9.8% - 11.2%

21. The average percentage of price increase for services Are Media acquires from AP will be [REDACTED].
22. AP's proposed price increase is substantially above increases in Consumer Price Index as well as AP's historical price increases since 2015.
23. For example, the Reserve Bank's Consumer Price Index for 2022/2023 was 6.9% at its highest point in December 2022.³
24. AP's historical Print Post services price increases since 2015 have been in the range of 3.50% - 7.90%⁴ with two increases in 2023. Importantly, AP increased prices during a time where it received temporary regulatory relief from the Government during COVID-19.⁵

² The proposed price increases were set out in Australia Post's email to Are Media dated 5 September 2023 titled "Basic Postage Rate increase notification to the ACCC".

³ <https://www.rba.gov.au/inflation/measures-cpi.html>.

⁴ With an outlier of [REDACTED] in January 2016.

⁵ Refer to Section 6 of AP's "Statement of Corporate Intent 2020-2021 to 2023-24": https://auspost.com.au/content/dam/auspost_corp/media/documents/ap-statement-of-corporate-intent-2020-21-to-2023-24.pdf.

29. There is no other free market or regulated industry in Australia where a monopoly provider can unilaterally increase its prices by [REDACTED] without government or regulatory intervention. The concern is exacerbated by the fact that AP provides essential services to rural and regional areas and its proposal will have a very significant impact not only on businesses that acquire its services but also on Australian consumers.

SUBSTANTIAL DETRIMENT TO ARE MEDIA AND OTHER PUBLISHERS

30. Under AP's proposed price increase, Are Media estimates that its annual expenditure on Print Post and Print Post Linehaul services will increase by approximately [REDACTED] in 2024.
31. This represents a significant and immediate cost uplift for a major part of Are Media's business. Are Media projects that the effect of passing on this increase to its customers will be that a large number of customers will no longer acquire subscriptions from Are Media, which may result in titles becoming unprofitable and being closed. This would commence a vicious cycle of loss of advertising revenue which in turn will mean less content and lower circulation and readership (and therefore less advertising revenue). This in turn will have consequent effects on employment of staff. Are Media itself cannot absorb such a substantial and immediate increase in cost and would be required to terminate staff to maintain profitability.
32. AP's proposed price increase will also adversely impact Are Media's competitions business as more than [REDACTED] entries from readers will incur materially higher postage costs to mail entries to enter into competitions advertised in magazines that Are Media distributes. This additional cost for readers is projected to result in lower volumes of competition entries and accordingly lower volumes of magazine subscriptions.
33. The above reductions will exacerbate the substantial loss in revenue that Are Media is likely to experience with subscriptions and decrease customer engagement with Magshop. It will result in lower volumes of product at lower quality.
34. In the current climate of high interest rates, cost of living pressures and the decline of the magazine industry, AP's proposed price increases may expedite the closure of print magazines to the detriment of Australian consumers.
35. Are Media also understands that many of the 400 publishers whose magazines it distributes will certainly close print magazine subscriptions in light of AP's proposed price increase. This will result in a material reduction in choice, variety, differentiation, output and quality of print magazines while increasing prices for Australian consumers.
36. Indeed, the KPMG report on Community Sentiment Research (prepared in July 2022) that seeks to support AP's proposed price increase states that 28% of customers oppose a 10 cent

increase to basic postage services whereas the current proposal is 2.5 times more than that amount.⁶ One can only assume that at least 50% more customers would oppose the current proposal.

LACK OF NOTICE BEFORE IMPLEMENTATION

37. The short time period proposed for such a significant increase in pricing is unreasonable.
38. It completely disregards the economic viability and operations of AP's customers and exhibits AP's monopolistic pricing conduct. The fact that AP has failed to implement smaller price increases earlier (and now seeks a significant price increase) is a failure by AP of which its customers should not bear the brunt of.

ALTERNATIVE SOLUTIONS

39. Are Media understands the need for investment in postal services through price increases but the proposed price increases are disproportionate and blunt and do not provide a balanced approach for all stakeholders involved.
40. Are Media considers that the following alternatives are fair and reasonable and do not represent AP taking advantage of its market power to set prices:
 - a. The Federal Government should provide financial support to AP as other countries have done with their postal services; or
 - b. The price increases proposed should take effect on an incremental basis capped at a 5% increase per year over a time period of 5 years rather than a one-off increase in January 2024.
41. Are Media considers that a more appropriate alternative to the proposed price increases would be for the Federal Government to provide financial support to AP. There is some precedent for this in other countries in recent times.
42. In NZ, the Government made \$130 million available over 3 years to NZ Post to cover its projected financial losses resulting from a volume decline in mail.⁷ In the UK, the Post Office network receives a subsidy from the Government of £50 million a year (and is expected to do so until 2025) which has helped the network to combat rising operating costs.⁸

⁶ https://www.accc.gov.au/system/files/KPMG%20report%20on%20Community%20Sentiment%20Research_0.pdf.

⁷ <https://www.nzpost.co.nz/about-us/july2023>.

⁸ <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Post%20and%20Telecoms/Post%20office%20Newsletters/Post%20Office%20News%20-%20April%202022.pdf>

43. If the Federal Government is unwilling to provide financial support to AP, then the price increases should take effect on an incremental basis capped at a 5% increase per year over a time period of 5 years rather than the proposed one-off substantial increase in January 2024.
44. This would be consistent with increases in Consumer Price Index and historical price increases by Australia Post. It would also be more fair and reasonable given that there is no other suppliers of services to which customers can switch to given the price increase (in contrast to the position in NZ). It would also not represent a taking advantage of market power by AP to set prices and would enable Are Media to continue publishing magazines for the benefit of Australian consumers.
45. A staged approach to the price increases would also provide increased certainty to all stakeholders in light of the current Government consultation to modernise Australia's postal services.